Colorado Energy Office
Governor's Office

Performance Audit
December 2012

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Office of the State Auditor

Dianne E. Ray, CPA
State Auditor

December 18, 2012

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the Colorado Energy Office. 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 Colorado Energy Office.

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Glossary of Terms and Abbreviations

CEO – Colorado Energy Office

CMS – Contract Management System

COFRS – Colorado Financial Reporting System

DOE – U.S. Department of Energy

FTE – Full-time-equivalent staff

LEAP – The Low-Income Energy Assistance Program at the Department of Human Services

PMI – Project Management Institute

PVE – Petroleum violation escrow funds

Recovery Act – The American Recovery and Reinvestment Act of 2009

SEP – State Energy Program

SMART Government Act – The State Measurement for Accountable, Responsive, and Transparent Government Act

COLORADO ENERGY OFFICE

Performance Audit, December 2012
Report Highlights

Dianne E. Ray, CPA
State Auditor

Colorado Energy Office
Governor's Office

PURPOSE

Assess the Colorado Energy Office's (CEO) management policies and practices to determine whether state, federal, and private funds have been used effectively.

BACKGROUND

- CEO administers various federal and state energy programs, advises stakeholders on energy-related policy and legislation, and promotes energy market development.
- House Bill 12-1315 changed CEO's overall mission from promoting renewable energy and energy efficiency to promoting *all* sources of energy development and earmarked state funding for CEO through Fiscal Year 2017.
- CEO was awarded $144 million in Recovery Act funds in Fiscal Years 2009 through 2012, almost a 250 percent increase over CEO's previous funding levels.

OUR RECOMMENDATIONS

CEO should:

- Implement a program planning process that includes prioritizing statutory programs and utilizing budget and performance data in planning decisions.
- Ensure staff are made aware of and provided training on state contract requirements and contract monitoring responsibilities, and develop a system of supervisory review to assess contract management activities.
- Establish an accounting system that collects comprehensive program budget and expenditure data. Use the data regularly in conjunction with program performance data to determine which programs merit continued funding.

CEO agreed with these recommendations.

AUDIT CONCERN

There are significant deficiencies in CEO's core program and contract management policies and practices that affect CEO's ability to determine whether its programs are cost-effective.

KEY FACTS AND FINDINGS

- CEO was unable to demonstrate that $252 million spent over the past six years was spent cost-effectively.
  - CEO does not calculate or maintain a comprehensive, annual budget or budget-to-actual data for any of the 34 programs administered during Fiscal Years 2007 through 2012. As a result, CEO could not determine the total cost or the total amount spent for any of its programs.
  - CEO program managers have not been required to manage programs within a budget, though they are responsible for requesting and justifying program expenditures.
  - Of the eight programs we reviewed in-depth, staff responsible for three programs could not identify the program's goals or say whether the goals had been achieved.
- Of the 22 contracts we reviewed, 20 had incorrect or missing information in CMS, the state contract database; six were missing required performance elements; and 13 were missing required contractor progress reports.
- Of the 59 payments to contractors we reviewed, 10 totaling $1.5 million were not supported by adequate evidence of contractor progress on contract deliverables.
- Of the 40 travel and other expenditures we reviewed, 16 lacked appropriate approval and justification documentation. For example, in one instance CEO incurred $25,000 for a cost supported only by the statement, "2008 Membership." In another instance, CEO paid $1,500 for an ex-employee to attend training after termination, without documentation demonstrating how the cost was reasonable or necessary.
- CEO does not maintain consistent, centralized data-keeping systems to support programmatic work, and has not established an operational framework that includes guiding policies and procedures, or staff training and supervisory review.

For further information about this report, contact the Office of the State Auditor
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RECOMMENDATION LOCATOR
Agency Addressed: Colorado Energy Office (CEO)

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	22	Improve program management processes by (a) implementing an agency-wide program planning process that prioritizes statutory programs, incorporates program budget and performance data into planning decisions, and includes written office policies and procedures that program staff are required to follow; (b) establishing an organized, central repository to document program planning and monitoring, including documentation of the program budget, goals, and progress against goals, as well as CEO's administrative and program policies; and (c) providing training to program managers and staff on how to follow the above-referenced program management processes.	Agree	a. July 2013 b. April 2013 c. April 2013
2	28	Improve processes for meeting contract requirements by (a) ensuring staff are made aware of and provided training on state requirements governing the management of state contracts and (b) establishing internal written policies and procedures that give CEO staff further guidance on their day-to-day responsibilities.	Agree	April 2013
3	33	Improve contract monitoring processes by (a) ensuring that established training and written guidance on contract management include specific requirements on contract monitoring responsibilities, such as how contractor progress reports should be used in conjunction with informal phone and email updates, the extent to which monitoring activities must be documented to support payment authorizations, and the completion of a final performance evaluation for contractors and (b) developing a system of supervisory review that includes a review of monitoring activities against authorized contractor payments, and annual CEO staff evaluations that assess contract monitoring activities.	Agree	a. April 2013 b. July 2013

RECOMMENDATION LOCATOR
Agency Addressed: Colorado Energy Office (CEO)

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
4	40	Strengthen controls over expenditures by (a) working with the Governor's Office to establish, implement, and document an expenditure approval process for expenses incurred by the CEO Director; (b) ensuring approval for out-of-country travel is documented and approved in advance by the Governor's Office; and (c) enforcing the existing policy requiring all employees to provide justification for expenditures that explicitly aligns with CEO's mission and goals and the program goals, if applicable.	Agree	a. February 2013 b. July 2013 c. July 2013
5	47	Improve overall office management policies and practices by (a) establishing an internal system of accounting that collects comprehensive financial information for each individual program, including program budget and expenditure data, and program budget-to-actual data comparisons, so that CEO has the ability to and does track all expenditures by both the funding source and the program or project funded; (b) analyzing, on a regular basis, the overall costs of each program compared to whether and to what extent the program is producing intended results, and using that analysis in conjunction with program performance information and overall office priorities to determine which programs merit continued funding; and (c) working with the Governor's Office to develop and implement the infrastructure to support effective program management activities, including establishing criteria and a process for assessing program effectiveness and clearly defining program management roles and responsibilities among staff.	Agree	July 2013

