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HISTORY COLORADO



JUNE 2014

PERFORMANCE AUDIT

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OFFICE OF THE STATE AUDITOR



June 15, 2014

DIANNE E. RAY, CPA
—
STATE AUDITOR

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of History Colorado. 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 History Colorado.

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CONTENTS



Report Highlights	1
Recommendation Locator	3
CHAPTER 1	
OVERVIEW OF HISTORY COLORADO	7
Agency Organization	9
Funding	13
Audit Purpose, Scope and Methodology	15
CHAPTER 2	
HISTORY COLORADO OPERATIONS	19
Allocation of State Historical Fund Administration Costs	19
Official Functions	27
Procurement Cards	34
Budget-to-Actual Reporting	42
Accounting Transactions	47
Oversight and Accountability	54
CHAPTER 3	
LEGISLATION IMPACTING HISTORIC PRESERVATION GRANTS	63
State Historical Fund	63
Legislative Intent	66
Glossary	A-1



REPORT HIGHLIGHTS



HISTORY COLORADO
PERFORMANCE AUDIT, JUNE 2014

DEPARTMENT OF HIGHER EDUCATION

CONCERN

We identified problems with the oversight and accountability of a broad range of History Colorado's functions and operations and the adequacy of its system of internal control.

KEY FACTS AND FINDINGS

- History Colorado used State Historical Fund monies reserved for grants to pay for all indirect costs from the Department of Higher Education without an accepted methodology to allocate the costs.
- We found that almost half of History Colorado's 5,202 official function transactions were for amounts less than or equal to \$50, and 17 percent of the transactions appeared to reflect program costs rather than official functions activities. In addition, we found that History Colorado charged significantly larger amounts of expenditures to official functions relative to the amounts charged by other State entities of comparable size.
- We found one or more problems with 21 of 22 procurement card transactions and related supporting documentation (95 percent) tested including missing approver signatures, missing documentation, lack of timely monthly reconciliations, split purchases, an invoice paid twice, and incorrect charging of alcoholic beverages to taxpayer funds.
- We found approval of procurement cards for staff was not tied to the employee's job responsibilities. As of March 12, 2014, 79 of History Colorado's 131.4 staff (60 percent) each had a procurement card. These cardholders include employees who make sporadic or infrequent purchases.
- History Colorado's Board composition lacks state representation and is not defined in statute, which can create a challenge in meeting state fiscal responsibilities while operating as a non-profit charitable organization.
- The cumulative effects of legislation passed between 2003 and the present that impact the State Historical Fund reduced the portion available for statewide historic preservation grants from approximately 95 percent to as low as 21 percent.

BACKGROUND

History Colorado:

- Is established as a 501(c)(3) charitable organization.
- Is an educational institution of the State which acts as a trustee for the State in collecting, preserving, exhibiting and interpreting collections and properties of state historical significance.
- Maintains museums and historical sites throughout Colorado.
- Provides assistance to local and regional historical societies and museums.
- Distributes gaming revenue to gaming cities and through a state-wide grant program for historic preservation.

KEY RECOMMENDATIONS

History Colorado should:

- Implement a cost allocation plan in accordance with State Fiscal Rules.
- Strengthen internal controls over official function expenditures.
- Strengthen internal controls over procurement cards.
- Improve financial reporting processes.
- Strengthen internal controls over accounting transactions.
- Reassess its governance and organizational structure.

The agency agreed with these recommendations.



RECOMMENDATION LOCATOR

REC. NO.	PAGE NO.	RECOMMENDATION SUMMARY	AGENCY ADDRESSED	AGENCY RESPONSE	IMPLEMENTATION DATE
1	25	History Colorado should develop and implement a cost allocation plan that identifies (1) the types of services provided; (2) the cost of each service; (3) a reasonable basis of allocation for each type of service; and (4) the appropriate mathematical computation to equitably allocate costs. This plan should ensure only reasonable and appropriate costs are allocated to the portion of the State Historical Fund reserved for grants.	History Colorado	AGREE	JANUARY 2015

REC. NO.	PAGE NO.	RECOMMENDATION SUMMARY	AGENCY ADDRESSED	AGENCY RESPONSE	IMPLEMENTATION DATE
2	32	History Colorado should strengthen its internal controls over official function expenditures by (a) revising its new Official Functions Policy to ensure it incurs and reimburses expenditures only for events meeting the spirit and intent of State Fiscal Rule 2-7, which requires limiting these expenditures to functions held to achieve program objectives, keeping these expenditures to a minimum, and approving these expenditures by the chief executive officer or his specifically designated representative; (b) establishing guidance, with examples of appropriate charges to program and official function budget line items, for those coding or reviewing payments and procurement card transactions to ensure correct coding of expenditures accounts.	History Colorado	A. AGREE B. AGREE	JANUARY 2015 JANUARY 2015
3	40	History Colorado should improve its internal controls over procurement cards by (a) establishing policies and procedures, as well as a cardholder manual, that conform to the basic requirements and best practices outlined in the State's Commercial Card Manual. Both the policies and procedures and cardholder manual should be reviewed annually to ensure they remain in compliance with State Fiscal Rules, the Commercial Card Manual, and History Colorado's business needs; (b) providing required training on an annual basis to all new and existing cardholders that meets the minimum standards and best practices outlined in the Commercial Card Manual; (c) conducting a supervisory review of existing procurement cards and eliminating those cards that are not needed based on job responsibilities and establishing card limits, as deemed appropriate, for each employee. In addition, History Colorado should ensure that supervisors approve new employees to be cardholders based on their job responsibilities and establish appropriate card limits.	History Colorado	A. AGREE B. AGREE C. AGREE	JANUARY 2015 JANUARY 2015 JANUARY 2015

REC. NO.	PAGE NO.	RECOMMENDATION SUMMARY	AGENCY ADDRESSED	AGENCY RESPONSE	IMPLEMENTATION DATE
4	46	History Colorado should improve its process for reporting to the Board by (a) instituting an internal reconciliation process between budget-to-actual reports and COFRS to ensure that both COFRS and the budget-to-actual reports are accurate; (b) documenting the required procedures for generating internal financial reports to increase the accuracy of the reports and the efficiency of the accounting staff.	History Colorado	A. AGREE B. AGREE	JANUARY 2015 JANUARY 2015
5	52	History Colorado should strengthen internal controls over accounting transactions by (a) establishing written policies and procedures that ensure compliance with guidance outlined in generally accepted accounting principles, State Fiscal Rules, and the Fiscal Procedures Manual; (b) implementing a supervisory review process of expenditure transactions to ensure they are correctly recorded onto COFRS; (c) correcting problems identified with existing automatic accounting entries; (d) reviewing and evaluating established policies and procedures as well as the programming of all automatic accounting entries on an annual basis.	History Colorado	A. AGREE B. AGREE C. AGREE D. AGREE	JULY 2015 JANUARY 2015 JANUARY 2015 JULY 2015
6	60	History Colorado management and its Board of Directors should (a) work with the Department of Higher Education to assess its current structure and, if necessary, develop an appropriate governance and organizational structure that balances its needs as a non-profit corporation with that of a State agency, and achieves its organizational objectives and obligations; and (b) work with the General Assembly to develop legislation to incorporate any changes to its governance and organizational structure as a result of implementation of part (a) into State statutes, if necessary.	History Colorado Department of Higher Education	A. AGREE B. AGREE A. AGREE B. AGREE	JULY 2015 JULY 2015 JULY 2015 JULY 2015



CHAPTER 1

OVERVIEW OF HISTORY COLORADO

History Colorado's mission is to inspire generations to find wonder and meaning in Colorado's past and to engage in creating a better Colorado. History Colorado is the trade name of the State Historical Society. Established in 1879, the State Historical Society is a 501(c)(3) charitable organization and an institution of higher education of the State of Colorado under the Department of Higher Education, as established by Section 24-80-201, C.R.S.

In support of its mission, History Colorado offers public access to statewide cultural and heritage resources including museums and special programs, collection stewardship of Colorado's historic treasures, educational resources for schools, students and teachers, services related to preservation, archaeology and history, and the Stephen H. Hart Research Library. History Colorado is also the state agency entrusted with preserving the stories, places, and material culture that document the State's history for the benefit of its citizens (Section 24-80-401, C.R.S.). Many statutory references refer to History Colorado as the Colorado Historical Society, the Historical Society, or the Society, and these references are included as such throughout this report.

The State Historical Fund was created by Colorado voters through the passage of the 1990 constitutional amendment legalizing limited stakes gaming in Black Hawk, Central City, and Cripple Creek. The amendment decreed that nearly 28 percent of the state tax revenue generated by gaming activity would be placed in the State Historical Fund to be used for historic preservation efforts around the State. Subsequent legislation placed these funds under the administration of History Colorado. Through the State Historical Fund historic preservation grants program, History Colorado has awarded a total of \$264 million in competitive grants to all 64 counties across Colorado since inception, which has resulted in a more than \$1.5 billion impact on Colorado's economy according to a study commissioned by the Colorado Historical Foundation. The Office of Archaeology and Historic Preservation (OAHP) within History Colorado handles the processing and documenting of statewide archaeological and historic preservation related projects. This includes the awarding of grants from the State Historical Fund for preservation projects around the State.

