REPORT OF

THE

STATE AUDITOR

Division of Parks and Outdoor Recreation
Department of Natural Resources

Performance Audit
June 2008

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STATE OF COLORADO

Sally Symanski, CPA
State Auditor

OFFICE OF THE STATE AUDITOR
303.869.2800
FAX 303.869.3060

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

June 25, 2008

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the Division of Parks and Outdoor Recreation. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Department of Natural Resources, Board of Parks and Outdoor Recreation, Division of Parks and Outdoor Recreation, and State Board of the Great Outdoors Colorado Trust Fund.

Sally Symanski

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Authority, Purpose, and Scope

This performance audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct performance audits of all departments, institutions, and agencies of state government. The audit work, performed from May 2007 to June 2008, was conducted in accordance with generally accepted government auditing standards. Our audit reviewed the effectiveness of the Division of Parks and Outdoor Recreation's (Division's) controls over financial resources and expenditures, procurement and contracts, personnel, and state assets. Our audit also reviewed accountability and oversight practices of the Division, the Board of Parks and Outdoor Recreation (Parks Board) and the Department of Natural Resources (Department). We acknowledge the assistance and cooperation provided by the Division, the Parks Board, and the Department. Additionally, we acknowledge the participation of the State Board of the Great Outdoors Colorado Trust Fund (GOCO Board) and its staff in completing this audit.

Overview

Statute [Section 33-10-101, C.R.S.] charges the Division with protecting, preserving, enhancing, and managing the natural, scenic, scientific, and outdoor recreation areas of Colorado. The Division oversees more than 224,000 acres of land and water, including 42 state parks open for public use and 2 parks in the planning and development stages. The Division is accountable to the Parks Board, which has statutory authority for overseeing the State Park System. The Division and the Parks Board are both Type 1 agencies under the Administrative Organization Act of 1968 [Section 24-33-102, C.R.S.] and operate independently of the Department with respect to the powers, duties, and functions specifically prescribed to them in statute. The Division is also accountable to the Department, which retains oversight of all activities not specifically assigned to the Division in statute, including accounting, budgeting, purchasing, and personnel activities.

The Division is funded primarily through user fees and lottery proceeds. In accordance with Article XXVII of the State Constitution, the Division derives lottery funding from two sources: (1) a direct allocation of 10 percent of net lottery proceeds annually and (2) grants and investments from the GOCO Trust Fund. During Fiscal Year 2007, the Division's total revenues were $62.2 million. Of this amount, about 36 percent was derived from user fees, about 25 percent was from GOCO, and about 19 percent was from direct lottery proceeds. The Division's remaining funding sources were general funds (9 percent) and federal and other miscellaneous revenue (11 percent).

For further information on this report, contact the Office of the State Auditor at 303.869.2800.

Key Findings

Financial Management

We found that the Division needs to improve controls over its management and expenditure of the public funds with which it is entrusted:

- **GOCO funding.** We found that neither the Division's legacy grant applications nor annual investment requests submitted to GOCO contained sufficient detail or cost information to indicate clearly the ways in which the Division intended to spend these GOCO funds. Although key information was lacking, GOCO awarded the Division $4.5 million and $44 million, respectively, for the two legacy grants and the five annual investment requests we reviewed. We also found that 9 of 12 reimbursement requests submitted by the Division to GOCO during Fiscal Year 2006 contained errors or discrepancies in year-to-date expenditures ranging from $5 to $1.9 million. Finally, we found that the Division failed to record in COFRS, the State's accounting system, all revenues and expenditures related to its GOCO-financed projects. The largest discrepancy was for Fiscal Year 2003. GOCO's records indicated that the Division received a total of $17.8 million in GOCO funding; however, the Division recorded only $7.1 million in COFRS, a difference of $10.7 million. As of the end of our audit, the Division was unable to resolve all discrepancies between GOCO's and the Division's records. This represents a material weakness in the Division's internal controls over financial reporting.

- **Lottery funding**. We found that in Fiscal Years 2003 through 2007, the Division spent about $47 million in direct lottery proceeds. Of this total, the Division invested 79 percent in park capital construction and improvement projects and invested only 9 percent in operations. As a result, the Division is increasing the pressure on taxpayers—through the need for general funds and park user fees—to cover the ongoing costs of operations at parks acquired and developed with lottery moneys. Further, during the four-year period from June 30, 2003 to June 30, 2007, the Division's Lottery Fund balance increased from $9.7 million to $17.5 million, or by 80 percent, which indicates the Division has not adequately monitored or maximized its use of lottery funds to address short- and long-term needs.

- **Financial controls.** We found that out of a sample of 330 payments totaling $16.5 million during Fiscal Years 2006 and 2007, there were 124 payments (38 percent) totaling more than $8 million that did not conform with State Fiscal Rules or other requirements. Of the 261 procurement card (ProCard) transactions we tested for Fiscal Years 2005 through 2007, 62 transactions (24 percent) totaling about $71,000 had problems, such as unallowable expenditures, lack of supporting documentation, missing approvals, and various other errors. Finally, we found insufficient controls over the Division's practices for cash collections for fees, park passes, and other services due to problems with adequate segregation of duties, cash handling, reporting, and reconciliation procedures. Weak cash handling practices increase the risk of fraud or abuse.

Procurement and Contract Management

During Fiscal Years 2003 through 2007, personal services and capital construction contracts averaged about 27 percent of the Division's total expenditures. We found that the Division's and Department's procurement and contract management practices did not ensure all contracts and payments controlled costs or complied with statutes, rules, policies, and guidelines:

- **Contract deliverables and payments.** We identified 6 contracts completed between July 2004 and September 2007 with questionable payments totaling more than $2 million out of our sample of 23 personal services contracts valued at $3.4 million. Questionable expenditures included payments: (1) for work performed outside of the contract scope, (2) made without evidence of deliverables, (3) for work performed before a contract was executed, and (4) that exceeded the contract budget.

- **Personal services procurement**. We found that 16 of the 23 personal services contracts we reviewed violated one or more statutes or rules related to the State Procurement Code or the state personnel system and, thus, should not have been approved. Ten contracts did not comply with constitutional and statutory protections for the state personnel system, 11 violated statutes and guidelines that prohibit contracting with state employees and contractors for the same work within 6 months of the end of their employment or contract with the State, and 4 were sole source procurements that did not meet the statutory criteria for a sole source purchase.

- **Capital construction contracts.** We identified 5 contracts with amendments or modifications that increased the contract's total cost by more than 70 percent out of a sample of 27 capital construction contracts valued at $22.8 million and procured between April 2001 and September 2007. We also identified three construction contracts where the Division paid contractors for additional work without advance authorization through a contract modification or amendment, in violation of Division policy. Finally, we found that the Division processed 65 of 83 contract modifications (78 percent) as emergency modifications and for just under one-half of these modifications, the Division could not provide evidence of the events constituting an emergency.

Personnel Management

As of Fiscal Year 2007, the Division had 262 FTE and spent $23.8 million on personnel, including state FTE and nonpermanent staff. We found that the Division's lack of compliance with state personnel system laws and rules has led to a long-standing pattern of questionable personnel actions:

- **Personnel system oversight.** We reviewed 14 of the 70 employee transfers approved by the Division and Department during Fiscal Years 2006 and 2007 and found that 6 employees received discretionary pay increases of up to 10 percent that they were not qualified to receive. The Division granted these pay increases despite a Department salary study indicating these employees were not qualified to receive the raises. Additionally, we found some Division managers were directly involved in the selection and hiring, performance evaluation, and daily supervision of family members or friends, which could give rise to the perception of favoritism.

- **Misuse of temporary employee status.** We found that from 2002 through 2007 the Division violated personnel system laws and circumvented the FTE appropriation process by routinely hiring 16 individuals, through a succession of temporary employment arrangements, to fill permanent staffing needs. These 16 individuals increased the actual FTE in these affected program areas by 23 percent, from 30 appropriated FTE to an average of 37 full-time positions. We also identified 5 other positions that the Division filled with 20 different temporary (seasonal) workers on a year-round basis, in violation of state personnel rules.

Asset Management

The Division has extensive assets, including buildings, boat docks, vehicles, furnishings and antiques, various types of equipment, and retail items for sale to the public. We found the Division lacks controls to ensure that its assets are accounted for, valued, protected, maintained, and used appropriately to support the Division's operations:

- **Capital assets.** We found the Division does not have complete or accurate information on the condition of its assets or future capital needs. Therefore, the Division cannot plan effectively for the acquisition of new assets or for the protection, maintenance, or improvement of its current assets. We also found that the Division could reduce design costs for capital construction projects by developing a design library and reusing designs for standard buildings.

- **Use of state assets.** We found that some Department and Division staff circumvented the standard reservation processes to use the fully furnished cabins at Mueller State Park to benefit themselves, their friends, other staff at the Division, and organizations with which the Division does business. During 2005 and 2006, the Division staff granted 7 complimentary stays for employees or friends; occupied the cabins on 18 different occasions 8 of which were during periods of high demand, such as holidays; and reserved cabin stays before the cabins were available to the public on the reservation system.

- **Use of state vehicles.** We found that the Division improperly authorized two employees to commute in state vehicles at a cost of nearly $40,400 between January 2004 and October 2007 and did not report these benefits as taxable income on the two employees' W-2 forms.

Oversight and Accountability

Our audit identified repeated and significant problems with oversight of and accountability for a broad range of Division functions and operations that raise questions about the Division's system of internal controls and its culture of accountability. Responsibility for these problems is shared by the Parks Board, the Department, and the Division. Specifically, we found the Parks Board does not have self-governance policies that clearly define the Board's responsibilities with respect to monitoring internal control, financial accountability and reporting, or Division performance. We also found that the Department has not provided sufficient oversight of the Division's financial, accounting, purchasing, and human resource activities and, in some instances, has carried out practices in violation of statutes and rules. Finally, we found the Division has not consistently apprised the Parks Board of key issues and decisions for the Board's review and approval, resulting in service delays in opening parks to the public, unnecessary costs to taxpayers, and loss of revenue.

Our recommendations and the responses from the Division of Parks and Outdoor Recreation, the Board of Parks and Outdoor Recreation, the Department of Natural Resources, and the State Board of the Great Outdoors Colorado Trust Fund can be found in the Recommendation Locator and in the body of the report.

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RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	33	The Division of State Parks and Outdoor Recreation (Division) and the State Board of the Great Outdoors Colorado Trust Fund (GOCO Board) should work together to increase transparency and accountability for the investment and expenditure of GOCO funds by: (a) clarifying requirements regarding the types of information and level of detail to be included in the Division's annual spending plans and grant applications and (b) developing a standard format for reimbursement requests. The GOCO Board should consider approving only those spending plans, grant applications, and reimbursement requests that include the required information.	Division of Parks and Outdoor Recreation State Board of the Great Outdoors Colorado Trust Fund	Agree Agree	December 2008 December 2008
2	37	The Department of Natural Resources (Department) should work with the Division of Parks and Outdoor Recreation to establish adequate controls over the receipt and use of GOCO moneys to ensure the State's financial statements are complete and accurate and to ensure assets are safeguarded. The Department and the Division should: (a) implement controls over the receipt of all GOCO funds to ensure accounts are accurately and completely reflected in COFRS, (b) reconcile the Division's GOCO revenues recorded in COFRS to GOCO's records of amounts paid to the Division and make all necessary adjustments, (c) perform a reconciliation from Fiscal Year 1993 through Fiscal Year 2008 of the Division's GOCO revenues recorded in COFRS to GOCO's records of amounts paid to the Division, and (d) ensure that the Division's list of capital assets is updated no less than annually and reflects capital purchases made with GOCO funds.	Department of Natural Resources Division of Parks and Outdoor Recreation	Agree Agree	a. June 2008 b. September 2008 c. December 2010 d. December 2010 a. July 2008 b. June 2009 c. December 2010 d. December 2010

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
3	44	The Division should develop a comprehensive strategy for responsible investment and management of lottery proceeds by: (a) discontinuing its unsubstantiated cap of $506,000 on the amount of lottery funds it will spend on operating costs; (b) developing a tracking system to ensure lottery funds are allocated for operational purposes only to parks that have been acquired, developed, or expanded with lottery proceeds; (c) ensuring new capital projects have sufficient funding to support ongoing operations, including lottery funding; and (d) reevaluating its process for planning and executing projects to ensure that lottery funds are used effectively and efficiently to benefit the park system and the public.	Division of Parks and Outdoor Recreation	Agree	a. Immediately b. March 2010 c. December 2008 d. June 2009
4	46	The Division and the Board should report annually to the General Assembly and the Office of State Planning and Budgeting on the: (a) use of lottery funds for long-term projects and operating expenses associated with projects funded by lottery moneys and (b) use and status of the fund balance within the Division's Lottery Fund.	Division of Parks and Outdoor Recreation	Agree	October 2009
			Board of Parks and Outdoor Recreation	Agree	October 2009
5	50	The Department and the Division should improve controls over the Division's expenditure processes by: (a) ensuring all expenditures are reasonable and necessary, accountability is clear at all levels of the process, and controls are adequate; (b) providing periodic staff training on expenditure review and approval responsibilities; and (c) revising employee job descriptions and performance plans and evaluations to include responsibilities related to payment processing.	Department of Natural Resources	Agree	a. December 2008 b. April 2008/ Ongoing c. April 2009
			Division of Parks and Outdoor Recreation	Agree	a. December 2008 b. December 2008/ Ongoing c. May 2009

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
6	55	The Department and the Division should work together to improve controls over procurement cards (ProCards) by: (a) ensuring that cardholders adequately document all purchases and that supervisors review and approve purchases, as appropriate and (b) providing periodic refresher training to cardholders.	Department of Natural Resources	Agree	December 2008
			Division of Parks and Outdoor Recreation	Agree	December 2008/ Ongoing
7	57	The Department should improve its oversight of the ProCard program by: (a) expanding the ProCard audit process, (b) requiring supervisors to report errors and employee misuse of ProCards, (c) developing a system of tracking card abuse and establishing penalty policies, and (d) reviewing tracking information and taking appropriate disciplinary action.	Department of Natural Resources	Agree	December 2008
8	62	The Division should strengthen its controls over cash collections processes by: (a) ensuring functions related to assigning passes and permits and collecting, recording, depositing, and preparing cash reconciliations and reports are performed by different employees; (b) controlling access to park passes and permits and cash; (c) reviewing all monthly reports and reconciliations prior to entering data into the State's accounting system; (d) developing written policies, procedures, and staff training to address internal control requirements; and (e) revising employee job descriptions and performance plans and evaluations to include cash handling and collections requirements.	Division of Parks and Outdoor Recreation	Agree	May 2009

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
9	70	The Department and the Division should improve accountability and provide adequate oversight and monitoring of contracts by: (a) defining staff responsibilities for contract deliverables and payments in job descriptions and performance plans and evaluating performance accordingly, (b) providing contract management training and ongoing supervision and guidance to contract monitoring staff, and (c) completing its investigation of questions surrounding three personal services contracts and taking action as appropriate.	Division of Parks and Outdoor Recreation Department of Natural Resources	Agree Agree	a. May 2009 b. December 2008/ Ongoing c. September 2008 June 2009
10	75	The Department and the Division should ensure that personal services procurement practices comply with applicable statutes, rules, guidelines, and the Procurement Code of Ethics by ensuring that all staff involved in preparing, reviewing, or approving personal services contracts are held accountable for these responsibilities in performance plans and evaluations and are disciplined for violations. Additionally, the Department and the Division should: (a) ensure staff receive regular procurement and ethics training and (b) develop a detailed checklist for reviewing and approving personal services certifications.	Division of Parks and Outdoor Recreation Department of Natural Resources	Agree Agree	December 2008/ Ongoing a. April 2008/ Ongoing b. August 2008
11	83	The Division should work with the Department to improve capital construction oversight and cost containment by: (a) establishing mechanisms to track and monitor the reasonableness of capital construction costs and cost overruns; (b) reducing reliance on emergency modifications and strengthening processes for preparing, reviewing, and approving contract amendments; (c) providing training and supervision to staff involved in procuring and managing construction contracts; and (d) considering streamlining oversight processes by centralizing some contracting functions that require specialized expertise.	Division of Parks and Outdoor Recreation Department of Natural Resources	Agree Agree	a. December 2010 b. July 2009 c. May 2009/ Ongoing d. July 2009 December 2010

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
12	86	The Division should improve compliance with policies for reviewing and selecting qualified consultants and maintaining contractor procurement records by (a) training contract monitors and (b) ensuring compliance through supervisory reviews and performance evaluations, as appropriate.	Division of Parks and Outdoor Recreation	Agree	a. February 2009/ Ongoing b. May 2009
13	94	The Department and the Division should improve controls and accountability related to personnel activities by: (a) clarifying the roles and responsibilities for human resource management at each level of the organization; (b) providing training to employees regarding personnel rules, actions, and conflicts of interest; and (c) holding individuals accountable in their performance evaluations for compliance with personnel rules and laws.	Division of Parks and Outdoor Recreation	Agree	a. March 2009 b. Spring 2009 c. May 2009
			Department of Natural Resources	Agree	a. September 2008 b. February 2009/ Ongoing c. July 2008/ Ongoing
14	101	The Department and the Division should ensure the Division's use of temporary employees complies with federal and state law and State Personnel Board Rules by: (a) assessing the need for permanent FTE for those positions that have been filled with temporary staff beyond the six-month limit; (b) making appropriate budget requests for FTE, reallocating duties among existing appropriated FTE, or some combination of both; (c) providing staff with regular training on the allowable uses of temporary employment arrangements; (d) adopting Administrative Directives, as needed, on the use of temporary staff; and (e) implementing a tracking mechanism to ensure former temporary employees are not hired as independent contractors within six months of their temporary employment.	Division of Parks and Outdoor Recreation	Agree	a. October 2009 b. February 2010 c. February 2009/ Ongoing d. September 2008 e. August 2008
			Department of Natural Resources	Agree	a. October 2009 b. February 2010 c. February 2009/ Ongoing d. September 2008 e. August 2008

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
15	103	The Department should review all nonpermanent employee arrangements at the Division to ensure compliance with State Personnel Board Rules and Internal Revenue Service rules for independent contractors and leased workers. All inappropriate arrangements should be terminated.	Department of Natural Resources	Agree	July 2008
16	104	The Division should ensure the necessity, efficiency, and relevancy of its seasonal worker program by: (a) evaluating the need for a separate position classification within the state personnel system and requesting the classification be eliminated, as appropriate; (b) reviewing seasonal worker policies and procedures and making changes where needed; and (c) providing central coordination and oversight for the employment and supervision of seasonal workers.	Division of Parks and Outdoor Recreation	Agree	January 2009
17	107	The Division should ensure compliance with time keeping requirements for seasonal workers by: (a) reviewing and clarifying existing time keeping policies and procedures; (b) disseminating clear policy directives and training supervisors and others on their responsibilities; and (c) holding supervisors responsible for compliance with policies and procedures through job descriptions, performance planning, and evaluations.	Division of Parks and Outdoor Recreation	Agree	May 2009/ Ongoing
18	113	The Division should develop a park maintenance and renovation plan to include: (a) conducting a comprehensive review of the condition of the Division's capital assets; (b) reviewing park and region capital requests, working with the regions to prioritize requests and develop Division-wide priorities; and (c) continuing to develop and implement the Capital Asset Tracking and Reporting System and use it to maintain accurate records of capital assets.	Division of Parks and Outdoor Recreation	Agree	a. December 2009 b. December 2009 c. July 2009
19	115	The Division should maximize its investment in building designs by utilizing existing plans, developing prototype designs for core buildings, and maintaining a central design library or database. The Division should consider requiring all regions to use the prototype designs unless management grants an advance waiver.	Division of Parks and Outdoor Recreation	Agree	May 2009

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
20	118	The Division should adopt a policy for the appropriate use of park amenities including: (a) establishing a list of staff authorized to grant complimentary stays, (b) describing the appropriate circumstances under which complimentary stays may be granted and the required documentation and authorizations, and (c) developing guidelines for employee reservations of park facilities and amenities.	Division of Parks and Outdoor Recreation	Agree	November 2008
21	121	The Department should work with the Division to improve oversight of commuting arrangements and ensure federal tax regulations are addressed by: (a) reviewing commuting arrangements to determine whether they are in the best interest of the State and whether the arrangements are properly classified and reported for tax purposes, (b) reporting improper tax-exempt commuting arrangements to State Fleet Management and the State's Central Payroll and correcting prior years' errors, (c) ensuring all future commuting arrangements are in the best interest of the State and are properly classified for tax purposes, and (d) clarifying Department and Division roles and responsibilities for authorizing commuting arrangements and ensuring that all authorized commuting arrangements are reported to State Fleet Management.	Department of Natural Resources Division of Parks and Outdoor Recreation	Agree Agree	a. Implemented b. July 2008 c. Implemented/ Ongoing d. Implemented a. Implemented b. July 2008 c. Implemented/ Ongoing d. Implemented
22	123	The Division should establish controls to prevent non-state employees from driving state vehicles unless advance written permission is obtained from State Fleet Management. The Division should consider implementing a vehicle sign-out policy and providing training to all staff with access to state vehicles to ensure understanding of the limitations on vehicle use by non-state employees.	Division of Parks and Outdoor Recreation	Agree	October 2008

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
23	124	The Division should evaluate the use and allocation of its current fleet to determine whether savings can be achieved by eliminating some vehicles, by periodically leasing fleet vehicles, or by paying employees' mileage to use their own vehicles.	Division of Parks and Outdoor Recreation	Agree	July 2009
24	126	The Division should improve its controls over cabin inventory by instituting Division-wide policies that address the: (a) frequency of inventory checks; (b) items to be included in inventory checks; (c) procedures for pursuing recovery of any items lost, stolen, or damaged; (d) use of inventory tags to identify items as state property; and (e) methods for communicating loss and damage policies to cabin visitors.	Division of Parks and Outdoor Recreation	Agree	June 2009/ Ongoing
25	129	The Division should establish adequate controls to safeguard inventory at its Rocky Mountain Nature Association retail operations and ensure compliance with financial reporting requirements by: (a) establishing systems for recording inventory and tracking sales, conducting periodic physical inventory counts and reconciliations, investigating inventory losses, and implementing additional inventory safeguards and (b) recording all revenues and expenditures in COFRS.	Division of Parks and Outdoor Recreation	Agree	a. January 2009 b. July 2009
26	139	The Department should improve oversight of Division budgeting, accounting, procurement, and human resource management practices as recommended throughout this report. The Department should: (a) assist the Parks Board in developing self-governance policies that clearly define the respective responsibilities of the Department, the Parks Board, and the Division and (b) provide ongoing performance monitoring of the Division and its Director and communicate with the Parks Board to ensure the Division accomplishes its statutory duties.	Department of Natural Resources	Agree	a. July 2009 b. Ongoing

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
27	140	The Board of Parks and Outdoor Recreation should undertake a comprehensive review of its oversight practices and develop a governance manual outlining the specific responsibilities of the Parks Board, the Division, and the Director. At a minimum the policies should include: (a) standards for behavior, including a code of conduct; (b) processes for ensuring the Parks Board and the Division meet their statutory responsibilities; (c) control mechanisms for managing risk, park acquisition and development, financial resources and operations, and reporting; and (d) procedures for ongoing monitoring and evaluation of the performance of the Director and the Parks Board.	Board of Parks and Outdoor Recreation	Agree	June 2009
28	141	The Board of Parks and Outdoor Recreation and the Division should report to the Legislative Audit Committee on their respective progress in developing and implementing a governance structure that instills a culture of accountability.	Board of Parks and Outdoor Recreation	Agree	February 2009/ Ongoing
			Division of Parks and Outdoor Recreation	Agree	February 2009/ Ongoing

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Division of Parks and Outdoor Recreation

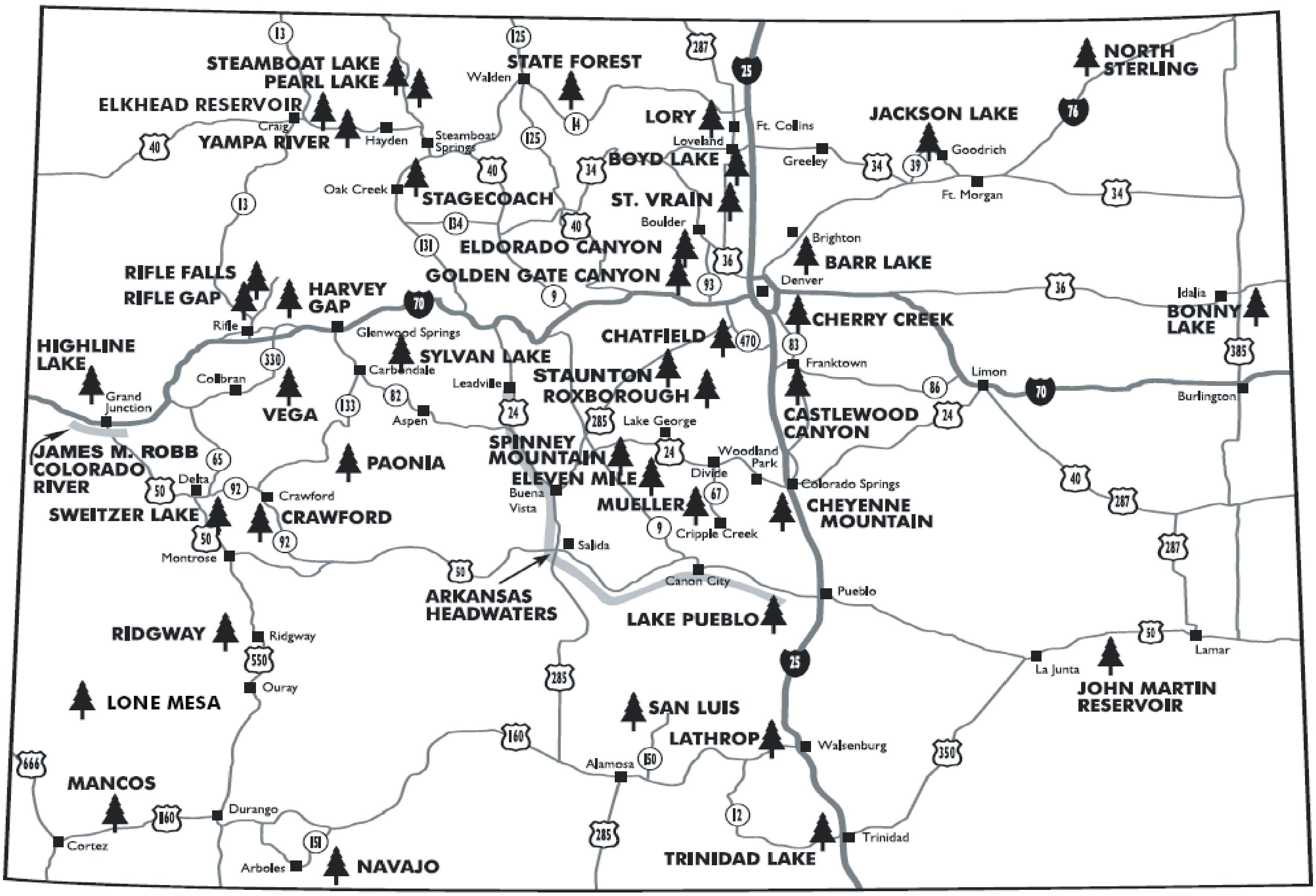
Background

The Division of Parks and Outdoor Recreation (Division), situated within the Department of Natural Resources (Department), is charged by statute with protecting, preserving, enhancing, and managing the natural, scenic, scientific, and outdoor recreation areas of the State of Colorado [Section 33-10-101, C.R.S.]. The Division's mission is to be a leader "in providing outdoor recreation through the stewardship of Colorado's natural resources for the enjoyment, education and inspiration of present and future generations." As a steward of the State's natural resources and recreation programs, the Division is responsible for creating and developing a plan for the protection of the State's open space areas and for the development of appropriate recreation programs that provide residents of Colorado and its visitors healthy opportunities to interact with nature. According to the Division, more than 11 million people visit state parks each year.

State Park System

The Division manages more than 224,000 acres of park land and water. Of this 224,000 acres, the Division reports that it owns about 22 percent, and it leases 78 percent from federal government agencies (U.S. Forest Service, Bureau of Land Management, and the Army Corps of Engineers), state agencies (State Land Board and the Division of Wildlife), local governments, and private entities. The Division oversees 44 parks located throughout the State, including 42 parks open for public use and 2 parks in the planning and development stages (Staunton and Lone Mesa State Parks). Amenities at some of the parks include campgrounds, fully furnished and primitive cabins, yurts, group picnic areas, visitor centers, and event centers. Park activities range from environmental education, hiking, and picnicking to camping, fishing, boating, other water sports, snowmobiling, snowshoeing, and hunting. A map displaying the names and locations of the State's 44 parks, including Arkansas Headwaters and James M. Robb Colorado River Parks, is provided on the next page. A list of each park, along with its acreage and amenities, is provided in Appendix A.

Division of Parks and Outdoor Recreation
Names and Locations of Colorado's 44 State Parks
Fiscal Year 2008



Source: Division of Parks and Outdoor Recreation

Organizational Structure

Statute [Section 33-10-103, C.R.S.] creates both the Board of Parks and Outdoor Recreation (Parks Board) and the Division as Type 1 agencies as defined in the Administrative Organization Act of 1968 [Section 24-33-102, C.R.S.]. As Type 1 agencies, both the Board and the Division are statutorily separate organizations that operate independently of the Department. The Department provides direction to the Division for functions related to accounting, budgeting, purchasing, and personnel activities; however, the Division is under the jurisdiction of, and primarily accountable to, the Parks Board. A description of the duties of the Parks Board and the Division follow.

Parks Board

Statutes [Sections 33-10-101, and 103 to 107, C.R.S.] provide the Parks Board with broad authority for overseeing the State Park System. Specifically, statutes direct the Parks Board to implement the General Assembly's policy that there should be a "comprehensive program of outdoor recreation in order to offer the greatest possible variety of outdoor recreational opportunities to the people of this state and its visitors and that to carry out such program and policy there shall be a continuous operation of acquisition, development, and management of outdoor recreation lands, waters, and facilities" [Section 33-10-101(1), C.R.S.]. Additionally, statute directs the Parks Board to:

- Appoint a Director for the Division of Parks and Outdoor Recreation, with the consent of the Executive Director of the Department of Natural Resources.

- Establish fees for certificates, permits, licenses, passes, and any other special charges to ensure the continuous operation of the parks system.

- Adopt rules and regulations for the administration, protection, and maintenance of state parks and recreation areas under the direct control of the Division.

- Control, manage, develop, and maintain through the Division all state parks and recreation areas consistent with state policy.