Colorado Energy Office Overview

Chapter 1

The Colorado Energy Office (CEO) has undergone substantial and frequent changes since its origination. CEO was established via executive order in 1977 as the Office of Energy Conservation. Like energy offices in other states, CEO was established in response to the national oil crisis of the late 1970s. As a result of the national oil crisis, the U.S. Department of Energy (DOE) recovered more than $4 billion from oil companies in overcharge fees, also known as petroleum violation escrow (PVE) funds. These PVE funds were earmarked as restitution to the states for various energy conservation grant programs; for example, the Weatherization Assistance Program, the Low-Income Home Energy Assistance Program, and the State Energy Program. States that wished to access PVE funds through these federal energy conservation grant programs were required to establish a dedicated state energy office.

At the time it was created, CEO's sole purpose was to promote the conservation of Colorado's energy resources by administering federal grant programs with PVE funding. By 1999, the importance of the State's energy resources had steadily increased, and the Governor's Office issued an executive order recognizing CEO's expanding role in managing other, nonfederal energy programs. In 2005, an executive order further expanded CEO's role to include actively "greening" state government by helping state agencies manage energy consumption and environmental impact.

In 2008, 2009, 2010, and 2012, the gubernatorial administrations and the General Assembly codified CEO in statute (Section 24-38.5-101 et seq., C.R.S.) and expanded and revised CEO's role beyond administering various federal and state programs to include advising the public and private sectors on energy-related policy and legislation, and promoting energy market development. For example, statutes specify that CEO is responsible for:

- Working with communities, utilities, and organizations to promote and advance renewable energy, such as wind, solar, and geothermal, and energy efficiency in the state.
- Promoting high-performance buildings in commercial and residential markets.
- Promoting technology transfer and economic development.

- Improving energy efficiency in public schools.

- Implementing and administering a Wind for Schools program.

- Providing energy efficiency improvements for low-income households (i.e., the continuance of the Weatherization Assistance Program).

- Collaborating with higher education institutions to develop renewable energy curricula to serve workforce needs.

Statutory changes and directives from the Governor's Office have led to multiple reorganizations at CEO to accommodate new requirements and funding adjustments that have created ongoing challenges for CEO. Perhaps the most significant challenge came with the 2009 passage of the American Recovery and Reinvestment Act (Recovery Act), in which Congress directed approximately $787 billion into the economy to promote recovery from the economic recession. Of the approximate $5.68 billion in Recovery Act funds that Colorado received, CEO was awarded $144 million over Fiscal Years 2009 through 2012. This represented almost a 250 percent annual increase at the height of Recovery Act funding over CEO's previous funding levels.

CEO Administration and Organization

CEO is headed by a Director who reports to the Governor's Deputy Chief of Staff. The CEO Director oversees the CEO Leadership Team, which has consisted of one to six senior team members over the past three years. CEO has staffed 33 to 46 full-time-equivalent (FTE) employees during the same period.

In general, CEO's staff have been primarily responsible for the following:

Programs. These staff account for the majority of CEO staff members and are primarily responsible for developing and managing CEO's energy-related programs and projects. In Fiscal Year 2012, program staff conducted work within 34 unique program areas. Program staff are responsible for program development and management, including conceiving program ideas, developing program specifications, hiring and managing outside contractors as needed, and reporting on program progress and outcomes to CEO leadership, the Governor's Office, and other stakeholders.

Policy and Legislation. Staff work with the Governor's Office of Policy and Initiatives to develop the State's energy policy initiatives and advance policies that are important to CEO. They also provide testimony at hearings regarding energy issues before the Public Utilities Commission and collaborate with other state agencies to develop emergency management plans for essential state energy infrastructures.

Operations. A number of staff have specialized expertise and responsibilities, including communications staff who are responsible for CEO’s media efforts, public outreach, social media presence, website maintenance, and event sponsorships; energy market development staff who act as liaisons to connect energy interests and resources in the state and thereby facilitate the promotion of technology and the development of the State’s energy markets; and internal support staff, such as the Director’s Assistant and accounting staff.

About one third of CEO’s staff have been assigned to the Weatherization Assistance Program which is, by far, CEO’s largest and longest-standing program. The Weatherization Assistance Program’s purpose is to reduce the utility bills of low-income households by making long-term energy efficiency improvements to homes, such as installing insulation, sealing leaks around doors and windows, and modernizing heating equipment. Over the past several years, CEO received significant Recovery Act funding to increase the number of homes weatherized under the program, the amount spent per home, and the income eligibility threshold for potential clients.

CEO’s 33 non-Weatherization programs vary in size, funding, time span, and objectives and have typically been assigned one—though in some cases two or three—program staff members. CEO’s programs are administered under four overarching office goals: (1) create energy-related jobs, (2) foster energy security, (3) reduce consumer costs, and (4) protect the environment. In some instances, programs focus on renewable energy advancements and promote, for example, wind, hydroelectric, geothermal, or solar power. CEO also administers programs that provide loans and other financing mechanisms to organizations that conduct development work in the energy industry and to public entities. Other CEO programs focus on fuel consumption issues, building improvements (commercial, industrial, and residential), and incentives for public involvement in conservation efforts. For some programs, CEO supplements the expertise of its internal program staff by hiring contractors who have technical expertise in energy-related areas.

Fiscal Overview

During Fiscal Year 2012, CEO received approximately $50.6 million in revenue, had expenditures of about $40.8 million, and managed a staff of 34 FTE. The following table shows CEO’s revenue over the past six years, from Fiscal Year 2007, before Recovery Act funding was available, through Fiscal Year 2012.