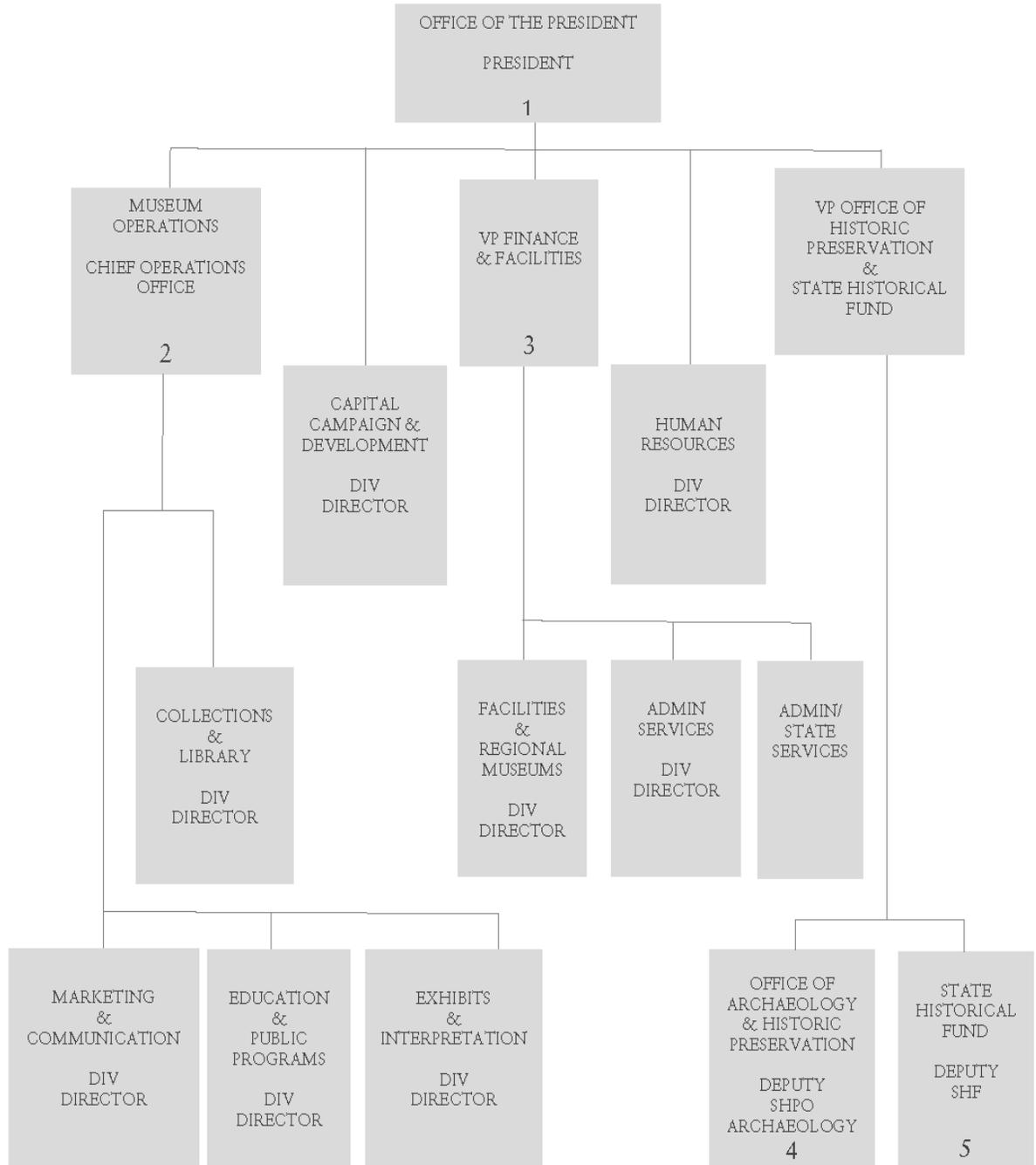
In October of 2011, History Colorado completed construction of its \$110.8 million, nearly 200,000 square foot History Colorado Center;

the building opened its doors to the public on April 28, 2012. The History Colorado Center serves as headquarters for History Colorado administration, including the State Historical Fund, the Office of Archaeology & Historic Preservation, and the Stephen H. Hart Research Library. The History Colorado Center and the Ralph L. Carr Colorado Judicial Center projects were financed together through Certificates of Participation and Build America Bonds, using no State General Funds. Repayment of the portion of the Certificates of Participation related to the History Colorado Center is funded from the State Historical Fund. The project is also expected to provide significant savings in private lease payments and building maintenance expenditures over the next 30 years.

AGENCY ORGANIZATION

The following chart outlines the organizational structure of History Colorado. More information is presented below about positions with numeric references.

ORGANIZATIONAL CHART HISTORY COLORADO THE COLORADO HISTORICAL SOCIETY



NOTE: Numbers above correspond to descriptions below.
SOURCE: History Colorado, FY2013-14 Budget Request, Strategic Plan, November 1, 2012.

THE OFFICE OF THE PRESIDENT (1) is responsible for the overall administration of the agency and for implementing the strategic plan and other policies established by the Board of Directors. The Office addresses priority resource management issues based on state, federal and local policies. The Office manages all personnel issues through its Department of Human Resources, and serves as liaison to the Board of Directors.

MUSEUM OPERATIONS SECTION (2) houses the Divisions of Collections & Library Services, Exhibits & Interpretation, Education & Public Programs, and Marketing and Communications, and oversees the planning, development and delivery of programs, exhibitions, and event services such as weddings and receptions, corporate meetings and events, and special occasions. The responsibilities for museum operations include exhibit development, providing education programs for the public, brand development, and preservation of artifacts.

FINANCE, FACILITIES AND REGIONAL MUSEUMS SECTION (3) consists of Administrative Services and the Facilities and Regional Museums Division. This section provides the financial, business operational support, and statewide perspective of the agency. The Administrative Services Division is responsible for the overall financial support of the agency. This includes the management of accounts, budget preparation, payroll processing, procurement, contracting, application of State Fiscal Rules, legal requirements, and coordination of audits. The Facilities & Regional Museums Division is responsible for business operations, historic preservation, stewardship, land management, controlled maintenance and capital construction fund management, community relations, risk management, and physical security of regional properties throughout the state. It also manages security for and maintenance of the History Colorado Center and oversees railroad operations in partnership with the vendor at the

Georgetown Loop Railroad, one of History Colorado's regional museums.

THE OFFICE OF ARCHAEOLOGY & HISTORIC PRESERVATION (4) (OAHP) documents, studies, and protects Colorado's historic places, fulfilling statutory responsibilities assigned to the State Archaeologist and the State Historic Preservation Officer, in order to heighten awareness of and raise public appreciation for these cultural resources. Responsibilities of the OAHP include providing accurate information for planning, research, and educational purposes, consulting with federal and state agencies regarding the effect History Colorado's actions would have on historic sites, encouraging the study of the State's archeological resources, and the development of 5-year goals for historic preservation.

THE OFFICE OF THE STATE HISTORICAL FUND (SHF) (5) conducts public outreach, oversees the performance of grant sponsored projects, and oversees the issuance of grant award contracts. History Colorado administers the SHF program in collaboration with its Office of Archaeology and Historic Preservation. The SHF awarded its first grants in 1993. A significant portion of costs incurred in administration of these grants is for payroll of its personnel. Personnel assigned to the SHF perform in one of three primary roles: Outreach Staff, Historic Preservation Specialists, and Contracts Specialists, as described in more detail below.

- Outreach staff. These staff travel statewide to educate the historic preservation community about the grant program and solicit potential applicants via grant workshops. Staff members provide advice to potential applicants regarding the alignment of their projects with SHF goals. Outreach personnel also provide guidance and feedback through preliminary review of draft application packages to better prepare applicants for success in the competitive grant award cycle. These staff members also notify all applicants of the results of the

awards process and provide additional feedback to strengthen rejected applications for future award rounds if the applicant desires.

- **Historic Preservation Specialists.** These staff are experts in preservation, rehabilitation, archaeology, architecture, cultural resource surveys, and other activities relevant to each grant project. They ensure work performed on historic preservation grant award projects meets applicable standards.
- **Contracts Specialists.** These staff ensure the Grant Recipient Contracts adhere to the State Historical Fund's fiscal rules and policies, and provide guidance on the financial reporting of projects.

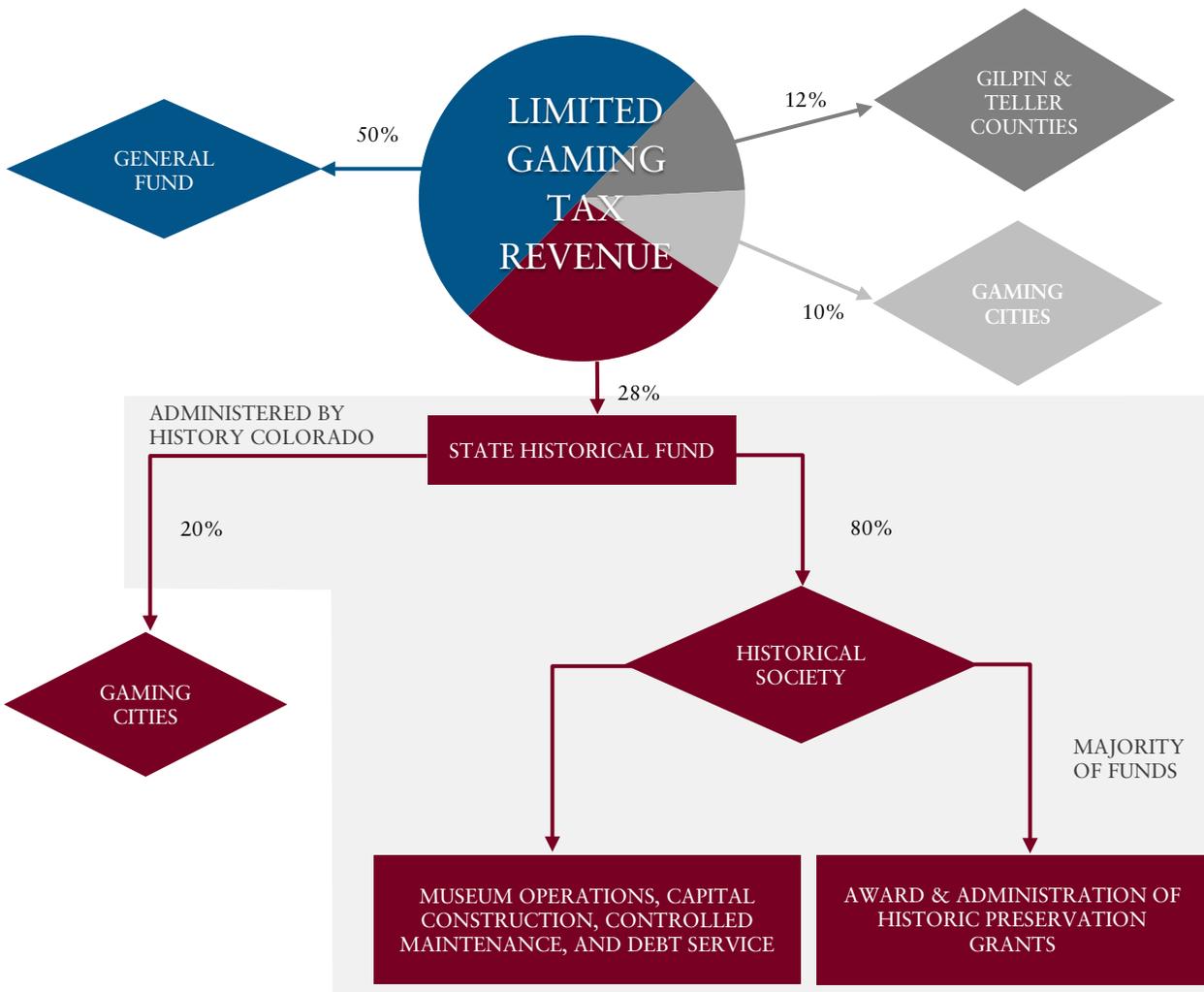
FUNDING

History Colorado is funded primarily through cash funds. It also receives some general funds and federal funds. In Fiscal Year 2013, History Colorado was appropriated approximately \$29.3 million in cash funds, \$1 million in general funds, and \$0.9 million in federal funds. The Colorado Historical Foundation (Foundation) was established in 1965 to support history and preservation projects. Much of its effort goes toward pursuing projects of special interest to History Colorado. One example of this relationship may be seen in History Colorado's current capital campaign that began in Fiscal Year 2010 for the History Colorado Center. The Foundation manages the capital campaign funds on behalf of History Colorado and provides reimbursement for certain expenditures to History Colorado upon request. Examples of expenditures reimbursed by the Foundation include expenditures for exhibit development and construction.