Statute also mandates that the Parks Board consist of five members serving four-year terms. Members are appointed by the Governor and confirmed by the State Senate, including one member representing the State at large and one representing each of four geographic regions of the State (including the north, south, west, and metro areas). Regional members must be residents of the region that they are representing, and no more than three members can be from the same political party. Statute requires the Parks Board to meet at least twice each year; however, in Fiscal Year 2007, the Board met six times. In June 2008, three Parks Board members' terms will expire, leaving two existing members on the Board, both of whom will have served for about a year.

Division of Parks and Outdoor Recreation

According to statute [Section 33-10-101(1), C.R.S.], the Division is responsible, under the direction of the Parks Board, for developing a comprehensive outdoor recreation program for the people of Colorado and its visitors. Specifically, the Division is to:

- Develop state park and recreation areas suitable for activities including camping, picnicking, hiking, horseback riding, environmental education, sightseeing, boating, and swimming. The Division is also required to allow hunting, trapping, and fishing to help manage wildlife at state parks.

- Inform Colorado citizens and visitors about the location of state park and recreation areas.

- Charge and collect fees for passes or permits for the use of any state park or recreation area.

During Fiscal Year 2007, the Division was appropriated about 262 FTE. Additionally, the Division reports that it employed about 735 seasonal employees and worked with about 6,900 volunteers. During periods of high visitor volume (generally May through September), the Division relies heavily on seasonal employees and volunteers to supplement its staff resources at both the parks and its administrative programs.

The Division has organized its management of state parks into three geographic regions (prior to Fiscal Year 2005, there were two regions):

- High Plains Region covers 14 parks in the Denver metro area, including Staunton State Park, which is not yet open to the public.

- Rocky Mountain Region covers 19 parks in the mountains west of Gilpin County and on the Western Slope, including Lone Mesa State Park, which is not yet open to the public.

- Southeast Region covers the south central and eastern part of Colorado and includes 11 parks.

Regional managers oversee park operations within their regions and supervise project managers who manage major repairs, minor improvements, renovation, and construction projects at those parks. Park managers supervise staff whose duties include protecting the natural resources in the park and providing customer service, education, and a safe and positive outdoor experience to park visitors. Each regional and park office also operates a visitor service center, where park visitors may purchase passes and permits.

The Division's administrative functions are centralized in the Downtown Denver and Littleton offices. Centralized functions include the campground reservations system, public safety and training, financial services, information technology services, public information and marketing, and design and graphic services.

Lottery Funds and the GOCO Board

As explained below in the Fiscal Overview, the Division receives substantial funding from lottery proceeds, including funds provided through the Great Outdoors Colorado (GOCO) Trust Fund. In 1992, Colorado voters passed Article XXVII to the Colorado Constitution, which states that "the people of the State of Colorado intend that the net proceeds of every state-supervised lottery game . . . shall be guaranteed and permanently dedicated to the preservation, protection, enhancement and management of the state's wildlife, park, river, trail and open space heritage . . . ." This Article reaffirmed statutory language passed in 1982 that directed 10 percent of net lottery proceeds directly to the Division for the protection of outdoor recreation resources. Article XXVII also directed 50 percent of lottery proceeds to the GOCO Trust Fund and capped the amount of funding at $35 million annually, to be adjusted each year for inflation. In Fiscal Year 2007, the GOCO Trust Fund receipts from lottery proceeds were capped at $51.3 million. Under Article XXVII, the State Board of the Great Outdoors Colorado Trust Fund (GOCO Board) is charged with expending these proceeds substantially equally over time among the following four purposes:

- **Wildlife.** Investments in the wildlife resources of Colorado through the Colorado Division of Wildlife, including the protection and restoration of crucial wildlife habitats, appropriate programs for maintaining Colorado's diverse wildlife heritage, wildlife watching, and educational programs about wildlife and wildlife environment.

- **Parks.** Investments in the outdoor recreation resources of Colorado through the Colorado Division of Parks and Outdoor Recreation, including the State Parks System, trails, public information and environmental education resources, and water for recreational facilities.

- **Open Space.** Competitive grants to the Colorado Divisions of Wildlife and Parks and Outdoor Recreation, and to counties, municipalities or other political subdivisions of the State, or nonprofit land conservation organizations, to identify, acquire, and manage open space and natural areas of statewide significance.

- **Local Governments.** Competitive matching grants to local governments or other entities that are eligible for distributions from the Conservation Trust Fund to acquire, develop, or manage open lands and parks.

The State Constitution requires that the GOCO Board provide fiduciary oversight of these trust fund assets and ensure that these funds are distributed and used by recipients for the purposes stated in Article XXVII. The GOCO Board consists of 17 members, including two members of the public from each of Colorado's Congressional Districts, a representative designated by the Parks Board, a representative designated by the Colorado Wildlife Commission, and the Executive Director of the Colorado Department of Natural Resources. The public members are appointed by the Governor and confirmed by the State Senate. According to the Constitution, no two representatives of any one Congressional District shall be members of the same political party. All 17 members of the Board have full voting privileges.

Fiscal Overview

The Division receives funding from a variety of sources, including general funds, federal funds, user fees, lottery funds, and GOCO funds. During Fiscal Years 2003 through 2007, the Division received total funding from all sources of about $286.5 million, an average of $57.3 million per year. The following table shows the amount of total funding the Division received by funding source, and total expenditures by type, for the past five fiscal years.

Division of Parks and Outdoor Recreation
Revenues and Expenditures Fiscal Years 2003 Through 2007
(In Millions)

	Fiscal Year					Percent Change
	2003	**2004**	**2005**	**2006**	**2007**	**2003 - 2007**
Revenues						
User Fees	$15.7	$18.8	$20.3	$21.2	$22.1	41%
GOCO Funds[1]	$17.8	$8.4	$9.7	$15.7	$15.4	-13%
Lottery Funds	$11.1	$10.9	$10.9	$12.5	$11.9	7%
Federal Funds	$4.4	$6.9	$7.3	$6.5	$5.9	34%
General Funds	$5.5	$4.8	$5.0	$4.7	$5.6	2%
Other[2]	$2.4	$1.5	$1.1	$1.2	$1.3	-46%
Total Revenues	**$56.9**	**$51.3**	**$54.3**	**$61.8**	**$62.2**	**9%**
Expenditures						
Personal Services	$21.8	$21.3	$21.8	$23.0	$23.8	9%
Capital[3]	$21.5	$13.3	$15.1	$21.3	$18.3	-15%
Operating	$7.9	$9.1	$10.0	$11.1	$12.5	58%
Other[4]	$2.9	$2.7	$4.0	$3.4	$5.5	90%
Total Expenditures	**$54.1**	**$46.4**	**$50.9**	**$58.8**	**$60.1**	**11%**

Source: Information provided by the Department of Natural Resources and Great Outdoors Colorado.
Notes: [1] Based on information from Great Outdoors Colorado. As discussed in Recommendation No. 2, the Division has not recorded all GOCO revenue in the Colorado Financial Reporting System (COFRS).
[2] Includes transfers from the State Land Board and the Highway Users Tax Fund, donations, and fines and penalties resulting from law enforcement actions in parks.
[3] Estimated based on information reported by the Division and Great Outdoors Colorado. As discussed in Recommendation No. 2, the Division has not recorded all GOCO revenue in COFRS.
[4] Includes grants to local governments and other intergovernmental payments.

As the table shows, user fees, lottery proceeds, and GOCO funding provide the majority of the Division's funding. A description of each funding source and its allowable uses follows.

User fees. User fee revenues are generated through park pass sales; campsite, yurt, and cabin rental fees; various boat and off-highway-vehicle permit and registration fees; and retail sales and concessions. User fees are the Division's largest source of funding, which reflects the General Assembly's declaration that the parks system "can be largely self-supporting, and the users of such resources can help to fund the system's operation and maintenance" [Section 33-12-100.2, C.R.S.]. Further, statute states that "as a matter of state policy the system of state parks and state recreation areas should be financed as much as reasonably possible through revenues derived from the users of such system." User fees are appropriated by the General Assembly to the Division and are used for personnel, operating, and capital expenses as determined by the Division's budget process. In Fiscal Year 2007, user fees represented about 36 percent of the Division's total revenues.

GOCO funds. Article XXVII allocates 50 percent of net lottery proceeds to the GOCO Trust Fund, capped at $35 million annually adjusted for inflation. As mentioned earlier, Article XXVII requires the GOCO Board to expend, in substantially equal amounts over time, the GOCO Trust Fund monies to four different purposes. The Division receives GOCO funding under two of these four purposes, including through investments in ongoing projects and through competitive grants. First, the GOCO Board has approved funding for ongoing investments in the Division's projects each year since 1994. The GOCO Board requires that approved projects be completed within a maximum of three years, depending on the type of project. GOCO can choose not to expend funds in any given year. Second, the Division receives GOCO grant funding. The GOCO Board has developed several grant programs to provide funding for the purposes stated in the Constitution. The Division is eligible for three of these grant programs, including open space, planning, and legacy grants. GOCO offers planning and open space grants annually. Legacy grants are periodically made available for larger projects of regional or statewide significance. The Division has primarily used legacy grants to purchase land for and develop facilities at new state parks, including Cheyenne Mountain and St. Vrain State Parks.

The Division uses GOCO funds for personnel, operating, and capital expenses, as directed by the annual investment request or grant awards approved by the GOCO Board. About 25 percent of the Division's Fiscal Year 2007 revenues were from GOCO funds.

Lottery funds. Aricle XXVII of the State Constitution allocates 10 percent of net lottery proceeds directly to the Division. Statute [Section 24-35-210(4.1)(c), C.R.S.] allows the Division to use its 10 percent direct distribution of lottery proceeds for the acquisition, development, and expansion of new state parks, new state recreation areas or new recreational trails, and for operation and maintenance of parks that have been acquired or developed with lottery money. With the exception of a small amount of lottery funding used for operations, the Division primarily uses lottery funds to pay for capital improvements (such as new buildings or additional land for open space) and controlled maintenance (fixing and maintaining existing park facilities). About 19 percent of the Division's Fiscal Year 2007 revenues were from lottery funds.

Federal funds. Federal funds are provided through Division partnerships with federal agencies including the U.S. Forest Service, the Bureau of Land Management, and the Army Corps of Engineers, as well as the federal Boat Safety Program. Federal funds are used by the Division in accordance with the grant agreements associated with each funding source. About 9 percent of the Division's Fiscal Year 2007 funding was from federal sources.

General funds. General funds are derived from state tax collections that the General Assembly appropriates to the Division for personnel and operating expenses. About 9 percent of the Division's Fiscal Year 2007 funding was from general fund revenues.

Other funds. The Division receives revenues from the State Land Board to purchase land, from the Highway Users Tax Fund (derived from gasoline taxes) to build roads within the parks, from donations, and from fines and penalties resulting from law enforcement activities within the parks. About 2 percent of the Division's Fiscal Year 2007 funding was from these sources.

Audit Scope

This audit of the Division of Parks and Outdoor Recreation was conducted in response to a request by the Executive Director of the Department of Natural Resources after the GOCO Board delayed funding the Division's annual investment request for its Fiscal Year 2009 expenditures out of concern over the adequacy of the Division's financial and administrative controls. In addition, the GOCO Board expressed concern about providing additional funding for Cheyenne Mountain State Park without additional supporting detail.

As part of the audit, we interviewed Department of Natural Resources and Division staff and visited the Division's three regional offices and nine park offices. We reviewed internal controls related to cash handling, inventory tracking, use and safeguarding of state assets, procurement of goods and services, and payment processing. We evaluated the adequacy of the controls to provide reasonable assurance that expenditures were allowable and appropriate. We also reviewed the Division's processes related to contract management and personnel management. Finally, to understand the mechanisms used by the GOCO Board to fund Division activities, we assessed GOCO and Division practices related to GOCO grant applications, awards, and expenditure reimbursements.

The scope of our review did not include an audit of GOCO and its internal controls. Additionally, the scope of the audit did not include an evaluation of the sufficiency of staffing levels at either the state parks or the Division, the appropriateness of park user fees, or the activities of the Division's Boat Safety, Off-Highway Vehicle, Snowmobile, Volunteer, Trails, Resource Stewardship, Land and Water Conservation, or River Outfitter Licensing Programs. The scope of the audit also did not include a comprehensive evaluation of the Division's processes for new park acquisition and development or strategic planning.

Financial Management

Chapter 1

Overview

Sound financial management is a fundamental responsibility of government agencies. Consequently, a solid foundation of internal control and accountability is essential to ensure that public monies are used effectively and efficiently for the purposes for which they are intended. Managing public resources, leveraging existing funds, and maximizing the use of categorical funding within prescribed parameters are effective financial strategies on a broad scale. On a more narrow, operational scale, it is critical to provide reasonable assurance that transactions involving these funds are appropriate and recorded and reported properly. At both levels, relevant, timely, and reliable financial information is essential to ensure policymakers have the information needed to make tough resource allocation decisions and to provide the public with accountability for how moneys are spent.

The Division of Parks and Outdoor Recreation (Division) receives a significant amount of public funding to develop and maintain the State's parks and open spaces. From Fiscal Years 2003 through 2007, the Division received a total of $286.5 million, or an average of about $57.3 million annually, for these purposes. We reviewed the Division's management of its financial resources to determine whether it is being prudent in its use of and transparent in its accounting for the public funds with which it has been entrusted. The Division has a duty to ensure that it uses public funds in a fiscally responsible manner and in accordance with laws, rules, and other requirements.

As discussed in this chapter, we found areas for improvement related to the Division's financial management of two of its primary funding sources—Great Outdoors Colorado (GOCO) Trust Fund revenues and lottery funds. In addition, we found that the Division needs to strengthen internal controls to provide reasonable assurance that financial transactions are recorded and reported accurately, reliably, and in conformance with applicable laws and regulations.

Great Outdoors Colorado Funding

From Fiscal Years 2003 through 2007, the Division received an average of about $13.4 million annually from the GOCO Trust Fund to support the constitutional objectives of preserving, protecting, enhancing, and managing the State's wildlife, park, river, trail, and open space heritage. In total, GOCO moneys provided about 23 percent of the Division's funding during these five fiscal years.

In addition to creating this funding stream for the Division, Article XXVII created the State Board of the Great Outdoors Colorado Trust Fund (GOCO Board) as the fiduciary of the GOCO Trust Fund. As the fiduciary, the GOCO Board is responsible for ensuring that expenditures from the GOCO Trust Fund support the purposes set forth in Article XXVII. As a recipient and custodian of GOCO moneys, the Division is responsible for ensuring that it expends the funds in keeping with its agreements with the GOCO Board and in accordance with State Fiscal Rules and other requirements.

We reviewed a sample of funding and reimbursement requests and related documentation the Division submitted to the GOCO Board covering funding for the Division's expenditures for Fiscal Years 2003 through 2007. Overall, we found that the Division lacks adequate mechanisms to ensure that GOCO moneys are spent only for intended purposes and in accordance with applicable requirements. Additionally, we found that GOCO needs to strengthen its processes over the submission, review, and approval of annual investment requests before making investment decisions. These issues should be addressed by both the Division and GOCO to improve the transparency, accountability, and efficient administration of GOCO funds.

Funding Requests

The GOCO Board awards funding to the Division through two primary methods:

- **Grant awards.** Grant awards include funding for new projects related to such purposes as open space and planning. In addition, the GOCO Board periodically approves legacy grants for large-scale capital projects, such as new park acquisition and development.

- **Investments in ongoing projects and programs**. These are awards made on the basis of the annual investment requests submitted by the Division. The annual investment request is for ongoing operating and capital costs associated with the Division's existing GOCO-funded programs, projects, and parks related to GOCO's mission.

During Fiscal Years 2003 through 2007, the Division received six GOCO legacy grants totaling $22.2 million. Two of these legacy grants were for the development of Cheyenne Mountain State Park. Additionally, from Fiscal Years 2003 through 2007, the GOCO Board approved other grants totaling $732,500 and a total of more than $44 million for five annual investment requests. We reviewed the two Cheyenne Mountain legacy grants and the five annual investment requests and found that neither the legacy grant applications nor the annual investment requests contained sufficient detail or cost information to indicate clearly the ways in which the Division was to spend these GOCO funds, as explained below.

Cheyenne Mountain Legacy Grants. Since July 2002, GOCO has invested $14.5 million in the Division's development of Cheyenne Mountain State Park. Of this total, $4.5 million was in legacy grants and $10 million was through ongoing investments in the Division's annual investment request. We reviewed the Division's grant applications for developing Cheyenne Mountain and found that the Division did not adequately plan for or estimate project costs before it requested, and GOCO approved, legacy grant awards. Specifically, in its 2002 legacy grant application, the Division requested $2.5 million in GOCO funding for Cheyenne Mountain. However, the Division did not prepare or submit a corresponding business or master plan. Furthermore, the Division's project description did not include detailed plans or costs for the park infrastructure (such as roadways and utilities), or amenities (such as a visitor center, campsites, or restrooms) that would be built at the park. Despite the lack of a master or business plan and detailed cost estimates, GOCO awarded the Division $2 million of the $2.5 million it had requested.

Subsequent to the Division's 2002 legacy grant, the Division developed master and business plans for Cheyenne Mountain. The Division estimated total costs of $20 million to develop the park, more than double its 2002 estimate of $8.6 million. During the 2004 grant cycle, the Division submitted a second legacy grant application requesting an additional approximately $5 million for Cheyenne Mountain development. The grant application provided more detail than the 2002 application regarding the types and number of infrastructure developments and amenities to be included in the park. However, the application did not include sufficient cost detail on the specific amenities or infrastructure improvements to determine whether the estimated costs were reasonable. Furthermore, the application did not explain or justify the 133 percent cost increase from the $8.6 million the Division estimated in its 2002 legacy grant application. In the application, the Division stated that without additional GOCO funding "the entire project becomes unfeasible." Again, despite the lack of adequate cost detail and the unexplained increase in total costs, GOCO approved $2.5 million of the $5 million the Division requested for Cheyenne Mountain.

In 2007, the Division again revised its business plan for Cheyenne Mountain and again increased its cost estimates for developing the park. This estimate was $40 million—more that 365 percent greater than the original estimate of $8.6 million. During GOCO's most recent legacy grant award cycle in 2007, the Division was awarded an additional $843,000 to acquire more land at Cheyenne Mountain. Subsequently, however, the Division has not sought, and GOCO has not approved, additional funding for developing Cheyenne Mountain through the legacy grants. The Division indicates that it does not intend to fully implement the 2007 business plan for Cheyenne Mountain. Specifically, the Division reports it does not plan to build the cabins, day lodge, or event center described in the 2007 business plan, thus reducing the estimated cost to about $ 27.1 million.

Annual Investment Requests. Similar to the Division's legacy grant applications, we found that the Division's annual investment requests lacked sufficient cost detail to delineate clearly how the Division intended to spend GOCO moneys. Specifically, the Division's annual investment requests included costs for two expenditure categories—operating and capital—by park and by program. However, the Division provided no additional detail on the expenditures included within these two categories for each park or project. For example, the Division did not break down operating expenditures by estimated salaries, travel, overhead, and supplies. It did not break down capital expenditures by the costs estimated for construction projects, repairs and maintenance, vehicle purchases, and equipment. As mentioned above, GOCO approved a total of $44 million for the Division's five annual investment requests from Fiscal Year 2003 through Fiscal Year 2007. For each year, GOCO approved the full amount of the request. In December 2007, the GOCO Board delayed approval of the Division's annual investment request for its Fiscal Year 2009 expenditures out of concerns over the Division's accounting processes. In March 2008, the GOCO Board conditionally approved the Division's annual investment request, pending the Division's provision of more detailed budgets for the projects and programs in the request. According to the Division, as of June 2008, the Division had provided GOCO with detailed budgets for the programs and projects included in the annual investment request. GOCO has approved several of these programs and projects. GOCO's approval of the remaining programs and projects is still pending.

Reimbursement Requests

GOCO funds—whether provided through legacy or other grants or through annual investment requests—are paid to the Division on a reimbursement basis. Through a Memorandum of Agreement (MOA) with GOCO, the Division is required to submit monthly reimbursement requests identifying the total GOCO-related expenditures to date for each project within the annual investment request and for each grant awarded. The MOA provides guidance on billing and reporting to

GOCO. GOCO reserves the right to request additional information as necessary to execute its fiduciary responsibilities.

We reviewed the 24 monthly reimbursement requests prepared by the Division and submitted to GOCO during Fiscal Years 2006 and 2007 for expenditures related to annual investment requests and grant awards. We found problems with the expenditure amounts in 9 of the 12 requests (75 percent) the Division submitted during Fiscal Year 2006. Specifically, we found instances in which the beginning balance for the year-to-date expenditures did not agree with the ending balance of the prior month's reimbursement request. We also found errors in the balance of project funds available. The discrepancies in year-to-date expenditures we identified ranged from $5 to $1.9 million. Discrepancies in project balances ranged from $17,000 to $2.8 million. According to GOCO staff, GOCO brought these matters to the attention of the Division and requested correction before making the reimbursement. The format for the monthly reimbursement requests was similar to the annual investment requests originally submitted to and approved by GOCO and provided information for operating and capital expenditures by park or project, without further detail within these categories. Individual transactions charged to GOCO grants were listed in voluminous Colorado Financial Reporting System (COFRS) reports attached to each request. According to GOCO, the reimbursement request is cumbersome and difficult to tie back to the original annual investment request.

During Fiscal Year 2007, out of concern for the discrepancies and errors, GOCO increased its scrutiny of the Division's requests. Prior to reimbursing the Division, GOCO began requesting supporting documentation for some expenditures. In some cases, GOCO determined that the expenditure was not appropriate and deducted the amount of the expenditure from the reimbursement. Expenditures that GOCO denied included parking, out-of-state travel, conferences and meals, official functions, and marketing and promotional items. We found that after GOCO initiated this greater degree of review, the Division's time to process and submit each reimbursement request increased from an average of about 30 days to about 75 days. Furthermore, the increased scrutiny on the part of GOCO necessitated that the Division conduct extensive reviews for the items it had already charged to GOCO awards but that GOCO would no longer reimburse. Division staff then had to deduct these costs from GOCO projects and identify other funding sources to cover them.

Improvements

The Division needs to improve the adequacy and efficiency of its accounting and administrative controls to provide greater accountability for the expenditure of GOCO Trust Fund moneys. Additionally, GOCO should establish specific requirements for the information to be included in annual investment requests, grant applications, and reimbursement requests for them to be approved. For a grant program to operate effectively and meet the objectives of both the grantor (GOCO) and the grantee (Division), clear expectations must be established in advance of the award process. The grantor should expect to receive the type of information and level of detail it needs to make an informed investment decision in approving a grant award, to adequately monitor the grantee's progress in completing the project after the award is granted, and identify and resolve problems in a timely manner. The grantor is also responsible for establishing, prior to making the award, the types of expenditures that will be allowed and those that will be prohibited. Federal agencies use these principles in administering grants to state and local governments and other entities. While the GOCO grant program does not need to be as cumbersome as the federal process, it should embody the same underlying principles.

As the investor or grantor, it is incumbent upon GOCO to require the Division to provide the specified level of detail in the grant applications, annual investment requests, and reimbursement requests necessary for GOCO to make informed decisions. In the absence of such detail, difficulties arise in monitoring the progress of projects against meaningful plans and reimbursement requests, such as the difficulties found with the development of Cheyenne Mountain State Park. In addition, while it is appropriate and necessary for GOCO, as part of its fiduciary responsibility, to periodically examine transactions, such examination does not substitute for establishing advance expectations regarding the types of expenditures that are considered allowable or prohibited under GOCO awards.

The Division needs to work with GOCO to identify and align the types of information and the level of detail that must be included in grant applications, annual investment requests, and reimbursement requests. First, applications for new project funding should be accompanied by written business and master plans and include cost detail for planned amenities and infrastructure developments. Grant applications and annual investment requests should include line-item budgets for significant expenditure categories to ensure that GOCO has information to meet its responsibilities under Article XXVII and that both parties agree on how GOCO funds will be used. When significant changes to approved projects occur, GOCO should require the Division to detail the reasons for the changes and submit a revised plan for GOCO's approval. Second, GOCO and the Division should agree in advance on the types of expenditures that are allowable and prohibited before grants or annual investment requests are submitted or approved. Third, the Division should work with GOCO to revise the reimbursement request form to ensure that expenditures are linked to line items in grant applications and annual investment requests and that forms require a sufficient level of expenditure detail for GOCO to monitor the award. If GOCO identifies specific expenditures that it believes are not permitted under an award, GOCO could consider deducting the expenditures from future reimbursements rather than delaying payment of an existing request.

Adopting these measures will streamline the administration of GOCO funds and assist the two entities in meeting their respective obligations for ensuring that Trust Fund moneys are used wisely and in keeping with Article XXVII.

Recommendation No. 1:

The Division of State Parks and Outdoor Recreation should work with the State Board of the Great Outdoors Colorado Trust Fund (GOCO Board) to increase transparency and accountability for the investment and expenditure of GOCO funds. Specifically, the Division and GOCO Board should work to:

a. Clarify requirements regarding the types of information and level of detail the Division must include in its annual investment requests and grant applications. This should include detailed budgets and allowable/prohibited uses for each funding category. When appropriate, the Division should be required to submit master or business plans, project goals and objectives, and funding plans for ongoing maintenance and operations. The Division should be required to seek approval from the GOCO Board for changes from the approved plans.

b. Develop a standard format for reimbursement requests that ties individual expenditures to approved budget line items in the Division's annual investment requests or grant applications and provides an accurate accounting of grant balances and expenditures each month.

The GOCO Board should consider approving only those annual investment requests, grant applications, and reimbursement requests that provide the required information.

Division of Parks and Outdoor Recreation Response:

Agree. Implementation date: Partially implemented/December 2008.

a. The Division and GOCO have agreed on interim requirements for providing detailed budget information to support the Division's annual investment request and grant application for Fiscal Year 2009. The Division has provided this information to GOCO. Division staff will work closely with GOCO and the Department of Natural Resources to examine the existing budgeting and accounting procedures the Division uses to manage GOCO funding. Based on this review, the Division will work with GOCO to improve procedures and define and develop planning and budgeting documents. These procedures may be incorporated in a revised operating Memorandum of Agreement between the Division and GOCO.

b. Division staff, Department staff, and GOCO staff have been working for the past few months to improve the accuracy and documentation of the monthly reimbursement requests and will continue to improve accuracy and timeliness.

State Board of the Great Outdoors Colorado Trust Fund Response:

Agree. Implementation date: December 2008.

The GOCO Board is committed to ensuring the transparency and accountability of GOCO funds. GOCO has been working with the Division to try and improve its internal controls for several years. Over time, GOCO has made requests for additional information. The Division was not responsive to the requests in a timely fashion and did not provide accurate information. In 2006, the Board determined there was a high potential for internal control deficiencies and that the Board could not rely on the accounting records or financial data received from the Division. In order to execute its responsibility as fiduciary of the GOCO Trust Fund, the GOCO Board took several steps to address its concerns, including strongly encouraging the Department of Natural Resources to have an audit performed to identify possible issues with the Division's internal controls. In Fiscal Year 2007, GOCO requested more information on the investment request and authorized capital for only those items that were clearly described. In addition, all reimbursement requests since July 2007 have been reviewed in great detail and inquiries made to determine the reliability of third-party documentation. In Fiscal Year 2008, GOCO determined that more detail was required from the Division on specific investment requests. In March 2008, the Board approved the annual investment request with the condition that substantially more detailed and specific budgets be received and approved by GOCO staff prior to spending authority being granted. Division staff and GOCO staff are currently working on these budgets. The GOCO Board agrees that it would be prudent to request additional information and support for all of the Division's requests, including capital requests. While requiring additional information up front is warranted, these improvements will be meaningless without concurrent improvements in internal controls at the Division.

GOCO acknowledges that there is not a current Memorandum of Agreement (MOA) and that may have led to some unclear expectations. GOCO intends to revisit and update the MOA between GOCO, the Division, and the Department of Natural Resources to clearly define GOCO's expectations on reporting on investment requests, project progress and achievements, and reimbursement requests.

GOCO agrees to work with the Division to create a reimbursement form that provides GOCO with necessary information and improves the ability to track GOCO's investments. Again, until effective internal controls are demonstrated by the Division, GOCO does not intend to reassess the procedures currently in place to provide reimbursement to the Division.

While GOCO's concerns were the impetus for this audit, it is important to recognize that GOCO's role with respect to the Division is limited to its role as fiduciary of the GOCO Trust Fund. GOCO must rely on the entities within state government, with statutory authority for overseeing the Division, to ensure that overall internal controls exist within the Division's financial system.

GOCO Revenues

As discussed previously, GOCO has awarded the Division more than $67 million during the past five fiscal years. A significant portion of this funding has been for purchases of land to develop new parks or to expand existing parks. State Fiscal Rules require that agencies record all financial transactions in COFRS, the State's financial system. This includes the receipt of all grant revenues and related expenditures, such as the purchase of capital assets. In addition, agencies must record the value of all capital assets, such as land, in their capital asset inventories for tracking purposes. Comprehensive, timely, and accurate recording of all financial transactions and capital assets is essential for agencies to effectively manage and account for the State's resources. It is also vital to the integrity of the State's financial statements.

During the final draft preparation and review process for this audit report, GOCO expressed concerns about revenue figures reported by the Division and shown in the draft report. GOCO stated that the Division's GOCO revenue totals did not agree with GOCO's financial records for revenues it had paid to the Division for Fiscal Years 2003 through 2007. Specifically, GOCO's records show that it paid more revenue to the Division than was recorded in COFRS for some years, and paid less revenue to the Division than was recorded in COFRS for other years. For the five-year period, GOCO's records show that it paid the Division a total of $10.6 million more than the Division recorded in COFRS. The largest discrepancy was for Fiscal Year 2003. In that year, GOCO's records show that it paid the Division a total of $17.8 million. In contrast, the Division's records for that year show GOCO receipts of only $7.1 million, a difference of more than $10.7 million.

We followed up on GOCO's concerns and found that the Division failed to record in COFRS the revenues and expenditures related to several GOCO-financed land purchases in Fiscal Year 2003. Specifically, the Division did not record a total of $9.4 million in GOCO revenues and associated expenditures for the purchase of the Rademacher, Metzler, and Barbour Ponds properties adjacent to St. Vrain State Park. The Division also failed to record the value of these land purchases in its capital assets, which are also recorded on the State's financial statements. As a result, revenues, expenditures, and capital assets on the State's financial statements are underreported by at least $9.4 million during Fiscal Year 2003. This understatement of the State's capital assets has continued through to the Fiscal Year 2007 financial statements issued by the State in December 2007.

The $9.4 million cited above accounts for the majority of the $10.7 million difference identified for Fiscal Year 2003. However, at the audit's conclusion, the Division was unable to account for the remaining discrepancies. The Division's inability to resolve these discrepancies results from its failure to have adequate controls in place and to operate in a manner that ensures all financial transactions are accurately and completely recorded in COFRS. This situation is unacceptable and represents a material weakness in internal controls over financial reporting.