Colorado Energy Office
Revenue and Expenditures
Fiscal Years 2007 Through 2012
(Dollars in Millions)

	2007	2008	2009	2010	2011	2012	Total	Six-Year Percentage Change
Revenue[1]	$26.7	$23.5	$28.8	$50.4	$81.8	$50.6	**$261.8**	89.5%
Expenditures	$22.1	$21.5	$30.6	$52.8	$84.6	$40.8	**$252.4**	84.6%
FTE	25	30	34	46	33	34		36.0%

Source: Office of the State Auditor's analysis of revenue and expenditure data from the Colorado Financial Reporting System (COFRS). Total annual full-time-equivalent staff (FTE) figures are from the Colorado Energy Office.

[1]Revenue totals listed here are annual funding awards and do not include funds carried over from prior years.

As the table shows, CEO's annual revenue peaked in Fiscal Years 2010 through 2012 due to the Recovery Act. All Recovery Act funds must be expended by December 31, 2012. From Fiscal Year 2007 to 2012, CEO's revenue and expenditures increased by 89.5 and 84.6 percent, respectively.

When CEO was initially created in 1977, Colorado was allocated a one-time federal PVE fund award totaling $70.5 million; as of October 2012, CEO's PVE balance was approximately $2.6 million, and annual interest income from PVE funds totaled about $38,000. In recent years, CEO's annual funding sources have been composed primarily of federal grants and, to a lesser extent, state cash funds, payments from utility companies, and grants from the private and nonprofit sectors.

Typically, CEO has applied for and received annual federal grant awards for programs administered under the State Energy Program (SEP) and the Weatherization Assistance Program. In years when Recovery Act funds have been awarded, the U.S. Department of Energy has withheld these annual federal grant awards. CEO anticipates that these long-standing annual grants, known as "formula" grants, will be reinstated in Fiscal Year 2013 after Recovery Act awards have expired. CEO staff also identify, and in some cases CEO opts to apply for, other federal grants for energy-related programs as they become available. In general, the funds CEO receives for federal grant programs, excluding Recovery Act funds, require a 20 percent state match.

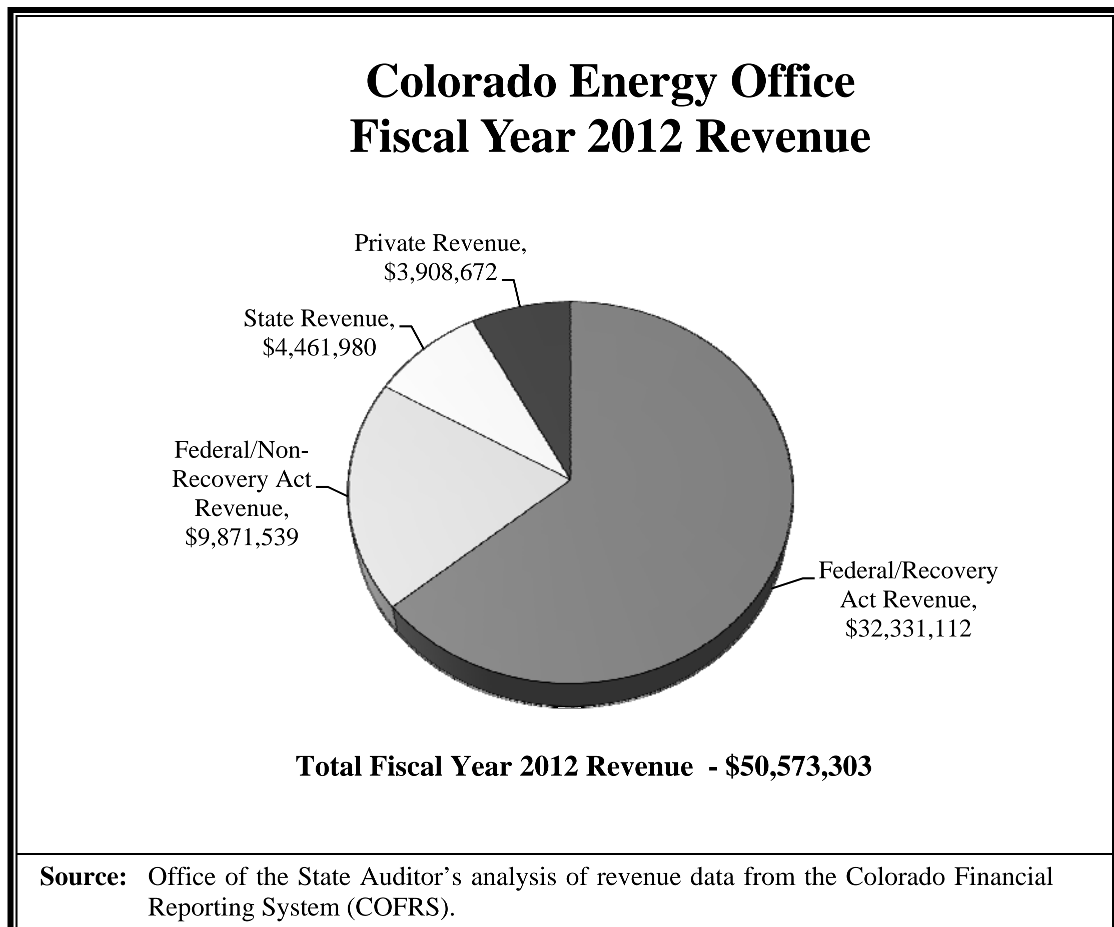
CEO also receives state fund appropriations from the Severance Tax Trust Fund accounts. State taxes are collected when nonrenewable natural resources are removed from the earth (e.g., oil, gas, coal, shale), and the interest income from collected taxes are statutorily earmarked for CEO's Public School Energy Efficiency Program. Additional severance tax funds are also allocated to CEO, the Department of Human Services, and other entities administering energy-related

programs in years when taxes collected exceed the minimum fund balance threshold set by statute. Prior to Fiscal Year 2009, CEO received state funding from limited gaming tax revenue; this funding stream was eliminated by Senate Bill 11-159.

CEO also receives court settlement awards from the Department of Public Health and Environment on behalf of companies charged with environmental violations and payments from utility companies to use toward home weatherization services in instances where the utilities opt to take advantage of related tax incentives.