One primary source of cash fund revenues for History Colorado is tax revenue collected from the State's limited stakes gaming, which is deposited into the Limited Gaming Fund. Section 12-47.1-701, C.R.S., establishes the distribution of these tax revenues. As depicted in the

following chart, 28 percent of the taxes collected by the State of Colorado are transferred to the State Historical Fund, which is maintained by History Colorado. Of the 28 percent, History Colorado distributes 20 percent to the gaming cities of Black Hawk, Central City, and Cripple Creek for historical preservation purposes. As required by Section 12-47.1-1201, C.R.S., the remaining 80 percent of the limited gaming tax revenue provided to the State Historical Fund is further divided into two portions: a majority share that must be used for historic preservation grant awards and administration of these grants, and a minority share that must be used to fulfill History Colorado's mission of carrying out museum operations and other activities and programs. This minority share can also be used for capital construction, controlled maintenance, and debt service payments. History Colorado management have defined the majority as 50.1 percent of the remaining 80 percent of the State Historical Fund. The following graph provides a visual illustration of how the limited gaming tax revenue is distributed.

DISTRIBUTION OF LIMITED STAKES GAMING TAX REVENUES



SOURCE: Auditor Created, per Sections 12-47.1-701 and 12-47.1-1201, C.R.S.

AUDIT PURPOSE, SCOPE, AND METHODOLOGY

We conducted this audit pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of the state government. We performed the audit work from February 2014 to May 2014. We conducted this

performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the audit evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We acknowledge and appreciate the cooperation and assistance provided by History Colorado during this audit.

The primary objectives of this audit were to determine if History Colorado has (1) adequate internal controls in place to ensure administrative costs associated with SHF grants are reasonable and appropriate for SHF grant administration; (2) adequate internal controls in place to ensure expenditures are recorded on COFRS accurately and in a timely manner, and purchases adhere to applicable guidance; and (3) sufficient budgeting and cash management processes in place for Foundation-reimbursed expenditures to ensure the agency is not spending beyond its means and incurring expenditures before it has the cash available to pay for them.

To accomplish our audit objectives, we:

- Researched applicable statutes, rules, policies and procedures, and other guidance pertaining to History Colorado, the State Historical Fund, and the recording of financial transactions.
- Interviewed History Colorado management and staff.
- Gathered and analyzed documentation and data on State Historical Fund administrative costs, procurement card purchases and expenditures, and monthly budgetary reports.

We relied on sampling techniques to support our audit work in three areas. Specifically, we selected non-statistical samples of procurement

card purchases, budget to actual reports, accounting transactions. We designed our sample to help provide sufficient, appropriate evidence for the purpose of evaluating History Colorado's processes for approving and recording expenditures and reporting financial information to its Board of Directors.

We planned our audit work to assess the effectiveness of those internal controls that were significant to our audit objectives. Our conclusions on the effectiveness of those controls, as well as specific details about the audit work supporting our findings, conclusions, and recommendations, are described in the body of the report.



CHAPTER 2

HISTORY COLORADO OPERATIONS

ALLOCATION OF STATE HISTORICAL FUND ADMINISTRATIVE COSTS

In 1990, Colorado voters passed a constitutional amendment (Colorado Const., art. XVIII, sec. 9) legalizing limited stakes gaming in Blackhawk, Central City, and Cripple Creek, and creating the Limited Gaming Fund and the State Historical Fund. This Article requires revenue earned from gaming activity to be deposited into the Limited Gaming Fund, which is managed by the Division of Gaming within the Department of Revenue, and is used to pay expenditures incurred in the regulation and enforcement of limited gaming in Colorado. The Article further requires that 28 percent of the gaming

revenue in the Limited Gaming Fund be transferred by the Division of Gaming to the State Historical Fund, which is managed by History Colorado, to be used for historic preservation purposes around the state.

State statutes outline a number of different allocations and uses of the limited gaming revenues credited to the State Historical Fund. Specifically, Section 12-47.1-1201, C.R.S., requires that 20 percent of the limited gaming revenues credited to the State Historical Fund be distributed to gaming cities for use in historic preservation projects. Section 12-47.1-1201, C.R.S., also requires that the remaining 80 percent of the limited gaming revenues credited to the State Historical Fund be administered by History Colorado for historic preservation purposes. This 80 percent amount is further divided into two portions in accordance with Section 12-47.1-1201, C.R.S.:

- **PORTION RESERVED FOR GRANTS (MAJORITY OF FUNDS).** This portion is used for the State Historical Fund Historical Preservation Grant Program (Grant Program), the administrative costs of History Colorado in support of the Grant Program, and the personnel costs of the Office of the State Historical Fund (SHF Office), which awards, manages, and monitors these grants.
- **PORTION NOT RESERVED FOR GRANTS.** This portion is used to fund the operations of History Colorado and the payments of the Certificates of Participation used to build the History Colorado Center.

WHAT WAS THE PURPOSE OF THE AUDIT WORK?

The purpose of the audit work was to determine if History Colorado has adequate internal controls in place to ensure that administrative

costs charged to the Grant Program are allowable, reasonable, and appropriate.

WHAT AUDIT WORK WAS PERFORMED AND HOW WERE RESULTS MEASURED?

As mentioned previously, the portion of the State Historical Fund administered by History Colorado is subdivided into two portions, the portion reserved for grants, and the portion not reserved for grants. We analyzed all of the administrative costs that History Colorado charged to the Grant Program from July 2008 through March 2014. Based on this analysis, we reviewed and evaluated the costs based on State Fiscal Rules related to indirect costs. Specifically, State Fiscal Rule 8-3 requires state agencies to prepare and use a documented cost allocation methodology that assigns costs to the agency's activities relative to the benefits received from the activities whose costs are being allocated, or on another equitable relationship. In other words, the cost allocation must equitably distribute these costs to the programs supported by them in a fair and logical manner. These costs are called indirect costs. This rule specifically requires the indirect cost allocation methodology to identify (1) the types of services provided; (2) the cost of each service; (3) the reasonable basis of allocation for each type of service which shall produce a service/benefit-based distribution or other equitable distribution of costs; and (4) the appropriate mathematical computation to make an equitable allocation of costs.

WHAT PROBLEM DID THE AUDIT WORK IDENTIFY?

We found two problems with History Colorado's allocation of administrative costs and expenditures. History Colorado did not follow the four elements identified above as required by State Fiscal

Rule 8-3 for charging DOHE-allocated indirect costs or History Colorado Center operations and maintenance costs to the portion of the State Historical Fund reserved for grants. Although we are not questioning the payment of certain costs from the State Historical Fund, History Colorado paid both the full allocated indirect costs from DOHE and a non-ratable portion of the operations and maintenance costs of the History Colorado Center from the portion reserved for grants.

INDIRECT COST ALLOCATIONS. As a division within DOHE, History Colorado is required to reimburse DOHE for indirect costs incurred by DOHE and subsequently allocated to History Colorado. Instead of identifying the types and costs of indirect services provided by History Colorado in administering the Grant Program and in their normal course of operations, History Colorado funds the entire payment of the DOHE allocated indirect costs from the portion reserved for grants, which is not an equitable distribution of costs. From Fiscal Years 2009 through 2014, these costs totaled almost \$807,000.

History Colorado does not have a reasonable basis for allocation of these costs. SHF Office staff members who administer the Grant Program compose only 12.77 percent of History Colorado's 141 total full-time-equivalent (FTE) staff positions. If using FTE staff positions as a basis for charging indirect costs, History Colorado would have paid DOHE 12.77 percent, or about \$103,000 of the \$807,000, of allocated indirect costs from the portion reserved for grants. The remaining \$704,000 would have been paid from the portion not reserved for grants.

OPERATIONS AND MAINTENANCE. In Fiscal Years 2012 and 2013, History Colorado budgeted 10.61 percent of the operations and maintenance costs of the new History Colorado Center to the portion reserved for grants. History Colorado personnel explained this percentage was calculated using the rental rate formerly paid by the Office of the State Historical Fund as its basis. However, this may not

be reasonable methodology as the former rental rate is irrelevant to the costs to operate and maintain the new building. Because the operations and maintenance costs are associated with the History Colorado Center, a more reasonable basis to use for allocation would be the percentage of the History Colorado Center square footage occupied by SHF personnel, with common areas divided by FTE. This percentage is 5.19 according to information received from History Colorado. History Colorado charged a total of approximately \$163,000 in operations and maintenance costs to the Grant Program over the same period. Because History Colorado incurred about \$2,188,000 in operation and maintenance costs for the building in this period, using the basis of occupied square footage would have resulted in charging \$114,000 to the portion reserved for grants; the remainder would have been paid from the portion not reserved for grants.

For Fiscal Year 2014, the amount charged to the portion reserved for grants for operations and maintenance costs will be determined after year-end, and History Colorado will continue to follow the same methodology in calculating those costs as in the two prior years.

WHY DID THE PROBLEM OCCUR?

History Colorado staff have not fully developed a cost allocation plan encompassing the four previously discussed items required by State Fiscal Rule 8-3 to make an equitable allocation of administrative costs to the portion of the State Historical Fund reserved for grants.

WHY DOES THIS PROBLEM MATTER?