Department of Natural Resources' staff indicate that this is not the first time such lapses have occurred, particularly when land transactions were involved. In fact, the two instances discussed above do not resolve all of the discrepancies between the Division's and GOCO's records, and therefore, the transactions identified here are likely not isolated incidents. The Department and the Division need to take immediate actions to remedy this serious weakness in controls. Specifically, the Department and the Division need to implement effective internal controls over the recording and reconciliation of all GOCO receipts and the tracking of capital assets purchased with GOCO funds as detailed in the following recommendation.

Recommendation No. 2:

The Department of Natural Resources should work with the Division of Parks and Outdoor Recreation to establish adequate controls over the receipt and use of GOCO moneys to ensure the State's financial statements are complete and accurate and to ensure assets are safeguarded. Specifically, the Department and the Division should:

a. Implement controls over the receipt of all GOCO funds to ensure that all related revenues, expenditures, capital assets, and other affected accounts are accurately and completely reflected in COFRS, the State's financial system.

b. Reconcile the Division's GOCO revenues recorded in COFRS to GOCO's records of amounts paid to the Division and make all necessary adjustments to COFRS. This reconciliation should be conducted periodically but no less than annually prior to fiscal year end.

c. Perform a reconciliation from Fiscal Year 1993 through Fiscal Year 2008 of the Division's GOCO revenues recorded in COFRS to GOCO's records of amounts paid to the Division. When the reconciliation is complete, the Department should work with the Office of the State Controller to ensure all appropriate entries are made in COFRS.

d. Ensure that the Division's list of capital assets is updated no less than annually and reflects capital purchases made with GOCO funds.

Department of Natural Resources Response:

Agree.

a. Implementation date: June 2008. The Department will work with the Division to immediately implement controls over GOCO funds to ensure all transactions are appropriately recorded in the State's financial reporting system, COFRS.

b. Implementation date: September 2008. The Department will work with the Division to reconcile revenue and expenditure information, and the Division will work with GOCO to ensure that the Division's records are in agreement with GOCO distribution amounts.

c. Implementation date: December 2010. A reconciliation will be implemented, starting with Fiscal Year 2008 information being reconciled by fiscal year end. Prior years will be reconciled between GOCO and the Division with the assistance of the Department.

d. Implementation date: December 2010. The Department will continue to work with the Division to ensure capital asset records maintained at the Division and Department are current and accurate.

Division of Parks and Outdoor Recreation Response:

Agree.

a. Implementation date: July 2008. Division staff will work with GOCO and the Department to immediately develop and implement procedures to ensure that all GOCO-related revenues, expenditures, capital assets, and other affected accounts are properly recorded in COFRS.

b. Implementation date: June 2009. The Division will reconcile its recorded revenues to GOCO's records of the amounts paid to the Division and will make any necessary adjustments in COFRS on at least an annual basis.

c. Implementation date: December 2010. The Division will reconcile its recorded revenues to GOCO's records of the amounts paid to the Division back to 1993, or as far back as records allow. The Division will also work with the State Controller to make appropriate adjusting entries to revenues, expenditures, and capital assets in COFRS based on this reconciliation.

d. Implementation date: December 2010. The Division will update its list of capital assets at least annually, to include capital purchases made with GOCO funds.

Lottery Funding

In addition to the lottery moneys the Division receives from the GOCO Trust Fund, the Division receives a significant amount of lottery dollars through a direct appropriation. Under Article XXVII, 10 percent of lottery proceeds are continuously appropriated to the Division for the "acquisition, development and improvement of new and existing state parks, recreation areas, and recreational trails." From Fiscal Years 2003 through 2007, the Division received a total of $57.3 million through this source. This direct appropriation of lottery proceeds represented about 20 percent of the Division's total funding for that period.

The Colorado Constitution and statutes allow the Division to use lottery funds in two primary ways to fulfill the intent of Article XXVII stated above. As indicated in the following passages, the Division is permitted to use lottery funds for both capital development and for ongoing operations:

Section 1 of Article XXVII states that:

> The people of the State of Colorado intend that the net proceeds of every state-supervised lottery game . . . shall be guaranteed and permanently dedicated to the **preservation, protection, enhancement and management** of the state's wildlife, park, river, trail and open space heritage . . . . [Emphasis added.]

Section 24-35-210(4.1)(c), C.R.S., specifies that the Division may use lottery funding:

> . . . for the **acquisition, development, and expansion** of new state parks, new state recreation areas, or new recreational trails, and for the **operation and maintenance** of parks that have been acquired or developed with lottery money. [Emphasis added.]

In reviewing the Division's administration of and accounting for lottery funds, we identified fundamental flaws in its overall financial management of this publicly mandated funding source. Specifically, we found that the Division has not strategically managed the use of its lottery funds to fulfill constitutional and statutory intent. That is, the Division is not adequately planning for the use of available lottery funds, thereby limiting the Division's effectiveness to achieve constitutional goals and lay the groundwork for a comprehensive financial management strategy. Additionally, we found that the Division is not ensuring accountability for past, present, and future lottery expenditures. Better accountability is needed to provide transparency regarding the use of funds, leverage funding sources, and ensure a financially viable and sustainable park system. These issues are described in the following sections.

Use of Lottery Proceeds

As stated above, Colorado's Constitution and state statute provide for broad uses of lottery funds for capital development and ongoing management of state parks. We found that although the Division has invested considerable lottery moneys for capital development purposes, the Division has unnecessarily limited its investment of lottery moneys for park operations. As a result, the Division is increasing the pressure on taxpayers—through the need for general funds and park user fees—to cover the ongoing costs of operations at parks acquired and developed with lottery moneys.

First, we found that the Division has not adopted a balanced approach for investing lottery funds to ensure parks developed with lottery moneys can be operated in the future. Rather, the Division has expended a significant proportion of lottery moneys for capital construction and improvement projects without a corresponding consideration of how lottery funding will be used for the short- and long-term operating costs at these same lottery-funded parks. Specifically, for Fiscal Years 2003 through 2007, the Division received a total of $57.3 million in lottery proceeds. Of this total, the Division spent about $47 million, including investing $37.2 million (79 percent) in park capital construction and improvement projects. The Division spent only 9 percent on operations.

Furthermore, in Fiscal Year 2007, the Division reported to the Capital Development Committee that in Fiscal Years 2004 through 2009, its actual and estimated expenditures of lottery funds for 13 capital construction projects would total $42.4 million. Of the 13 projects, only 3 included estimates of the amount or source of funds that the Division would use to finance ongoing operations. For none of these three did the Division indicate that any lottery funds would be dedicated toward operating costs. By investing lottery moneys primarily in park capital construction and improvement projects and not investing these moneys in operating parks, the Division is obligating other funding sources and, in effect, committing the General Assembly and park users to finance these park operations indefinitely. We found that during the past five years, park users have contributed increasing amounts of revenue toward support of state parks. Specifically, Division fee collections increased by 41 percent—from $15.7 million to $22.1 million—between Fiscal Years 2003 and 2007. By comparison, park visitors have increased by about 7 percent, substantially less than the increase in park user fee revenue.

Second, we found that the Division has established an arbitrary, unsubstantiated cap on the amount of lottery moneys it will dedicate toward operations at lottery-funded parks. Since the enactment of Article XXVII in 1993, the Division has interpreted the State Constitution and statutes to require a limit of about $506,000 on the amount of lottery funds that the Division can use for operating lottery-funded parks. The Division does not have a legal opinion to support its interpretation. Furthermore, we found that although the Division believes Colorado's Constitution and statutes prevent its use of lottery funding for operational expenditures in excess of $506,000, the Division does use lottery funds for information technology and telecommunications infrastructure projects, even though these projects are not directly related to the "acquisition, development and improvement of new and existing state parks, recreation areas, and recreational trails." For example, the Division reported that it plans to spend about $1.6 million of lottery proceeds on information technology and telecommunications projects in Fiscal Year 2008. We acknowledge the Division's expenditure of lottery funding on information technology and telecommunications may have long-term benefits for the State Park System. However, we question the credibility of the Division's decision to narrowly interpret the Constitution and statutes by limiting lottery expenditures on operating costs while at the same time broadly interpreting the Constitution and statutes by expending lottery funds on information technology and telecommunications projects.

We believe the Division's practices do not support the intent of the voters who approved Article XXVII. The Division needs to reassess its approach to using lottery funds for the ongoing costs of operating parks developed with lottery moneys. In the fall of 2007, the Division reported that it anticipates an operating shortfall of almost $1.3 million for Fiscal Year 2008 and that this deficit will grow to more than $3 million by Fiscal Year 2013. There are limits to how much user fees can be increased without adversely affecting attendance. With respect to requesting general funds, the Division has the benefit of two substantial dedicated funding sources under Article XXVII. The Division must be able to demonstrate that it has made effective use of these funds prior to competing with the many other priorities for general fund moneys such as K-12 education, higher education, health care, and corrections.

Lottery Fund Balance

The Division's lottery proceeds are deposited and maintained in the Division's Lottery Fund until expended. We found that the Division has not effectively managed the Lottery Fund, and has allowed the fund balance to grow significantly, indicating that the Division lacks sound financial management practices. In the four-year period from June 30, 2003, to June 30, 2007, the fund balance in the Division's Lottery Fund increased from about $9.7 million to $17.5 million. This represents an increase of about $7.8 million, or 80 percent. During the same period, the Division's lottery proceeds increased from $11.1 million to $12 million, or by 8 percent.

The Division has not established a target or range for determining an appropriate fund balance for its Lottery Fund. Although the Division has created various "set asides" within the fund balance for a variety of projects, the substantial increase in the fund balance during a period of modest revenue growth raises questions about whether the Division is doing an effective job of planning and carrying out lottery-funded capital construction and acquisition projects. For example, the Division earmarked $720,000 in lottery funds for constructing cabins and yurts beginning in

Fiscal Year 2003. Four years later, at the end of Fiscal Year 2006, the Division still had not spent nearly $228,000 (32 percent) of this original allocation.

Best practices suggest that entities identify fund balance target ranges that weigh short- and long-term needs against the importance of maximizing the use of cash resources. If the balance exceeds the targeted range, Division management should determine the reason and take remedial action. For example, if projects are delayed, the Division should identify ways to accelerate the project or reallocate funds to more immediate needs.

Tracking Lottery Expenditures

Since 1983, when the Division began receiving lottery proceeds, it has used a spreadsheet to track the amount of lottery dollars it budgets for use at each park. According to the Division's information, for Fiscal Years 1983 through 2007, it budgeted a total of $152.5 million in lottery funds for capital projects. In reviewing the Division's tracking methodology, we found that while it records budgeted dollars, it does not account for the Division's actual expenditures of lottery funds. Specifically, we found two problems with the Division's tracking methodology. First, the Division often reallocates budgeted funds among parks when priorities change, but the Division does not make corresponding adjustments to its spreadsheet to capture these changes or record actual expenditures. Second, in some cases, the Division only tracks the amount of lottery funds it budgets annually by major category, rather than by park or by project. For example, the Division budgets some lottery funds by large categories, such as water acquisition/lease options, major repairs and minor improvements, dam repair, group picnic areas, and the Colorado State Trails Program. This information is not sufficient to determine the lottery expenditures associated with individual parks or projects. Therefore, the information tracked by the Division is not a reliable measure of lottery fund expenditures at each park.

This lack of reliable expenditure information is problematic for two reasons. First, the Division has a duty to maintain and report accurate and useful financial information. Although the Division records lottery proceeds and expenditures in COFRS, it does so for accounting purposes. The Division does not extract COFRS information for financial management, planning, or reporting purposes, and the Division does not maintain or compile any other reports on lottery fund expenditures. Thus, the reliable and accessible information needed to provide public accountability for the equitable and appropriate expenditure of lottery funds and to help inform decisions does not exist.

The second reason the lack of adequate tracking is a problem is that although the statutes authorize the Division to use lottery dollars for operations and maintenance, such use is statutorily limited to parks that have been acquired or developed with lottery money. Without actual expenditure information on an individual park basis, it is difficult for the Division to justify lottery expenditures for operational purposes at individual parks. For example, the Division's tracking data show that it did not budget any lottery dollars to acquire, develop, or expand Chatfield State Park. However, our review of COFRS data shows that from July 2000 through June 2008, the Division spent nearly $348,000 in lottery funds for operating costs at this park. If the Division cannot demonstrate that lottery funds were used to acquire or develop Chatfield State Park, then the Division's use of lottery moneys for this purpose violated state statute.

Improvements

The problems we identified are due, in large part, to the absence of oversight mechanisms to hold the Division accountable for its management and use of lottery proceeds. In effect, the Division has sole authority over lottery dollars with minimal oversight by the General Assembly or any other external entity. Although statute [Section 24-30-1303(3), C.R.S.] requires the Division to report its planned use of lottery dollars on a project-specific basis to the Office of State Planning and Budgeting, the Capital Development Committee, and the Joint Budget Committee, this information is not sufficient to evaluate the Division's overall investment strategy or its short- or long-term plans for acquiring, developing, or maintaining state parks. More importantly, traditional accountability and review mechanisms that are typically built into the use of most funding sources—such as the State's annual budget process where agencies must justify and defend changes or increases to their planned expenditures—do not apply to the Division's lottery proceeds.

There are several steps the Division should take and the General Assembly should consider to improve the management and oversight of lottery moneys. First, the Division should discontinue its unsubstantiated cap of $506,000 on the amount of lottery funds it invests in operating parks developed with lottery moneys. Second, the Division should create an accurate and complete history of its lottery expenditures by specific park and project from 1983 forward to demonstrate that expenditures have complied with constitutional and statutory provisions. This will allow the Division to determine which parks have been acquired, developed, or expanded in whole or in part with lottery proceeds so that the Division can determine how to better allocate lottery proceeds to pay for ongoing operations. Third, the Division should develop a comprehensive strategy for responsible investment of lottery proceeds that: (1) ensures new capital projects have sufficient funding to support ongoing operations in the short- and long-term, including funding from lottery proceeds; (2) sets a target for limiting the amount of the fund balance within the Lottery Fund and monitors the fund balance on an ongoing basis; and (3) includes short- and long-term plans for using lottery proceeds effectively and efficiently for the benefit of the park system and the public.

Finally, the Division and the Board of Parks and Outdoor Recreation (Parks Board) should report annually to the General Assembly on the Division's use of lottery funds for the acquisition, development, and expansion of state parks, recreation areas, and trails, and its current and planned use of lottery and other funds for operating parks acquired with lottery dollars. Additionally, the Division and the Parks Board should report on the status and planned use of the balance in the Lottery Fund. If the General Assembly is not satisfied with the Division's strategic management of its direct lottery proceeds, the General Assembly can determine how this factor should impact the appropriation of cash funds and general funds to the Division. These steps should help provide the external oversight needed to ensure the Division is accountable to the public for the effective use and strategic management of the lottery proceeds entrusted to its stewardship.

Recommendation No. 3:

The Division of Parks and Outdoor Recreation should develop a comprehensive strategy for responsible investment and management of lottery proceeds to ensure accountability for the lottery funds entrusted to it by the public. Specifically, the Division should:

a. Discontinue its unsubstantiated cap of $506,000 on the amount of lottery funds invested in operating parks developed with lottery moneys.

b. Develop a mechanism for tracking lottery expenditures by specific park and project from 1983 and forward. The Division should then use this information to determine which parks have been acquired, developed, or expanded in whole or in part with lottery proceeds and evaluate and implement allocation strategies for using lottery proceeds in support of ongoing operations.

c. Ensure new capital projects have sufficient funding to support ongoing operations in the short- and long-term, including funding from lottery proceeds. One of the primary goals of this methodology should be to mitigate the impact on the General Fund for financing operating costs of lottery-funded projects and parks as well as keeping user fees reasonable.

d. Reevaluating its process for planning and executing projects to ensure that lottery funds are used effectively and efficiently to benefit the park system and the public. This should include setting a target amount for the fund balance within the Lottery Fund, monitoring Lottery Fund activity and the fund balance, and taking appropriate action when funds exceed the target, as needed.

Division of Parks and Outdoor Recreation Response:

Agree.

a. Implementation date: Immediately. The Division will immediately discontinue considering the $505,806 as a cap on the amount of Lottery funding that can be used for operating purposes. For many years this amount appeared in a letter note in the Long Bill for informational purposes only.

b. Implementation date: March 2010. The Division will develop a mechanism for more effectively and accurately tracking lottery expenditures by specific park and project. The mechanism to track all future lottery expenditures by park and project will be developed and implemented by December 2008. By January 2009, the Division will begin using this mechanism to track such expenditures as close to 1983 as is possible. Based on information developed through these efforts, the Division will begin adjusting budget allocation strategies no later than the Fiscal Year 2011 budget cycle.

c. Implementation date: December 2008. Beginning immediately, the Division will ensure that sufficient short- and long-term operating funds and funding sources for new capital projects are considered and will be accurately requested in our budget requests. Since late 2007, the current Division Director has been working with staff to improve the quality of this information. Additionally, the Division will seek an opinion from the Attorney General's Office by December 2008 to help guide our future investment of Lottery funds.

d. Implementation date: June 2009. The Division also plans to develop a comprehensive financial plan that addresses the use of all Division funding sources, including lottery funds. We will finalize this plan with the Parks Board no later than June 2009.

Recommendation No. 4:

The Division of Parks and Outdoor Recreation and the Board of Parks and Outdoor Recreation should report annually to the General Assembly and the Office of State

Planning and Budgeting on the use of lottery proceeds appropriated directly to the Division. The Division and Parks Board should report on the:

a. Use of lottery funds for long-term projects and operating expenses associated with projects funded by lottery moneys.

b. Use and status of the fund balance within the Division's Lottery Fund on an annual basis. The Division should explain how it monitors the fund balance to ensure projects are completed in a timely manner and identify any problem areas, as well as the action plan the Division has established to resolve the problem.

Division of Parks and Outdoor Recreation Response:

Agree. Implementation date: October 2009.

The Division, in cooperation with our Parks Board, will annually submit a report related to the use of lottery funds beginning no later than October 2009. The report will include information related to the use of lottery funds for long-term projects and operating expenses associated with projects funded with lottery dollars. The report will also address management of our Lottery Fund balance.

Board of Parks and Outdoor Recreation Response:

Agree. Implementation date: October 2009.

The Parks Board agrees with this recommendation and will work cooperatively with the Division Director and staff to provide a report as described in the Division's response.

Controls over Expenditures

Statute [Section 24-17-102(1), C.R.S.] requires state agencies to have internal accounting and administrative control systems that provide for adequate segregation of duties, proper safeguarding of state assets, adequate authorization and record-keeping, personnel of quality and integrity, restrictions on access to state assets, and an effective process of internal review. During Fiscal Year 2007, the Division expended a total of more than $60 million for development, maintenance, and operations at state parks and recreation areas. To protect the investment of these public funds and ensure they are used for intended purposes, controls over expenditures, including those prescribed in statute, are crucial. We reviewed the Division's accounting and administrative controls to determine their adequacy to reasonably ensure that financial transactions recorded in COFRS are accurate, reliable, and in conformance with State Fiscal Rules and other applicable requirements. We found weaknesses in a number of areas.

The Division has a multi-level process for initiating, reviewing, and approving payments of expenditures. The Division pays for goods and services primarily by either: (1) processing a payment transaction through COFRS and issuing a state warrant to the vendor or (2) using a state procurement card (ProCard) to pay vendors at the time of purchase. Each Division manager who oversees a specific program, such as Business Development, Trails, or Law Enforcement, initiates his or her own payment transactions in COFRS. Similarly, staff at each park—either independently or with assistance from their park's regional office—initiate all of the park's respective payment transactions in COFRS. These transactions are reviewed and approved by staff at the respective regional park offices, if applicable, and then again by the Division's Controller. Finally, the Department's Accounting and Purchasing Office must approve all financial transactions processed by the Division.

We reviewed a sample of 330 payment vouchers totaling $16.5 million for expenditures incurred by the Division during Fiscal Years 2006 and 2007. While we only visited nine park offices, our sample included payments processed by ten park offices (Cherry Creek, St. Vrain, Golden Gate, Sylvan Lake, Stagecoach, the Rifle Complex, Cheyenne Mountain, Mueller, Navajo, and John Martin), all three park regions, and the Division's administrative offices and programs. Of the 330 payments we tested, we identified 124 (38 percent) that had one or more exceptions. This means that the payments for 124 of these purchases did not conform to State Fiscal Rules or other requirements. The total value of the 124 payments was more than $8 million and represented almost half of the total value of the payments we sampled. The exceptions we identified fell into several categories, and for some payments we identified more than one exception. Therefore, these payments are reflected in more than one of the following categories:

- **Expenditures questioned under the "reasonable and necessary" standard.** State Fiscal Rules require that all expenditures incurred by state agencies be reasonable and necessary. We identified 10 payments (3 percent of the 330 payments) totaling about $108,000 for Division-hosted official functions and events that included expenditures for lodging, travel, meals, and entertainment that we believe to be unreasonable and unnecessary. In other words, the expenditures could be perceived by taxpayers as an abuse of state funds. For example, the Division paid $6,100 for employee entertainment during a three-day training for 250 employees. Expenses included hiring a comedian at a cost of $800 per hour and renting casino equipment for $5,300. In addition, the Division spent about $43,000 for food during this training, which was significantly higher than the State's allowable meal per diem. Had the Division used the per diem as a guideline when purchasing food, the costs to the State would have been $21,700 less. Although state agencies are not required to follow the State Fiscal Rule per diem rates for official functions or training events, the per diem rates do provide a basis for determining acceptable, reasonable costs. Additionally, the Division paid a total of about $3,900 on six different occasions for 20 Division employees to stay overnight in a hotel when the hotel was located in the same area as the employees' normal work locations. We also identified other questionable expenditures that, although not individually significant in terms of dollars spent, raise concerns about the Division's fiscal responsibility because of the cumulative effect and repeated nature of the expenditures.

- **Insufficient documentation.** We found that 55 of the 330 payments (17 percent) did not have sufficient supporting documentation. Missing documentation included invoices, receipts, descriptions of the items or services purchased and the purpose of the travel or meals, and receiving reports demonstrating the receipt of the goods ordered. Six of the 55 transactions were payments for additional construction materials totaling $620,000.

- **Approval and payment errors.** We found a lack of adequate review and authorization for 40 of 330 payments (12 percent). For example, in four cases employees inappropriately approved their own travel expenditures; in three cases employees did not receive pre-approval for out-of-state travel; and in ten cases employees approved expenditures they did not have authority to approve. In four other cases, the Division made purchases in excess of $5,000 each without purchase orders, as required by State Fiscal Rules. Finally, the Division issued four incorrectly calculated payments resulting in two overpayments, totaling about $134, and two underpayments, totaling about $389.

- **Late payments.** We found that the Division did not pay 10 of the 330 payments (3 percent) by the invoice due date. Some of the payments were more than five months late. In one case, the Division was required to pay a late fee of nearly $64. Delinquent payments discourage vendors from doing business with the State. Additionally, the Division should not incur unnecessary costs associated with late payments.

- **Recording errors.** We found that 45 of the 330 transactions in our sample (14 percent) were either coded to the wrong fund, object code, grant budget line, or organization code (individual program or park budget), or recorded in the wrong fiscal year in COFRS.

We also identified 21 payments related to GOCO grants that were questionable on the basis of concerns GOCO began raising during Fiscal Year 2007. However, due to the lack of clear criteria to establish which expenditures are considered appropriate or are specifically prohibited, as well as the lack of adequate detail on applications for GOCO funding and reimbursement forms, as discussed in the previous section, we did not include these payments as errors.

In addition to our sample testing, during the audit it was brought to our attention that the Division's former Director charged time to the State when traveling to Lebanon in March 2006. We examined documentation related to this trip and determined that although the trip was approved by the then-Executive Director of the Department, the trip was not approved by the Governor's Chief of Staff, which is required for international travel under State Fiscal Rules. Although the organization sponsoring the trip paid all expenses, the State paid for 72 hours of the former Division Director's time that was spent on non-state-related business at a total cost of about $4,100. On the basis of our review, we question whether this trip benefitted the State and whether it was appropriate for time associated with the trip to have been charged to the State. Although our sample testing did not identify similar instances involving international travel and time charged to the State for activities that did not involve state business, we did find instances in which travel did not receive required approvals, as noted above.

The significant payment error rate identified in our sample raises serious concerns about the Division's fiscal management practices. Although generally the transactions we identified were reviewed and approved by several different individuals, these reviews were not effective in identifying and preventing instances of noncompliance with applicable statutes, State Fiscal Rules, or other requirements. We did find instances where the Division coded expenditures incorrectly and the Department's Accounting and Purchasing Office corrected the coding error prior to payment being issued. However, our results indicate that in many instances, problems are not identified and addressed.

Overall, we determined that the large number of problems identified in our expenditure testing resulted primarily from the Division's highly decentralized accounting structure, which appears to have created a general lack of accountability with regard to ensuring all transactions are accurate, appropriate, and in compliance with State Fiscal Rules and other requirements. More than 50 Division staff, most of whom have no formal training in accounting, are authorized to initiate expenditure transactions in COFRS, and about 123 Division staff have authority to approve these transactions. Additionally, staff lack adequate training on their responsibilities and the requirements they are responsible for applying during their reviews of transactions. Also, we found that the Division lacks an effective and timely process for communicating changes in accounting policies to regions and parks, such as when GOCO determined certain types of costs would no longer be reimbursable. Lack of timely communication creates confusion, and retroactive identification and adjustment of affected transactions requires extensive resources. During Fiscal Year 2007, the Division's central accounting section made more than 200 adjustments to transfer about $220,000 in expenditures from GOCO grants to other funding sources, thus contributing to inefficiencies and significant delays in the submission and approval of reimbursement requests.

The Division and the Department should assess the processes used to record and issue Division payments, and consideration should be given to streamlining initiation and approval of payment transactions while ensuring adequate administrative and accounting controls are in place to review the appropriateness of transactions. As part of this assessment, specific accountability needs to be assigned at each level of transaction review. For example, accountability is necessary to ensure that the expenditure is coded to the appropriate grant or project and related codes in COFRS, has all required approvals, or has been reviewed for mathematical accuracy. The Division and Department need to ensure that all expenditures are reasonable and necessary, individuals with accounting expertise are responsible for oversight, and all staff involved in processing expenditures receive timely communication on accounting policy changes and periodic training on their responsibilities. Responsibilities for accurate payment processing should be incorporated into employee performance plans and evaluations, and corrective action taken, as appropriate.

Recommendation No. 5:

The Department of Natural Resources and the Division of Parks and Outdoor Recreation should improve controls over the Division's expenditure processes by:

a. Evaluating the process used to pay Division expenditures and identifying ways to ensure all expenditures are reasonable and necessary, accountability is clear at all levels of the process, and controls are adequate to ensure compliance with State Fiscal Rules and all other applicable requirements. Ways to streamline the process and ensure timely payment should also be identified.

b. Providing periodic training to staff on their responsibilities for the review and approval of expenditures to ensure they are appropriate, accurate, and recorded properly in COFRS. As part of this initiative, procedures should be put into place to ensure timely communication regarding changes in accounting policies.

c. Including responsibilities related to payment processing in job descriptions, performance plans, and evaluations for all employees responsible for initiating, reviewing, and approving payments, and taking appropriate disciplinary action as appropriate.

Department of Natural Resources Response:

Agree.

a. Implementation date: December 2008. The Department will work with the Division to evaluate the payment process and make suggestions for improvement.

b. Implementation date: April 2008/Ongoing. The Department offered training in April and May 2008 and will continue to provide training on an ongoing basis to ensure expenditure transactions are appropriate, accurate, and properly recorded in COFRS. Changes in accounting policies will be communicated in a timely manner.

c. Implementation date: April 2009. Job descriptions, performance plans, and evaluations will be reviewed to include specific details and ratings regarding the employees’ duties relative to payment processing, with training and/or appropriate disciplinary action, as needed.

Division of Parks and Outdoor Recreation Response:

Agree.

a. Implementation date: December 2008. The Division's existing process, written directives, written procedures, and other documentation pertaining to expenditure control will be reviewed by a team consisting of appropriate Division and Department staff, which will make recommendations for changes to address the audit issues and streamline the process. Once the Division Director approves the changes, the new process and procedures will be documented and formally transmitted to all pertinent Division managers and staff.

b. Implementation date: December 2008/Ongoing. Training materials and curriculum will be developed based on the new process discussed in Part a. Training will be delivered to pertinent Division managers and staff over a period of time as resources and staff availability allow. Maximum use will be made of existing scheduled staff meetings and training sessions to deliver this training.

   Divisionwide procedures will be developed for keeping all directives current and for communicating changes to all Division staff and employees.

c. Implementation date: May 2009. A standard Individual Performance Objective will be developed for all pertinent Division positions for inclusion in annual performance plans and performance evaluations no later than the next performance planning cycle.

Procurement Cards

The Department of Personnel & Administration is the statewide administrator of the State's procurement card (ProCard) program. The goal of the program is to ease acquisition of goods and services, provide more timely payment to merchants, and reduce the number of small dollar payments issued by the traditional payment voucher system. The Department of Natural Resources' Procurement Card Guide establishes the requirements for card issuance and the appropriate use and required documentation for all card purchases. Additionally, the Department of Personnel & Administration provides suggested guidelines and best practices for agencies using ProCards. These best practices include recommending that agencies:

- Review receipts to ensure adequate documentation is maintained and purchases are for official state business;

- Audit ProCard use, including reviewing reports to identify problems such as split purchases;

- Establish written policies regarding unallowable purchases;

- Utilize card cancellations and disciplinary actions for violations of agency policy; and

- Offer additional training to cardholders as needed.

Each state department is responsible for establishing and administering its own ProCard program. The Department of Natural Resources' Accounting and Purchasing Office oversees the ProCard program for all of its divisions, including the Division of Parks and Outdoor Recreation. In practice, the Department issues cards, sets credit limits, provides training, and has an audit function responsible for reviewing the Department's ProCard program. The Division is responsible for requesting cards from the Department and having procedures in place to ensure all transactions are adequately documented and approved.

ProCards are considered an area with a high risk of fraud and abuse; therefore, adequate controls over ProCard purchases are essential. During our audit, we reviewed a sample of 261 Division ProCard transactions that occurred during Fiscal Years 2005 through 2007 and identified problems with 62 transactions (24 percent) totaling about $71,000. Some transactions had more than one problem. Overall, we found that neither the Department nor the Division has developed sufficient control procedures to oversee the distribution and use of the ProCards. Specifically, we identified the following problems:

- **Supporting documentation, approvals, and improper expenditures.** State Fiscal Rules and Department policies require that ProCards be used only for state business and in accordance with standard purchasing rules. At the end of each billing cycle, the cardholder must verify all transactions on the monthly statement, attach receipts and invoices to the statement, and sign the statement. The employee is required to forward this information to the approving official (generally the employee's supervisor) for review and signature approval. We found 43 transactions (16 percent) that were missing proper supporting documentation to identify the item(s) or service(s) purchased, lacked supervisory approval on the monthly statement, or appeared questionable under State Fiscal Rules. Also, we found one transaction in which an employee used a card when the card was assigned to a different employee, one transaction that included sales tax, and one payment for a contractor's lunch, which is an unallowable expenditure.