Finally, CEO has historically received intermittent donations, grants, and other funds from private and nonprofit organizations, such as the Best Buy Corporation and the National Association of State Energy Offices.

The following chart shows the breakout of CEO's revenue sources for Fiscal Year 2012.



Source: Office of the State Auditor's analysis of revenue data from the Colorado Financial Reporting System (COFRS).

For Fiscal Year 2013, CEO anticipates receiving a total of about $20.4 million from all funding sources. Of that total, about $13.4 million will be from federal

awards, about $5.4 million from state funds, and about $1.6 million from private or nonprofit organizations. CEO's total FTE for Fiscal Year 2013 decreased from 34 to 29.

Recent Legislation

House Bill 12-1315, which became effective July 1, 2012, significantly impacted CEO's funding streams and overall mission. Specifically, the legislation made the following changes:

- CEO's mission shifted from promoting renewable energy and energy efficiency to promoting *all* sources of energy development.

- CEO's Clean Energy Fund, which did not receive state appropriations in recent years, became the Clean and Renewable Energy Fund and will now receive an annual General Fund appropriation of $1.6 million through Fiscal Year 2017. Statute specifies that CEO may use these funds to advance energy efficiency and renewable energy throughout the state.

- The Innovative Energy Fund was established and will receive appropriations from the Severance Tax Trust Fund ($1.25 million is estimated for Fiscal Year 2013). Statute specifies that CEO may use these funds to advance *innovative* energy efficiency throughout the state.

- The Office of the State Auditor is required to complete a second performance audit of CEO no later than January 15, 2017.

- CEO's name was changed from the Governor's Energy Office to the Colorado Energy Office.

House Bill 12-1028 extended state funding for programs that provide energy-related assistance to low-income households through Fiscal Year 2019. Three programs—CEO's Weatherization Assistance Program, the Department of Human Services' Low-Income Energy Assistance Program (LEAP), and Energy Outreach Colorado's supplemental LEAP program—will continue to receive state funds from the Severance Tax Trust Fund to provide qualified recipients with energy-related direct bill payment and home improvement assistance. Under prior law, funding for these energy-related assistance programs was scheduled to sunset after Fiscal Year 2013. CEO's appropriation for Weatherization Assistance Program funding from state severance tax funds is estimated to be about $6.5 million for Fiscal Year 2013.

Prior Audits

In 2010, the Office of the State Auditor conducted a performance audit of CEO's largest program, the Weatherization Assistance Program, as part of a series of audits of Recovery Act funds. The audit looked at the administration of the program for compliance with federal and state laws, regulations, and federal grant requirements. The audit scope included a review of CEO's procurement process; the process for paying local agencies that manage the day-to-day program operations; and CEO's monitoring of grant data and local agencies' contracts and performance. The audit identified issues with the Program's administration and financial management and included 10 recommendations that CEO agreed with, which CEO reports have been fully implemented since July 2011.

Additionally, our office reviewed the Recovery Act funding that CEO received for the Weatherization Assistance Program and the State Energy Program as part of the Statewide Single Audit for Fiscal Year 2011. The Statewide audit identified, in part, significant deficiencies in CEO's monitoring of grant subrecipients and documentation of employee time spent on programs established under each of the two federal grants.

Audit Purpose, Scope, and Methodology

We conducted this performance audit in response to two audit requests—a legislative request and a request from the former CEO Director. Audit work was performed from April through December 2012. We acknowledge the cooperation and assistance provided by management and staff at CEO.

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 evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The overall objective of this audit was to assess CEO's management policies and practices to determine whether state, federal, and private funds spent on energy-related programs and activities have been used effectively. Specifically, we evaluated:

- Whether CEO has established effective processes for selecting, implementing, and managing energy programs, projects, and other work activities, including the methods employed for allocating fiscal and staff resources among CEO's various programs and areas of work.

- Whether CEO's contract management processes and controls comply with relevant state laws and provide sufficient oversight and guidance to contract management staff.

- Whether CEO could improve its processes for allocating fiscal and staff resources.

We assessed the effectiveness of those internal controls that are significant to the audit objectives described above. Our conclusions on the effectiveness of those controls are described in the audit findings and recommendations.

To accomplish the audit objectives, we:

- Reviewed relevant federal and state laws, rules, and regulations, as well as best practices in office and program management published in 2010 and 2011 by the Project Management Institute and the National Association of State Energy Officials, respectively.

- Interviewed management and staff at CEO, the Governor's Office, and other agencies and reviewed documentation and data systems to determine CEO's processes and procedures for selecting, implementing, and managing energy-related programs.

- Interviewed management and staff at CEO and the State Controller's Office and reviewed documentation and data systems to determine CEO's processes and procedures for managing contracts and monitoring contractor performance.

- Obtained and reviewed informational resources made available to the public, including CEO's website, annual reports, and strategic plans.

- Reviewed and analyzed (1) program staffing and fiscal data for all of CEO's 34 programs and (2) program planning and performance data for eight programs.

- Reviewed and analyzed payment data on staff travel, office advertising, dues and memberships, and fees and registrations to assess CEO's processes and procedures for authorizing and justifying office expenditures on energy-related activities.

- Reviewed and analyzed active contracts and associated contractor payments to assess CEO's processes and procedures for ensuring that contracts comply with state contract requirements and that contractors are monitored appropriately.

We relied on sampling techniques to support our audit work as follows:

- We selected a nonstatistical judgmental sample of eight programs. We selected our sample items to provide representation of active programs CEO is statutorily required to administer, directed by the Governor's Office to administer, and administers at its own discretion. We selected programs managed by multiple CEO staff supervised by multiple members of the CEO leadership team. We designed our sample to help provide sufficient, appropriate evidence for our evaluation of CEO's program implementation and management processes based on our audit objectives.