When History Colorado charges administrative costs to the portion reserved for grants without a fully developed cost allocation plan, this may leave less grant funding available to be used for historic preservation purposes. Based on the allocation methodology we proposed, between Fiscal Years 2009 and 2014, approximately

\$753,000 in costs that were charged to grant administration could have been made available for grants. However, according to History Colorado, the implementation of a fully-developed cost allocation plan may have resulted in a higher allocation of costs to the portion reserved for grants.

RECOMMENDATION 1

History Colorado should develop and implement a cost allocation plan that identifies (1) the types of services provided; (2) the cost of each service; (3) a reasonable basis of allocation for each type of service; and (4) the appropriate mathematical computation to equitably allocate costs. This plan should ensure only reasonable and appropriate costs are allocated to the portion of the State Historical Fund reserved for grants.

RESPONSE

HISTORY COLORADO

AGREE. IMPLEMENTATION DATE: JANUARY 2015.

History Colorado has been working to document a detailed methodology for History Colorado's shared services cost allocation plan in Fiscal Year 2014. We are working on a service definition and cost allocation approach with input from the State Controller's Office. The implementation of this mathematical formula may increase the amount of administrative costs allocated to the SHF portion reserved for grants beyond that of the DOHE indirect costs that are currently charged. However, History Colorado acknowledges that the method for past payments of DOHE indirect cost allocations from the majority portion authorized in our budget submission is no longer an appropriate method to use. Rather, DOHE allocated indirect costs will be a part of the mathematical apportionment with other History Colorado shared service elements, including all administrative costs as well as the History Colorado Center space allocation and/or FTE base

per business unit in the formula. All administrative costs, other than DOHE indirect costs, to support the SHF grant program were fully supported and budgeted with minority funds and those costs will be allocated to represent the true cost of operating that program.

OFFICIAL FUNCTIONS

State Fiscal Rules define an official function as a meeting, conference, meal, or other function that is hosted by the chief executive officer, or representative, of a state agency, attended by guests and/or state employees, and held for official state business purposes. During Fiscal Year 2009 through fiscal-year-to-date March 2014, History Colorado incurred a total of approximately \$1 million in expenditures for official functions. The chart below shows amounts expended by History Colorado in total for official functions for this period:

HISTORY COLORADO OFFICIAL FUNCTIONS EXPENDITURES FISCAL YEARS 2009 THROUGH 2014 ¹	
FISCAL YEAR	AMOUNT
2009	\$ 117,797
2010	140,058
2011	138,698
2012	198,061
2013	227,335
2014 ¹	208,207
Total	\$ 1,030,156

SOURCE: Office of the State Auditor's analysis of data from the Colorado Financial Reporting System (COFRS).
¹ Through March 31, 2014

WHAT WAS THE PURPOSE OF THE AUDIT WORK?

The purpose of the audit work was to determine whether History Colorado's expenditures for official functions comply with State Fiscal Rules.

WHAT AUDIT WORK WAS PERFORMED AND WHAT WAS THE PURPOSE?

We performed an analysis of History Colorado's official functions expenditures from Fiscal Year 2009 through March 31, 2014, during Fiscal Year 2014.

Any charges made without a State business purpose are unallowable, as State Fiscal Rule 2-1 requires that all state expenditures be only for state business purposes, and reasonable and necessary under the circumstances. Additionally, State Fiscal Rule 2-7 requires agencies to restrict official functions to those functions held to achieve program objectives and to limit costs to those that are reasonable and actual. This rule also states, "The attendance of state employees at official functions shall be kept to a minimum and shall include only those individuals directly related to the purpose of the function. Expenditures shall be kept to a minimum as they have the potential of being perceived to be for personal benefit and an abuse of public funds." Finally, State Fiscal Rule 2-7 requires expenditures incurred for official functions to be approved by the chief executive officer or by a representative of the agency that has been delegated authority by the chief executive officer.

WHAT PROBLEM DID THE AUDIT WORK IDENTIFY?

A significant portion of History Colorado's official functions expenditures during the period reviewed did not appear to comply with State Fiscal Rules. We noted issues in two primary areas.

- **QUESTIONED STATE BUSINESS PURPOSE:** We found that 2,457 of the 5,202 expenditures recorded (47 percent) were for amounts less than or equal to \$50; further, 905 of those expenditures less than or equal

to \$50 (17 percent overall) were for amounts of \$15 or less. While some smaller purchases are to be expected for smaller functions, these transactions included frequent charges to procurement cards for a single lunch or a single cup of coffee at places like Quiznos, Noodles and Company, the History Colorado Center concessionaire, Panera Bread, or Starbucks.

- **MISCLASSIFICATION OF PROGRAM EXPENDITURES:** We determined that 879 of the 5,202 expenditures (17 percent), totaling approximately \$393,000 appeared to be for program costs that History Colorado incurred to pay for services provided to patrons rather than official function activities. Specifically, we noted that these transactions represented costs of services provided by the Tours and Treks program and costs of hosting special events. Tours and Treks is a program that provides guided exploration of historic sites for tour groups; History Colorado makes the arrangements for travel, food, and accommodations and then sells the packages to the general public. Other programs and special events held throughout the year include theater performances, afternoon tea following museum tours, featured work by artists and architects, and events designed especially for children.

In addition, as noted in the chart below, from Fiscal Year 2009 through March 31, 2014, History Colorado charged significantly larger amounts of expenditures to official functions relative to the amounts charged by other State entities of comparable size.

HISTORY COLORADO
OFFICIAL FUNCTIONS EXPENDITURES FISCAL YEARS 2009 THROUGH 2014
COMPARED TO OTHER STATE ENTITIES WITH COMPARABLE BUDGETS

	FY 2009 - 2014 ¹ OFFICIAL FUNCTION EXPENDITURES	VERSUS HISTORY COLORADO	FY 2014 TOTAL BUDGET
Office of Economic Development	\$1,302,776	\$272,621	\$41,800,000
History Colorado	\$1,030,155	-	\$32,100,000
Colorado Water Conservation Board	\$590,430	(\$439,725)	\$40,600,000
Department of Agriculture	\$495,150	(\$535,005)	\$42,700,000
Office of the Governor ²	\$155,707	(\$874,448)	\$39,100,000
Colorado Division of Water Resources	\$98,886	(\$931,269)	\$20,900,000
Department of State	\$80,329	(\$949,826)	\$22,900,000
DORA - Executive Director's Office	\$44,629	(\$985,526)	\$27,600,000

SOURCE: Office of the State Auditor's analysis of data from the Joint Budget Committee Appropriations Report: Fiscal Year 2013-2014 and the Colorado Financial Reporting System (COFRS)

¹ Through March 31, 2014

² Includes Colorado Energy Office, the Governor's Administrative Offices, and the Governor's Mansion

WHY DID THE PROBLEM OCCUR?

History Colorado did not have a policy pertaining to official function expenditures prior to March 2014, but did enact a policy during the time of our audit. Additionally, the March 2014 policy authorizes employees to charge certain items as official functions that may not meet the spirit and intent of State Fiscal Rules. For example, per the current policy, managers are allowed to take individual employees to lunch for counseling sessions and purchase lunches for their departments for working lunches, or as rewards, and charge the associated expenses as official functions. History Colorado also does not have appropriate guidance in place to ensure employees charge program expenditures to the correct object codes.

WHY DOES THIS PROBLEM MATTER?

Improperly classifying program expenditures as official functions does not provide an accurate method for management to assess the costs incurred in operating enterprise programs. Additionally, frequent employee use of procurement cards to purchase individual lunches has

the potential of being perceived to be for personal benefit and an abuse of public funds.

RECOMMENDATION 2

History Colorado should strengthen its internal controls over official function expenditures by:

- A Revising its new Official Functions Policy to ensure it incurs and reimburses expenditures only for events meeting the spirit and intent of State Fiscal Rule 2-7, which requires limiting these expenditures to functions held to achieve program objectives, keeping these expenditures to a minimum, and approving these expenditures by the chief executive officer or his specifically designated representative.
- B Establishing guidance, with examples of appropriate charges to program and official function budget line items, for those coding or reviewing payments and procurement card transactions to ensure correct coding of expenditures accounts.

RESPONSE

HISTORY COLORADO

- A AGREE. IMPLEMENTATION DATE: JANUARY 2015.

An Official Functions Policy has been implemented with further revision incorporated based on the auditor recommendations. It sets policy for functions held to achieve agency mission objectives. Further delineation and refinement of the policy were implemented with management oversight in review and consultation with Division Directors. A Policy Guide for Official Functions has been prepared. On-going staff training and policy refinement will occur in the next six

months after the State's new accounting system, CORE, goes live as of the beginning of Fiscal Year 2015.

B AGREE. IMPLEMENTATION DATE: JANUARY 2015.

The new policy currently in place includes guidance and examples as part of the narrative. Preliminary training commenced during Fiscal Year 2014 for all History Colorado Staff. An internal process is now in place and all Official Function request forms are routed to History Colorado management for approval and sign off. Training is ongoing. Finance staff is monitoring the process and addressing staff training and will make recommendations to management on any refinements or clarifications to policy, if needed, within the next six months.

PROCUREMENT CARDS

The State's procurement card program was established to simplify the purchasing process for state employees. Employees use a procurement card, which works much like a credit card, for making purchases. Procurement cards are intended for making small purchases under \$5,000; however, state departments can give approval for their use to make larger purchases. Vendors are paid by the State's procurement card contractor, Citibank, within a few days of the employee's purchase. Each participating department makes a single monthly payment to Citibank for all employee procurement card charges combined. Procurement cards can be used to make purchases at any vendor that accepts credit cards.

WHAT WAS THE PURPOSE OF THE AUDIT WORK?

The purpose of the audit work was to determine whether History Colorado's procurement card purchases and policies and procedures comply with the State's requirements outlined in the State Fiscal Rules and the Commercial Card Manual.

WHAT AUDIT WORK WAS PERFORMED AND HOW WERE THE RESULTS MEASURED?

We tested a judgmental sample of 22 procurement card transactions made between the beginning of Fiscal Year 2011 and March 24, 2014. We tested the transactions for accuracy and to ensure they met the requirements for procurement card purchases. We also examined the employee monthly reconciliations of invoices and procurement card

statements. Additionally, we requested a copy of History Colorado's agency-specific procurement card policies or procedures.