- **Split purchases.** Transaction limits vary by cardholder. For cards held by Division staff, the Department reports that limits range from $1,000 to $5,000. We identified 22 transactions (8 percent) where cardholders made purchases that exceeded their single transaction limits without documented prior approval. In six cases cardholders made a single purchase that exceeded their limit, in nine cases a single cardholder split a purchase into multiple transactions to circumvent the card limit, and in seven cases two or more employees split a purchase into multiple transactions to circumvent their card limits.

We also identified concerns with the Department's procedures for monitoring unallowable purchases. The Department maintains a list of unallowable Merchant Category Classification (MCC) codes that outlines the types of vendors from which cardholders cannot make purchases. We found 98 transactions (38 percent) that listed MCC codes which, according to the guide in place at the time of our audit, were for vendors on the MCC list. Therefore, the purchases should have been unallowable. According to Department staff, MCC codes change frequently and may be different for each individual cardholder. Currently, the Department does not track all historical changes to the unallowable codes. The Department indicated that it changed the unallowable MCC codes in fall 2003 and, therefore, some of the 98 transactions were likely allowable. Department staff state that they rely on the credit card company to decline charges to any unallowable MCC codes. However, vendors can override the credit card company's decline of any transaction. Although reports are available from the State's ProCard vendor that show each instance in which a vendor overrides a declined transaction, the Department does not request or review this report. Without reviewing transactions in which unallowable MCC codes were overridden and without a historical record of unallowable MCC codes by cardholder, the Department is unable to identify cardholders who routinely purchased items from unallowable vendors.

The Division and the Department need to take several steps to improve the use of ProCards and to incorporate best practices recommended by the Department of Personnel & Administration. First, the Division should implement procedures to help standardize the monthly ProCard transaction approval and review process. One option would be to develop a standard template that the cardholder would complete and the approving authority would review prior to payment. For each transaction, the template should include the vendor name, transaction date and amount, reason for the purchase, description of the item purchased, and transaction coding information. The template should also require the cardholder to attach all receipts and the appropriate monthly card statement.

Second, the Department should improve its audits of ProCard transactions and better utilize the results of audits to curb violations. Currently, the Department conducts audits of a sample of card transactions but does not track problems over time by cardholder to identify trends in cardholder abuse that need to be remedied. Consequently, it is difficult for the Department to identify patterns of abuse, confiscate cards, or take other disciplinary action against repeat offenders. Additionally, the Department does not use all of the standard reports available from the State's ProCard vendor to help with its review of ProCard purchases. For example, the Department reviews the *Possible Split Transactions Report* to help identify split purchases, however it does not review the *Declined Authorizations Report* to identify cardholders who have attempted to use a card to buy an item (1) for which they are not authorized, (2) that exceeds their single purchase limit, (3) that exceeds their monthly purchase limit, or (4) from a business that is assigned an unallowable merchant category code.

Finally, the Division and Department should provide refresher ProCard training to cardholders as recommended by the Department's own ProCard guide. Training should be targeted toward cardholders who have used their cards inappropriately or who have not had recent ProCard training. The cardholders we interviewed reported receiving training when they were first issued a card but had not received any update or refresher training.

Recommendation No. 6:

The Department of Natural Resources and the Division of Parks and Outdoor Recreation should work together to improve controls over procurement cards (ProCards) by:

a. Ensuring that cardholders adequately document all purchases and that supervisors review and approve, as appropriate, all purchases monthly. This process could be facilitated by the development of a standard template that must be completed by the cardholder for each transaction on a monthly basis and reviewed by the approving authority prior to payment.

b. Providing ProCard refresher training on a periodic basis determined by the Department and the Division to cardholders to ensure understanding of the rules on proper and allowable card use.

Department of Natural Resources Response:

Agree. Implementation date: December 2008.

a. Current policy and procedures require that cardholders document purchases and that supervisors review and approve them monthly. This is done by using the statement and receipts. When receipts or charges on the statement are not descriptive, employees have been asked to make a note to further identify the purchase. The Department's Accounting and Purchasing Office will emphasize the need for this, as well as audit it more closely. Use of a standard template will be explored to determine whether it is feasible and efficient.

b. ProCard refresher training is currently available on-line at all times and one-on-one training and group training sessions are conducted when requested or determined to be needed. The Division and Department will be more proactive in providing and conducting the existing training. When audit exceptions are found, the cardholder will be required to take a refresher course to retain his or her card.

Division of Parks and Outdoor Recreation Response:

Agree. Implementation date: December 2008/Ongoing.

a. Beginning in December 2008, the Division will reexamine its procedures and controls for ensuring that ProCard transactions are adequately documented, approved, and accounted for, and will revise them as necessary.

b. The Division will continue its periodic training and will consider ways to increase the effectiveness of its training to reduce the error rate on ProCard transactions.

Recommendation No. 7:

The Department of Natural Resources should improve its oversight of the ProCard program by:

a. Expanding the ProCard audit process to include a review of the areas in which problems were identified during our audit and regularly reviewing all relevant reports available from the State's ProCard vendor to identify violations of card use.

b. Requiring that approving supervisory authorities report to the Department's procurement office on instances of errors or employee misuse of ProCards and on disciplinary or other actions taken related to the errors or misuse.

c. Developing a system for tracking instances of card abuse by individual cardholders and establishing policies regarding the penalties that cardholders will incur, on the basis of the frequency and severity of the violations. Information on violations should be obtained from the Department's ProCard audits and reviews, as well as from supervisors responsible for reviewing monthly ProCard statements.

d. Reviewing information in the tracking system from Part c. and taking appropriate disciplinary action when abuses are found. The Department should consider the use of a graduated point system for repeated cardholder violations of ProCard requirements.

Department of Natural Resources Response:

Agree. Implementation date: December 2008.

a. The Department will expand the procurement audit to put additional emphasis on areas identified, such as split purchases, payment of sales tax, improved documentation, as well as working with the State's procurement card vendor to identify reports that would be useful in the audit.

b. The Approving Official Agreement that is signed by each approver outlines their responsibilities, including reporting errors/misuse and related actions. The Department will review instances of errors/misuse with the approving supervisor when they occur if it is determined that the supervisor did not identify and report such occurrences on his/her own. Refresher training will be provided as needed.

c. The Department will research the feasibility of a formal tracking system for card abuse. The Procurement Card Manual will be updated to include more specific consequences for violations.

d. Information is currently reviewed and discussions held concerning appropriate action to be taken when violations occur. The Department is working to provide more specific disciplinary actions for specific types of violations in the Procurement Card Manual.

Cash Collections

The Division collects a significant amount of its revenue through fees from park pass sales; campsite, yurt, and cabin rental fees; various boat and off-highway-vehicle permit and registration fees; and retail sales and concessions. During Fiscal Year 2007, the Division's fee revenues totaled about $22.1 million, representing about 36 percent of the Division's total revenues of $62.2 million during the year. Individual park, region, and administrative offices collect fees for daily passes and annual park permits, camping site rentals, and cabin rentals. The Division records all fee revenue in the Parks Automated Record Keeping System (PARKS).

Cash collections are considered a high-risk area for fraud and abuse. Therefore, strong internal controls over cash are critical to prevent theft and misappropriation of state assets and to ensure revenue is recorded accurately and completely. State statute [Section 24-17-102(1), C.R.S.] requires that state agencies have in place internal accounting and administrative control systems that provide for adequate segregation of duties and proper safeguarding of state assets, including restriction of access to appropriate personnel, and adequate authorization and record-keeping to provide effective accounting control over state assets, liabilities, revenues, and expenditures.

Each of the Division's regions and parks is responsible for collecting, recording, depositing, and reconciling cash collections; generating a monthly revenue report from PARKS; and submitting the PARKS report and supporting documentation to the Division's central accounting office. In general, park visitors can pay for their park passes and permits at a manned booth, a visitor center, or a self-service station. For the most part, each park has an office manager who oversees the collection process and the employees who sell passes and collect revenue. The Division's central permit office distributes prenumbered passes and permits to the office manager, who records them into PARKS. Each person responsible for selling passes and permits is assigned a cash box with a certain number of passes and permits and a set change fund. The revenue collection process generally involves: (1) collecting payments from the customer or the self-service stations, (2) recording passes and permits sold and total payments received in PARKS, (3) preparing and delivering deposits to the bank, and (4) performing monthly reconciliation and reporting procedures.

We reviewed and observed the cash collection procedures at a sample of nine park and three region offices and found that duties are not adequately segregated, cash is not properly safeguarded, and documentation provided with the monthly revenue reports is insufficient to allow a meaningful review of the reports. These problems are described below.

Segregation of duties. Control procedures should be designed to ensure that cash collection and recording activities are not performed by the same employee. Lack of adequate segregation of duties creates the risk that errors or irregularities will go undetected. This means that, in general, assigning passes and permits, collecting payments and preparing deposits, recording revenues into PARKS, making bank deposits, and performing reconciliations should be performed by separate employees. We found that all nine park and three region offices in our sample lack appropriate segregation of duties. Specifically, all nine park offices have one or more employees who perform all parts of the cash handling process on a given day. This means that the same employee may have access to the safe, park passes and permits, and individual cash boxes, and may make bank deposits, and access PARKS. We also found that four of the park offices allowed one employee to collect and count the cash received from the self-service station, without another employee present. The Division indicates that it lacks the resources to maintain the necessary separation of duties. At a minimum, the employees with access to the safe, bank deposits, park passes, and cash boxes should be different from the employees with access and the ability to assign passes and record cash collected in PARKS. A different employee should be responsible for performing the monthly reconciliation, which should be reviewed by a supervisor.

Cash handling. Control procedures should be designed to ensure that all cash receipts and passes are adequately safeguarded. We found problems with cash handling procedures at six park offices and all three region offices. Some offices had more than one problem. Specifically, we found: six offices where two or more people share one cash box; five offices that do not require staff to reconcile cash boxes daily or at the end of each shift; four offices that do not require employees to keep cash in a locked drawer during their shifts; and six offices that do not require employees to keep their passes in locked drawers during their shifts. Additionally, we found one office that provides employees with keys to cash boxes, including seasonal employees who live in the building. These employees could access the cash during the night without detection. Finally, we found seven offices that do not regularly change safe combinations or locks and two offices that allow seasonal employees to access the safe. The Division should begin requiring all parks to keep cash and passes in a locked safe after hours and in locked drawers during office hours. Furthermore, all cash boxes should be reconciled at the end of each shift and should be assigned to only one individual at a time. Safe combinations and drawer locks should be changed whenever an individual leaves employment.

Reporting and reconciliation. Control procedures should require that reconciliation reports contain sufficient information for management to effectively monitor pass and permit consignment and cash collection activities. The Division requires that each park and region office submit a monthly report, generated from PARKS, to the Division's central accounting office, along with supporting documentation such as copies of bank deposit slips, voided passes and permits, and other items. The monthly report provides detail on items such as passes and permits sold and voided passes and permits. The Division's central accounting office is responsible for reviewing the monthly report and ensuring the reconciliation is complete and accurate prior to entering information into COFRS. We reviewed a sample of 33 monthly reports for Fiscal Year 2007 submitted by nine parks offices and found problems in two areas. First, we found 23 (70 percent) of the reports submitted did not include the required documentation. This problem occurred with each of the nine park offices in our sample. The Division did not follow up with the parks or take corrective action. Examples of missing documentation included copies of bank deposit receipts, donation checks, and voided passes. Without copies of all relevant documents, the Division's central accounting office cannot perform a meaningful review of the monthly reconciliations and identify potential problems. To help protect the State against the risk of errors, omissions, losses, or theft of cash or passes, and ensure all revenues are recorded in COFRS, the Division should develop a process for taking corrective action when documentation is missing or reconciliations are otherwise insufficient or incomplete.

The second reporting and reconciliation problem we found is that the Division does not track, investigate, or require an explanation for significant or ongoing overages and shortages in cash. The Division does not require the parks to explain cash overages and shortages in their monthly report unless the net shortage is more than $40 in one month. Furthermore, the Division's current policies do not address the threshold at which an overage or shortage in cash would require the Division's central accounting office to formally investigate the reason for the difference and either institute additional oversight and controls or take corrective actions, such as requiring parks to use cash registers or to net any losses against their park operating budget. The Division should require parks to provide explanations for all cash overages and shortages. Additionally, the Division should track the overages and shortages at each park and establish a threshold for investigating discrepancies and take enforcement action against the park, employee, or both, as appropriate.

Only one of the parks in our sample (Cheyenne Mountain State Park) currently has written procedures addressing segregation of duties, cash handling, and cash reconciliation processes. We reviewed Division policies and procedures and found that the Division, as a whole, lacks comprehensive written policies and procedures concerning proper cash handling activities and does not provide the parks with adequate guidance to ensure that cash is safeguarded. Once the Division develops comprehensive policies, it should ensure all staff are trained to implement appropriate processes at the park and region offices. The Division should also implement more frequent reviews of park and regional office cash handling practices and if problems continue, address issues in employee performance evaluations, taking disciplinary action as necessary. These steps should improve controls over cash collections and provide better assurance that cash revenue is protected from theft or misuse and recorded on the State's financial system.

Recommendation No. 8:

The Division of Parks and Outdoor Recreation should strengthen its controls over park pass and permit assignment and cash collection processes by:

a. Ensuring functions related to assigning passes and permits and collecting, recording, depositing, and preparing cash reconciliations and reports are performed by different employees. At a minimum, different employees should perform parts of these functions as discussed in the report.

b. Controlling access to park passes and permits and cash by keeping them locked in a drawer during the day and locked in a safe at night. Additionally, the Division should limit, as much as possible, the number of employees with access to locked cash drawers and safes. Drawer locks and safe combinations should be changed when staff with access leave employment. Access to cash boxes should be restricted to one employee during a shift, and the employee should reconcile the cash box at the end of his or her shift.

c. Reviewing all monthly reports and reconciliations submitted by the park and region offices for completeness and accuracy, including supporting documentation, prior to entering information into the State's accounting system. If there are problems with the reconciliation or documentation is missing, the Division should follow up with the appropriate individuals and resolve the problem.

d. Developing written policies and procedures that address proper segregation of duties, cash handling, and reconciliation and reporting requirements. Policies should require all offices to provide explanations for overages and shortages in cash, and the Division should establish a threshold over which any overage or shortage should be investigated and additional controls implemented. Once developed, staff should be trained on these policies and procedures.

e. Including requirements related to ensuring proper cash handling practices in job descriptions, performance plans, and evaluations for all employees responsible for cash collections; and taking appropriate disciplinary action when problems are found.

Division of Parks and Outdoor Recreation Response:

Agree. Implementation date: May 2009.

The Division will strengthen its controls over park pass and permit assignment and cash collection processes by developing and implementing policies and procedures by November 2008 for the following areas:

1. Assignment of different employees (proper segregation of duties) for cash collection activities and recording activities;

2. Securing (locked storage) and restricting access to park passes, permits and cash;

3. Supervisor review of monthly reconciliation and documentation.

The Division will also ensure that staff is trained on these new policies and procedures by December 2008. Job descriptions and performance plans for affected employees will be reviewed to ensure they include requirements related to proper pass and cash handling practices by May 2009.

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Procurement and Contract Management

Chapter 2

Statutes authorize state agencies to purchase goods and services to meet a variety of needs, including acquiring specific professional and technical expertise, providing temporary operational support, and constructing buildings and highways. These goods and services are secured through several types of contractual agreements (referred to as "contracts" throughout this chapter), including written contract agreements, interagency agreements, and purchase orders.

Contracts are a substantial risk area for the State. The General Assembly, in recognition of these risks and the importance of contracts to the State's business, has enacted a body of laws related to procuring and managing contracts. Most recently, the General Assembly further strengthened contracting laws by passing Senate Bill 07-228, which increases oversight of contractor work products and deliverables by requiring specific performance measures and standards as well as an assessment of vendor performance for contracts above certain dollar thresholds. Collectively, these laws are intended to provide vendors with a level playing field, reduce the risk of fraud and the appearance of impropriety, promote transparency and accountability, and ensure that the State receives full value for dollars invested in contract labor and services.

The Division of Parks and Outdoor Recreation (Division) relies on contracts to support its business operations in several areas, including personal services contracts for procuring specialized expertise or meeting temporary staffing needs and capital construction contracts for constructing and maintaining park facilities. The Accounting and Purchasing Office within the Department of Natural Resources (Department) provides support to the Division by reviewing and approving all contract agreements and payments. During Fiscal Years 2003 through 2007, the Division spent about $13.2 million (or an average of $2.6 million annually) on personal services contracts for professional and technical services and about $59.1 million (or an average of $11.8 million annually) on capital construction contracts. Together these contracts represent about 27 percent of the Division's total annual average expenditures from Fiscal Years 2003 through 2007.

Effective contract management practices are fundamental to ensuring that legal requirements are met and that dollars invested in contracts provide full value to the State. Contract management involves active monitoring and oversight of contract procurement and execution from project conception through completion. We evaluated the Division's practices for carrying out its contract management responsibilities by examining a sample of 23 active personal services contracts totaling about $3.4 million from July 2004 through September 2007 and 27 active capital construction contracts totaling about $22.8 million from April 2001 through September 2007. We also reviewed the Department's practices for monitoring these contracts and approving payments. Overall, we found the Division and the Department did not carry out their respective responsibilities for ensuring that proper contract management practices were followed and that all contracts and payments complied with statutes, rules, policies, and guidelines, as discussed in this chapter.

Contract Deliverables and Payments

Statutes and State Fiscal Rules set forth requirements state agencies must follow when executing and monitoring contracts. Specifically, State Fiscal Rules provide that agencies "are responsible for ensuring that [contracts] adequately define the requirements and respective performance obligations and pricing" and comply with applicable statutes, executive orders, rules, policies, and required approvals. The Office of the State Controller within the Department of Personnel & Administration periodically issues specific policies with regard to contract management. Additionally, the *State Contract Procedures and Management Manual*, also promulgated by the Department of Personnel & Administration, provides guidance on key contract management tasks, including developing a contract scope of work with clear deliverables, timeframes, benchmarks, and performance standards; managing and documenting ongoing day-to-day contract issues; tracking contract expenditures and auditing contractor invoices; monitoring the progress of the work performed against contract requirements to ensure the quality of the services or goods are satisfactory; and generally ensuring the State receives full value for the money spent.

We reviewed the Division's contract monitoring practices and identified concerns with the Division's monitoring of contract scope, deliverables, and payments for 6 of the 23 personal services contracts (26 percent) we reviewed. Of these six contracts, three were task order contracts, a type of contract designated as high-risk by the State Controller's Office. We identified more than $2 million in questionable payments related to these six personal services contracts, or about 59 percent of the $3.4 million tested in our sample. The problems we identified fell into more than one category; some payments had multiple exceptions and are reflected in more than one category. Specifically, we found:

- **Payments for work performed outside the contract scope.** According to Fiscal Rule [Rule 2-2], a contract is required to support the obligation for which the State is being charged. For the three task order contracts, we found that the Division authorized about $384,000 in work that was not included in the contract's approved scope of work. For two contracts, the contract scope was limited to IT system development and support services. However, the Division authorized the contractor to provide business development, graphic design, grant management, water resources, and volunteer coordination services totaling more than $375,000. These types of services were not included in the scope of work for either contract. For the third contract, the scope was limited to business development services. However, the Division authorized the contractor, which was a state institution of higher education, to provide work supporting a professor's research project on tourism. This work was not included in the scope of the business development contract, yet the Division authorized payment of $8,600. Of particular concern was the fact that the work appeared to have been performed for the benefit of the professor employed by the contractor. Also of concern was the close social relationship between the Division's contract monitor and the professor. The issue of maintaining independence in all phases of the contract process is discussed in more detail in Chapter 3.

- **Lack of documentation to support payments for deliverables.** According to the *State Contract Procedures and Management Manual*, agencies are to monitor the work completed to ensure the contractor is entitled to payment. Additionally, agencies are to maintain complete contract administration files to track and record contract payments and to document all monitoring activities and work performed under the contract. For the six contracts where we identified exceptions, we found the Division approved contractor payments totaling $2 million without evidence that all deliverables were provided. Additionally, the Division did not have contract administration files for any of the six contracts and was unable to provide adequate evidence that contract monitoring or payment tracking occurred. Email records indicated that, subsequent to our inquiry, the contract monitor attempted to obtain verification of the work completed for the three task order contracts from the contract workers.

- **Payments that exceeded the contract budget.** As provided in one of the contract policies issued by the Office of the State Controller regarding task orders, the Division established a "not to exceed" amount on each of the three task order contracts and encumbered funds through a commitment voucher (contract or purchase order) for each individual task order as the task order was issued. Statute [Section 24-30-202 (3), C.R.S.] provides that agencies and individuals cannot obligate the State for expenditures that are not authorized by an approved commitment voucher. For one task order contract, we found that the Division overexpended the amount encumbered for two of the task orders associated with this contract by a total of $54,000, or 12 percent of the two task orders' total value of $436,000. This constitutes a statutory violation and requires the State Controller to ratify the overexpenditure for payment to be made. Upon further investigation, we found that the Division has sought State Controller ratification for nearly $173,000 in unauthorized expenditures for 12 contracts from Fiscal Year 2005 through October 2007.

- **Payments for work performed before a contract was executed.** Statute [Section 24-30-202(1), C.R.S.] states that contracts are not valid until they have been approved by the State Controller or his delegate. In addition, the *State Contract Procedures and Management Manual* provides that work should not commence prior to the contract's being approved by the State Controller or delegate. Further, according to State Fiscal Rules, "if an attempt is made to execute a state contract without the approval of the State Controller or a delegate, the state contract shall be null and void and not binding against the State. However, every person involved in incurring the obligation shall be jointly and severally liable for the obligation." We found the Division authorized one contract worker, who was already working under an existing, previously executed contract with the Division, to begin work under a new contract two months before the new contract agreement was executed. After the new contract was executed, two workers continued to bill some of the work under the new contract to the prior contract. Total payments billed to the prior contract for work performed under the new contract were $16,300. Furthermore, on two separate occasions, one contract worker billed both contracts for the same eight hours of work (for a total of 16 hours), resulting in overcharges of $800.

In addition to the issues we found with improper payments, we found that 10 of the 12 task orders related to the 3 task order contracts did not clearly define the work to be completed or the project deliverables, in violation of State Fiscal Rules and guidance set forth in the Office of the State Controller's contract policies regarding task orders. For one contract, the Master Task Order Agreement provided that the specific details regarding required deliverables would be set forth in writing in the specific task orders. However, upon our review of the task orders, we found that neither of the two task orders issued under the Master Agreement provided written details on the content, number, or due date of the deliverables. Other examples of tasks without clearly defined deliverables included the production of: (1) "special reports on selected issues, **as needed**," (2) "other reports, models, forecasts, etc., **as may be required**," and (3) "research and analysis for the PARKS system **and other related projects**." [Emphasis added.] The Division was unable to provide any additional written documentation describing the details of specific work products or deliverables listed in the above tasks.

Finally, we found that the Division used task orders improperly, in that the task orders were not used for services that could be clearly defined in terms of deliverables, hours, materials costs, and rates as required by the State Controller's contract policies. Rather, the Division used the task orders to purchase ongoing services that could not be clearly defined. Further, when the contract performance period ended on the task orders for these ongoing services, the Division issued a new task order for the same services.

Management Oversight Responsibilities

Within the Division, a number of individuals have responsibilities for monitoring contracts. However, the six personal services contracts we took exception to were all the responsibility of a single contract monitor. Although this contract monitor approved the scope, deliverables, and payments for these six contracts, the master agreements, task orders, and payments were also reviewed and approved by both Division management and the Department Controller. Department and Division management, although not involved in the day-to-day oversight and monitoring of contracts, have a responsibility to ensure contract management practices comply with all statutes and rules. These responsibilities include providing sufficient review, supervision, training, and oversight of staff to ensure the Department and the Division carry out their responsibilities in accordance with legal requirements and in a fiscally responsible manner.

We discussed the problems we identified related to these six personal services contracts with the Division's contract monitor who oversaw these contracts. He did not agree that the actions taken and payments made on these six contracts were inappropriate. We brought these matters to the attention of Department and Division managers who are investigating the matter further.

The Department and Division need to ensure accountability for proper contract monitoring and payment practices. Individuals at every level of the organization who have responsibilities for developing, reviewing, approving, or monitoring contracts should have these responsibilities clearly identified in their job descriptions and addressed in performance plans. Staff performance related to contract oversight should be reviewed in annual performance evaluations, and failure to perform these responsibilities should be addressed through disciplinary action. With respect to the contract monitor in question, we found that neither the job description nor the performance reviews adequately addressed or evaluated this individual's contract management responsibilities.

Additionally, all staff who have contract monitoring responsibilities should be trained on proper contract scope development, review, monitoring, and payment tracking procedures. Training should include informing contract monitors that they can be held personally liable for unauthorized work [Section 24-30-202(3), C.R.S.]. These steps are essential to ensuring the Department and Division can demonstrate accountability for public moneys invested in contract services and for mitigating the risk of fraud and legal disputes.

Recommendation No. 9:

The Division of Parks and Outdoor Recreation and the Department of Natural Resources should improve accountability and provide adequate oversight and monitoring of contract scope, deliverables, and payments. Specifically, the Division and Department should:

a. Define staff responsibilities for developing, reviewing, approving, or monitoring contract deliverables or payments in job descriptions and performance plans and evaluate performance of these duties during annual performance reviews. Staff who fail to perform their responsibilities in accordance with statutes, rules, and guidelines or the expectations set forth in performance plans should be subject to disciplinary action.

b. Provide contract monitoring staff with contract management training and ongoing supervision and guidance, including, but not limited to, proper procedures for defining contract scope of work, providing ongoing monitoring and review of contract work and deliverables, and approving and tracking payments.

c. Complete their investigation of the questions raised in our audit regarding three personal services contracts and take action as appropriate, including requiring repayment of state funds spent for work performed prior to contract execution or outside of the contract scope.

Division of Parks and Outdoor Recreation Response:

Agree.

a. Implementation date: May 2009. A standard Individual Performance Objective will be developed for all pertinent Division managers and staff who are involved in developing, reviewing, approving, or monitoring contract deliverables for inclusion in annual performance plans and evaluations.

b. Implementation date: December 2008/Ongoing. Contract training materials and curriculum will be developed by September 2008. By December 2008, methods for delivering training (manuals, on-line, in-person, etc.) will be determined, based in part on the content of the training materials, the intended audience of the training, the number of staff needing to be trained, availability of training resources, availability of staff who need to receive training, etc. Training will be delivered on an ongoing basis.

c. Implementation date: September 2008. The Division has completed its investigation and has taken action pursuant to State Personnel Rules regarding corrective and disciplinary action. The ratification process will be reevaluated to determine if repayment rather than ratification of the unauthorized purchase will be pursued. To help with this assessment, the Division will work with the Attorney General's Office to determine whether repayment may be pursued.

Department of Natural Resources Response:

Agree. Implementation date: June 2009.

a. At the Department level, contract responsibilities between the Department and Division will be reviewed for clarification and effectiveness. These responsibilities are critical performance indicators for Department contract staff and will be emphasized more clearly in performance planning/evaluation for Department accounting/purchasing staff.

b. Contract management training is ongoing and provided to Division staff as required and/or deemed necessary. Regular training is conducted for project managers, as well as administrative staff. Five training sessions were conducted during May 2008 (Colorado Springs, Ft. Collins, Durango, Greeley, and Grand Junction) for contracts, fiscal rules, and procurement/accounting rules/requirements/procedures. The Department will be more proactive in monitoring contracting to identify training needs. Upon implementation of Senate Bill 07-228, many of these facets will be required as part of a statewide database.

c. Implemented. A statutory violation explanation and request for ratification has been submitted and granted by the Office of the State Controller for all violations, with the exception of one contract payment. The ratification process will be reevaluated to determine if repayment rather than ratification of the unauthorized purchase will be pursued.

Personal Services Procurement

The State Procurement Code [Section 24-101-101, et seq., C.R.S.] governs the State's process for purchasing a variety of goods, labor, materials, and professional and non-professional services from vendors. According to statute, the purpose of the Procurement Code is to increase public confidence, ensure fair and equitable treatment of vendors, foster broad-based competition, and provide safeguards to ensure the quality and integrity of the procurement system.

In addition to the Procurement Code, purchases of personal services must comply with statutes and rules governing the state personnel system. Statute [Section 24-50-502, C.R.S.] defines personal services as labor, time, or effort "acquired for the State's direct benefit in its operations." Under statute [Section 24-50-501, et seq., C.R.S.], personal service procurements are subject to certain limitations, described below, which prevent agencies from using these procurements to undermine the constitutional protections for the state personnel system.

Purchase of personal services is a multi-tiered process. In accordance with statute [Section 24-50-503 (1), C.R.S.], the decision to first proceed with purchase of personal services begins with determining the business case. Specifically, the State Personnel Director is required to evaluate the proposed procurement to determine whether it will achieve increased efficiencies in the delivery of government services and provide at least the same quality of services as that offered by state employees. Except for some limited exceptions, the State Personnel Director must then determine whether the personal services procurement is permissible by evaluating whether the procurement meets one of the criteria set forth in Section 24-50-504(2), C.R.S. Generally, a personal services procurement is permissible under statute if the services are: not available and cannot be performed satisfactorily within the state personnel system; for an existing program that has never been performed by state employees; specifically authorized by the General Assembly; or of an urgent, temporary, or occasional nature. Once a determination of the business case and the statutory criteria for permissible use is made, purchase may proceed under the requirements of the State Procurement Code and State Fiscal Rules. This may include determining whether the purchase is subject to competitive bidding or other requirements.

We examined the Division's practices for purchasing personal services by reviewing a sample of 23 personal services procurements completed from July 2004 through September 2007. The total value of our sample was $3.4 million. Overall, we found that neither the Division nor the Department complied with applicable statutes and rules when authorizing more than one-half of these personal service procurements, and therefore, these purchases should not have been approved. (The approval process is discussed below.) Specifically, we identified 16 personal service procurements (70 percent) that either did not comply with statutes and rules intended to prevent circumvention of the state personnel system, or did not comply with requirements set forth in the State Procurement Code, or both. The total value of these 16 procurements was $2.4 million. Some procurements violated more than one statute or rule; all instances of noncompliance are included in our discussion of each statutory or rule violation, as applicable, below.

Personal Service Certifications. The State Personnel Director has established a waiver program that allows state agencies with certified human resource personnel to conduct their own personal services certification review to determine whether the procurement meets the business case and complies with the statutory criteria for permissible use. The Department's Human Resources Office has waiver authority to complete the certification review of personal services procurements on behalf of the State Personnel Director.