- We selected a nonstatistical judgmental sample of 22 contracts. We selected our sample items to provide representation of active CEO contracts for amounts greater than $100,000, enacted under multiple CEO programs, and managed by multiple CEO contract-monitoring staff. We designed our sample to help provide sufficient, appropriate evidence for our evaluation of CEO's contract management process based on our audit objectives.

- We selected a nonstatistical judgmental sample of 59 contractor payments made under the 22 contracts we reviewed. We selected our sample items to include the most current payments authorized, at the time of our review, for each contract in our sample. We designed our sample to help provide sufficient, appropriate evidence for our evaluation of CEO's contract management process based on our audit objectives.

- We selected a nonstatistical judgmental sample of 40 payments made for staff travel, office advertising, dues and memberships, and fees and registrations. We selected our sample items to provide representation of high-dollar and high-risk expenditures made for both programmatic and non-programmatic purposes. We designed our sample to help provide sufficient, appropriate evidence for our evaluation of CEO's process for authorizing and justifying expenditures based on our audit objectives.

When samples were chosen, the results of our testing were not intended to be projected to the entire population. Rather, cases were selected to provide sufficient coverage of those areas—such as contract-monitoring procedures and program goal development—that were significant to the objectives of this audit. Specific details about the audit work supporting our findings, conclusions, and recommendations are described in the remainder of the report.

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Colorado Energy Office Operations

Chapter 2

The changes made to the Colorado Energy Office (CEO) by House Bill 12-1315 include stabilized funding streams through Fiscal Year 2017, which should help stabilize, in turn, CEO's programmatic operations and office priorities. However, CEO will still operate under expansive statutory directives and will be subject to any changing priorities within each gubernatorial administration. CEO management and staff must operate within a highly changeable environment, to serve the broad office purpose of industry advancement. As such, it will be vital that CEO maintains adequate operational policies and processes to ensure the office functions with continuity, transparency, fiscal responsibility, and in a manner that allows CEO to weather future changes.

The CEO leadership team is responsible for determining how to best allocate office resources, both fiscal and staff, in a manner that addresses statutory requirements, Governor's Office directives, federal requirements attached to grant awards, and discretionary activities identified by internal staff who have industry expertise. In addition, the CEO leadership team is responsible for approving and overseeing program planning, implementation, and management, as well as establishing internal policies and procedures that ensure the office operates in a manner conducive to successfully completing the programs, projects, and activities undertaken.

Under the leadership team's direction, program staff are responsible for managing the day-to-day work under each of CEO's energy-related programs and other activities. This work includes fostering relationships with industry stakeholders, identifying energy program opportunities, and working with CEO leadership to develop and plan programs and projects. Program staff are also responsible for managing each program's progress, including the progress of any outside contracts that are needed, as well as reporting to CEO leadership, the Governor's Office, stakeholders, and the general public on program progress, challenges, and achievements.

We reviewed and assessed the core management practices CEO has employed over the past several years and determined that there are significant deficiencies in CEO's operations. In addition, CEO was unable to demonstrate that the more than $252 million in federal, state, and private funds spent by CEO over the past six years was spent cost-effectively.

We found deficiencies in some of CEO's program planning and management practices, contract management practices, and fiscal authorization and justification practices. We found that CEO has not established comprehensive budgets or consistent, centralized data-keeping systems to support programmatic work and has not established an operational framework that provides staff with guiding policies and procedures, training, and supervisory review of staff work methods. The issues we have identified are discussed in more detail in the remainder of this chapter.

Program Management

Historically, CEO has operated as a program-based office. CEO was originally established to access federal grant funds earmarked for energy conservation programs and to date, the majority of CEO's funding and staff resources continue to serve the largest and longest-standing federal program, the Weatherization Assistance Program. In addition to the Weatherization Assistance Program, CEO has established 33 other energy programs in recent years, as well as other short-term or one-time energy-related activities. CEO's organization and office priorities stem from the need to manage a variety of programs and activities that are born out of state statutes, directives issued by the Governor's Office, and the availability of funding awards and the associated requirements attached to those funding awards.

CEO has maintained a flat organizational structure primarily composed of a small leadership team that oversees all office operations and the program staff responsible for managing CEO's various energy-related programs and other activities. In Fiscal Year 2012, CEO employed 13 full-time-equivalent (FTE) staff to conduct work on the 33 non-Weatherization programs and other activities; of these 13 staff, 11 were program managers. CEO's program managers are ultimately responsible for planning, implementing, and monitoring each program assignment they receive. Program managers foster relationships with industry stakeholders; identify energy program opportunities CEO should undertake; plan the details of how programs will be executed; monitor program implementation and progress, including the progress of any contracts established for the program; and report to CEO leadership, the Governor's Office, stakeholders, and the general public on the program's progress, challenges, and achievements.

What audit work was performed and what was the purpose?

We evaluated CEO's program management policies and practices. We spoke to CEO leadership and staff about their methods for selecting, developing, and managing energy programs and about how CEO allocates fiscal and staff resources to its various programs and other activities. We also compiled and reviewed funding information for all of the 34 programs CEO listed as active

between Fiscal Years 2007 and 2012 and conducted an in-depth review of program planning and monitoring practices for eight of these 34 programs, as listed below:

- **Three statutorily created programs**, the Weatherization Assistance Program, the Public School Energy Efficiency Program, and the Wind for Schools Grant Program. CEO estimates that it received approximately $168.9 million over the six-year review period to administer these programs.

- **Two programs implemented following a directive from the Governor's Office**, the Compressed Natural Gas Program and the Energy Performance Contracting Program. CEO estimates it received about $5.5 million to administer these programs.

- **Three programs implemented at CEO's discretion**, the Rebate Program, the Revolving Loan Fund, and the Colorado Carbon Fund. CEO estimates it received about $37.9 million to administer these programs. As of June 2012, the Colorado Carbon Fund is no longer administered by CEO, and has instead been transferred to a nonprofit organization.

The purpose of our audit work was to determine if CEO effectively manages its programs and thus its resources.

How were the results of the audit work measured?