A Commercial Card Manual (Manual) was issued by the Department of Personnel & Administration to establish the minimum standards that all state agencies and institutions of higher education participating in the procurement card program must meet. The Manual provides guidance on areas such as documentation requirements and prohibited purchases, as well as best practices for agencies and cardholders. State Fiscal Rule 2-10 and the Manual govern the use of procurement cards by state employees. Requirements for procurement cardholders include the following:

- Each cardholder must reconcile his or her monthly card statement to the underlying documentation within five (5) business days of the billing cycle close date. This reconciliation should include valid supporting documentation for each transaction made on his or her card.
- The cardholder's approver must sign each monthly card statement after it has been reconciled by the cardholder.

The Commercial Card Manual requires agencies that participate in the procurement card program to develop and maintain a handbook or manual for all cardholders at the agency outlining the program requirements as well as individual roles, responsibilities, and procedures. Agencies are also required to establish policies, procedures, and guidelines that meet the minimum requirements of the statewide Commercial Card Program. The Manual sets out a number of best practices that agencies are encouraged to incorporate into their policies and manuals. Agencies are also required to develop and maintain a training curriculum for all procurement cardholders.

The Manual requires that supervisors must approve employees as cardholders based on their job responsibilities. Supervisors are also

responsible for recommending card limits such as amount per single transaction and amount per day for each employee card.

Prior to making a purchase in excess of \$5,000 on a procurement card, the cardholder must obtain a purchase order or commitment voucher and approval from the agency's controller to use his or her procurement card for the purchase. Cardholders are prohibited from making purchases above \$5,000 without meeting these requirements. Cardholders are also prohibited from splitting purchases into smaller amounts to circumvent the \$5,000 limit, even if multiple funding or appropriation sources exist. Purchases made for personal use and/or for agency-determined unauthorized items are prohibited.

History Colorado's procurement card policy states that alcohol can be purchased with a procurement card for business purposes only within the enterprise fund or gift funds. History Colorado's table of allowable charges stipulates that purchases of alcohol must always be funded with funds other than general or limited gaming funds to preclude the purchase of alcohol with state tax revenue.

WHAT PROBLEM DID THE AUDIT WORK IDENTIFY?

We found one or more problems with 21 of the 22 transactions (95 percent) and related supporting documentation that we tested. We found issues in the following areas:

- **MISSING APPROVER SIGNATURE.** Monthly reconciliations related to 15 transactions totaling almost \$29,600 lacked the approver's signature and 1 transaction totaling almost \$1,100 did not include a date with the signature.
- **MISSING DOCUMENTATION.** Four transactions totaling approximately \$12,200 lacked supporting documentation such as receipts. Two

additional transactions totaling about \$2,700 were missing the cardholder's monthly statement.

- **LACK OF TIMELY MONTHLY STATEMENT RECONCILIATIONS.** Monthly cardholder statements for 15 transactions totaling more than \$29,500 did not appear to be reconciled to the employee's support within five business days of the statement cycle close date, as required. We were unable to verify if the monthly statements were reconciled in a timely manner due to the previously mentioned problems.
- **SPLIT PURCHASES.** Ten of the transactions related to four purchases totaling nearly \$31,900 were greater than \$5,000 but were split into multiple charges that were below the card's \$5,000 spending limit. None of the cardholders had documented approval from History Colorado's controller to make any of the four purchases that were over \$5,000 as required by State Fiscal Rules. Further, three of the four purchases did not include either a purchase order or commitment voucher, as required.
- **INVOICE PAID TWICE.** Two transactions totaling approximately \$3,700 included the same invoice as supporting documentation. Based on our review, we determined that the same invoice for over \$1,400 was paid twice. History Colorado management subsequently recovered the overpayment after we notified them of the error.
- **INCORRECT CHARGING OF ALCOHOLIC BEVERAGES.** One purchase totaling more than \$400 for alcoholic beverages was charged to History Colorado's Limited Gaming Fund, which is funded with state tax revenue.

We also found problems with supervisory approval of new cardholders. As of March 12, 2014, 79 of History Colorado's 131.4 staff (60 percent) each had a procurement card. These cardholders include employees who make sporadic or infrequent purchases. Approval of procurement cards for staff was not tied to the employee's job responsibilities, and supervisors did not appear to be

recommending overall, daily, or transactional card limits for employees.

WHY DID THE PROBLEM OCCUR?

History Colorado is not in compliance with the minimum requirements for participation in the commercial card program. In addition, History Colorado does not have sufficient procurement card policies and procedures in place, including a cardholder manual, outlining program requirements and individual roles and responsibilities. The guidance that is in place does not conform to the requirements of the Commercial Card Manual. For example, History Colorado's policy does not address specific responsibilities of critical staff members relating to the management and use of procurement cards as required by the Manual.

History Colorado also does not provide any initial or recurring formal training for cardholders; instead, History Colorado staff indicated that they e-mail a copy of History Colorado's table of allowable charges, custom account string coding, and schedule of processing to employees when they receive their card and again every six months as a reminder.

Finally, we noted supervisors did not ensure only employees with specific purchasing responsibilities were assigned procurement cards, nor did they recommend card limits commensurate with staff responsibilities.

WHY DOES THIS PROBLEM MATTER?

Inadequate internal controls over procurement cards coupled with the large number of employees handling procurement cards can increase the risk of an employee making improper, fraudulent, wasteful, or abusive purchases. In addition, not meeting the minimum

requirements of the commercial card program increases the risk that History Colorado's purchases will not comply with State Fiscal and State Procurement Rules. Finally, the large proportion of staff with procurement cards makes it difficult for accounting staff to review all monthly cardholder statements effectively and to ensure the statements include proper documentation for purchases.

RECOMMENDATION 3

History Colorado should improve its internal controls over procurement cards by:

- A Establishing policies and procedures, as well as a cardholder manual, that conform to the basic requirements and best practices outlined in the State's Commercial Card Manual. Both the policies and procedures and cardholder manual should be reviewed annually to ensure they remain in compliance with State Fiscal Rules, the Commercial Card Manual, and History Colorado's business needs.
- B Providing required training on an annual basis to all new and existing cardholders that meets the minimum standards and best practices outlined in the Commercial Card Manual.
- C Conducting a supervisory review of existing procurement cards and eliminating those cards that are not needed based on job responsibilities and establishing card limits, as deemed appropriate, for each employee. In addition, History Colorado should ensure that supervisors approve new employees to be cardholders based on their job responsibilities and establish appropriate card limits.

RESPONSE

HISTORY COLORADO

- A AGREE. IMPLEMENTATION DATE: JANUARY 2015.

History Colorado has already begun to undertake measures regarding internal controls on Purchasing and Travel cards. History Colorado staff are in the process of establishing policies and procedures, as well

as developing a cardholder manual. An annual review process will occur at the end of each fiscal year while the commercial card program is temporarily suspended to facilitate year-end close of the State's accounting records.

B AGREE. IMPLEMENTATION DATE: JANUARY 2015.

Updated training will be provided to management for oversight of their employees as well as their own use. Full staff training will follow. Card issuing and training are being coordinated with HR for all new employees. Cards will not be issued until training is completed and employees sign-off on card responsibilities.

C AGREE. IMPLEMENTATION DATE: JANUARY 2015.

A purchase card and travel card review and justification process has already been implemented with a 20 percent reduction in procurement cards achieved as of June 1, 2014. Supervisors have reviewed cards issued in each business unit and approved them for continued use based on job responsibilities. Supervisor approval is required for all cardholder reconciliations and for the issuance of cards to new employees with required restrictions placed on the cards. Training will be scheduled after CORE is implemented to include management training, review of History Colorado's commercial card manual, and review of the business unit's commercial card requirements and options.

BUDGET-TO-ACTUAL REPORTING

The Board of Directors holds quarterly meetings throughout the year in which the members receive updates on History Colorado's operations and financial position. One of the reports provided to the Board is a budget-to-actual report that details History Colorado's revenues and expenditures for the fiscal year-to-date. This report is used by the Board to track History Colorado's financial performance during the fiscal year. The information is also used by the Board for decision-making purposes related to future projects to be carried out by History Colorado.

One key item on the budget-to-actual report is the semi-annual debt payments for History Colorado's Certificates of Participation (COPs) that were issued to finance the construction of the new History Colorado Center. These payments totaled \$3,022,000 for Fiscal Year 2014.

WHAT WAS THE PURPOSE OF THE AUDIT WORK?

The purpose of the audit work was to determine whether History Colorado provided accurate and relevant financial information to the Board during Fiscal Year 2014.

WHAT AUDIT WORK WAS PERFORMED AND HOW WERE THE RESULTS MEASURED?

We examined the budget-to-actual reports prepared by History Colorado and provided to the Board for September and December 2013 as well as March 2014. We specifically attempted to tie the

revenues and expenditures contained in the September, December, and March reports to the State's accounting system, COFRS. We also inquired about History Colorado's review process for these reports.

State Fiscal Rule 8-1 encourages State agencies and institutions of higher education to create financial statements such as monthly budget-to-actual reports to meet internal needs and enhance their ability to make timely and accurate decisions. The Fiscal Rule further states that the reports should be consistent, accurate, and reliable. History Colorado provided us with their procedures for creating these reports.

WHAT PROBLEM DID THE AUDIT WORK IDENTIFY?

- **SEPTEMBER 2013 REPORT.** The fiscal year-to-date revenue and expenditure amounts contained in the September 2013 report did not tie to the corresponding amounts on COFRS. In total, fiscal year-to-date revenue identified in the September report was almost \$1.1 million greater than revenue reported on COFRS, out of total reported revenue of \$3,872,000 as of the same period. Fiscal year-to-date expenditures identified in the September 2013 report were approximately \$2.2 million greater than expenditures reported on COFRS, out of total reported expenditures of \$7,937,000 as of the same period. We determined that this \$2.2 million discrepancy was for History Colorado's first COP principal and interest payment which was paid in September 2013 but not recorded on COFRS until October 2013.

- **DECEMBER 2013 REPORT.** The fiscal year-to-date revenue and expenditure amounts contained in the December 2013 report did not tie to the corresponding amounts on COFRS. In total, fiscal year-to-date revenue identified in the December 2013 report was approximately \$926,000 greater than revenue reported on COFRS,

out of total revenue of \$8,834,000 as of the same period. Fiscal year-to-date expenditures identified in the December 2013 report were approximately \$92,000 greater than expenditures reported on COFRS, out of total reported expenditures of \$14,722,000 as of the same period.

- **MARCH 2014 REPORT.** The fiscal year-to-date revenue and expenditure amounts contained in the March 2013 report did not tie to the corresponding amounts on COFRS. In total, fiscal year-to-date revenue identified in the March 2014 report was nearly \$41,100 greater than revenue reported on COFRS, out of total revenue of \$10,345,000 as of the same period. Fiscal year-to-date expenditures identified in the March 2014 report were approximately \$50,400 greater than expenditures reported on COFRS, out of total reported expenditures of \$20,953,000 as of the same period.