We reviewed the personal services certification forms prepared by the Division and approved by the Department for our sample of 23 procurements completed from July 2004 through September 2007. We found that 10 of the procurements (43 percent) should not have been approved because the information the Division provided to justify these 10 personal service certifications was inaccurate. Examples of these inaccuracies include:

- For five certification forms, the Division indicated that certification was justified because the services were not available in the state personnel system. In fact, the procurements were for services that are widely available in the state personal system—including marketing and grant administration.

- For seven certification forms, the Division indicated that the certification was justified because the services were of a temporary, urgent, or occasional nature. In fact, the procurements were for business development, marketing, grant administration, and graphic design—services that are for an ongoing need and regularly performed as part of the Division's operations.

We also found that, when approving 11 of the 23 procurements in our sample, the Division and Department violated statute [Section 24-18- 201(1), C.R.S.] and Department of Personnel & Administration guidelines that prohibit contracting with state employees and contractors for the same work within six months of the end of their employment or contract with the State.

Sole Source Procurements. Statute [Section 24-103-201, et seq., C.R.S.] generally provides that procurements are to be subject to a competitive bidding process. A competitive bid is not required if the procurement is less than $25,000 or if it meets the criteria for a sole source or emergency procurement. According to statute [Section 24-103-205, C.R.S.] agencies may use a sole source to procure goods or services when an agency has a specialized need for a product or service that only one particular vendor can provide. In our sample of 23 personal procurements, we found that 4 were procured from a sole source and that none of these 4 met the statutory criteria for a sole source procurement. Specifically, these four sole source procurements were not for highly specialized services that only one vendor could provide. Rather, the procurements were for grant administration, marketing, public information, and information technology services that the Division could have procured from many vendors.

The Division's and Department's personal services procurement practices have legal ramifications for the State. The State could be subject to lawsuits from state employees for practices that undermine the state personnel system and potentially could be liable for unpaid benefits and wages. Additionally, prospective vendors could take legal action against the State for the Division's and Department's failure to provide a fair and equal opportunity to compete for state business.

The State of Colorado's Procurement Code of Ethics sets forth responsibilities and ethical guidelines for all persons employed by the State who purchase goods and services or are involved in the purchasing process for the State. The Ethics Code provides, among other things, that state employees involved in the purchasing process are to:

> Conduct all purchasing activities in accordance with the laws, while remaining alert to, and advising the State of Colorado regarding the legal ramifications of the purchasing decisions.

The Department and the Division have a responsibility to carry out procurement of personal services in accordance with all applicable statutes, rules, and ethical principles and to protect the State from legal challenges. When these statutes and principles are not followed, the integrity of the procurement system is compromised and public confidence is eroded. Additionally, if a lack of compliance impairs vendor competition or undermines the state personnel system, the State could be subject to legal action, as discussed previously.

The Department and Division need to increase scrutiny to ensure fundamental protections and requirements set forth in statutes and rules are met before entering into personal services agreements. This scrutiny should include holding all staff involved in personal services procurements accountable through job descriptions, performance planning, performance reviews, and disciplinary action as recommended earlier in this chapter. The Department and Division should also ensure that all staff receive regular, enhanced, comprehensive training related to statutory and regulatory requirements and ethical responsibilities under the State Procurement Code and State Personnel Rules. Furthermore, the Department should create an expanded, more detailed checklist for reviewing personal services procurements and require sufficient written explanations and supporting documentation to substantiate that each procurement certified meets all applicable requirements. Insufficient explanations, discrepancies, or gaps in information should be followed up, investigated, and resolved. The Onsite Audit Review Checklist developed by the Department of Personnel & Administration could be of assistance to both the Department and Division in improving the documentation and review process for personal services contracts. Additionally, consideration should be given to establishing within the Division a human resources position that reports to the Department's Human Resources Office, as recommended in the next chapter, to assist with providing increased scrutiny of and accountability for the use of state funds.

Recommendation No. 10:

The Division of Parks and Outdoor Recreation and the Department of Natural Resources should ensure that practices for procuring personal services comply with applicable statutes, rules, guidelines, and the Procurement Code of Ethics. To improve compliance, the Division and Department should ensure that all staff involved in preparing, reviewing, or approving personal services contracts are held accountable for these responsibilities in performance plans and evaluations and receive disciplinary action for violations, as previously recommended. Additionally, the Division and Department should:

a. Ensure staff receive comprehensive, ongoing training related to statutory and regulatory requirements and ethical responsibilities under the State Procurement Code and State Personnel Rules.

b. Develop an expanded, detailed checklist for reviewing and approving personal services certifications and require sufficient written explanations and supporting documentation to substantiate the certification. Insufficient explanations, discrepancies, or gaps in information should be investigated and resolved prior to approving the procurement of personal services.

Division of Parks and Outdoor Recreation Response:

Agree. Implementation date: December 2008/Ongoing.

a. Partially implemented. The Division conducts periodic training for staff regarding statutory and regulatory requirements and ethical responsibilities. The Division will examine ways to increase the effectiveness of this training, particularly in light of the current high rate of staff turnover and the resulting large number of relatively new managers, in order to ensure compliance. Staff assigned and trained to manage contracts and procurement will be held fully accountable for their actions and performance. Appropriate disciplinary action outlined in the State Personnel Rules will be taken against employees who fail to follow the rules, statutes, and guidelines. During this past year, a contract manager who failed to follow the rules was fully investigated through the State's disciplinary process, resulting in a performance corrective action, elimination of financial management authority, and an ongoing performance monitoring plan. Employee performance plans and the individual performance objectives will address the contract and procurement requirements, the Department of Natural Resources' Controller directives, Department of Natural Resources' Human Resource Director directives and the State of Colorado's Procurement Code of Ethics.

b. The Division will work closely with the Department to develop a detailed checklist for reviewing and approving personal services certifications, and will ensure that all documentation and justification are present before approvals are given.

Department of Natural Resources Response:

Agree.

a. Implementation date: April 2008/Ongoing. Training for staff was recently administered and will be administered on an ongoing basis.

b. Implementation date: August 2008. An expanded checklist for review of personal services contracts will be developed in cooperation with the Division. This checklist will be provided to the Division to ensure compliance with laws and rules governing the process. In addition, more comprehensive information will be required from contract managers prior to any approval being issued.

Capital Construction Projects

As part of managing and developing the State Park System, the Division annually engages in capital construction and renovation projects. Typically, the Division completes these projects by contracting with design consultants and construction contractors. For Fiscal Years 2003 through 2007, the Division spent a total of $59.1 million on construction projects, or an average of about $11.8 million annually, which represents about 22 percent of the Division's average annual expenditures.

The Division has a responsibility to ensure that funds invested in capital construction projects are spent wisely and in accordance with constitutional and statutory intent. In addition, legislation enacted in 2001, which required the Division to track and report on budgets and expenditures for each capital construction project individually, provides further evidence of the General Assembly's intent that the Division be accountable for responsibly investing public moneys in capital construction projects.

We reviewed a sample of 27 capital construction contracts procured from April 2001 through September 2007 to evaluate the Division's practices for managing and controlling construction costs. The total value of the construction contracts in our sample when initially executed was $22.8 million. Overall, we found the Division has not done enough to monitor construction projects to control costs and mitigate the potential risks of fraud and abuse, as explained in this section.

Controlling Costs

It is not uncommon for unplanned events to occur on capital construction projects that require changes in project scope, required work, materials quantities, or time frames. When such events occur, contracts must be modified through contract amendments or contract modifications. Contract amendments and modifications may increase the original cost of the project and thus require close scrutiny to mitigate the risk of excessive expenditures or cost overruns.

The Division's Financial Services Manual (Manual) defines contract amendments and modifications and explains the circumstances under which each should be used. According to the Manual:

> **Contract amendments** pertain to changes that are not within the original scope, or affect a different location than the original contract, or revise the original terms of the contract.
>
> **Contract modifications** pertain to changes in the work that are necessary to achieve the originally intended results of the contract. They affect work within the original scope of the contract, but were not identified in the original contract due to unforeseen conditions or omissions.

We reviewed 24 contract amendments and 83 contract modifications, including 65 emergency modifications, for the 27 capital construction contracts in our sample. We found that these amendments and modifications increased the total cost of the contracts in our sample by an average of 15 percent, or more than $3.4 million over our sample's original contract value of $22.8 million. Of the 27 capital construction contracts in our sample, 19 had amendments or modifications that resulted in an increase in the contracts' total costs. Specifically, 9 of the contracts had total cost increases up to 15 percent, 4 contracts had total cost increases of more than 15 and up to 30 percent, 1 contract had increases of more than 30 and up to 70 percent, and 5 contracts had total cost increases of more than 70 percent.

We believe these cost increases are excessive for at least some of the Division's construction contracts. However, the Division does not monitor and analyze its cost overruns or set standards against which the reasonableness of these contract cost increases can be assessed. In contrast, the State Architect's Office, which oversees capital construction projects for the State Buildings Program, limits cost increases for each capital construction contract to 10 percent of the original contract cost. Additionally, the Colorado Department of Transportation has a goal to complete 80 percent of its construction projects within 15 percent of budget estimates. Establishing standards and benchmarks will not necessarily prevent cost overruns in every instance. For example, the Colorado Department of Transportation reports that it did not meet its benchmark for either Fiscal Years 2006 or 2007. However, the regular practice of setting standards and reviewing cost overruns against those standards should ultimately provide more timely, thorough information that may help identify the factors contributing to cost increases so that review and investigation may occur and decisions to approve increases are fully informed.

Although we were unable to definitively determine the reasonableness or unreasonableness of the Division's cost overruns, we identified weaknesses in the Division's oversight of construction project costs, such as excessive use of emergency modifications that do not require prior approval. The lack of adequate oversight increases the risk that cost increases may not be justifiable or reasonable. Specifically, we found the Division needs to strengthen its practices for managing contract amendments and standard modifications, materials quantity increases, emergency modifications, and cost recoveries as explained below.

Contract Amendments and Standard Modifications. To process a contract amendment, Division policy requires the signature of the contractor and review and approval by the Division's executive management and the Department's Controller (the State Controller's Office is required to approve high-risk contract amendments). For a standard modification, the project manager who oversees and monitors the contract at the individual park site and the regional manager who supervises the project manager must first review and approve the modification. The modification is then routed to Division management and the Department Controller for final approval. According to the Division's Financial Services Manual, contract amendments and standard modifications "must be in writing, reference the original contract, and must be approved in the same manner as the original contract, **before any new work is begun or any payment is processed.**" Additionally, the Manual requires written explanation of each change, including changes in contract timelines. We identified three construction contracts in our sample (11 percent) where the Division paid contractors for additional work without authorizing the work in advance through a contract modification or amendment. The total value of the unauthorized additional work on these three projects was $22,000.

We also identified modification forms for two contracts (7 percent) that contained discrepancies. Specifically, for one contract, the contract modification form indicated the changes were related to adding an additional bathroom but, elsewhere on the same form, indicated the changes were actually for increases in materials and changes to work in progress. Similarly, another modification form indicated the requested changes would not modify the contract timeline but, elsewhere on the same form, indicated the contract timeline would be extended by 33 days. Failure to process contract amendments and modifications in advance of authorizing work prevents scrutiny and review of the appropriateness of the contract changes and may contribute to cost increases. Additionally, conflicting information about the work to be performed or the timelines for completion could lead to additional costs if a legal dispute over contract requirements occurred.

Materials Quantity Increases. Current Division policy allows the project manager to authorize changes in quantities of materials without processing a contract modification until later in the project, up to project closeout, as long as each change does not materially affect the character of the work or increase project costs by more than 25 percent. No review or approval of the materials quantity increase by Division management or the Department's Controller occurs until the project manager processes the contract modification. We found that the Division's policy does not provide adequate control over project costs or align with best practices. Specifically, allowing project budgets to increase by up to 25 percent without review and approval by Division management or the Department Controller could result in unexpected and significant contract overexpenditures or budget shortfalls, particularly on large construction projects. The largest project in our sample was for about $7 million. The Division's policy would allow a project manager to authorize a materials quantity increase over $1.7 million on this project without scrutiny by the Division or Department Controller in advance of the expenditure. Although we did not identify any materials quantity changes in our sample that increased a contract by more than $1 million, we did identify one contract where the Division paid for two materials quantity increases that together totaled $300,000, or more than 15 percent of the total project budget of almost $2 million.

In contrast, we found the State Architect's Office has controls to prevent a large materials quantity increase without appropriate review and scrutiny by management. Specifically, the State Architect's Office includes a detailed listing of each type of material and its quantity in the contract, along with a "not to exceed" amount for these materials. If the quantity of materials increases above the "not to exceed" amount, a contract modification must be processed and approved by management in advance.

Emergency Modifications. Occasionally, circumstances may arise which require the Division to process contract changes through an emergency modification. According to the Division's Covenants for Capital Construction, an emergency modification may only be used when the cost of the modification is 20 percent or less than the total value of the contract **and** there is **either** (1) a threat to life or property, **or** (2) a delay in processing a standard modification that will result in significant costs or substantial delays. [Emphasis added.] We found evidence suggesting that the Division is processing emergency modifications, which do not require advance approval by Division management or the Department Controller, when it should be processing standard modifications. Specifically, for our sample we found that the Division processed about 78 percent of the contract modifications as emergency modifications (65 of 83 modifications) and that for just under half of these modifications the Division could not provide evidence of the events constituting an emergency. For 17 modifications, the modification form contained no explanation of the emergency. For another 15 modifications, the explanation did not describe the events or circumstances that qualified as an emergency (e.g., threat to life or property, or increased costs or delays). The total value of these emergency modifications totaled $1.1 million, or 5 percent of the value of the contracts in our sample. Additionally, we identified one emergency modification for $2.1 million that the Division reports was processed as an emergency modification in error. This modification was for an alternate bid item which the Division planned to complete but did not include in the original contract because funding was not available. Since an alternate bid item does not constitute an emergency, the Division typically processes an amendment or standard modification for the item once funding is available.

In addition to our concerns suggesting that the Division is using emergency modifications inappropriately, we identified problems with timely approvals. Specifically, we found that for our sample of 65 emergency modifications, it took Division project and regional managers an average of 28 days to forward the modifications to Division management and the Department Controller for approval. For 23 emergency modifications in our sample (35 percent), the time elapsed before the modifications were forwarded for Division and Department approval ranged from 28 to 105 days. While emergency modifications do not require prior approval and the Division has not established a time frame by which these modifications must be submitted to management for approval, prudent business practice would indicate that management should receive timely notice when modification of capital projects has occurred.

Finally, we identified concerns with the Division's 20 percent threshold for authorizing emergency modifications. We believe this threshold is too high and provides insufficient scrutiny of emergency modifications that could substantially affect the total project cost and the Division's budget. In contrast, the State Architect's Office limits each emergency modification to no more than a 5 percent increase in total contract cost or $25,000, whichever is less. Further, the State Architect's Office limits all cumulative cost increases, whether from amendments, standard modifications, or emergency modifications, to 10 percent of the original value of the contract. We found that for our sample of 65 emergency modifications processed by the Division, the average cost increase was $60,000, or $35,000 more than the $25,000 limit used by the State Architect. Additionally, the average cumulative cost increase for our sample was 17 percent over the total contract cost, which is more than 50 percent higher than the cumulative cost increase allowed by the State Architect's Office.

Cost Recoveries. As mentioned previously, the Division may contract separately with consultants to design and administer its construction projects. For the 27 contracts in our sample, the Division spent a total of about $2.6 million on project design and administration. According to the Colorado Department of Transportation, as well as agencies in other states that are responsible for the administration of large construction projects, no project design is completely error free; however, best practices dictate that organizations develop policies for determining when it is cost-effective to attempt cost recovery for design errors. During our review of our sample of construction contracts, we identified two Division contracts (7 percent) that were modified due to errors made by the consultant that designed the project. The modifications resulted in additional costs to the Division that totaled about $18,000 for one project and about $3,000 for the other. The Division does not have a policy for determining when it is appropriate for the project manager to pursue cost recovery. Establishing these policies could help the Division mitigate cost increases due to contractor errors. Further, in instances where the Division repeatedly hires the same design consultant, these policies could mitigate the risk that contractors will repeat performance problems.

Improvements

The problems we identified raise significant concerns about the rigor of the Division's and Department's oversight of capital construction contracts and present risks of fraud and abuse in the contracting and construction process. In previous audits we also identified concerns with the Division's management of construction projects. Although the focus of these prior audits differed from that of our current audit, a common element found both in earlier audits and this audit is the need for Division project managers and contract monitors to have the competence and qualifications for managing and overseeing these complex projects in accordance with statutes, rules, and policies. It should be emphasized that while the Division was placed on notice in our 2000 audit that its construction management practices were deficient, and generally, the Division agreed to remedy the problems identified, our current audit also found substantial problems in this area.

Additionally, the Division's and Department's weak oversight of capital construction contracts could put the Department's delegation authority at risk. Currently, the Department has delegation from the State Controller's Office to approve low-risk contracts and amendments and all modifications. The State Controller's Office reviews agencies' practices for managing contracts from time to time, and if problem practices continue, the State Controller's Office may determine that it needs to take action, such as limiting the Department's delegation authority.

To address the concerns we identified, the Division needs to take comprehensive steps in several areas. First, the Division needs to develop mechanisms and standards for tracking and monitoring the reasonableness of capital construction cost increases against performance benchmarks. This information should prompt the Division to investigate the factors contributing to cost overruns, including whether particular types of projects, certain contractors, or individual project managers are contributing to unreasonable increases in project costs.

Second, the Division needs to reduce reliance on emergency modifications and strengthen processes for managing changes that affect contract costs, including amendments, modifications, and materials quantity increases. Specifically, the Division should conduct a thorough review of its policies, clarify requirements for documentation and approval, and establish more stringent percentage and dollar thresholds for changes affecting contract costs. Additionally, the Division should develop policies for recovering costs for contractor errors. The Division should also establish timeframes for forwarding both standard and emergency modifications to management for review and approval, as well as timeframes for completing the approval processes. According to some project managers, one reason contract changes are frequently processed as emergency modifications is that it takes the Division and Department four to six weeks to review and approve a standard modification. In contrast, the State Architect's Office indicates that it reviews and approves most standard modifications within a few days of receipt.

Finally, the Division needs to streamline its processes for procuring and managing capital construction projects. The body of laws and rules governing construction procurement, contracting, and project management is complex. Division project managers have indicated that they find it challenging to maintain current knowledge of all these requirements, particularly when overseeing several contracts in addition to completing other job responsibilities. Additionally, while project managers work primarily at park and region levels, and are supervised by the region managers, seven of the eight project managers are physically removed from Division and Department management that are responsible for final review and approval of capital construction projects and contracts. This makes it difficult for Division and Department management to provide close oversight of all capital construction projects or contracts. Although a decentralized structure for direct supervision of construction projects by project managers may provide some flexibility, stronger control and increased efficiencies may be realized by centralizing some functions. For example, although the project manager may have knowledge of the daily ongoing activities on the project, he or she may not have the familiarity with contract laws needed to adequately and effectively address unique situations as they may arise. Additionally, a more centralized structure could allow individuals to gain expertise in certain aspects of the contract procurement and management process and help to focus training efforts. Regardless of the oversight and management structure the Division implements for its capital construction projects, the Division will need to ensure that staff have adequate training and qualifications to carry out their responsibilities for procuring and managing construction contracts. Further, as discussed throughout this chapter, these responsibilities should be defined in job descriptions and performance plans and evaluated regularly through performance evaluations. When staff fail to comply with required policies, the Department and Division should follow up with disciplinary action.

Recommendation No. 11:

The Division of Parks and Outdoor Recreation should work with the Department of Natural Resources to improve oversight and cost containment for capital construction projects. Specifically, the Division and the Department should:

a. Establish mechanisms for tracking and monitoring the reasonableness of capital construction cost increases against performance standards. This should include analyzing and using this information to investigate the factors contributing to cost overruns, including whether particular types of projects, certain contractors, or individual project managers are contributing to unreasonable increases in project costs.

b. Reduce reliance on emergency modifications and strengthen processes for preparing, reviewing, and approving contract amendments and modifications to improve compliance and mitigate risks of fraud and abuse. This should include conducting a comprehensive review of policies and procedures to clarify requirements for documentation and approvals, establishing more stringent percentage and dollar thresholds for changes affecting contract costs, and developing requirements for cost recoveries related to design consultant errors and omissions.

c. Provide ongoing training and supervision to ensure all staff involved in procuring and managing construction contracts are competent and qualified to perform their job responsibilities and following up with disciplinary action when staff fail to comply with Department and Division policies.

d. Consider streamlining processes for overseeing the procurement and management of capital construction projects by centralizing some contracting functions requiring specialized expertise.

Division of Parks and Outdoor Recreation Response:

Agree.

a. Implementation date: December 2010. The Division is in the process of setting up a Capital Project Tracking and Reporting System, which will enable us to monitor and analyze capital projects' expenditures, timelines, and modifications. Division management will use this information in meetings with financial services staff and project managers to analyze cost, change orders, contractor performance, and product performance to improve both the construction process and efficiency of our buildings.

b. Implementation date: July 2009. The Division will conduct a thorough analysis of its capital construction management policies, procedures, and practices. In particular, the development of the scope of work descriptions and cost estimating for construction projects will be reviewed and modified as necessary. The detailed and comprehensive work done on the front end of each project will greatly reduce the need to issue emergency modifications during actual construction.

c. Implementation date: May 2009/Ongoing. The Department and Division will work together to develop ongoing training to keep staff up to date on policies and procedures related to construction management, procurement, and contract management. Individual Performance Objectives will address performance standards in employees' performance plans.

d. Implementation date: July 2009. A number of ideas for centralizing aspects of the Division's capital construction management have been discussed within the Division and articulated in the audit. The Division will consider this recommendation in the context of a more comprehensive review and reorganization of capital construction functions.

Department of Natural Resources Response:

Agree. Implementation date: December 2010.

a. The Department will work with the Division to implement the Capital Tracking and Reporting System to track and monitor capital construction projects. Ultimate responsibility for monitoring these projects rests with the Division.

b. A review of the waived contract provisions and development of policies and procedures to incorporate best practices and cost control methods will be done.

c. The Department will continue to work with the Division to develop and provide ongoing training. Several training sessions were delivered in 2008.

d. The Department will assist the Division in the review of the procurement and management of capital construction projects.

Other Procurement Issues

During our audit we identified two other compliance issues related to Division procurement practices for capital construction projects and personal services contracts, as described below.

Consultant Qualifications. Statute [Section 24-30-1403, C.R.S.] requires agencies procuring design or engineering work to conduct an evaluation of the qualifications of at least three potential contractors and to select the one that is most qualified for the project. To comply with this requirement, the Division's practice is to establish a committee of three or more staff to perform the required evaluations. The Division's practice is appropriate because it helps ensure that the selection process is objective, equitable, and unbiased. During our review of a sample of 27 capital construction projects, we identified one project in which the project manager did not use a committee to evaluate the qualifications of the consultants; rather, the project manager evaluated the qualifications for all consultants and selected the consultant himself. The project was for a camper services building, and the contract for the design services was valued at $38,000. This practice overrides a key control designed to protect the integrity of the competitive procurement process. Of particular concern is the fact the project manager was able to override this control and that the override was not identified through reviews by Division or Department management.

Record Retention. The State Archives Records Management Manual requires that agencies keep all contract documentation, including proposals received and the evaluation processes used for selecting contractors, for six years after the conclusion of the contract for successful bidders and for two years after the contract award date for unsuccessful bidders. We reviewed documentation of the contract award process for the 23 personal services and 27 capital construction contracts in our sample and found the Division did not adequately maintain required documentation for one personal services contract and four construction contracts. Specifically, the Division was unable to provide full documentation of the award process for the successful bidders less than six years after the conclusion of the five contracts. The contract monitors responsible for retaining documentation reported that they were unaware of the record retention requirements and indicated that the documents were either lost or discarded.

Maintaining required records and ensuring objective, equitable practices for contractor selection are important for facilitating post-review of the selection process and defending against legal disputes. Procurement records may also be useful when considering whether to procure services from the same consultant or contractor in the future. The Division needs to train contract monitors on these requirements and ensure compliance through supervisory review, Division and Department reviews, and performance reviews, as appropriate.

Recommendation No. 12:

The Division should improve compliance with policies for reviewing and selecting qualified consultants and maintaining records of contractor procurements. Specifically, the Division should: (a) train contract monitors on these requirements, and (b) ensure compliance through supervisory review, Division and Department reviews, and performance evaluations, as appropriate.

Division of Parks and Outdoor Recreation Response:

Agree.

a. Implementation date: February 2009/Ongoing. Training materials and curriculum on policies and procedures for reviewing and selecting qualified consultants and maintaining records of contractor procurements will be developed by February 2009. Several methods for delivering effective and efficient training, including handbooks/manuals, on-line sessions, classroom instruction, etc., will be provided to all necessary staff by December 2008. Training will be delivered on an ongoing basis.

b. Implementation date: May 2009. A standard Individual Performance Objective will be developed for inclusion in annual performance plans and evaluations of all pertinent Division managers and staff who are involved in reviewing and selecting qualified consultants and maintaining records of contractor procurements.

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Personnel Management

Chapter 3

Overview

Colorado state government's personnel system is a merit-based one. This means that hiring, promotion, and other personnel actions are to be based on an individual's ability to perform a job and not on his or her political or other affiliation with the employer. Section 24-50-101(3)(a), C.R.S., states:

> It is the purpose of the state personnel system, as a merit system, to assure that a qualified and competent work force is serving the residents of Colorado and that any person has an equal opportunity to apply and compete for state employment.

Furthermore, by statute [Section 24-50-145, C.R.S.] a state personnel system based on the fundamental goals of merit and fitness is essential to maintaining the confidence of the public, attracting the best applicants for state employment, creating a workplace environment in which state employees are motivated to excel, and encouraging long-term careers in state service.

The goals of Colorado's state personnel system are to be upheld by the leadership of its agencies. Specifically, by statute [Section 24-50-101, C.R.S.] "the heads of principal departments . . . shall be responsible and accountable for the actual operation and management of the state personnel system for their respective departments . . . ." Colorado's Constitution, its statutes, and State Personnel Rules specify that the head of each principal department, such as the Executive Director of the Department of Natural Resources (Department), is the appointing authority for the employees of his or her office. Correspondingly, the heads of divisions (including the Director of the Division of Parks and Outdoor Recreation) within the principal departments "shall be the appointing authorities for all positions in the personnel system within their divisions." As appointing authorities, the powers of the division heads include hiring, evaluating performance, determining work hours, identifying positions to be created or abolished, assigning employees to positions, and administering corrective and disciplinary action.

As part of the initial phase of every audit, the Office of the State Auditor is required by government auditing standards to assess the risk for fraud and abuse. During our discussions with employees as part of this risk assessment phase, past and present

Division of Parks and Outdoor Recreation (Division) employees expressed concerns about the Division's personnel management practices and whether practices complied with state personnel system laws and rules. Issues brought to our attention involved various aspects of employment with the Division, including hiring, temporary appointments, employee transfers, and salary adjustments. The repeated and widespread nature of these concerns obligated us to conduct further review.

In this chapter we present the results of our review of the Division's personnel management practices. Overall, we concluded that there is a well-founded basis for concern related to the Division's compliance with state personnel system laws. The problems we found indicated a long-standing pattern of questionable personnel actions. In addition, these actions were for the most part approved by both the Department and the Division.

It is important to note that our review covered personnel actions that occurred prior to October 2007. That is, the problems we identified began prior to the current Division administration. However, the effects of and the culture within which these problems developed are ongoing. Overcoming an agency culture that has come to expect a lack of consistent compliance with the principles and mandates of the state personnel system will be a challenge. As of Fiscal Year 2007, the Division had 262 FTE and during Fiscal Year 2007 spent $23.8 million on personnel, including state FTE and nonpermanent staff. As such, it is incumbent upon the Executive Director of the Department of Natural Resources and the Division Director, as appointing authorities within Colorado State Government, to ensure compliance with State Personnel Rules and state and federal laws, as we detail in the following sections.

Personnel System Oversight

All of the Division's personnel actions, such as employee transfers, promotions, and salary adjustments, are to be reviewed and approved by both the Division and the Department of Natural Resources. As appointing authorities, both agencies have a mandate to ensure compliance with state personnel system laws and rules. Specifically, State Personnel Rules [Rule 1-11] state that:

> All appointing authorities, managers, and supervisors are accountable for compliance with these rules and state and federal law, and for reasonable business decisions, including implementation of other policy directives and executive orders.

We identified a number of violations and questionable practices at the Division that raise serious concerns about the adequacy of the Division's oversight of personnel activities. We believe both the Division and the Department need to strengthen controls to fulfill their responsibilities as appointing authorities within the state personnel system. This conclusion is based on a variety of problems and other issues we identified during our audit. These include:

- **Violations of personnel statutes and rules.** According to State Personnel Rules, transfers are defined as appointments of qualified employees to different positions in the same class or same grade maximum. During Fiscal Years 2006 and 2007, the Division initiated and the Department approved 70 personnel transfers. We reviewed 14 of these transfers for compliance with applicable laws and rules. We found that six of the transfers resulted in discretionary pay increases of up to 10 percent. We found that none of the six employees qualified for a pay increase, because the employees' job duties did not change. Additionally, all six of these employees remained at the same parks, yet the Department's automated personnel system showed that two of them had been transferred to other parks. One of these employees continued to be paid—$40,000 from March 2007 through February 2008—from the funds of a park at which he did not work. Furthermore, his timesheet was approved not by his supervisor, but rather by the manager of the park from which his salary was paid.

  State Personnel Rules allow a temporary substitute appointment to perform the duties of a filled position during a leave of absence or for training purposes, such as when a retiring employee trains his/her successor. We found one instance in which the Division used a substitute appointment to transfer an employee when there was no associated retirement, leave of absence, or significant change in job duties. Rather, the Division made the substitute appointment, authorized a pay increase, and shortly thereafter transferred the employee back to his original position. The employee maintained the salary increase. According to Division staff, they used this particular personnel action solely for the purpose of achieving a pay increase for this individual, because there were no other salary increase options available.

  We also found violations related to hiring temporary employees to fill permanent positions and contracting with individuals who were employed by the Division within the previous six months. These issues are described in detail later in this chapter. All of these personnel actions were approved at both the Division and Department levels.

- **Authority for decision making**. In 2005 the Division completed a salary study to determine if any of its staff qualified, under State Personnel Rules, for a salary increase because other less tenured employees in the same job classes were hired at higher pay rates. The Division identified 85 staff as eligible for salary increases under this study. The Department's Human Resources Office reviewed the Division's study and determined that it had been completed improperly. The Department's Human Resources Director issued a corrected study that identified only 32 Division employees as eligible for salary increases. Division staff, however, disregarded the Department's decision and granted pay increases to 6 of the 53 staff whom the Department concluded did not qualify. The Division achieved the pay increases by approving the previously described transfers. By circumventing the Department's decision and finding a mechanism to award salary increases to individuals whom the Department found did not qualify, the Division undermined the authority of the Department and the integrity of the State's personnel system.