We used the following criteria to measure the results of our audit work:

- The statute creating CEO, Article 38.5 of Title 24 of the Colorado Revised Statutes (C.R.S.), and other statutes task CEO with 38 distinct responsibilities, ranging from requiring CEO to establish specific programs, such as the Wind for Schools Grant Program, to broader, goal-based directives such as, "work with communities, utilities, private and public organizations, and individuals to promote renewable energy, such as wind, solar, and geothermal, and energy efficiency technologies."

- Statute and other state guidance do not specify CEO's day-to-day program management responsibilities. However, best practices for program management in Colorado government agencies include (1) program planning components as identified in the State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act (Section 2-7-201 et seq., C.R.S.), which other state agencies are required to follow and CEO has also opted to follow, and (2) successful program components as identified in a 2010 study of government programs

sponsored by the Project Management Institute (PMI). These two sources identify the following as essential to a well-planned and well-managed government program:

- Standardized program management processes;
- An accurate estimate of program resources, including budgetary and staff;
- Clearly defined program performance goals;
- Strategies for meeting the performance goals, including a well-defined program scope;
- Evaluations of the program's performance; and
- Tools and practices developed to aid program implementation, including systems to maintain documented program information and to provide sufficient training and guidance to program management staff.

What problem did the audit work identify?

Overall, we found that CEO's program management practices have multiple deficiencies that affect CEO's ability to determine whether its programs are cost-effective.

First, we found that CEO has not established an adequate planning process to implement and develop programs. We identified the following concerns:

- **CEO has not ensured that statutorily-required programs are implemented.** In 2009, the General Assembly enacted legislation tasking CEO with implementing and administering the Green Truck Grant Program and the Electric Vehicle Grant Fund. As of the end of Fiscal Year 2012, CEO had not implemented either program. During the 2012 Legislative Session, the General Assembly repealed the Green Truck Grant Program, with the passage of House Bill 12-1315. The other program, the Electric Vehicle Grant Fund, remains in statute and CEO states that it will allocate approximately $40,000 in federal grant funds to finance the program in Fiscal Year 2013.

  CEO stated the two programs were not implemented in 2009 because funding outside of the Recovery Act was not available and CEO had already completed the application process with the U.S. Department of Energy (DOE) to use Recovery Act funds for other programs. The

programs funded by the Recovery Act plan included 15 discretionary programs not specified in statute, and amendments to the plan were later approved by the DOE in other areas. This indicates that CEO could have proposed amendments to its plan and allocated funds to implement these two statutorily-required programs. Further, our review of CEO's funding options showed that, contrary to CEO's assertion that only Recovery Act funds were available, the two programs could have been funded by other sources, such as CEO's annual State Energy Program grant or the State's Clean Energy Fund.

- **CEO has not developed key components for implemented programs.** CEO could not provide evidence that key program planning components are used to select and develop programs. CEO was missing program budgets and staffing requirements, program goals, strategies to implement each program to achieve the goals, data on the extent to which goals were achieved, and information on how programs are monitored and assessed. Specifically, we found that:

    - CEO has not maintained total program budget or budget-to-actual data for any of the 34 programs that were active between Fiscal Years 2007 and 2012. As a result, CEO could not determine the total cost or the total amount spent for any of the programs it administered during the six-year period.

    - For the 33 non-Weatherization programs, CEO has not maintained information on staffing assignments and could not identify the FTE required to adequately administer each non-Weatherization program.

    - For the eight programs in our in-depth sample, CEO has not maintained adequate performance information for six of the programs, which, when combined, received an estimated $27.7 million during Fiscal Years 2007 through 2012. For one statutorily-required program, the Wind for Schools Grant Program, CEO was not able to provide us with program performance information, such as documentation on program goals or strategies on how the program was to be implemented, monitored, and assessed. CEO was awarded $83,000 during Fiscal Years 2008 through 2012 to administer this program.

      For five programs, CEO maintained incomplete program performance information. CEO determined and documented program goals for the five programs but did not maintain evidence of program implementation, monitoring, or assessment strategies. For example, for the Energy Performance Contracting for Public

Buildings Program, which has been in existence since 1995, CEO could not provide any evidence showing how the program was to be monitored or assessed.

Second, in addition to inadequate planning and documentation practices, we found that for the programs that CEO has implemented, its day-to-day program monitoring practices are lacking. Specifically, we found that program managers do not have comprehensive knowledge of their programs. We spoke to the seven staff members directly responsible for the day-to-day management of the eight programs in our sample and found that program managers could not identify basic information about the programs they managed. For example:

- For all of the eight programs, program managers reported that they could not identify total program budgets or spending, and for seven of the eight programs they could not identify the amount of FTE staff allocated to the program. Program managers and CEO leadership reported that historically, program managers have not been required to manage programs within a program budget, though they are responsible for requesting and justifying program expenditures.

- For three of the eight programs, program managers could not identify the program goals and therefore could not say whether the goals had been achieved. Additionally, the program managers could not identify when their programs had been established, or how or why each program was created.

- For two of the programs where the program managers did identify program goals, the goals reported to us by the program managers were not consistent with the program goals reported to us by the CEO leadership team.

- For one program, the program manager had been responsible for the program for nearly two years but could not provide us with any information about the program's funding sources, expenditures, or history but stated that the program had been successful. In contrast, CEO leadership reported that the program had performed below expectations and would no longer be funded.

Why did the problem occur?

The issues identified occurred because of the following:

- **Lack of planning processes.** CEO has not established a process for planning and overseeing programs that includes (1) prioritizing how

resources will be utilized, including giving priority to statutorily-required programs and (2) determining key program components, including program budgets, staffing requirements, program goals, and how program successes and shortfalls will be monitored and evaluated. The SMART Government Act, which states that agencies should review programs against established goals so that funding may be linked to program performance results, is one example of guidance CEO could use as a model program planning process. Additionally, according to CEO leadership and staff, to date, the program planning that has been conducted at CEO has been primarily verbal, and statutorily-required programs are not given more consideration than discretionary programs—rather, the leadership team and program staff discuss their viewpoints on the merits of each potential project, based on their understanding of current CEO and Governor's Office goals and priorities.