Additionally, based on our comparison of the budget-to-actual reports with COFRS, we noted that the semi-annual COP payments made by the agency for Fiscal Year 2014 were incorrectly recorded on COFRS. This error caused expenditures for the COP payments totaling \$3,022,000 to be recorded twice on COFRS; however, the expenditures were reported correctly on the budget-to-actual reports.

WHY DID THE PROBLEM OCCUR?

First, History Colorado lacks a process for reconciling amounts contained on the budget-to-actual report provided to the Board with the amounts recorded on COFRS. Second, the process used to generate the report is complex and the procedures are not adequately documented by the primary staff in charge of generating the report. Third, the procedures that are in place were not consistently followed by staff when preparing the report.

WHY DOES THIS PROBLEM MATTER?

The budget-to-actual report must be consistent and accurate in order to be useful for decision-making. Financial information presented to decision-makers should be clear, concise, and easy to understand in order to get the maximum value from it. Without documenting instructions for preparing the report, History Colorado cannot ensure that the reports are accurately prepared in the event that the existing staff are absent or are otherwise unable to prepare the reports.

Also, complex and hard-to-follow procedures increase the risk of errors being made during the production of the report and not being caught in review before being presented to the Board. Accurate information is essential for History Colorado's Board and management to make good decisions. Additionally, the complex procedures and report require increased amounts of staff time spent preparing this information.

RECOMMENDATION 4

History Colorado should improve its process for reporting to the Board by:

- A Instituting an internal reconciliation process between budget-to-actual reports and COFRS to ensure that both COFRS and the budget-to-actual reports are accurate.
- B Documenting the required procedures for generating internal financial reports to increase the accuracy of the reports and the efficiency of the accounting staff.

RESPONSE

HISTORY COLORADO

- A AGREE. IMPLEMENTATION DATE: JANUARY 2015.

The three reports reviewed were manually prepared by three different Controller level staff members during an active transition period (each report was based upon different personnel at the respective period closing times) and each was mapped differently. An agreed upon mapping has been determined by the new Controller. The Controller is training staff to institute the internal reconciliation process.

- B AGREE. IMPLEMENTATION DATE: JANUARY 2015.

Staff is working to craft reports in CORE, and to automate reporting in order to minimize required human intervention and error. Period financial reports will be broadly disseminated to operational staff to allow feedback and questions to address any issue before the report is finalized for Board review and approval.

ACCOUNTING TRANSACTIONS

History Colorado's financial staff is responsible for all financial reporting for the agency. This includes the accurate and timely entry of transactions into the State's accounting system, COFRS. These transactions are aggregated with similar data from other agencies to comprise the State's Comprehensive Annual Financial Report (CAFR).

Accounting transactions typically are entered manually. However, state agencies also have the ability to program COFRS to automatically generate accounting entries for some transactions. History Colorado utilizes this feature to automatically record revenue when an expenditure that will be reimbursed by the Colorado Historical Foundation (Foundation) has been incurred. The Foundation started a Capital Campaign fundraising effort in Fiscal Year 2010 to reimburse the costs of educational exhibits and programs housed in the new History Colorado Center.

WHAT WAS THE PURPOSE OF THE AUDIT WORK?

The purpose of the audit work was to determine if History Colorado has adequate internal controls in place to ensure that expenditures are recorded in COFRS accurately and in a timely manner, that purchases adhere to applicable requirements, and that automatic revenue entries are correctly programmed into COFRS.

WHAT AUDIT WORK WAS PERFORMED?

We selected a sample of 40 expenditure transactions made by History Colorado from Fiscal Year 2011 through March 24, 2014. In addition, we tested five automatic revenue entries and their underlying expenditures from Fiscal Year 2014. We evaluated these transactions

to ensure that the transaction amounts agreed to supporting documentation and that the transactions followed generally accepted accounting principles (GAAP) (e.g., they were recorded in the correct fund, account, and period). As a division within the Department of Higher Education, History Colorado is required to adhere to State Fiscal Rules and Fiscal Procedures issued by the Office of the State Controller (OSC). We evaluated our sample of transactions for compliance with State Fiscal Rules and Fiscal Procedures, State Procurement Rules, as well as History Colorado's own internal policies and procedures.

WHAT PROBLEM DID THE AUDIT WORK IDENTIFY AND HOW WAS IT EVALUATED?

EXPENDITURE TRANSACTIONS. Out of the 40 expenditure transactions we tested, we noted problems with 21 transactions (53 percent). Specifically, we found the following:

- **INCONSISTENT APPROVAL OF THE INTERNAL PURCHASE REQUISITION FORM.** 16 transactions totaling approximately \$1.1 million did not contain proper authorizations. History Colorado's internal policies and procedures require a purchase requisition form to be used for purchases over \$5,000. The form also requires two authorizing signatures, including the Vice President of Finance and either the President or a Vice President/Chief Operating Officer.
- **INCORRECT ACCOUNTING.** Four transactions ranging from approximately \$9,700 to \$156,600 were incorrectly recorded to an expenditure account instead of a revenue account. For example, History Colorado incurred construction expenditures for approximately \$156,600 which were reimbursed by the Colorado Historical Foundation. When History Colorado received this

reimbursement, staff reduced History Colorado's expenditures instead of recording the funds as revenue. These errors resulted in an understatement of expenditures and an equal understatement of revenues from Fiscal Years 2012 through 2014 totaling approximately \$233,500.

- **INCONSISTENT SUPERVISORY REVIEW OF PAYMENT VOUCHERS.** One transaction for approximately \$541,000 did not contain a supervisory review signature before being entered onto COFRS. History Colorado's internal procedures state that all payment vouchers are to be prepared by an individual and then reviewed by either that individual's supervisor or History Colorado's controller.
- **FAILURE TO COMPLY WITH THE FISCAL PROCEDURES MANUAL.** History Colorado did not have supportable evidence for its estimation of useful lives of depreciable assets when calculating \$231,000 of depreciation expense in Fiscal Year 2012. When agencies have no supportable data of their own, the OSC's Fiscal Procedures Manual provides guidelines for estimating the useful life of a capital asset in order to properly calculate annual depreciation expense. However, History Colorado did not follow the alternate guidance contained in the Fiscal Procedures Manual. For example, History Colorado recorded a useful life of 5 years for an antique table valued at approximately \$6,000, but has no support for that expected life. The Fiscal Procedures Manual states that office furnishings have a useful life of 10 years.
- **FAILURE TO COMPLY WITH STATE FISCAL RULES.** One transaction totaling approximately \$6,100 for hotel rooms for a group tour was paid using a Central Travel Card. This transaction was improper for several reasons. First, the hotel rooms were not for state employee travel. Second, the total dollar amount of this transaction exceeded the allowable limit for Central Travel Card use. State Fiscal Rule 5-1 prohibits use of the Central Travel Card for purchases over \$5,000. Finally, History Colorado staff did not use a purchase order or a state

contract for this purchase. State Fiscal Rule 2-2 requires the use of a purchase order or a state contract for purchases of goods over \$5,000.

AUTOMATIC ACCOUNTING ENTRIES. History Colorado programs COFRS to automatically generate a supplemental entry that records revenue when an expenditure will be reimbursed by the Foundation. Automatic entries can greatly increase the efficiency of financial reporting because staff time is not needed to manually enter the transactions. However, the entries must be programmed correctly to prevent misstatements from occurring. All five of the automatic revenue entries we sampled contained errors. Specifically, the entries incorrectly recorded the revenue from the Foundation as unearned revenue instead of an accounts receivable. The Fiscal Procedures Manual states that an account receivable should be recorded in COFRS when the related revenue is earned, but not yet collected, and the agency expects to collect the debt within 1 year. We subsequently determined that all 200 automatic revenue entries History Colorado recorded through the first 9 months of Fiscal Year 2014—amounting to approximately \$345,000 in revenue from the Foundation—related to earned revenue at the time they were recorded, and therefore, should have been accounted for as accounts receivable.

WHY DID THE PROBLEM OCCUR?

The problems we identified with History Colorado’s expenditure transactions and automatic accounting entries are the result of several factors. First, History Colorado does not have adequate internal written procedures for recording certain classes of transactions, including reimbursements from the Foundation. Second, History Colorado does not ensure its staff performs adequate supervisory reviews of expenditure transactions. Third, the automatic accounting entries were not programmed correctly by History Colorado when the Foundation’s Capital Campaign began in Fiscal Year 2010, nor have the programmed entries been periodically reexamined by accounting staff or management to ensure they remain appropriate. Finally,

History Colorado has not completed its corrective action on recommendations we made to correct deficiencies in financial reporting during our Fiscal Year 2012 financial and compliance audit.

WHY DOES THIS PROBLEM MATTER?

Noncompliance with established accounting principles, State Fiscal Rules and Fiscal Procedures, and History Colorado's own policies and procedures results in incorrect information being entered onto COFRS with little chance for detection and correction. Ultimately, incorrect accounting entries can lead to misstatements that give management an incorrect or unreliable picture of History Colorado's financial position. For example, problems with automatic accounting entries resulted in History Colorado's accounts receivable balance, an asset, to be understated by approximately \$345,000, and History Colorado's unearned revenue, a liability, to be understated by the same amount.

RECOMMENDATION 5

History Colorado should strengthen internal controls over accounting transactions by:

- A Establishing written policies and procedures that ensure compliance with guidance outlined in generally accepted accounting principles, State Fiscal Rules, and the Fiscal Procedures Manual.
- B Implementing a supervisory review process of expenditure transactions to ensure they are correctly recorded onto COFRS.
- C Correcting problems identified with existing automatic accounting entries.
- D Reviewing and evaluating established policies and procedures as well as the programming of all automatic accounting entries on an annual basis.

RESPONSE

HISTORY COLORADO

- A AGREE. IMPLEMENTATION DATE: JULY 2015.

An annual review will be scheduled and a report provided to the History Colorado Finance & Audit Committee on the agency's policies and procedures. With regard to the specific items mentioned in this report, History Colorado has taken the following action: new History Colorado policies and procedures are being drafted, including official functions and depreciation schedules to meet current operational requirements.

B AGREE. IMPLEMENTATION DATE: JANUARY 2015.