- **Hiring and reporting relationships**. There is no single authoritative source that comprehensively details the familial or social relationships that are prohibited in hiring and reporting relationships in the state personnel system. However, a body of statutes, personnel system rules, executive orders, case law, and agency policies and procedures surround the topic of nepotism and other relationships that represent real or perceived conflicts. For example, statute [Section 24-34-402, C.R.S.] addresses employment decisions involving spouses. A Division administrative directive prohibits the hiring of relatives as seasonal workers at the same state parks, management units, sections, or programs where the permanent employee (relative) works. Moreover, a 1999 executive order states that officers, appointees, and employees of executive departments shall support equal access and employment opportunities in state government for all citizens. Finally, statutes [Sections 24-18-105 and 108, C.R.S.] set out the Standards of Conduct and Code of Ethics to be followed by public employees.

  In reviewing the Division's hiring and contracting practices, we identified several situations in which Division managers were directly involved in the selection and hiring, performance evaluation, and daily supervision of family members and/or friends. Hiring a daughter, son, or close friend for any position, and in particular for positions over which the manager has direct supervisory authority, could give rise to the perception of favoritism, regardless of whether there is any evidence that the specific relative involved did in fact engage in such favoritism. We found no evidence that the Division provides staff with training on ethics, including ethics related to hiring and other personnel actions.

- **Documentation**. Throughout our review of the Division's personnel activities, we found a lack of adequate documentation related to many personnel actions. Of particular concern is the absence of documentation to justify exceptions or deviations from rules and policies. For example, according to the Department of Personnel & Administration, temporary employees cannot receive pay increases unless there are unusual circumstances justifying such increases. The Division gave 1 of the 32 seasonal workers whose personnel files we reviewed a pay increase, from \$8.75 to \$9.25 per hour (6 percent). We found no supporting documentation for this increase. We also found no documentation to support the reason for the discretionary pay increases associated with the six transfers discussed earlier in this audit comment.

A technical guide published by the Department of Personnel & Administration requires agencies to be prepared to report on any aspect of discretionary salary adjustments and to document the amount and type of salary adjustment, as well as the reason for the adjustment. In addition, when the Department of Personnel & Administration conducts human resource audits of state agencies, one of the areas it audits is records management. This includes employee personnel files, time-keeping files, allocation decision and justification documentation, and copies of job announcements.

As previously stated, both the Division and the Department have appointing authority within the state personnel system. While the Department has ultimate approval authority for all personnel transactions, accountability for personnel actions related to Division employees has become clouded, and there is a lack of understanding of and compliance with personnel system rules and principles at individual parks, the central Division, and the Department. Ultimately, as acknowledged in the Department's 2008-09 Strategic Plan, the Human Resources unit within the Executive Director's Office is responsible for ensuring Division compliance with applicable laws and regulations.

The Division and Department need to work together to resolve the lack of clarity with regard to their respective roles, responsibilities, and authority. Repeatedly during our audit, Division staff told us that their personnel actions had been approved by the Department's Human Resources staff. At the same time, the Department's Human Resources Office staff told us they did not have the authority to override or deny Division actions. This situation is concerning and should be rectified. Whether it is through a Memorandum of Understanding or through some other, less formal but nonetheless binding agreement, the two agencies need to define and agree to their respective roles and responsibilities and be held accountable. Additionally, consideration should be given to assigning a single staff person with human resource responsibilities within the Division to provide greater oversight and consistency for the many hundreds of personnel actions that occur each year at the Division. Appointment of a human resources administrator at the Division level could help to ensure that all appointing authorities throughout the Division are processing personnel actions that comply with state laws and State Personnel Rules. Further, this position should report and be accountable directly to the Department's Human Resources Office.

Division staff also need to be made aware of and accountable for complying with State Personnel Rules. These rules require that employees know and adhere to rules, laws, and executive orders governing their employment. Departments are required to make those rules, laws, and executive orders available to employees. We believe the Department and the Division need to make improvements in this area by providing training or other reinforcement. For example, employees could be required to sign an annual statement acknowledging their responsibility for knowing and complying with state personnel laws and regulations and with laws, rules, and executive orders that surround the topic of ethics, nepotism, and other real or perceived conflicts of interest. Employees should then be held accountable in their performance evaluations for compliance with personnel rules and laws. Appropriate corrective action should be taken against employees who intentionally bypass or violate the rules and laws. According to statute [Section 24-50-129, C.R.S.], an appointing authority who intentionally bypasses state laws related to personnel actions can be held personally liable for any salary liability incurred by the State in the breaking of those rules.

Recommendation No. 13:

The Division of Parks and Outdoor Recreation should work with the Department of Natural Resources, and within the Division's own management structure, to improve controls and accountability related to personnel activities by:

a. Clarifying the roles and responsibilities at each level of the organization. This should include developing written policies and procedures, memorandums of understanding, and employee job descriptions that adequately describe the delineation of roles and personnel system responsibilities among staff at each level of the organization. One possible option would be to appoint a Division-level human resources administrator to help ensure rules are followed consistently throughout the Division.

b. Providing training to employees regarding personnel rules and actions, as well as on conflicts of interest.

c. Holding individuals responsible for personnel functions accountable in their performance evaluations for compliance with personnel rules and laws and taking appropriate corrective action as necessary.

Division of Parks and Outdoor Recreation Response:

Agree.

a. Implementation date: March 2009. The Division will work internally and with the Department to improve personnel-related controls and accountability. We will complete a review of Division and Department personnel policies and procedures and develop or update Parks Board policies and administrative procedures as needed by March 31, 2009. To further clarify personnel-related roles and responsibilities between the Division and the Department, we will work with the Department to establish a Memorandum of Understanding.

b. Implementation date: Spring 2009. Training will be conducted in fall 2008 and spring 2009 regarding personnel rules and laws and will include discussions regarding conflicts of interest. Additional online training will be developed to accommodate future appointments to supervisory positions. The Division may require that all supervisors review and test on this training information annually.

c. Implementation date: May 2009. Accountability for compliance with personnel rules and laws will be specifically addressed in the evaluation of Performance Factors/Areas and Individual Performance Objectives in the performance evaluation of each employee to whom such responsibilities are assigned. If problems with employee compliance with personnel rules and laws are found, corrective action will be taken as necessary.

Department of Natural Resources Response:

Agree.

a. Implementation date: September 2008. Delineation of roles and responsibilities with regard to personnel system oversight will be documented through a Memorandum of Understanding between the Division and the Department.

b. Implementation date: February 2009/Ongoing. Training will be conducted in fall 2008 and spring 2009 regarding personnel rules and laws and will include discussions regarding conflicts of interest.

Additional online training will be developed to accommodate new appointments to supervisory positions throughout the year.

c. Implementation date: July 2008/Ongoing. Performance plans for staff in the Department's Executive Director's office who are accountable for personnel functions will include specific objectives for compliance with personnel rules and laws.

Misuse of Temporary Employee Status

Not everyone who works for the State does so on a full-time equivalent or permanent basis. Rather, state statutes and State Personnel Rules allow agencies to hire temporary employees for various reasons, including to address increased seasonal demand and to provide specific services that agency personnel do not have the expertise to provide. According to State Personnel Rules, a temporary employee is defined as a qualified person who is appointed to a nonpermanent position. State Personnel Rules generally limit temporary appointments to no more than six months within a twelve-month period. Statute [Section 24-50-504, C.R.S.] also allows departments to hire independent contractors to provide specific services on a temporary basis. Unlike temporary employees under the state personnel system, however, independent contractors are not considered state employees.

Regardless of whether positions are filled through temporary appointments or personal services contracts, State Personnel Rules specify that when staffing needs are permanent and full-time, positions **shall not be filled** through a succession of temporary appointments. [Emphasis added.] Specifically, State Personnel Rules [Rule 10-3-E] state, "A department shall not use a succession of alternating temporary employment and personnel services contracts in order to avoid either the timely creation or filling of a permanent position." Additionally, statute [Section 24-18-201, C.R.S.] prohibits an agency from contracting with former employees, including temporary employees, within six months of their employment with that agency.

Permanent Positions Filled With Temporary Staff

The Division relies heavily on seasonal employees to help manage and operate its parks and programs statewide. In Fiscal Year 2007, for example, the Division employed approximately 735 temporary staff, almost three times the number of permanent staff (262) it employed. On average, during each of the last three fiscal years (2005-2007), the Division expended approximately $4.4 million to fill temporary (seasonal) positions and about $2.5 million on personal services contracts for professional and technical services, or a total of $6.9 million on nonpermanent personnel needs.

As part of our audit, we reviewed the Division's use and management of temporary staff, including individuals employed by the Division through the use of temporary appointments and personal services contracts. We identified several areas of concern. Most significantly, we found that from 2002 through 2007 the Division violated personnel system laws by routinely hiring the same individuals, through a succession of temporary employment arrangements, to fill permanent staffing needs. In one case, an individual's temporary status extended to almost six years. That is, through a series of alternating temporary employment arrangements, the Division hired a single individual, with no break in service, for a total of 5 years and 11 months.

At the outset of the audit, current and former Division staff identified 28 individuals whom the Division had employed through various temporary positions. We reviewed the historic employment relationship between the Division and these 28 individuals to determine whether the Division hired any of these individuals in violation of personnel system laws related to temporary employment. We found that the Division employed 16 individuals for varying durations in excess of 6 months throughout Fiscal Years 2002 through 2007. These 16 individuals filled the same positions with the Division continuously for periods ranging from 1 year and 3 months to 5 years and 11 months. For example, 1 of the 16 individuals began her employment with the Division as a temporary (seasonal) worker. When the six-month temporary period expired for the individual, the Division used purchase orders to hire her as an independent contractor. This individual's job duties remained essentially the same throughout the entire period. After the purchase orders were expended, Division staff requested one of its vendors to hire the individual, and the Division then leased her services from that vendor. While state agencies are permitted to indirectly lease workers through another company with which the agency has a contract, it is a violation of personnel system laws for agencies to contract with an individual, either directly or indirectly, within six months of their temporary employment.

The 16 individuals we identified performed duties that are a continuing part of the Division's operations, including business analysis, marketing, financial services, volunteer program administration, trails and water resources administration, and graphic design. The Division's employment of these 16 individuals represented a significant increase to its full-time staffing levels. From 2004 to 2007 the Division averaged about 30 full-time permanent staff in the program areas in which these individuals were assigned. The16 individuals represented an average of 7 additional full-time equivalent staff per year in these program areas. As such, these 7 positions increased the actual appropriated FTE by 23 percent, from 30 to an average of 37 full-time positions. Due to the serious concerns we identified from our limited sample, we believe the Department should undertake its own review of all nonpermanent employee relationships at the Division to ensure that Division staff do not continue to use temporary employment relationships inappropriately to supplement staff resources.

In addition to the 16 individuals identified through our review of personal services contracts, we identified 5 other positions that the Division has filled with temporary workers on a year-round basis. Since March 2005, the Division has appointed a continuous series of different temporary staff to fill two administrative positions at its front desk and three positions in its Financial Services Section on a year-round basis. These individuals perform a variety of functions, including data entry and check processing, that are of an ongoing and critical nature. Since 2005, the Division has hired a total of 20 different temporary (seasonal) workers to conduct this work in its Administrative and Financial Services sections.

Consequences of Noncompliance

The Division's repeated violation of state personnel system statutes and State Personnel Rules related to the use of temporary staff raises concerns on a number of levels that could have serious consequences for both the State and the individuals involved. These consequences include:

- **Undermining the merit system principles.** One of the goals of Colorado's merit system is to provide all persons an equal opportunity to apply and compete for state employment. We found that none of the 16 long-term, "temporary" staff we identified filled positions that were advertised by the Division. Thus, neither the general public nor other state employees were afforded an opportunity to compete for these jobs. Additionally, according to the Department of Personnel & Administration, "although temporary appointments are not subject to the competitive assessment process, a temporary employee must be qualified for the position." The Division's de facto permanent employment of temporary staff, sometimes in excess of five years, raises questions about whether more qualified persons would have been selected had the Division complied with the competitive assessment process required by the state personnel system. Ultimately, public confidence in the state merit system is undermined when its principles are not upheld, and the lack of open competition for positions could have a negative impact on the quality of the work force.

- **Bypassing the state budget process**. By permanently supplementing its appropriated staffing levels through the use of alternating temporary employment arrangements to fill essentially permanent positions, the

Division is bypassing the state budget process and undermining the General Assembly's authority to appropriate state resources. We found that the Division has never fully analyzed the need for permanent full- or part-time FTE for these positions as prescribed in State Personnel Rules, and neither has the Division made the corresponding budget requests from the Joint Budget Committee. By circumventing the formal budget and appropriation process, the Division is not disclosing to decision makers the accurate information essential for making difficult resource allocation decisions. Also, inadequate analysis of permanent workload demands and corresponding staffing needs does not provide Division management with the information needed to identify possible operational inefficiencies or to adequately address staff performance.

- **Perpetuating inefficiencies.** The recurring use of temporary employees and personal services contracts to fill permanent staffing needs results in substantial overhead fees and other inefficiencies. According to State Personnel Rules, the threshold decision for entering into any personal services contract requires a determination of the business case for such an arrangement based on accountability, cost, and quality. We found that the Division paid substantial overhead fees to the companies that it contracted with for all of its leased workers. From July 2004 through August 2007, the Division paid about $620,000 for 21,600 hours of work performed by leased workers. Of this total, $130,000 (21 percent) was for overhead costs paid to the contractors. This means that of the total contract costs, the Division paid about $6 per hour in overhead for each hour of work performed. In addition to these costs, other inefficiencies result from the continuous use of temporary employment arrangements. In particular, Division staff estimate that it takes them up to three months to train each new temporary employee. During the time staff spend training temporary employees, they cannot perform the job duties for which they were hired.

- **Incurring fines and penalties.** The State could owe fines and penalties to the federal government for failure to pay employment taxes on behalf of independent contractors that, according to Internal Revenue Service (IRS) guidelines, were actually "employees." For example, IRS guidelines indicate that individuals who perform work for substantial periods of time, use employer equipment, receive daily instruction and supervision from the employer, are listed in the employer's organization chart, and receive employee awards, are not independent contractors. Rather, they are considered to be employees. We found that 21 employees in our sample met many or all of the IRS criteria. This lack of an independent contractor relationship could also subject the Division to legal action, because these "employees" may have standing to sue the State for retirement or other benefits. These benefits are not available to independent contractors.

Tracking and Other Improvements

The Division needs to take steps to ensure that its use of temporary personnel complies with all relevant federal and state laws, rules, and guidelines. First, the Division needs to assess the need for FTE associated with the positions we identified as being permanently filled with temporary staff. This would include, as prescribed in State Personnel Rules, that "the department head should consider creating a permanent part-time position, including analysis of potential partnering with other departments in the same geographic location . . . when services are seasonal or annually recurring." When the Division completes its evaluation of staffing needs, it should work with the Department's Budget Section to ensure appropriate requests are made consistent with Department and State policy. According to the Department's Fiscal Year 2008-2009 Strategic Plan, the Department's Budget Section is responsible for formulating and executing the Department's annual budget process. It also supports the divisions "on a variety of revenue, expenditure, and financial analysis or issues that are facing the Department."

The Division also needs to work with the Department to develop a mechanism for tracking personal services contracts to ensure compliance with the statutory prohibition against contracting with former temporary employees within six months of their employment with the Division. Both the Division and Department, as appointing authorities, have a responsibility to uphold state personnel system statutes. Additionally, both are to review and approve personnel actions for compliance with statutes and rules. According to staff in the Department's Human Resources Office, they review personnel actions on an individual basis. That is, they review a single personnel action and do not necessarily know the individual's employment history with the Division. In the absence of this information, their decisions are based on the merits of the single action. This situation is exacerbated by the volume of temporary staff the Division hires. Regardless, the two agencies need to work together to resolve this issue.

The Division could assist further in this effort by ensuring that its managers and supervisors are familiar with the rules and statutes governing temporary employment and the appropriate use of independent contractors. Because Division staff throughout the State Park System hire and supervise temporary employees, it is essential that the Division consistently apply and comply with federal and state laws and State Personnel Rules. This should involve training and the development and dissemination of administrative directives that provide clear guidance in this area. According to the Division, its internal administrative directives are official documents designed to "guide, direct or compel an employee toward a specified action, program, or goal." As such, employees in authority to select and hire temporary staff should be held accountable for any actions they take that are not consistent with directives.

Recommendation No. 14:

The Division of Parks and Outdoor Recreation, in coordination with the Department of Natural Resources, should ensure its use of temporary staff complies with federal and state law and State Personnel Rules by:

a. Assessing the need for permanent FTE positions for those jobs that have been filled with temporary staff beyond the six-month limit.

b. Making appropriate budget requests for FTE, reallocating duties among existing appropriated FTE, or some combination of both.

c. Providing managers and other employees with regular training on the allowable uses of temporary employment arrangements.

d. Adopting administrative directives, as appropriate, to provide guidance on the use of temporary staff.

e. Implementing a tracking mechanism to ensure former temporary appointees are not hired as independent contractors within six months of their temporary employment with the Division.

Division of Parks and Outdoor Recreation Response:

Agree.

a. Implementation date: October 2009. The Division will fully assess the job functions and duties where temporary employees have been used for periods longer than six months. The Division will adopt and utilize appropriate and accepted professional standards for staffing and operations of parks and outdoor recreation programs. Application of these standards will assist the Division in identifying the appropriate types and levels of staffing and operations for each park and program.

b. Implementation date: February 2010. The Division will utilize the funding and personnel decision item request forms that were developed for use in 2007 and 2008 to fully document all requests for new full-time positions. The Division will prepare complete justification applying the applicable staffing standards in each of the requests for additional high priority full-time positions. The new position requests that are submitted for consideration will be tracked and documented through all levels of the budget review and approval process including at the Program, Region, Division, Department, Office of State Planning and Budgeting, Joint Budget Committee, and General Assembly levels.

c. See Department Response.

d. See Department Response.

e. See Department Response.

Department of Natural Resources Response:

Agree.

a. See Division Response.

b. See Division Response.

c. Implementation date: February 2009/Ongoing. Training will be conducted in fall 2008 and spring 2009 regarding personnel rules and laws and will include discussions regarding conflicts of interest. Additional online training will be developed to accommodate new appointments to supervisory positions throughout the year.

d. Implementation date: September 2008. Departmental directives will be developed to guide the use of temporary staff.

e. Implementation date: August 2008. The Department's Human Resources Office will develop and implement a tracking mechanism to ensure compliance with statutory limitations on temporary employment.

Recommendation No. 15:

The Department of Natural Resources should undertake a review of all nonpermanent employee relationships at the Division to ensure that relationships are in compliance with State Personnel Rules and IRS rules for independent contractors and leased workers and to identify any additional nonpermanent employees whom the Division is using inappropriately to supplement staff resources. All inappropriate nonpermanent employee relationships should be terminated.

Department of Natural Resources Response:

Agree. Implementation date: July 2008.

Nonpermanent employee relationships determined during this audit to violate rule and/or law have been terminated. A review of all remaining nonpermanent employee relationships will be conducted by the Department's Human Resources Office. If additional violations are identified, the Department will ensure the Division terminates such relationships.

Seasonal Work Program

Most of the temporary employees the Division appoints fill seasonal positions. Seasonal positions with the Division recur annually during the peak months for the State's parks. This means the Division typically employs seasonal workers from about May to September every year. According to the Division's website, seasonal positions include gate attendants; park maintenance technicians; office/clerical and accounting positions; park rangers; naturalists; and swim beach attendants.

Within the state personnel system, positions filled on a seasonal basis fall under the job classification of "temporary aide." This classification includes all types of temporary work needed in any state agency, and State Personnel Rules state that all temporary positions **shall be** in the temporary aide class. [Emphasis added.] The only exception to this rule is for the Division's Seasonal Work Program. According to Department of Natural Resources staff, years ago the Division requested and was granted a waiver from the Department of Personnel & Administration to create a separate "Seasonal Work Program" within the state personnel classification system. The purpose of the separate classification was for the Division to distinguish the large number of temporary seasonal workers it employs from the other temporary aide positions it fills, for a variety of reasons, throughout the year.

Along with the separate position classification, the Division adopted policies and procedures specifically for its Seasonal Work Program. These include Administrative Directives related to payroll and time keeping. The Division also established a list of 30 job titles (e.g., beach attendant, seasonal park ranger, and maintenance technician) and their hourly wage ranges from which seasonal workers must be paid, according to the Division's financial services manual. Other than these distinctions, the seasonal workers the Division employs must conform to the laws and rules governing all temporary employees in the state personnel system. This means they cannot be employed for longer than six months, they are not eligible for salary or performance pay adjustments, and they are not eligible for benefits.

During our audit, we could not identify a valid reason for the Division to maintain a separate position classification for seasonal workers. The Division has not reassessed its need for this separate classification since it adopted the seasonal worker classification many years ago. If there is no need to distinguish between seasonal workers and temporary aides, the Division should give serious consideration to eliminating the separate position classification within the state personnel system. If the Seasonal Work Program is eliminated within the state personnel system, the Division could still maintain a structured Seasonal Work Program to address issues of training, supervision, work hours, acceptable seasonal positions and wage ranges, or other factors that may help to ensure consistency in the use of seasonal workers throughout the Division. A Seasonal Work Program coordinator could provide consistent programmatic guidance and oversight to park managers and supervisors around the State. This could include oversight for compliance with State Personnel Rules related to appointments to temporary positions. Other central administrative activities such as payroll and accounting could be made more efficient with the elimination of unnecessary or arbitrary categories.

Recommendation No. 16:

The Division of Parks and Outdoor Recreation should review its Seasonal Work Program to ensure its necessity, efficiency, and relevancy. To accomplish this the Division should:

a. Evaluate the need for a separate position classification within the state personnel system and request the classification be eliminated, as appropriate.

b. Review existing policies and procedures related to seasonal workers and make changes where needed.

c. Provide central coordination and oversight related to the employment and supervision of seasonal workers, as needed.

Division of Parks and Outdoor Recreation Response:

Agree. Implementation date: January 2009.

a. The Division will evaluate the need for a separate position classification within the state personnel system and will request the seasonal worker classification be eliminated, if necessary.

b. The Division will review existing policies and procedures related to seasonal workers and make changes where needed.

c. The Division will review and provide additional central coordination and oversight related to the employment and supervision of seasonal workers. The Division will seriously consider creating a Division-level human resources coordinator to ensure all personnel rules are followed by permanent and seasonal employees. The Division currently provides centralized record keeping by requiring that all seasonal employees are hired using a personnel transaction through the Department's on-line personnel program. This personnel transaction requires multiple levels of review and authorization, ranging from supervisor approval, Division Budget Office approval, Department Human Resources Office approval, and appointing authority approval. The Division will review this process and make changes where needed.

Seasonal Employee Time Keeping

Whether the Division's seasonal workers are classified as temporary aides or seasonal workers within the state personnel system, adequate time keeping is critical for payroll and other purposes. Seasonal employees are generally paid an hourly wage. Therefore, they are subject to federal and state minimum wage and overtime requirements. This includes the requirements of the federal Fair Labor Standards Act (FLSA). The FLSA requires employers of hourly workers to maintain time keeping records for a minimum of three years, and the records must include the number of hours worked each workday and total hours worked each work week. Additionally, the Division's policies and procedures require that all seasonal employees record their hours on hard-copy timesheets and that employees sign and supervisors approve the timesheets prior to entering them into KRONOS (the State's timekeeping system). Accordingly, the standard timesheet the Division has developed for its seasonal workers requires both employee and supervisor signatures.

We reviewed 82 time records for 32 seasonal employees at 8 park offices and the Division's administrative offices. We sampled timesheets from a two-month period subsequent to the seasonal employee's date of hire for seasonal employees hired in Fiscal Years 2006 and 2007. Overall, we found lax compliance with time-keeping requirements for the Division's seasonal workers. In total, we found that 83 percent (68 of 82) of the timesheets we reviewed contained errors or omissions including:

- **Payment errors**. We found math errors in 5 of the 82 timesheets (6 percent). Generally these errors were the result of the employees miscalculating the total number of hours worked. Four employees were overpaid about $70, and one employee was underpaid $74. According to the Division's policy and procedures manual, an employee is responsible for reimbursing overpayments made by the State regardless of the source of the error. The State, however, is responsible for paying an employee for the amount they were underpaid.

- **Incomplete timesheets**. We found that 63 of the 82 timesheets (77 percent) were missing one or more required elements, including dates worked, time clocked in or out, description of the work performed, and hourly wage.

- **Questionable time reporting**. We identified several seasonal workers who erroneously reported time worked. In two cases, employees did not enter their time on a daily basis, as required by FLSA. Instead, these employees entered all time worked in the pay period on a single day. Another employee reported no lunch breaks and was paid for this time, although it is unclear whether this hourly employee worked during these periods. Additionally, some seasonal employees recorded 8- to 15-hour work days with no breaks. State Personnel Rules [Rules 1-9 and 3-38] state that lunch periods are to be scheduled at the discretion of the appointing authority, and that a lunch break cannot be counted as work time unless the employee is required to continue working during his or her lunch break. However, the Division should ensure that these rules are clearly understood by all Division and seasonal staff and that seasonal employees are not paid for lunch breaks or other times when not working.

- **Inconsistent use of required time reporting format**. We found that 6 of the 32 employees (19 percent) whose time records we reviewed either did not complete a hard-copy timesheet or a standard seasonal timesheet during the period we reviewed. We found that not all supervisors in the Division's Administrative Section or at the parks require the use of the standard timesheet or even require seasonal employees to complete a hard-copy timesheet.

In all of these examples, adequate supervisory review was lacking. Incorrect, incomplete, misreported, and miscalculated timesheets should have been identified by supervisors. Although evidence of supervisory review was present in many of the problem cases we identified, we also found no evidence of supervisory review for

14 timesheets (17 percent). In addition, two timesheets lacked employees' signatures. State Personnel Rules require that time records be certified by both the employee and the supervisor.

When timesheets are missing key information, are not adequately reviewed by supervisors, or contain errors, the result can be erroneous payments. In some cases, seasonal employees' wages are paid from federal funds, including the Federal Boat Safety Program. The Division could be required to repay funds that were incorrectly paid to seasonal workers under the terms of that program.

In addition to the lack of adequate supervisory review, we found that supervisors and staff are unclear as to time keeping requirements. In particular, we found a lack of consistent understanding related to whether time sheets are required, whether a standard timesheet is to be used, and whether all requested information must be provided. Timesheets are the supporting documentation for all wages paid. The Division needs to ensure that management and staff, including seasonal workers, are familiar and in compliance with all time keeping requirements. This may involve a review of existing policies to establish the need for changes or clarification such as a determination by Division management as to whether scheduled lunch breaks should be required, or if they can remain at the discretion of each individual supervisor. Finally, supervisors should be held accountable for the review and approval of the time records of the seasonal workers under their authority.

Recommendation No. 17:

The Division of Parks and Outdoor Recreation should ensure compliance with time keeping requirements for seasonal workers by making improvements in the following areas:

a. Reviewing and clarifying, where needed, existing time keeping policies and procedures, including the format in which time will be recorded.

b. Disseminating clear policy directives throughout the park system, including the Division's administrative office, and training supervisors and others as appropriate on their responsibilities.

c. Holding supervisors responsible for compliance with policies and procedures through job descriptions, performance planning, and evaluations.

Division of Parks and Outdoor Recreation Response:

Agree. Implementation date: May 2009/Ongoing.

The Division agrees with the recommendations to ensure compliance with time keeping requirements for seasonal workers and will work to implement all suggestions in sub-paragraphs a. through c. The Division will review and implement best practices related to effective processes and controls over time keeping requirements.

Asset Management

Chapter 4

Overview

A fundamental responsibility of any state agency is to track, secure, and account for state assets held in the agency's custody. Maintaining asset and facility inventory information is important not only for planning purposes, but also to ensure accountability to the public through accurate and complete financial reporting. The Division of Parks and Outdoor Recreation (Division) has extensive assets, including buildings; boat docks; vehicles; furnishings and antiques; various types of equipment, ranging from computers to lawnmowers; and retail items for sale to the public such as books and sweatshirts. The Division has a duty to maintain an accurate inventory—including the asset's location, value, and condition—and to ensure that Division staff do not misuse state assets for personal or professional gain. We reviewed the Division's (1) management of physical assets, (2) employee use of state assets, and (3) use and management of state fleet vehicles. We found that the Division failed to protect some of the assets in its care and ensure that its assets are used efficiently and appropriately to support the Division's operations.

Capital Assets

We examined the Division's management practices related to its capital assets (buildings, facilities, roads, etc.) and cabin assets (including the contents of its fully furnished cabins). Overall, we found that the Division lacks the controls necessary to ensure that assets of all types are accounted for, valued appropriately, protected, and maintained.

The Division has developed a sizeable portfolio of park facilities and infrastructure. As steward of these assets, the Division is responsible for maximizing their useful life by ensuring that the assets are maintained properly and replaced when no longer operating properly or safely. Part of an effective process for managing capital assets includes developing a comprehensive listing of all assets and their condition and a plan for performing scheduled maintenance, renovation, and replacement of those assets. In the Division's 5-year "Horizons" plan for Fiscal Years 2000 through 2004, the Division stated that it planned to eliminate a backlog of maintenance and achieve a sustainable 20-year renovation cycle for all parks. The Division's objectives included identifying all controlled maintenance and renovation needs and developing plans to address those needs. In the Division's current five-year strategic plan (Fiscal Year 2005 through 2009), the Division again emphasized the importance of planning for its capital needs, and specifically for ensuring that future park facilities are built using sustainable materials that last longer, are environmentally friendly, and require less maintenance. During the audit, Division management reported that although it has initiated efforts towards creating a maintenance or renovation cycle for its parks, it has not implemented a systematic process. Furthermore, we found that the Division could improve its efforts to build sustainable parks and use resources efficiently by developing a core set of facility designs that it can apply to other new and existing state parks.

Maintenance and Renovation

To develop a reasonable and systematic schedule for maintenance and renovation of its existing facilities, the Division first needs to assess the condition of its facilities. Division management reports that it does not have complete or accurate information on the condition of its existing assets or its future capital needs. According to the Division, it has a number of project needs at state parks, including new facilities, enhancements to existing facilities, and new equipment. However, the Division has only compiled a list of projects related to health and safety and protection of facilities and resources, and their associated costs. According to the Division, it has not compiled a list of the remaining projects including projects related to improving and building roads and dams, acquiring land, and developing new parks.