After the CEO leadership team decides to implement a program, the program manager is allowed a great deal of latitude to develop the program as he or she chooses, including how and to what extent he or she develops program goals, strategies, and evaluation tools. The one exception to this is the Weatherization Assistance Program, which has highly prescriptive planning requirements enforced by the DOE that include documenting implementation strategies, goals, and performance measures.

- **No system to organize programs and program information.** For the program planning components that are determined by program staff and approved by the CEO leadership team, CEO has not required that this information be kept in a centralized location in an organized manner that would enable staff and leadership easy access and review. As such, program staff have utilized their own individual systems of documenting program planning and monitoring activities. Staff reported that program information is kept in a variety of places, including on individual hard drives, in paper format, and on an office-wide shared drive filed under a person's name or initials.

- **Lack of policies, procedures, and training.** CEO has not established written policies and procedures for program staff to follow detailing how programs should be developed and managed. Program staff we spoke with reported that they did not receive information on office policies and procedures regarding program management and are not certain where to find such information. Additionally, CEO has not provided training to program managers to help them develop program management skills necessary for their roles, such as how to establish appropriate program goals or authorize program expenditures.

In 2007, CEO recognized in its strategic plan the need to track and quantify program accomplishments in order to adequately gauge its progress toward office-wide goals. Additionally, over the course of this audit CEO has noted that it is aware that better program management processes need to be put into place, including processes to facilitate a smooth transition when an employee leaves the office.

Why does the problem matter?

The lack of effective program management processes—that include prioritizing statutory requirements and providing sufficient training and guidance for staff—creates the risk that state and federal funds will be used inefficiently and provides poor transparency on how decisions are made and funds are spent. To effectively manage the office and its programs, CEO leadership and staff must be able to easily access essential information, such as policies, procedures, and basic program information. If a program manager does not have access to basic fiscal and performance information about his or her program, he or she will be unable to make well-informed program management decisions.

Additionally, by not consistently documenting and maintaining program information, CEO does not have a historical record of its programs, achievements, and challenges from which future CEO staff and leadership can learn. CEO has a recent history of high turnover among program management staff. In December 2010, CEO had 14 core staff, including the CEO Director and Deputy Director, and 12 overarching program areas managed by a program manager, such as "Commercial Buildings Programs" or "Renewable Energy Programs." Of those 14 core staff, the only person remaining at the completion of this audit is the Weatherization Director; the other 13 positions are now staffed by a new employee or have been eliminated. By not having clearly documented programs and a system for organizing the information, CEO loses the collective knowledge of staff members who leave, which in turn creates an inefficient use of time and high learning curve for incoming staff.

Finally, having established policies and procedures in place would enable the office to appropriately select and prioritize programs and staff to adequately develop and monitor programs. This will help the office efficiently manage programs through periods of change, whether it is an influx of revenues, high staff turnover, or the transition to a new gubernatorial administration.

Recommendation No. 1:

The Colorado Energy Office (CEO) should improve its program management processes by:

a. Implementing an agency-wide program planning process that prioritizes statutory programs, incorporates program budget and performance data into planning decisions, and includes written office policies and procedures that program staff are required to follow. The process outlined for state agency strategic plans provided in the SMART Government Act could be used by CEO to create programs that are planned to achieve goals and link program funding to results of that funding.

b. Establishing an organized, central repository that program managers are required to use to document planning and monitoring of the programs they manage, including documentation of the program budget, goals, and progress against goals. CEO's administrative and program policies should also be maintained within the repository for easy access and reference by all staff.

c. Providing training to program managers and staff on how to follow the above-referenced program management processes.

Colorado Energy Office Response:

a. Agree. Implementation date: July 2013.

   CEO supported participation in the SMART Government Act through House Bill 12-1315 and will use this process to develop more robust project planning. CEO has created a list of all statutory programs and is in the process of creating policies and procedures for these and all agency-wide programs. The Weatherization Assistance Program has a required state planning process which has been implemented.

   Although we agree that there have been program planning challenges, we do not feel it is an accurate categorization to say that there was no proof that $252 million was spent cost-effectively. We submit that the issue is not one of cost-effectiveness, but more a result of the lack of documented program processes and a failure to connect specific program outcomes to dollars expended.

b. Agree. Implementation date: April 2013.

   CEO has a centralized electronic document repository that was originally designed to manage program materials. We have begun a comprehensive review of the documents stored in this repository and intend to reorganize and standardize the information currently held there. We recognize that we need to coordinate the processes used by program managers to monitor and better document program progress

to goals and budgets, and to that point we intend to create templates for collection of consistent program information and data and will develop policies and procedures by which these will be maintained.

c. Agree. Implementation date: April 2013.

CEO intends to conduct training for all staff on the use of the agency's central electronic document repository and will ensure that all program managers receive training on policies and procedures pertaining to the management of programs. This training will be implemented immediately upon completion of the above-referenced strategy.

Contract Requirements

CEO experienced a dramatic increase in the number of contracts needed with outside contractors when Recovery Act funding was awarded. In Fiscal Year 2011, at the height of Recovery Act funding and program workload, CEO managed approximately 400 active contracts worth more than $185 million. Beginning in Fiscal Year 2013, with most Recovery Act spending closing out, CEO managed 39 active contracts, totaling about $49 million.

Program staff are responsible for managing the contracts that CEO enters into with private businesses, utility companies, nonprofit organizations, and other government entities for expertise or services within a variety of program-related activities. Typically, CEO contracts for:

- **Expert services,** such as providing weatherization upgrades to homes and calculating energy utility savings that will be realized from efficiency upgrades.

- **Consulting services,** such as help in identifying projects that best fit into CEO's mission or for lobbying the state legislature.

- **Fund management services,** such as revolving loan programs for businesses or mortgage discounts given for Energy Star™ homes.

- **Acquiring goods,** such as solar panels or home weatherization materials—for example, light bulbs and surge protectors.

These types of contractor services generally fall under the broad category of personal services contracts.