Supervisory responsibilities have been reviewed and shared with management in regard to the new and updated internal procedures. Full sign-off on all expenditure documents, as required, has been implemented by accounting within COFRS for the remainder of Fiscal Year 2014. Management training will be scheduled to review the new chart of accounts to ensure that coding is correct within CORE, and update new authorization processes within the CORE system, if needed.

C AGREE. IMPLEMENTATION DATE: JANUARY 2015.

Automatic accounting tables are being assessed, re-established and, if needed, closed.

D AGREE. IMPLEMENTATION DATE: JULY 2015.

All established policies and procedures are being reviewed and evaluated. Any automatic accounting entries established in CORE will be reviewed annually beginning June 2015. By the implementation date, the agency will have a draft plan to identify new policies and procedures needed for CORE.

OVERSIGHT AND ACCOUNTABILITY

As discussed in Chapter 1, History Colorado functions as a legally separate non-profit corporation under Section 501(c)(3) of the Internal Revenue Code. As an institution of higher education, History Colorado administratively falls under the Department of Higher Education (DOHE).

History Colorado is governed by a Board of Directors (Board). History Colorado's by-laws, as amended through November 2013, specify that "the number of Directors shall be at least 15 and no more than 39, as may be determined from time to time by the Board of Directors." The Board has set the current number of Directors at 28. Board members are responsible for nominating new and continuing Board members, and those nominees are voted on by History Colorado's general membership as part of its annual meeting; none are appointed by the Governor or another member of State government. Currently, two members of the Board's executive committee (Vice Chair and Treasurer) also serve as officers of the Colorado Historical Foundation's Board of Directors, and the two Boards' chairs also serve as ex-officio members of the other Board. An ex-officio member is a member of the Board whose membership is by default by virtue of holding another office. History Colorado's ex-officio members do not hold voting rights. In accordance with Section 24-80-204, C.R.S., the Board appoints History Colorado's President and Chief Executive Officer and confirms its vice presidents and staff through Board action. These positions are designated as officers or teachers of an institution of higher education, and therefore, are not subject to the State personnel system.

WHAT WAS THE PURPOSE OF THE AUDIT WORK?

The purpose of the audit work was to determine if History Colorado's governance structure is aligned with both the needs of the agency and the oversight responsibilities of the State.

WHAT AUDIT WORK WAS PERFORMED AND HOW WERE RESULTS MEASURED?

We reviewed the organizational and governance structures of eight historical societies in the western United States by examining their appropriations, the bylaws of each organization, and through inquiries to personal of those organizations. We compared their structures to that of History Colorado to determine if History Colorado's governance structure is appropriate. We chose the historical societies of Kansas, Montana, Nebraska, North Dakota, South Dakota, Texas, Utah, and Washington, as these historical societies also operate as state agencies. We limited our comparison to western states, as western governments tend to face similar challenges that are different than those of eastern states outside of the western region.

According to the 2011 Committee of Sponsoring Organization's (COSO) Internal Control Framework, an internationally accepted model designed to improve organizational performance and oversight, "the control environment is the foundation for all other components of internal control...and provides discipline, process, and structure" to the organization. One principle of the control environment is that the board of directors demonstrates independence of management and exercises oversight for the development and performance of internal control. To help achieve this principle and guide the senior management team, the board of directors should include members that collectively represent the requisite skills and expertise which includes

market knowledge, social and environmental expertise, financial expertise (e.g. accounting standards, financial reporting requirements), and legal and regulatory expertise (e.g. understanding of governing laws, regulations, rules, and standards). These principles are a key part of an organization's governance—the mechanism for monitoring the actions, policies, and decisions of an organization. For History Colorado, distinctive financial, legal, and regulatory expertise is necessary from both the governmental and not-for-profit sectors for membership of its board of directors.

WHAT PROBLEM DID THE AUDIT WORK IDENTIFY?

Throughout this audit, we identified problems with oversight of, and accountability for, a broad range of functions and operations by History Colorado that raise questions about the adequacy of its system of internal control and accountability to the State. Specifically, we noted violations of State Fiscal and Procurement Rules, the Commercial Card Program, and History Colorado internal policy with respect to administrative costs, official functions expenditures, purchase card transactions, and expenditures transactions. We also found that History Colorado provided financial information to its Board of Directors for decision making that did not agree to the information recorded on COFRS during Fiscal Year 2014.

Since Fiscal Year 2012, we have identified areas for improvement at History Colorado in our financial and compliance audits. These include both material weaknesses and significant deficiencies in the internal control structure supporting the accuracy of its financial reporting in areas including recording of debt service payments, lack of timely entries onto COFRS, lack of timely account and bank reconciliations, improper recording of revenues and expenditures, fiscal year-end fund balance reporting, fiscal year-end reporting of

federal receipts and expenditures, excessive correcting entries recorded on COFRS, and improper segregation of duties.

WHY DID THE PROBLEM OCCUR?

Due to History Colorado's unique governance and organizational structure and absence of State representation in its operational oversight, History Colorado lacks a broad familiarity with requirements levied by State Fiscal Rules, State Procurement Rules, State Fiscal Procedures, and other State-level guidance History Colorado is required to follow as a State agency. Further, History Colorado's governance structure is not clearly defined in statute. While the agency is appropriated through DOHE, statutorily the Department does not maintain any operational control or oversight over History Colorado. Due to the current governance and organizational structure and the appointment process for History Colorado executive leadership, there is inadequate state representation in the governance of History Colorado.

The goals and needs of a non-profit corporation are not always aligned with those of a State agency. For example, History Colorado seeks to grow its services and engage Colorado residents and tourists while continually expanding the number of people it serves. This goal requires solicitation of philanthropic support, strategic partnering with other non-profit organizations, and overall a different operational approach than that employed by a typical state agency. In addition, History Colorado is a 501(c)(3) nonprofit corporation that would normally follow private sector accounting standards. However, History Colorado is required to adhere to State financial reporting requirements and Governmental Accounting Standards.

Most of the state historical societies identified in the chart below are structured as part of state government, and not 501(c)(3) nonprofit corporations. As part of the various state governments, the boards consist of a mix of both private members with a philanthropic focus

and either public officials or government appointees; however, History Colorado's current Board structure is the only society of the nine states we compared that does not include voting members that represent the state with a governmental and State-accountability focus. Although the Lieutenant Governor, serving in his capacity as the Executive Director of the Department of Higher Education currently functions as an ex-officio non-voting member of History Colorado's board, neither History Colorado's constitution or its bylaws require this arrangement.

COMPARISON OF STATE HISTORICAL SOCIETIES					
	STATE AGENCY, 501(C)(3), OR BOTH	DEPARTMENT	SUPPORTING FOUNDATION	BOARD COMPOSITION	NUMBER OF BOARD MEMBERS APPOINTED BY THE GOVERNOR
History Colorado	Both	Higher Education	Colorado Historical Foundation 501 (c)(3)	7 Executive 21 Non-Executive 8 Emeritus	None
Kansas Historical Society	State Agency	Education	Kansas Historical Foundation 501(c)(3)	16 Executive 53 Non-Executive	3 Executive
Montana Historical Society	State Agency	Education	Montana History Foundation 501 (c)(3)	5 Executive 10 Non-Executive	15 Members
Nebraska State Historical Society	State Agency	N/A	Nebraska State Historical Foundation 501 (c)(3)	5 Executive 10 Non-Executive	3 Non-Executive
State Historical Society of North Dakota	State Agency	Natural Resources & Transportation	The State Historical Society of North Dakota Foundation 501 (c)(3)	7 Members 5 Statutory Members ¹	7 Non-Statutory Members
South Dakota State Historical Society	State Agency	Tourism	South Dakota Historical Foundation 501 (c)(3)	12 Members	6 Members
Texas Historical Commission	State Agency	N/A	N/A	17 Citizen Members	17 Members
Utah Division of State History	State Agency	Heritage & Arts	N/A	11 Members	11 Members
Washington State Historical Society	Both	N/A	N/A	14 Members 7 Ex-Officio Voting Members ²	Ex-Officio Membership includes the Governor

SOURCE: Office of the State Auditor's analysis of data from various State Historical Societies.

¹ Statutory Members: Secretary of State, Director of Parks and Rec., State Treasurer, Director Dept. of Transportation, and Director of the Tourism Division of the Dept. of Commerce

² Ex-Officio Voting Members include: Governor, Secretary of State, Superintendent of Public Instruction and 4 Legislators.

We also noted that of the states surveyed, only one other state historical society (Washington) operates both as a 501(c)(3) nonprofit corporation and a state agency; the rest of the state historical societies are only state agencies that do not have 501(c)(3) status. Like History Colorado, some historical societies also take advantage of the not-for-profit status of their foundations for fundraising and philanthropic support. Given the limited state oversight, it may not be in the best interest of the State for History Colorado to function as its own nonprofit corporation.

WHY DOES THIS PROBLEM MATTER?

Without a governance structure that ensures compliance with state requirements, History Colorado lacks the foundation for components of internal control, which could adversely affect the ability of the agency to achieve its objectives. In addition, without adequate state oversight it is difficult for History Colorado to achieve efficiencies in management and financial operations when it is functioning as a nonprofit corporation while at the same time required to report as a government entity.

RECOMMENDATION 6

History Colorado management and its Board of Directors should:

- A Work with the Department of Higher Education to assess its current structure and, if necessary, develop an appropriate governance and organizational structure that balances its needs as a non-profit corporation with that of a State agency, and achieves its organizational objectives and obligations.
- B Work with the General Assembly to develop legislation to incorporate any changes to its governance and organizational structure as a result of implementation of part (a) into State statutes, if necessary.

RESPONSES

HISTORY COLORADO

- A AGREE. IMPLEMENTATION DATE: JULY 2015.

History Colorado will meet with the Department of Higher Education (DOHE) to review and assess the agency's governance and organizational structure. History Colorado believes that its board structure is effective and meets COSO standards. The accounting and other issues raised in the report are issues being actively and appropriately addressed by management through ensuring that History Colorado has adequate, proficient and qualified state-experienced finance and accounting personnel. History Colorado believes that its status as a non-profit corporation does not interfere with its status as a State agency, but augments it.

Since 1879, its board of directors has been annually elected by the membership at large. It is comprised of members with a breadth of experience, skills, and knowledge in a diverse range of sectors, including finance, business, legal, executive, education, preservation, marketing, and others. The board structure is a model of public-private partnerships; it includes both public servants and members of the private sector. History Colorado's funding also represents a model of public-private cooperation. Previously funded from the General Fund, History Colorado has received Limited Gaming Funds for its operations since 2003. Over the years, History Colorado has also received very significant private support from its board and members, as well as other benefactors. These and other relevant items will be reviewed with DOHE in the structure discussions.