The list of projects related to health and safety and protection of facilities and resources was compiled in spring 2007 by park managers, engineers, landscape architects, project managers, and region managers from each of the Division's three regions. These staff identified a total of nearly $150.7 million in projects related to health and safety and protection of facilities and resources, including new capital assets and repair or replacement of existing capital assets. Because a variety of individuals from the different parks and regions compiled the list, additional analysis is required to ensure project needs were identified and will be assessed using consistent criteria. For example, we identified the following projects that we believe necessitate further analysis by the Division:

- One region indicated the need for a new $2 million visitor center to replace an existing nature center and park office, both of which were recently remodeled (in 2004 and 2006, respectively).

- One region indicated that it needed a new shower building at an estimated cost of $1.4 million. This amount is significantly more than the cost of new shower buildings recently constructed at other parks, which cost between $270,000 and $600,000. Another region requested a total of $12.5 million to renovate 28 restrooms at one park. This equates to about $446,000 to renovate each restroom, which is almost the Division's total cost to build the 3,100-square-foot visitor center at Rifle Gap State Park. Furthermore, the Division recently built two fully plumbed small restrooms at Rifle Gap State Park at an average cost of about $44,500 each. If the Division were to replace the 28 restrooms with facilities of a similar size and price as those installed at Rifle Gap, we estimate that total cost would be approximately $1.2 million, a savings of almost $11.3 million.

- The Division instructed the regions to prioritize their capital improvement needs by giving high priority to projects addressing public health or safety concerns and lower priority to projects addressing other needs, such as resource protection. One region categorized as high priority a $150,000 redesign of a park's picnic area, a $200,000 rebuilding and reorganization of a park's dog training area, a $1 million new camper services building, a $1.4 million new shower building, and a $3 million replacement for the existing maintenance building that was built in 1965. Although these projects may represent legitimate needs for these parks, the region did not provide any explanations in the project descriptions to demonstrate a clear public health or safety hazard or to justify the projects' prioritization.

Without a comprehensive list of the condition of its assets, the Division cannot plan effectively for the acquisition of new assets or how best to protect, maintain, or improve its current assets. Division management is considering appointing an individual in central management (i.e., a Division employee not directly associated with any particular region or park) to review the capital asset needs identified by the regions and parks, assess the reasonableness of the requests, prioritize the requests on a Division-wide basis, and make recommendations to Division management that could be accommodated within available resources and strategic planning objectives. Because funds for capital improvements are limited, an evaluation of project requests by someone independent of the regions will provide for a more objective process and will ensure that parks and regions receive equitable treatment. The Division reports that it intends to improve how it tracks capital assets with the full implementation of Capital Asset Tracking and Reporting System (CAPTRS). The Division hopes eventually to use the system to track the value and condition of all capital assets, as well as to provide information on when the asset is due for maintenance and repair. Further, the Division plans to use the information in CAPTRS to enhance its strategic planning and budgeting processes.

Facility Designs

The Division spends a considerable amount of state funds on capital construction projects at new and existing state parks. In Fiscal Year 2007, the Division spent about $16 million, representing about 27 percent of its total expenditures during that year, on capital construction projects. These projects include new construction and renovation of existing structures, including visitor centers, camper services buildings, entrance stations, bathrooms, maintenance shops, and cabins. In general, there are two types of costs associated with new building construction. The first is the design cost paid to the architect to create the building plans. The second is the construction cost paid to the building contractor. In some cases, building designs can be reused in an effort to minimize costs. One of the objectives listed in the Division's strategic plan is to "improve the management of state parks' project and program funding and its strategic use of available resources." Reusing existing building designs is one method the Division could use to help minimize construction costs, use its available resources most efficiently, and ensure Division-wide consistency in its effort to build sustainable parks.

We reviewed the design costs for facilities built at state parks from July 2002 through October 2007 and found that costs varied significantly for the same type of building. For example, the design cost for the visitor center at Cheyenne Mountain State Park was about $285,000, while the design cost for the visitor center at Rifle Gap State Park was about $25,000. In addition, the design costs for the camper services buildings at Rifle Gap, Cherry Creek, and Chatfield State Parks ranged from about $10,000 to $42,000. Currently, the Division does not require staff to reuse existing building designs. Instead, the Division relies on regional project managers to oversee the design and construction of buildings at each park within their region. Often this means that across the Division, project managers are paying separate architects on multiple occasions to design the same types of facilities, which creates redundant plans for those facilities and increases design costs for the Division as a whole. In addition, the Division does not have a central database or library of building designs that can be easily accessed and shared among the regions.

We contacted both the Departments of Public Safety and Transportation, which frequently construct the same types of buildings, to determine whether they reuse building designs. The Department of Public Safety uses a prototype design for its State Patrol offices and estimates that it saves about 2 percent (or about $10,000 to $15,000) on design costs for each office built by using the prototype. Similarly, the Department of Transportation reports that using prototype designs for all of its vehicle storage and maintenance facilities and rest-stop bathroom buildings allows it to design, build, and make the buildings operational in a shorter period of time with increased functionality and better quality. We also contacted the Arkansas and Wyoming state park divisions and found that both states regularly reuse existing building plans to construct park facilities. According to the Division, it has occasionally reused building plans. One region reported reusing architectural designs to build two shower buildings at Cherry Creek State Park from a similar building previously constructed at St. Vrain State Park. Similar practices could be adopted throughout the Division.

Design costs represent a significant portion of the overall building cost. For example, the total cost of the visitor center at Rifle Gap State Park was about $477,000, and about $25,000 (about 5 percent) of the cost was for the design. In addition to the cost of the design, each time the Division builds a new building and procures design services, it also spends staff resources to develop bid requests and evaluate bid proposals from architects. This process also adds time to completing the project.

As the Division works to identify its overall capital needs, it should also work toward creating a library of building designs for each type of facility that is commonly built at state parks. This may require the Division to work with an architect to design a prototype for each building type. The Division should require, to the extent possible, that the regions use these designs for all similar construction projects.

Recommendation No. 18:

The Division of Parks and Outdoor Recreation should work toward developing a plan for maintenance and renovation of facilities at its parks. Steps should include:

a. Conducting a comprehensive review of the condition of the Division's capital assets. This should include working with park and region staff to identify needs for new capital assets and major renovations of existing assets and ensuring that the information, once available, is input into the CAPTRS system. One option would be to appoint a management-level position, independent of the regions, to lead this effort.

b. Compiling and reviewing park and region capital needs, working with the regions to prioritize needs within their region, and evaluating regional priorities to develop Division-wide priorities in accordance with strategic plans and objectives. Information on prioritized needs should be provided to Division management for consideration and used to facilitate decision-making and budgeting processes.

c. Continuing to develop and implement the CAPTRS system and using the system to maintain accurate records of capital assets.

Division of Parks and Outdoor Recreation Response:

Agree.

a. Implementation date: December 2009. The Division is committed to developing a capital development project five-year plan that will include an effective and comprehensive capital asset program inventory and an accurate assessment of the condition of structures and facilities. This capital construction planning information will be incorporated into a future development phase of the Division's internet-based Capital Project Tracking and Reporting System. As referenced previously, the Division will seriously consider establishing a centralized, management-level person who will be tasked with these capital construction leadership responsibilities.

b. Implementation date: December 2009. Although the Division currently works with the region staff to develop region priority project lists, the Division will be developing a plan and process to create and maintain a statewide prioritized master list of projects.

c. Implementation date: July 2009. The overall objective of the next phase of Capital Project Tracking and Reporting System is to enhance the program to better manage, track, and report on capital development projects and funds. The following are the top two priorities for development:

    - Proper allocation and payment of retainage for construction project contracts;

    - Capital Project Tracking and Reporting System interface for payments through the Division's Parks Automated Record Keeping System, which would link the Capital Project Tracking and Reporting System data with the State's official COFRS accounting system.

   The July 2009 implementation date assumes that the Division will be able to implement the Capital Project Tracking and Reporting System changes per the Division's plans. However, the State's current IT consolidation may impact the Division's control over this project and the implementation date.

Recommendation No. 19:

The Division of Parks and Outdoor Recreation should ensure it maximizes its investment in building designs by utilizing existing plans or, if necessary, developing a set of prototypes for core types of buildings (e.g., visitor centers, camper services buildings, entrance stations, and bathrooms) that can be used among all parks, and by developing and maintaining a central design library or database that can be accessed by all regions. The Division should consider requiring all regions to use the prototype designs for these buildings unless Division management grants a waiver in advance.

Division of Parks and Outdoor Recreation Response:

Agree. Implementation date: May 2009.

As part of efforts to improve efficiencies within our capital planning and budgeting, the Division will increase its use of existing plans and develop prototype designs that can be used for structures commonly built or renovated at many parks. The Division has already started doing this but agrees that more can be done. Although there will certainly be instances where existing plans are not practical for a new facility, the Division will consider development of a policy related to this recommendation.

Use of State Assets

Park assets, including property (e.g., land, natural resources, equipment, and supplies), infrastructure (roads and utilities), and amenities (e.g., cabins, yurts, campgrounds, and picnic areas), are purchased with public funds and entrusted to the Division. Article XXIX (Ethics in Government) of the State Constitution declares that "public officers . . . and government employees shall avoid conduct that is in violation of their public trust or that creates a justifiable impression among members of the public that such trust is being violated." Further, the Governor's Code of Ethics [Executive Order D 001 99] states that executive branch employees shall not use public office to bestow any preferential benefit to anyone related to the officer, appointee, or employee by family, business, or social relationship; or use state property for private gain.

During our audit, Division staff expressed concerns that some employees received preferential treatment when using the three fully furnished cabins at Mueller State

Park for vacations. These three fully furnished cabins are in high demand by the public, as demonstrated by their almost 100 percent occupancy rates. The cabins rent for between $120 and $240 per night, depending on their size.

We examined employee use of the cabins at Mueller State Park and found that some Department of Natural Resources (Department) and Division staff did receive preferential treatment by circumventing the standard reservation processes to use the cabins at Mueller State Park to benefit themselves, their friends, other staff at the Division, and organizations with which the Division does business. We reviewed documentation on 25 overnight stays at the Mueller cabins during an 18-month period from March 2005 through September 2006. Division staff report that these were the only complimentary stays granted at the Mueller cabins since the Division opened the cabins for overnight stays. These stays raise concerns about employee use of state property for personal benefit and lack of adequate policies over complimentary stays. Specifically, we found that Division employees:

- **Authorized complimentary stays**. Between February 2005 and January 2006 the Division authorized seven complimentary stays, totaling 14 days, at the Mueller cabins for other Division employees and friends of these employees, as well as a member of the General Assembly and a member of the Foundation for Colorado State Parks. For four of the seven stays the Division did not document the rationale for granting the complimentary stays. According to the Division, of the remaining three stays, two were granted to employees as rewards for work performed and one was donated as a raffle prize. Staff at Navajo and Sylvan State Parks also reported authorizing complimentary stays to volunteers and Division staff attending meetings. However, neither park had documentation of these stays. The Division does not have a policy that requires complimentary stays to be documented or that describes the circumstances under which such stays are authorized. As a result, we were unable to determine whether any of the seven complimentary stays at Mueller State Park were appropriate. The value of all of the complimentary stays we reviewed at Mueller State Park totaled $2,700.

- **Occupied the cabins during periods of high demand.** During 2005 and 2006 the former Division Director, the Director's friends, and Division staff paid to stay at the Mueller cabins on 18 different occasions for a total of 46 days. Of these 18 visits, 8 (44 percent) occurred during holidays when the cabins typically are in high demand by park patrons. Specifically, these visits occurred during Memorial, Independence, Labor, Veteran's and New Year's Days; Thanksgiving weekend; and the Christmas holiday.

- **Circumvented the standard reservation processes.** The Division contracts with ReserveAmerica, an outside vendor, to handle reservations for cabins, yurts, and campsites at all parks. All reservations are required to be made through ReserveAmerica, and reservations cannot be made more than six months in advance. Although members of the public were unable to begin making reservations for the Mueller cabins prior to April 1, 2005, we found that Division staff began making reservations directly with the park for the Mueller cabins as early as February 2005. In some cases, staff made reservations nearly nine months in advance. Also, reservations for four of the eight holiday stays discussed above were made prior to the reservation system going public. As a result, by the time the Mueller cabins were available to the public for reservations, Division staff had already reserved two of the three cabins during two of the busiest holiday weekends (Memorial Day and Fourth of July) for their own use.

Without clear limitations on when Division staff can authorize complimentary stays at the cabins, make reservations more than six months in advance, or make reservations before cabins are available on the reservation system, members of the public do not have an equal opportunity to access and use the cabins. As a result, the Division is not only losing revenue but is also violating the public trust by providing preferential access to the cabins for Division employees.

Our audit did not include a review of the use of other amenities at parks throughout the State, which include 3 other fully furnished cabins, 60 rustic cabins or yurts, and nearly 4,400 campsites. All of these should be made available to the public in order to fulfill the Division's mission of operating state parks to enhance Colorado's outdoor recreation opportunities. We found that the Division does not have policies that specify who is authorized to grant complimentary visits and for what purposes, when it is appropriate for Division staff to be able to reserve amenities that are intended to be available to the public, and how such reservations should be made. Without such policies, there is an increased risk of abuse of these amenities by staff. The Division should establish policies that ensure transparency and equity in reserving all of the Division's public amenities and designate the circumstances under which use by an employee or associate of the Division is appropriate. A clear and comprehensive policy will protect the public trust and minimize the misuse of state assets.

Recommendation No. 20:

The Division of Parks and Outdoor Recreation should develop and implement a policy over granting complimentary stays at park facilities and the appropriate use of amenities. This policy should include:

a. Establishing a list of Division staff who have authority to grant complimentary stays at the Division's fully furnished cabins, rustic cabins, yurts, campsites, or other amenities. All stays should be required to be documented and pre-approved.

b. Describing the circumstances under which granting complimentary stays at the Division's amenities is appropriate, and the documentation and authorizations required for complimentary stays.

c. Developing appropriate guidelines for employee reservations of amenities, including allowable time frames for advance reservations, frequency of employee use, and acceptable methods for making reservations.

Division of Parks and Outdoor Recreation Response:

Agree. Implementation date: November 2008.

The Division will develop and implement a policy that addresses granting complimentary stays at park facilities and describes the appropriate use of these amenities by Division and Department staff. The policy will contain:

- Identification of authorized staff that can grant complimentary stays in the Division's overnight facilities and amenities.

- Required documents for the pre-approval authorization process.

- Clear description of circumstances under which granting complimentary stays are appropriate.

- Guidelines for employees when making reservations of facilities and amenities. The guidelines will cover: allowable timelines for advance reservations, limitations on frequency of use, and required methods for making reservations.

Use of State Vehicles

The Division leases vehicles from State Fleet Management within the Division of Central Services at the Department of Personnel & Administration. As of May 2007, State Fleet Management records showed that the Division had 336 permanently assigned vehicles. In total, the Division paid nearly $1.3 million in Fiscal Year 2007 for lease, management, and mileage costs related to fleet vehicles. These vehicles include sedans, passenger vans, four-wheel-drive vehicles, and dump trucks. Some of the Division's vehicles are outfitted with law enforcement equipment such as sirens and light bars. The vehicles are assigned to each of the Division's 42 open state parks, 3 region offices, several of the Division's programs, and the Division Director's office. Further, the Division has assigned three vehicles to individual employees to use in both their daily business activities and for commuting to and from work.

Statute and Division of Central Services rules and guidelines dictate appropriate uses of fleet vehicles. Specifically, statute [Section 24-30-1113, C.R.S.] states that fleet vehicles may only be used for official state business, and Central Services rules [1 CCR 103-1, Section 2.12-02] state that vehicles can only be used by state employees. Additionally, statute [Section 24-30-1113, C.R.S.] permits executive directors of state agencies to authorize employees to use state vehicles to commute to and from work on a regular basis, provided that commuting is needed to promote the best interests of the State and the efficient operation of the State's fleet and represents the most cost-effective means of doing business for the agency.

We reviewed the Division's use of its fleet vehicles, including its commuting arrangements with three employees. We found that the Division: (1) authorized commuting arrangements that were not in the best interest of the State, (2) improperly categorized commuting arrangements as tax-exempt benefits to employees, and (3) allowed non-state employees to operate and ride in state vehicles.

First, we found that the Division failed to demonstrate a clear business case for two of the three employee commuting arrangements. These two commuting arrangements were for peace officers who commuted in fleet vehicles so that they could respond to law enforcement events after regular business hours. However, we found that law enforcement was not part of these employees' primary job duties; rather, these employees were managers working in an office environment. Additionally, the Division has at least 119 other law enforcement officers who are not authorized to commute in state vehicles, even though they are involved in law enforcement activities on a daily basis, and many of them would be required to respond to a law enforcement event after hours. Additionally, one of these two commuting arrangements was not signed by the Department of Natural Resources' Executive

Director or reported to State Fleet Management, as required by statute. The authorization form was signed by a former Division Director, who did not have delegated authority to approve commuting agreements. The two commuting arrangements cost the Division nearly $40,400 ($18,600 in mileage and $21,800 in lease and management fees) between January 2004 and October 2007. After we brought these two commuting arrangements to the attention of the Department, Department management revoked the arrangements.

Second, we found that these two commuting arrangements were improperly classified as tax-exempt benefits and not reported as taxable income on the two employees' W-2 forms. The third commuting agreement was properly classified as tax exempt. Federal regulations [26 CFR Section 1.274-5T] allow individuals to commute tax-free if they are peace officers who require the commuting arrangement to perform their law enforcement duties. If the employee does not meet this requirement, the commuting is considered a taxable fringe benefit and the employee must either reimburse his or her employer for the cost of commuting or report that amount as taxable income. The two commuting arrangements discussed above do not appear to meet the federal definition of tax-exempt because the individuals associated with these arrangements do not routinely perform law enforcement duties. Combined, these two individuals commuted for a total of 79 months between January 2004 and October 2007. Based on State Fleet Management's required reimbursement rate of $1.50 per one-way commute, we estimate that these individuals, combined, should have reimbursed the Division a total of approximately $4,700, or $60 per month.

Third, we found that the Division allowed two non-state employees to operate a state vehicle without authorization from State Fleet Management. A non-state employee is not permitted to operate a state fleet vehicle, unless State Fleet Management provides advance written authorization and ensures that the individual has supplemental insurance coverage of a minimum of $1 million to cover the State's liability in the event of an accident. Division staff authorizing non-state employees to operate state vehicles were not aware of the State Fleet Management policies regarding vehicle use.

The Division should take steps to ensure that staff understand and comply with state statutes, rules, and policies governing the use of state vehicles. This should include providing appropriate oversight of commuting authorizations and developing a sign-out policy to ensure state vehicles are driven only by authorized state employees unless non-state employees have proper, advance, written authorization from State Fleet Management. Further, the Department should determine whether non-state employees should be authorized to ride in vehicles, and if so, under what circumstances. These steps are important because statute [Section 24-30-1112, C.R.S.] provides State Fleet Management with authority to revoke a vehicle from an agency when the vehicle is not used in accordance with statutes and rules.

Recommendation No. 21:

The Department of Natural Resources should work with the Division of Parks and Outdoor Recreation to improve oversight of commuting arrangements and ensure federal tax regulations are addressed. Specifically, the Department and Division should:

a. Review prior and existing commuting arrangements to determine whether the arrangements are in the best interest of the State and whether such arrangements have been properly classified and reported with respect to tax treatment for the employee.

b. If commuting arrangements were improperly reported as tax-exempt benefits, this information should be reported to State Fleet Management and the State's Central Payroll. The Department should ensure that either prior years' employee income reporting to the IRS is corrected or employees reimburse the Division for all taxable commuting.

c. Ensure all future commuting arrangements are in the best interest of the State and are properly classified for tax purposes.

d. Clarify Department and Division roles and responsibilities with respect to authorizing commuting arrangements and ensure that all authorized commuting arrangements are reported to State Fleet Management.

Department of Natural Resources Response:

Agree.

a. Implementation date: Implemented. Prior and existing commuting arrangements were reviewed in late 2007; the only remaining commuter vehicle is assigned to the Division's Chief of Law Enforcement and is properly classified as a qualified non-personal use vehicle.

b. Implementation date: July 2008. Prior managers made the determination that the vehicles were for law enforcement activities and approved them as non-personal use vehicles and, therefore, as non-taxable commuter vehicles. The Department is in the process of seeking advice and counsel from the Department of Personnel & Administration to determine the prudent and appropriate action to be taken.

c. Implementation date: Implemented/Ongoing. All future commuting arrangements will be carefully scrutinized, made in the best interest of the State, and properly classified for tax purposes.

d. Implementation date: Implemented. Department and Division roles and responsibilities have been clarified and any future commuting arrangements will be authorized in accordance with State Fleet Management rules and requirements, as well as Internal Revenue Service laws and regulations.

Division of Parks and Outdoor Recreation Response:

Agree.

a. Implementation date: Implemented. As a result of discussions with State Auditor staff early in the audit process, the Division conducted a review of its commuting arrangements in late 2007. At the time, three Division FTE were commuting with state vehicles. Based on this review, the Division Director, in consultation with the Department, provided internal direction in January 2008 for the Division's Chief of Law Enforcement to continue commuting in a state vehicle. The remaining two commuting agreements were rescinded.

b. Implementation date: July 2008. Commuting arrangements were assigned and approved in accordance with Fleet Management Rules. Prior managers made the determination that the vehicles were for law enforcement activities and approved them as non-personal use vehicles and, therefore, as non-taxable commuter vehicles. The Division understands that the Department is in the process of seeking advice and counsel from the Department of Personnel & Administration to determine the prudent and appropriate action to be taken.

c. Implementation date: Implemented/Ongoing. The Division does not plan to expand commuter vehicles in the future. However, in the event of such request, the Division Director will carefully review each request to ensure that it is in the best interest of the Division and properly classified for tax purposes. If such request is approved at the Division level, it will be forwarded on to the Department for approval.

d. Implementation date: Implemented. Department and Division roles and responsibilities have been clarified and future commuting arrangements, if any, will be authorized in accordance with State Fleet Management rules and requirements.

Recommendation No. 22:

The Division of Parks and Outdoor Recreation should establish controls to prevent non-state employees from driving state vehicles unless express written permission is obtained in advance from State Fleet Management. Additionally, the Department should define the circumstances under which non-state employees are allowed to ride in state vehicles. Specifically, the Division should consider implementing a vehicle sign-out policy and provide training to all staff with access to state vehicles to ensure that staff clearly understand the limitations regarding vehicle use by non-state employees.

Division of Parks and Outdoor Recreation Response:

Agree. Implementation date: October 2008.

The Division will work with the Department to establish a policy that clarifies who may ride in or drive a State vehicle and when. This policy will conform with guidelines set by the Department of Natural Resources. Additionally, the policy will include:

- Forms, provided by State Feet Management, which need to be filled out for non-state employees to drive state vehicles; and,

- Information from existing policies and guidelines provided by the Department of Personnel & Administration and the Divisions of Fleet and Risk Management.

Size of Vehicle Fleet

As of May 2007, a total of 244 of the Division's fleet of permanently assigned vehicles were passenger vehicles. This equates to almost 1 passenger vehicle for each of the Division's 262 appropriated FTE during this period. Although we found that all 244 vehicles met the minimum mileage limits established by State Fleet Management, the Division has not conducted a comprehensive review of its fleet to determine if the number of vehicles is reasonable and if the vehicles are assigned appropriately to the programs, regions, and parks.

The Division should evaluate the cost of operating and maintaining its current fleet against the cost of leasing vehicles from the State motor pool on a periodic basis or reimbursing employees for mileage. If the Division finds that not all vehicles are needed on a routine basis, the Division should consider eliminating some lower-mileage vehicles and instead periodically lease vehicles from the State Fleet Management or reimburse employees for mileage as needed.

Recommendation No. 23:

The Division of Parks and Outdoor Recreation should evaluate the use and allocation of its current fleet to determine whether it can achieve cost savings by eliminating some fleet vehicles and instead leasing fleet vehicles periodically or paying employees' mileage to use their own vehicles when necessary.

Division of Parks and Outdoor Recreation Response:

Agree. Implementation date: July 2009.

As part of its Energy Management Program implemented in May of 2007, the Division has crafted an Energy Management Plan that specifically addresses a Transportation and Fuel Management Plan. Division staff also has actively participated on the Governor's Transportation Efficiency Audit Team and State Fleet Management's Motor Vehicle Advisory Council (Council). The Division is working with the Council to address its transportation and fuel management strategies in the context of statewide best practices and to comply with energy efficiency and fuel reduction goals as directed in executive orders and legislative directives. The Division will evaluate the number and types of vehicles used, duty requirements, fuel types and usage, and opportunities to reduce both number of vehicles and vehicle miles traveled (VMT) by February 2009. Potential strategies range broadly from interagency sharing of special duty vehicles and matching vehicle duty rating to job functions to introducing hybrid and electric vehicles where possible to reduce petroleum consumption and variable fleet cost. The Division expects to complete its Transportation and Fuel Management Implementation Plan by July 2009.

Cabin Inventory

The Division has a total of seven fully furnished cabins located at Mueller, Sylvan, and Navajo State Parks. These cabins are available year-round for overnight rental. The Division has furnished all seven cabins with large and small appliances, beds, couches, tables, lamps, art décor, and other household items. The Division estimates that the total value of the furnishings in the seven cabins is about $64,000. During the audit we visited Mueller and Sylvan State Parks—two of the three state parks with fully furnished cabins. Together these two parks have four fully furnished cabins. We reviewed each park's procedures for safeguarding cabin assets and found that neither park has adequate inventory practices to ensure the assets are safeguarded from theft and damage.

- **Frequency of inventory.** One park only conducts a full inventory of its cabins twice each year, once before the park's busy season (between May and September) and once after. Since the park does not conduct an inventory after each cabin visit, the park would have difficulty determining when an inventory loss occurred or assigning responsibility for loss to a particular visitor.

- **Items inventoried.** Neither park conducts a full inventory of items or uses state tags to identify the items as state property. One park inventories only the smaller items in the cabins, such as dining utensils and cooking appliances, but does not include higher-priced items such as tables, beds, and couches. The other park inventories only the larger furnishings, such as beds and wall hangings, but does not include smaller items, such as kitchen utensils. These policies present risks that items not included in inventory lists could be stolen or damaged without the Division detecting the loss.

We also found that the Division does not use inventory tags to identify items as the property of the State. Further, the Division has not implemented standard policies or procedures to inform visitors of their responsibility for loss or damage to the cabin property or for recovering losses for stolen or damaged items from cabin visitors. One park requires cabin visitors to sign a form acknowledging their responsibility for losses or damages incurred during their visit. The other park provides visitors with a list of rules, which includes a statement of the users' responsibility for any damages or violations. The park managers report that they are not aware of any instance where loss or damage has occurred at these cabins. As a result, the Division has never pursued a recovery from a park visitor and has no procedures in place for doing so.

Options the Division could consider for conducting inventory of items in its cabins would be to provide each guest, at check-in, a list of all items in the cabin and request that they ensure that all items are accounted for at the time they arrive and depart. This method is a common practice among time-share agencies that rent fully furnished condominiums. Another option the Division could consider would be for the park staff to do a spot check of items after each visit and a full inventory on a monthly basis. If the Division determines this is not sufficient to protect its assets, it could increase the frequency of its inventory.

The Division is responsible for safeguarding state assets and establishing proper controls to ensure the assets are protected and accounted for. The Division's failure to establish consistent processes for conducting inventory of the fully furnished cabins and pursuing recovery of any items lost through theft or damage increases the risk that such loss will go undetected and uncompensated. Additionally, since the Division recently finished another fully furnished cabin at Golden Gate State Park, it is important that the Division establish Division-wide policies regarding the protection of the cabins and their furnishings.

Recommendation No. 24:

The Division of Parks and Outdoor Recreation should improve its controls over cabin inventory by instituting Division-wide policies for safeguarding cabin assets that address:

a. The frequency of inventory checks.

b. Items that should be included in each inventory check.

c. Procedures for pursuing recovery for any items lost through theft or damage.

d. Use of inventory tags to identify items as the property of the State.

e. A method for communicating the policy on losses and damages to cabin visitors. This could include developing a standard disclosure form to be signed by the responsible party and posting rules in the cabins.

Division of Parks and Outdoor Recreation Response:

Agree. Implementation date: June 2009/Ongoing.

To safeguard cabin assets, the Division will develop and implement an inventory policy that will:

1. Require staff to conduct a spot check of cabin items after the departure of registered visitors; and

2. Require staff to conduct a full inventory of cabin assets on a monthly basis.

The Division will also implement a rental agreement policy that will allow for monetary recovery of lost, stolen, or damaged property. The rental agreement will be a document that must be acknowledged and signed by incoming guests, and will include an inventory checklist of all items that should be present upon arrival.

Where practical, the Division will use inventory tags to identify property owned by the State.

Retail Operations

Statute [Section 33-10-111, C.R.S.] establishes the Parks and Outdoor Recreation Cash Fund (Parks Cash Fund) for deposit of all moneys collected by the Division from rental fees from cabins and campsites, park pass fees, retail sales, and interest earned on moneys deposited in the Parks Cash Fund. Statute also requires the Division to establish an adequate system of accounting to accurately record all moneys received and expended from the Parks Cash Fund. The Division sells retail items, including clothing, maps, educational materials, and, occasionally, small food items, at 33 of its 42 open parks. At nine parks, the Division directly operates the retail program. At these nine parks, Division staff track sales and share a central retail manager who purchases and replenishes inventory. At the remaining 24 parks with retail programs, the Division sells inventory on consignment for the Rocky Mountain Nature Association (RMNA), a non-profit organization dedicated to supporting research and interpretive and other educational programs for the National Park Service and allied public agencies. At RMNA stores, the Division provides the space and staff for the store and tracks sales revenues, while RMNA purchases and replenishes inventory. As payment for selling RMNA's products, the Division receives about 12 percent of retail sales revenue from those 24 parks.

Of the 12 parks and region offices we visited, 3 have Division stores, 4 have RMNA stores, and the remaining 5 do not have a retail store. We reviewed the process for tracking inventory and sales and the Division's practices for accounting for and recording revenues received from the sale of RMNA goods. We found that although the three Division stores generally had sufficient procedures in place to track retail sales and safeguard inventory, we identified problems with the RMNA stores. Specifically, we found: (1) RMNA stores do not have adequate controls in place to track specific items sold or safeguard inventory, and (2) the Division does not record its share of revenues received from RMNA sales on the State's financial system. These issues are discussed below.

- **RMNA Inventory.** We found that three of the four RMNA stores we reviewed do not record the RMNA inventory into either a manual or computerized inventory tracking system. Furthermore, the parks do not track the items sold at the RMNA stores or the sales price. Therefore, the parks cannot reconcile inventory received and sold to inventory on-hand to determine whether any inventory is missing. In contrast, Division stores track all goods received and sold by type and sales price. Therefore, Division stores are able to reconcile inventory with sales to identify losses. We found that in 2007, the parks could not account for RMNA inventory valued at almost $18,000 for the 24 retail stores operated by the Division. This represents lost revenue totaling about $2,100, since the Division earns 12 percent of sales at RMNA stores. Neither RMNA nor the Division can explain what specific inventory was lost, how the inventory was lost, or when the losses occurred.

- **RMNA Revenues.** Revenues owed to the park by RMNA are not remitted to the Division but are tracked in a cash fund in RMNA's custody. Once a year, RMNA credits each park with an RMNA store with about 12 percent of the park's total retail sales. The Division may use these credits for goods or materials (including but not limited to those sold by RMNA) for educational or resale purposes, and for interpretive services. In 2007, the net sales from all RMNA store locations totaled about $373,000, which resulted in about $44,800 in total available credits for the 24 parks with RMNA stores, an average of almost $1,900 per park. Although the Division tracks total revenues received from RMNA, it does not track items purchased with RMNA revenue by individual parks or record either the RMNA revenues or related expenditures in COFRS, the State's accounting system. Consequently, the Division does not adequately safeguard the assets purchased from RMNA by the parks, and the Division is understating its revenues and expenditures in COFRS. While these amounts are not large, the failure to track revenues, expenditures, and inventory increases the risk that goods will be misused or misappropriated. The Division is required to record all financial information on the State's financial system. In addition, by failing to record the RMNA earnings as revenue in COFRS, the Division is underreporting revenues for TABOR purposes.

Safeguarding inventory and accounting for revenues and expenditures are paramount to the Division's responsibilities as a fiduciary of state assets and public moneys. The Division should develop a system (manual or automated) to track each item sold at its RMNA stores and reconcile goods sold to periodic physical inventory counts. One option would be to implement automated Point of Sale (POS) systems, similar to those used by the Division in its own retail stores, that automatically track the sale of each item and facilitate inventory and reconciliation processes. Finally, the Division should record all financial transactions related to RMNA in COFRS.

Recommendation No. 25:

The Division of Parks and Outdoor Recreation should establish adequate controls to safeguard inventory at its Rocky Mountain Nature Association retail operations and ensure compliance with financial reporting requirements by:

a. Establishing either manual or Point of Sale systems for recording inventory and tracking sales, conducting periodic physical inventory counts and reconciliations, and investigating inventory losses and implementing additional inventory safeguards as needed.

b. Recording all revenues and expenditures, including commissions earned, on Rocky Mountain Nature Association sales and related purchases in COFRS, the State's financial reporting system.

Division of Parks and Outdoor Recreation Response:

Agree.

a. Implementation date: January 2009. The Division is developing accounting procedures for the Rocky Mountain Nature Association retail operations to ensure adequate controls are in place for inventory management and to ensure compliance with requirements. Specifically, the Division will work with the Rocky Mountain Nature Association to install Point of Sale systems compatible with the systems used by Division-operated retail stores for inventory and tracking sales. This will be completed by January 2009 to allow time for purchase and installation.

b. Implementation date: July 2009. The Division will ensure all revenues and expenditures related to Rocky Mountain Nature Association sales and related purchases are recorded in COFRS.

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Oversight and Accountability

Chapter 5

Every agency is accountable for developing a system of internal control that provides reasonable assurance that the agency achieves objectives of (1) effective and efficient operations, (2) reliable financial reporting, and (3) compliance with laws and regulations. Internal controls are not stagnant, nor do they represent a single event; rather, they are dynamic and represent a series of ongoing actions and activities that occur throughout an agency's operations and instill a culture of accountability.

Throughout this audit, we identified repeated and significant problems with oversight of and accountability for a broad range of functions and operations by the Division of Parks and Outdoor Recreation (Division) that raise questions about the adequacy of the Division's system of internal control and, in particular, its culture of accountability. Specifically:

- **In Chapter 1**, we identified problems with the Division's practices for managing public resources responsibly, including maximizing the efficient use of available lottery and GOCO funding and ensuring financial accountability for expenditures.

- **In Chapter 2**, we noted serious violations of state statutes and rules by both the Division and the Department of Natural Resources (Department) with respect to procuring, monitoring, and paying for contracted personal services. We also identified an absence of effective monitoring of capital construction costs and lack of adherence to rules, policies, and procedures governing these contracts.

- **In Chapter 3,** we found a widespread and long-standing lack of compliance with state personnel system laws and rules by the Division and Department, including granting pay increases for employees who did not qualify for them and using a series of temporary, nonpermanent employment arrangements to fill permanent staffing needs and circumvent the state budget process.

- **In Chapter 4,** we found that Division staff received preferential treatment with respect to the use of fully furnished cabins at Mueller State Park and identified concerns with ongoing maintenance and renovation of park facilities and use of state vehicles.

The ramifications of the problems we observed are far-reaching and include abuse and waste, exposure to legal risks, and loss of public confidence. This is not the first time our Office has raised concerns with the management and oversight practices of the Division. Since 1996, we have conducted two performance audits and one follow-up review identifying areas for improvement at the Division. Some of the issues identified in prior audits are consistent with concerns identified in our current audit. These include weaknesses in responsible financial resource management, oversight of construction projects (including controls over cost overruns), and management of capital assets.

Despite recurring problems over the last 12 years and the Division's agreement with our prior audit recommendations, our current audit findings demonstrate that the Division has not taken our recommendations seriously or acted to address them. Consequently, the Division's culture of accountability is in question. Therefore, we believe the Division, the Board of Parks and Outdoor Recreation (Parks Board), and the Department need to strengthen controls to instill a culture of accountability and ensure that problems identified by this audit are addressed.

Governance and Accountability Framework

The governance and accountability structure for the State Park System was established by the General Assembly in statute. Specifically, the General Assembly has vested the Parks Board, Division, and Division Director with broad powers and substantial authority and independence with respect to managing the State's parks and outdoor recreation areas. According to statute [Section 33-10-103(2), C.R.S.], the Parks Board, Division, and Director execute their duties under the Department of Natural Resources as a Type 1 transfer as defined in the Administrative Organization Act of 1968. In other words, the Parks Board, Division, and Director operate independently of the Department with respect to the powers, duties, and functions specifically prescribed to them in statute. The Department retains all other functions not specifically assigned to the Parks Board, Division, and Director. The Department's responsibilities include, but are not limited to, budgeting, purchasing, planning, and related management functions. Therefore, the Parks Board, Division, and Director are independently accountable under the law for effectively carrying out statutory responsibilities of "acquisition, development, and management of outdoor recreation lands, waters, and facilities" as set forth in applicable provisions of Title 33.

During our audit, we found that the Parks Board, the Department, and the Division have not adequately fulfilled their respective responsibilities under statute. These weaknesses have directly contributed to the accountability issues we identified throughout this audit and are discussed in the next three sections.

Parks Board

Many government, private, and not-for-profit boards have made strides in recent years with improving their governance structures in response to increased scrutiny as a result of governance and accountability breakdowns, most notably in the failures that occurred in publicly held companies within the last 10 years. The August 2001 report *Governance in the Public Sector: A Governing Body Perspective,* published by the International Federation of Accountants, recommends that government boards establish standards and systems in each of the following areas to ensure accountability and effective oversight:

- **Standards of behavior,** including how members will exercise leadership without prejudice, bias, or conflicts of interest.

- **Organizational structures and processes,** including how the body will ensure (1) compliance with applicable statutes, regulations, and best practices; (2) economic, efficient, and effective use of public moneys; and (3) open and transparent communication with stakeholders on the entity's mission, roles, objectives, and performance.

- **Roles and responsibilities,** including clearly documented (1) responsibilities between the governing body and the governed agency; (2) management processes for policy development, decision-making, monitoring, control, and reporting; and (3) procedures for holding the chief executive accountable for ultimate performance of the entity and implementation of the governing body's policies.

- **Control,** including steps to ensure an effective system for (1) risk management; (2) internal control; (3) budget and financial management; and (4) adequately trained and competent staff.

- **External reporting,** including annual financial statements and reports that comply with accounting standards and regular reports on performance measures.

We found that the Parks Board has not established effective self-governance practices in most of these areas to ensure it carries out both its duties to taxpayers and its responsibilities under statute. Specifically, we found that the Parks Board has not established charters or bylaws to address how it will meet its statutory charge or to define its roles and responsibilities and the roles and responsibilities of the

Division and Director. The Division's collective policies, procedures, and administrative directives related to park regulations and services do not contain codes of conduct for Parks Board members or procedures for setting the Parks Board's agenda. The Division's policies also do not include directives for the Parks Board related to monitoring internal control, financial accountability and reporting, or Director performance. During our interviews with the Parks Board, members confirmed that the Parks Board provides minimal oversight of the Division's budget and financial operations. Additionally, the Parks Board does not set its own board meeting agendas, approve all decisions related to park master planning and capital development, or hold the Division accountable for implementing plans in these areas. Parks Board members also stated that lines of accountability between the Parks Board, Division, and Department are not clear and that the roles and responsibilities of each entity have not been articulated. Finally, we reviewed meeting minutes and materials provided to Parks Board members for 24 board meetings held between January 2003 and December 2007. We found that while the agenda indicated the Board was to discuss the Division's budget on 15 occasions, the minutes contained no evidence regarding the information that was discussed. Further, the Board discussed strategic planning issues on only four occasions and the Division's progress toward its strategic plan only once. We acknowledge that meeting minutes do not contain detailed descriptions of all items discussed; however, the Division has recognized a need for improvement in this area. Specifically, since 2007 the Division reports that it has increased both the information reported to the Parks Board and the amount of detail documented in the Parks Board meeting minutes.

We reviewed the governance manual for the Board of Trustees of the Colorado Public Employees' Retirement Association (PERA) and, in contrast to the Parks Board, we found that PERA has established a comprehensive set of self-governance practices that address all of the key areas recommended by the International Federation of Accountants, set forth above. Specifically, PERA has established charters for the PERA Board of Trustees and its committees and subcommittees, as well as for each committee chair and the Executive Director. These charters set forth the roles and responsibilities of each and clarify areas of decision making. PERA's governance manual also includes policies on operations, communications, strategic planning, budget approval, succession planning, monitoring and reporting, and performance evaluations for both the PERA Executive Director and the Board of Trustees.

Department of Natural Resources

According to the Department's strategic plan, the Department is responsible for the overall administration of its divisions and provides leadership and functional support in the following areas:

- **Administration and policy development,** including policy development and program implementation related to various boards, commissions, and divisions.

- **Human resources,** including carrying out all human resources functions for the entire Department and ensuring compliance with applicable laws and regulations.

- **Accounting and purchasing,** including working with divisions and directors to ensure efficient and effective management of all financial resources.

- **Budget,** including formulating and executing the Department's annual budget process and administering central appropriations and allocations for the divisions.

- **Information technology,** including providing leadership and operational support for the information technology functions of the Department and establishing, updating, and enforcing IT policies, standards, and procedures.

The Department has broad authority in many of these areas and has been delegated authority from the Attorney General's and State Controller's Offices over approval and execution of most types of contracts, including capital construction contracts. Additionally, the Department has been delegated authority by the Department of Personnel & Administration over approval of human resources activities. The Department also shares responsibility with the Parks Board for appointing the Division Director and evaluating the Director's performance.

We found that the Department has not adequately performed its duties, as set forth in statutes and its strategic plan, to ensure sufficient oversight of the Division's financial resources, accounting and purchasing activities, and human resources practices. Further, as noted throughout our audit, we identified a number of instances where the Department did not comply with statutes, the State Procurement Code, State Personnel Rules, and State Fiscal Rules when approving the Division's payments, construction and personal services contracts, and hiring decisions. Additionally, we found the Department has not provided sufficient support to the Parks Board to assist it with developing governance policies and practices for carrying out its statutory duties. Finally, the Department has not adequately monitored the performance of the Division and its Directors, reviewed the Division's progress toward implementation of prior audit recommendations, or worked with the Parks Board to address performance issues.

Division of Parks and Outdoor Recreation

According to recommended governance practices developed by the International Federation of Accountants, **"accountability** is the process whereby public sector entities, and the individuals within them, are responsible for their decisions and actions, including their stewardship of public funds and all aspects of performance, and **submit themselves to appropriate external scrutiny**." [Emphasis added.] As discussed throughout this report, we found that the Division has not consistently demonstrated adequate performance or stewardship of public funds. Additionally, the Division has not submitted itself to appropriate external scrutiny by the Parks Board. Specifically, we found the Division has not consistently provided complete and comprehensive information on key decisions to the Parks Board for review and approval. The Division's weak culture of accountability has resulted in service delays, unnecessary costs, and loss of revenue. For example:

- **Delays in opening parks to the public.** We found the Division has not met its goals for opening parks or sufficiently involved the Parks Board in oversight of park development schedules. In our July 2000 performance audit of the Division, we recommended the Division open Staunton State Park immediately. The Division has had title to Staunton Park land since 1986, yet as of the conclusion of our current audit, the Division still has not opened this park to the public. According to the Division, delays in opening Staunton are primarily related to overcoming safety conditions related to poor road access to the park. The Division has been working with the Colorado Department of Transportation to address these access issues. Additionally, two other parks the Division had prioritized for development—Cheyenne Mountain and Lone Mesa—are either not open or not fully developed for all planned uses. The Division acquired Cheyenne Mountain in June 2000 and planned to open the park for day use in the summer of 2004. However, the Division did not open Cheyenne Mountain until October 2006, and then for weekends only. The Division opened Cheyenne Mountain for day use in July 2007, but as of May 2008, campsites were not open for overnight stays. Similarly, the Division had planned to begin developing Lone Mesa and Staunton in 2005, but the Division has not begun development at either park. On the basis of our review of Parks Board agendas and minutes for Board meetings held between January 2003 and December 2007, development plans for Cheyenne Mountain were discussed twice and plans for Lone Mesa, and Staunton were discussed one time each during the period of our review. Further, there was no evidence that the Division provided detailed costs estimates on those plans.

- **Wasted resources.** We found that the Division's management of park development has led to waste of taxpayer dollars. For example, delays and plan changes in the development of Cheyenne Mountain have cost significant resources with little benefit to the public. Specifically, the Division created four different plans for developing Cheyenne Mountain between 2002 and 2007 at a total cost of $449,000. The features and amenities varied substantially among plans, and total development costs for the park ranged from $8.6 million to nearly $40 million. On the basis of our review of Parks Board meeting minutes, none of these plans were brought before the Parks Board for discussion or approval. At one point in its development, plans for Cheyenne Mountain called for premium cabins, a swimming pool, recreation room, event center, mini-lodge, and hot tubs. The Division no longer plans to build fully furnished cabins or an event center; however, the Division invested $822,000 in developing infrastructure for these amenities. On the basis of our review of meeting minutes, the Parks Board was not informed of these expenditures. We also found that due to delays in opening Staunton State park, the Division needed to employ a full-time park manager and a part-time park ranger to perform resource stewardship activities and to patrol and protect the park. The Division spent about $308,000 on these services from July 2002 through June 2007.

- **Lost revenue.** When parks and amenities are not open to the public, the Division loses fee revenue. On the basis of the Division's visitor projections, Staunton and Lone Mesa are losing park entrance fee revenue of $200,000 and $87,000 respectively, per year. Additionally, since campsites are the largest revenue-generating amenity at most parks, we estimate that, based on average occupancy rates and fees charged for Division campsites, Cheyenne Mountain lost about $265,000 in fee revenue between October 2006 and June 2008 by not having campsites open to the public.

Improvements

The Department, Parks Board, and Division need to take steps on several levels to instill a culture of accountability and ensure that their respective statutory duties are faithfully and conscientiously executed. As discussed earlier in this chapter, the Parks Board and the Division have been granted broad authority to accomplish their statutory responsibilities with limited outside oversight. Additionally, the Division receives limited external oversight of its spending, since nearly 44 percent of its funding (including GOCO and lottery proceeds) is outside of the General Assembly's appropriation process. Further, while the State Board for the Great Outdoors

Colorado Trust Fund (GOCO Board) has oversight of the Division's expenditure of GOCO funds, there is no external entity that oversees the Division's expenditures of lottery proceeds. Without strong accountability mechanisms, there are risks that these funds will be used inappropriately or inefficiently, and that waste or corruption may go undetected.

The Department, Parks Board, and Division need to make improvements in several areas. First, the Department needs to improve oversight of Division practices with respect to budgeting, accounting, procurement, and human resource management as recommended throughout this report. The Department also needs to provide support to the Parks Board in developing self-governance policies so that the respective responsibilities of the Department, Parks Board, and Division are clear. Additionally, the Department should provide ongoing monitoring of the performance of the Division and its Director, involving the Parks Board as appropriate, to ensure the Division accomplishes its duties as assigned by statute.

Second, the Parks Board needs to undertake a comprehensive review of its oversight practices and develop a governance manual that outlines the specific responsibilities of the Parks Board, the Division, and the Director. The governance manual should also address the key components outlined earlier in this chapter and include a code of conduct, processes for ensuring the Parks Board meets its statutory responsibilities, control mechanisms for managing risks and overseeing internal controls over financial operations, and procedures for monitoring and evaluating the performance of the Director and the Parks Board.

Third, the Division needs to take steps to improve its culture of accountability and "tone at the top." Creating a control environment that instills a culture of accountability includes:

- Providing leadership in setting and maintaining the agency's ethical code of conduct and ensuring proper behavior under the code.

- Providing a cultural framework for managing risk by engaging everyone in the organization in the risk management process.

- Adopting a positive and supportive attitude toward organizational improvement and the achievement of established program outcomes.

- Establishing a transparent environment in which expectations for program improvement are clearly defined and accountability for achieving these improvements is set.

- Fostering an atmosphere that regards improper, inefficient, and wasteful practices as unacceptable.

The Division's problems with lack of accountability and transparency, as evidenced in this report, are long-standing. Overcoming them is not without challenges. The Division can begin making progress toward instilling a culture of accountability by developing its own code of conduct, setting clear expectations for staff performance, and holding staff accountable for meeting these expectations.

Finally, the Parks Board and the Division should report on their progress in improving accountability mechanisms for carrying out the duties prescribed in statutes. If the Parks Board and the Division cannot sufficiently demonstrate improvements in governance and accountability, the General Assembly should consider eliminating the Parks Board's, Division's, and Director's Type 1 designation.

The Parks Board and the Division have been granted significant powers and responsibilities under the law. Accountability is the obligation to answer for responsibility conferred. The absence of good governance structures and lack of adherence to basic governance principles not only wastes taxpayer resources, but also contributes to risk of failure and a climate of public mistrust.

Recommendation No. 26:

The Department of Natural Resources should improve oversight of Division practices with respect to budgeting, accounting, procurement, and human resource management as recommended throughout this report. Additionally, the Department should:

a. Assist the Parks Board with developing self-governance policies that clearly define the respective responsibilities of the Department, Parks Board, and the Division and that include mechanisms for ensuring statutory responsibilities are met.

b. Provide ongoing monitoring of the performance of the Division and its Director, communicating with the Parks Board as appropriate, to ensure the Division accomplishes its duties assigned by statute.

Department of Natural Resources Response:

Agree.

a. Implementation date: July 2009. The Department will work with the Board of Parks and Outdoor Recreation to develop self-governance policies during the coming year. The Department and the Board agree that a more clear delineation of roles and responsibilities consistent with the statute will help both entities ensure appropriate oversight.

b. Implementation date: Ongoing. The Department will take a more active role in monitoring the performance of the Division and its Director. The Department intends to actively participate both formally and through regular communication with the Board during the implementation of this audit and during the coming years.

Recommendation No. 27:

The Board of Parks and Outdoor Recreation should undertake a comprehensive review of its oversight practices and develop a governance manual that outlines the specific responsibilities of the Parks Board, the Division, and the Director. At a minimum, the governance policies should include:

a. Standards for behavior, including a code of conduct.

b. Processes for ensuring the Parks Board and Division meet their statutory responsibilities.

c. Control mechanisms for managing risk, park acquisition and development, financial resources and operations, and reporting.

d. Procedures for ongoing monitoring and evaluation of the performance of the Director and the Parks Board.

Board of Parks and Outdoor Recreation Response:

Agree. Implementation date: June 2009.

Members of the Board of Parks and Outdoor Recreation take their governance responsibilities over the Division very seriously and greatly appreciate the analysis and work conducted by audit staff to develop this recommendation. The Board will work with Department and Division staff to develop a governance manual, including suggested policies that are described in Parts a. through d. that address and clarify the roles and responsibilities of the Board, the Division, and the Director. The development of such policies will include an assessment of best practices and existing policies as suggested in the audit, including those currently used by the Board of Trustees of the Colorado Public Employees' Retirement Association.

Timeline:

- Review of best practices and existing governance manuals and policies: December 2008
- Complete draft of governance manual and policies: March 2009
- Final Board adoption of governance manual and policies: June 2009

Recommendation No. 28:

The Board of Parks and Outdoor Recreation and the Division of Parks and Outdoor Recreation should report to the Legislative Audit Committee on their respective progress in developing and implementing a governance structure that instills a culture of accountability. The governance structure should ensure a strong control environment and ethical culture as discussed in this chapter.

Board of Parks and Outdoor Recreation Response:

Agree. Implementation date: February 2009/Ongoing.

The Board agrees with this recommendation and proposes that the Board report back to the Legislative Audit Committee in February 2009 on the progress toward developing and implementing a governance structure as described in this chapter.

Division of Parks and Outdoor Recreation Response:

Agree. Implementation date: February 2009/Ongoing.

The Division agrees with this recommendation and proposes that the Division Director, along with the Board, report back to the Legislative Audit Committee in February 2009 on the progress toward developing and implementing a governance structure as described in this chapter.

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Appendix A

Division of Parks and Outdoor Recreation State Parks Acreage and Amenities Fiscal Year 2007									
			Acreage		Park Amenities				
Park	Region	County(ies)	Land Acres	Water Acres	Trails (In Miles)	Boat Ramps	Cabins/ Yurts/ Tipis	Campsites	Picnic Areas
Arkansas Headwaters	Southeast	Chaffee, Fremont, Lake, and Pueblo	6,193	29 Acres of Lakes 150 Miles of River	17 Hiking 5 Biking 8 Horseback 1 OHV Track	17	0	101	116
Barr Lake	High Plains	Adams	1,814	1,950	12 Multiuse	1	0	0	60
Bonny Lake	Southeast	Yuma	4,793	1,900	.3 Hiking	6	0	190	98
Boyd Lake	High Plains	Larimer	344	1,747	4 Multiuse	2	0	148	90
Castlewood Canyon	High Plains	Douglas	2,621	0	14.5 Hiking	0	0	0	55
Chatfield	High Plains	Jefferson, Douglas, and Arapahoe	3,895	1,423	26 Hiking/ Biking 24 Horseback	3	0	197 Individual 10 Group	139

Source: Office of the State Auditor's analysis of Fiscal Year 2007 park fact sheets provided by the Division of Parks and Outdoor Recreation.

Notes: [1] Park is open for day use only; number of amenities are based on Division projections.

[2] Park land acreage is reported at both Yampa River and Elkhead State Parks. Elkhead Reservoir is still in the development stages and is open for day use only.

[3] Parks are currently in the development and planning stage and are not open for public use.

Appendix A

Division of Parks and Outdoor Recreation State Parks Acreage and Amenities Fiscal Year 2007									
			Acreage		**Park Amenities**				
Park	**Region**	**County(ies)**	**Land Acres**	**Water Acres**	**Trails (In Miles)**	**Boat Ramps**	**Cabins/ Yurts/ Tipis**	**Campsites**	**Picnic Areas**
Cherry Creek	High Plains	Arapahoe	3,346	880	30 Hiking 27 Biking 27 Horseback	2	0	125 Individual 3 Group	106 Individual 5 Group
Cheyenne Mountain[1]	Southeast	El Paso	1,680	0	20 Hiking/ Biking	0	0	81	41
Crawford	Rocky Mountain	Delta and Montrose	334	400	1.8 Hiking/ Biking	2	0	66	40
Eldorado Canyon	High Plains	Boulder and Jefferson	1,392	1 Mile of River	12 Hiking 9 Biking 12 Horseback	0	0	0	35
Eleven Mile	Southeast	Park	4,257	3,405	5 Hiking/ Biking	3	0	349	20
Elkhead Reservoir[2]	Rocky Mountain	Routt and Moffat	2,212	900	N/A	2	N/A	N/A	N/A

Source: Office of the State Auditor's analysis of Fiscal Year 2007 park fact sheets provided by the Division of Parks and Outdoor Recreation.

Notes: [1] Park is open for day use only; number of amenities are based on Division projections.

[2] Park land acreage is reported at both Yampa River and Elkhead State Parks. Elkhead Reservoir is still in the development stages and is open for day use only.

[3] Parks are currently in the development and planning stage and are not open for public use.

Appendix A

Division of Parks and Outdoor Recreation State Parks Acreage and Amenities Fiscal Year 2007									
			Acreage		**Park Amenities**				
Park	**Region**	**County(ies)**	**Land Acres**	**Water Acres**	**Trails (In Miles)**	**Boat Ramps**	**Cabins/ Yurts/ Tipis**	**Campsites**	**Picnic Areas**
Golden Gate Canyon	High Plains	Gilpin and Jefferson	11,998	7	36 Hiking 22 Horseback	0	7	156	125
Harvey Gap	Rocky Mountain	Garfield	33	287	0	1	0	0	30
Highline	Rocky Mountain	Mesa	390	173	7.4 Hiking/ Biking 3 Horseback	2	0	31	105
Jackson Lake	High Plains	Morgan	892	2,411	1.5 Hiking	1	0	260	60
James M. Robb - Colorado River	Rocky Mountain	Mesa	639	251	9.8 Hiking 7.8 Biking 3.4 Horseback	3	0	137	105
John Martin Reservoir	Southeast	Bent	1,727	11,449	4.5 Hiking/ Biking	2	0	213	17

Source: Office of the State Auditor's analysis of Fiscal Year 2007 park fact sheets provided by the Division of Parks and Outdoor Recreation.

Notes: [1] Park is open for day use only; number of amenities are based on Division projections.
[2] Park land acreage is reported at both Yampa River and Elkhead State Parks. Elkhead Reservoir is still in the development stages and is open for day use only.
[3] Parks are currently in the development and planning stage and are not open for public use.

Appendix A

Division of Parks and Outdoor Recreation State Parks Acreage and Amenities Fiscal Year 2007									
			Acreage		Park Amenities				
Park	Region	County(ies)	Land Acres	Water Acres	Trails (In Miles)	Boat Ramps	Cabins/ Yurts/ Tipis	Campsites	Picnic Areas
Lake Pueblo	Southeast	Pueblo	8,713	5,399	18 Hiking/ Biking 10 Horseback	2	0	401	348
Lathrop	Southeast	Huerfano	1,184	412	5 Hiking 3 Biking	3	0	114	40
Lone Mesa[3]	Rocky Mountain	Dolores	11,702	0	N/A	N/A	N/A	N/A	N/A
Lory	High Plains	Larimer	2,492	0	20.2 Hiking 14.5 Biking/ Horseback	0	0	6	20
Mancos	Rocky Mountain	Montezuma	336	217	5 Hiking/ Biking/ Horseback	1	2	31	12

Source: Office of the State Auditor's analysis of Fiscal Year 2007 park fact sheets provided by the Division of Parks and Outdoor Recreation.

Notes: [1] Park is open for day use only; number of amenities are based on Division projections.

[2] Park land acreage is reported at both Yampa River and Elkhead State Parks. Elkhead Reservoir is still in the development stages and is open for day use only.

[3] Parks are currently in the development and planning stage and are not open for public use.

Appendix A

Division of Parks and Outdoor Recreation State Parks Acreage and Amenities Fiscal Year 2007									
			Acreage		Park Amenities				
Park	**Region**	**County(ies)**	**Land Acres**	**Water Acres**	**Trails (In Miles)**	**Boat Ramps**	**Cabins/ Yurts/ Tipis**	**Campsites**	**Picnic Areas**
Mueller	Southeast	Teller	5,112	5	50 Hiking 19 Biking 27 Horseback	0	3	132	41
Navajo	Rocky Mountain	Archuleta and La Plata	2,087	3,000	5 Hiking/ Biking	1	3	146	12
North Sterling	High Plains	Logan	2,820	2,880	6 Hiking 5.5 Biking 3.5 Horseback	3	0	141	38
Paonia	Rocky Mountain	Gunnison	1,523	334	0	1	0	11	11
Pearl Lake	Rocky Mountain	Routt	134	166	.6 Hiking/ Biking	1	2	36	7
Ridgway	Rocky Mountain	Ouray	2,207	994	14 Hiking/ Biking	1	3	280	87

Source: Office of the State Auditor's analysis of Fiscal Year 2007 park fact sheets provided by the Division of Parks and Outdoor Recreation.

Notes: [1] Park is open for day use only; number of amenities are based on Division projections.

[2] Park land acreage is reported at both Yampa River and Elkhead State Parks. Elkhead Reservoir is still in the development stages and is open for day use only.

[3] Parks are currently in the development and planning stage and are not open for public use.

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			Acreage		Park Amenities				
Park	Region	County(ies)	Land Acres	Water Acres	Trails (In Miles)	Boat Ramps	Cabins/ Yurts/ Tipis	Campsites	Picnic Areas
Rifle Falls	Rocky Mountain	Garfield	48	0	2 Hiking	0	0	20	12
Rifle Gap	Rocky Mountain	Garfield	981	360	0	1	0	89	14
Roxborough	High Plains	Douglas	3,316	1	18 Hiking	0	0	0	0
San Luis	Southeast	Alamosa	136	450	4 Hiking/Biking	1	0	51	27
Spinney Mountain	Southeast	Park	3,636	2,444	0	2	0	0	20
St. Vrain	High Plains	Weld	452	236	2 Hiking	0	0	80	7
Stagecoach	Rocky Mountain	Routt	861	780	8 Hiking/ Biking	2	0	96	50

Source: Office of the State Auditor's analysis of Fiscal Year 2007 park fact sheets provided by the Division of Parks and Outdoor Recreation.

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State Forest	High Plains	Jackson and Larimer	70,668	170	94 Hiking 130 Horseback	2	15	219	9
Staunton[3]	High Plains	Park and Jefferson	3,646	6	N/A	N/A	N/A	N/A	N/A
Steamboat Lake	Rocky Mountain	Routt	1,809	1,011	5.5 Hiking 4.4 Biking 6 Horseback	3	10	188	25
Sweitzer Lake	Rocky Mountain	Delta	73	137	1.5 Hiking	1	0	0	32
Sylvan Lake	Rocky Mountain	Eagle	1,506	42	1.5 Hiking	1	12	44	30
Trinidad Lake	Southeast	Las Animas	2,060	800	10 Hiking/ Biking 4 Horseback	1	0	62	46

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Vega	Rocky Mountain	Mesa	925	898	3 Hiking	3	5	110	50
Yampa River[2]	Rocky Mountain	Routt and Moffat	2,212	134 Miles of River	12 Hiking/ Biking	7	0	50 Individual 1 Group	47

Source: Office of the State Auditor's analysis of Fiscal Year 2007 park fact sheets provided by the Division of Parks and Outdoor Recreation.

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