B AGREE. IMPLEMENTATION DATE: JULY 2015.

If collaboration with DOHE results in a consensus that legislation is necessary, History Colorado will work with DOHE and the General Assembly to effectuate such legislation.

DEPARTMENT OF HIGHER EDUCATION

A AGREE. IMPLEMENTATION DATE: JULY 2015.

The Department of Higher Education (DOHE) agrees to work together with History Colorado to evaluate both the current governance structure and options that make sense for the needs of the organization as both a state agency and a non-profit corporation. DOHE agrees that while History Colorado administratively resides under the Department of Higher Education, the Executive Director of DOHE lacks the ability and authority to direct decisions at History Colorado. DOHE agrees that no portion of the History Colorado governing board is appointed by the Governor or confirmed by the General Assembly. DOHE has built a collaborative working

relationship with History Colorado, although DOHE has no direct oversight in the operations of History Colorado. If History Colorado's governance structure is modified to reflect greater state accountability through direct state involvement, DOHE agrees that this could lead to improved compliance with state fiscal and procurement procedures.

B AGREE. IMPLEMENTATION DATE: JULY 2015.

DOHE agrees to work with leadership at History Colorado and the General Assembly as appropriate to consider potential legislative changes to the governance structure of History Colorado.

CHAPTER 3

LEGISLATION IMPACTING HISTORIC PRESERVATION GRANTS

STATE HISTORICAL FUND

The State Historical Fund was created by a constitutional amendment (Colorado Const., art XVIII, sec. 9) approved by voters in 1990 with the passing of the Limited Gaming Act. Over time, the General Assembly enacted subsequent legislation, of which the cumulative effect has significantly reduced the amount of funds available for statewide historic preservation grants. This legislation is discussed below:

- **SENATE BILL 03-193.** As part of the 2003 Joint Budget Committee Budget Reduction Bills, Senate Bill 03-193 amended Section 12-47.1-1201, C.R.S., and authorized a change in the funding source of History Colorado operations from the General Fund to the State Historical Fund. Because payment of History Colorado operations from the State Historical Fund reduced the amount of money available for grants, the bill also clarified that, “it is the intent of the general assembly that the majority of the gaming revenues deposited in and available for distribution from the 80 percent portion of the State Historical Fund administered by [History Colorado] shall continue to be used for [the grant program].”

- **SENATE BILL 08-206.** Subsequently, Senate Bill 08-206 authorized construction of the new History Colorado Center via Certificates of Participation (COP) financing and designated the portion of the State Historical Fund not reserved for the statewide grant program as the source of History Colorado’s COP payments. The bill also appropriated \$11 million in State Historical Fund monies over a 3-year period to be used for construction costs incurred for the History Colorado Center project. (House Bill 09-1333 subsequently reduced this appropriation to \$7 million.) Sourcing these monies and the COP payments from the State Historical Fund further reduced the amount of money available for historic preservation grants. Finally, Senate Bill 08-206 amended Section 12-47.1-1201, C.R.S., to explicitly authorize payment of costs associated with administering grants from the portion of State Historical Fund monies reserved for grants through the addition of paragraph (5)(d)(II)(A), while reaffirming the legislature's intent that the majority of the Fund should still be available for the grant program.

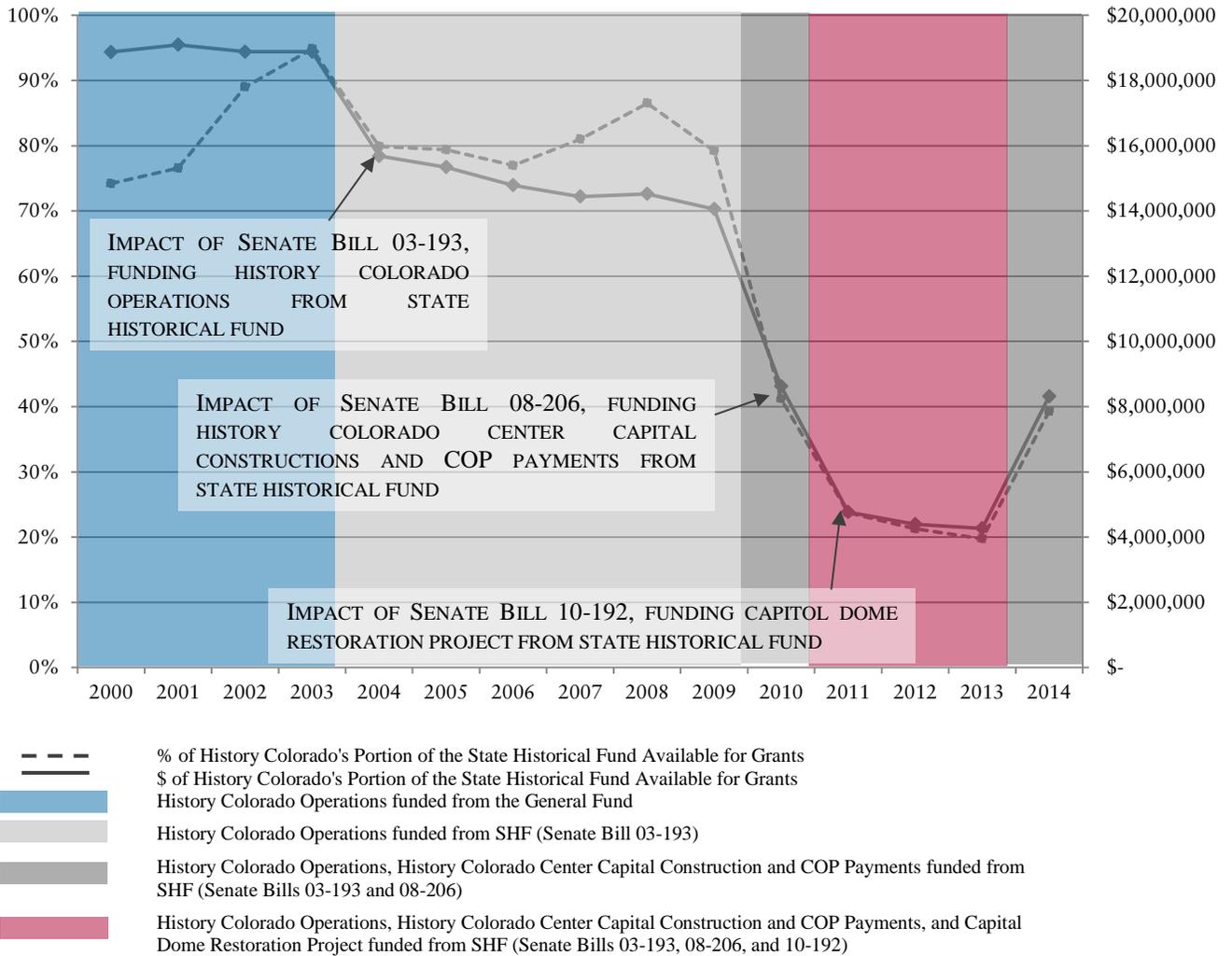
- **SENATE BILL 10-192.** Senate Bill 10-192 again amended Section 12-47.1-1201, C.R.S., and required use of State Historical Fund monies to finance restoration work on the State Capitol building. This bill stipulated a transfer of up to \$12 million over a 3-year period from the portion of the State Historical Fund reserved for grants and

resulted in another reduction in funds available for historic preservation grants.

- **HOUSE BILL 11-1310.** House Bill 11-1310 appropriated an additional \$5 million from the State Historical Fund for restoration of the State Capitol dome to be transferred in Fiscal Year 2014. This appropriation was later repealed by Senate Bill 13-236, allowing the \$5 million to be used instead for award of grants.

History Colorado complied with statute in implementing the preceding legislation. However, these legislative actions significantly impacted the amount of money available for historic preservation grants from the State Historical Fund. Based on our analysis of data from the Fiscal Years 2000 through 2014, the amounts available from the State Historical Fund for grants have been reduced as shown in the graph below from approximately 95 percent to as low as 21 percent due to the aforementioned uses of these funds. In Fiscal Year 2014, the amount available for grants is expected to return to approximately 42 percent due to the reduction in dome restoration monies that will be transferred from the State Historical Fund per Senate Bill 13-236.

HISTORY COLORADO STATE HISTORICAL FUND AVAILABLE FOR GRANT AWARDS FISCAL YEARS 2000 - 2014



SOURCE: Office of the State Auditor analysis of data provided by History Colorado.
¹ Fiscal Year 2014 figures are from budgeted data, not actual results.

LEGISLATIVE INTENT

Overall, our analysis of the cumulative effects of legislation affecting the State Historical Fund has indicated less than half of the funds have been available for award of statewide grants for historic preservation

purposes since the fiscal year ended June 30, 2010. Some policymakers may view this lack of available funds as problematic, whereas others may not. For example, if the General Assembly intended that the majority of funds would remain available for award of grants, this has not happened because the effects of the previously discussed legislation have diminished the availability of funds. If, however, the General Assembly intended that State Historical Fund monies would be used for History Colorado operations, payment of Certificates of Participation for the History Colorado Center, State projects such as restoration of the Capitol dome, and administration of statewide historic preservation grants – while leaving the remainder available for the award of these grants (an amount less than the majority) – this has been accomplished. Currently, barring any future legislation encumbering additional State Historical Fund monies, we project that approximately 40 to 45 percent of the 80 percent portion of State Historical Fund administered by History Colorado will be available annually for award of statewide historic preservation grants, after incurring administrative costs.

We make no recommendations in this area.



GLOSSARY



TERMS

Official Function

A meeting, conference, meal, or other function that is hosted by the chief executive officer, or representative, of a state agency, attended by guests and/or state employees, and held for official state business purposes.

Tours and Treks

A program that provides guided exploration of historic sites for tour groups; History Colorado makes the arrangements for travel, food, and accommodations and then sells the packages to the general public.

ABBREVIATIONS

CAFR

Comprehensive Annual Financial Report.

COFRS

Colorado Financial Reporting System.

COP

Certificate of Participation.

COSO

Committee of Sponsoring Organizations.

DOHE

Department of Higher Education.

FTE

Full-time-equivalent staff.

GAAP

Generally Accepted Accounting Principles.

OAHP

Office of Archeology & Historic Preservation.

OSC

Office of the State Controller.

SHF

State Historical Fund.