What audit work was performed and what was the purpose?

We reviewed state requirements and CEO's policies and practices governing contracts and interviewed CEO leadership and contract management staff. We also reviewed a sample of 22 contracts that were active at some point during Fiscal Years 2009 through 2012. The 22 contracts in our sample were for outside services needed to administer 10 different CEO programs and three energy-related activities that did not fall under any one program. The services included, in part, home weatherization improvements, energy audits, consulting, and loan application management. Each contract in our sample amounted to more than $100,000 in contractor services, and all together, our sample of 22 totaled $88.8 million. The contracts in our sample were managed by 11 members of CEO's program management staff.

The purpose of our audit work was to determine whether CEO has established processes to ensure contracts comply with state requirements.

How were the results of the audit work measured?

The State Procurement Code, Title 24 of the Colorado Revised Statutes (C.R.S.), lays out the fundamental requirements for state contracts. For state contracts that are greater than $100,000, for the types of contractor services CEO utilizes, statute (Sections 24-102-205 and 24-103.5-101, C.R.S.) specifies:

- Each contract must include contractor performance measures and standards that identify the (1) scope of work, (2) performance schedule, and (3) budgetary requirements that the contract monitor will use to evaluate whether and to what extent contract results, objectives, and obligations are met throughout the contract period. These three elements of the contractor's performance measures and standards must be tailored to each individual contract.

- Each contract must be added to and maintained in the State's centralized Contract Management System (CMS), so that it may be monitored by the State Controller's Office and made available for public review. State agencies must update CMS with information on the total value of the contract; amendments to the contract; the purpose of the contract; and the effective dates and periods of contractor performance. Additionally, for completed contracts, a performance evaluation of the contractor must be included in CMS within 30 days of the contract's completion.

What problem did the audit work identify?

We found that some CEO contracts do not comply with state requirements. Specifically:

- **Contracts did not include all performance elements.** Of the 22 contracts we reviewed, six (27 percent), totaling $40 million, did not include all three performance elements as required by statute. All 22 contracts did include a contractor scope of work; however,

    - Two contracts, totaling $17.3 million, did not include a performance schedule that correlated with the scope of work specifications outlined in the contract;

    - Three contracts, totaling $2.6 million, did not include budgetary requirements that correlated with the contract specifications (e.g., required labor, materials, administrative, or other expenses allowed for completing the contract scope of work); and

    - One contract, totaling $20.1 million, was missing both a performance schedule and budgetary requirements that correlated with the contract specifications.

  Contracts need these performance elements to provide a foundation for contract monitors to assess a contractor's performance, to ensure that work being done on behalf of the State is completed on schedule and within budget.

- **CEO did not maintain accurate contract information in CMS.** For the 22 contracts we reviewed, we found that 20 (91 percent) contracts had incorrect or missing information in CMS. For some contracts, CMS was missing more than one piece of information. Specifically:

    - For 15 contracts in our sample, the correct total contract amount was missing from CMS.

    - For four contracts, contract amendments were missing from CMS.

    - For four contracts, the correct contract purpose was missing; for seven contracts the correct effective date was missing; and for 10 contracts the correct completion date was missing from CMS.

    - Of the five contracts in our sample that were completed and had been closed, one contract was missing a contractor performance

evaluation in CMS, and two contracts did not include the evaluation within the 30-day requirement.

CMS was established to provide transparency and accountability on the state contracting process to the general public, and to allow all state agencies an opportunity to review past performance of contractors prior to enacting new state contracts. By not recording key elements of contracts in CMS, the system will not provide the public and state agencies the transparency and accountability that was intended.

Why did the problem occur?

We identified two causes for the problems described above:

- **Lack of staff training on contract requirements.** CEO management and staff reported that, in general, staff training on day-to-day responsibilities, including contract requirements, has not occurred. CEO has offered staff only one training session over the past several years. This one session was on state fiscal rules related to contract management, but CEO could not provide documentation to show that more than half of the staff who needed the training attended. Additionally, even for those staff who did attend, when we spoke to them about the contracts they managed we found that their understanding of state contract requirements was lacking. For example, not all were aware of the requirements to ensure that monthly reports are submitted to CEO and that contract information should be entered into the State's CMS database. CEO employs a contract specialist who is responsible for working with the State Controller's Office to ensure CEO contracts comply with state requirements. CEO has indicated that there are no plans at this time to utilize this staff member's state contract expertise to train staff responsible for preparing and monitoring contracts.

- **Lack of written guidance on contract requirements.** CEO has not developed any written policies or procedures for staff regarding CEO's processes for meeting contract requirements. Written internal policies and procedures are essential for ensuring that staff are aware of both the statewide requirements for all contracts and any internal office procedures that assist staff in following state requirements, such as procedures informing staff on when, where, and how to document contract management activities.

Why does the problem matter?

The statutory provisions that govern state contracts are intended to ensure that all state contracts are managed in a manner that is transparent and that public funds are spent responsibly, preserving public confidence in the process. Without adequate training and guidance to staff directly responsible for managing contracts, CEO cannot ensure that enacted contracts will be in compliance with state requirements or that contract expenditures are appropriate.

Recommendation No. 2:

The Colorado Energy Office (CEO) should improve its processes for meeting contract requirements by:

a. Ensuring that staff are made aware of and provided training on the state requirements governing how all state agencies should manage state contracts. To ensure that the training provided to staff responsible for preparing and monitoring contracts is consistent with guidance issued by the State Controller's Office, CEO should utilize the expertise of the CEO contract specialist when developing staff training on contract requirements.

b. Establishing internal written policies and procedures that give CEO staff further guidance on their day-to-day responsibilities, including requirements on developing contracts with all necessary performance measures and standards and on recording required information in the State's Contract Management System.

Colorado Energy Office Response:

Agree. Implementation date: April 2013.

a. CEO has already recognized this need through "Lean" process improvements events conducted in the summer of 2012. We have begun standardizing our accounting processes and procedures under the guidance of the State Controller and Governor's Office. We will revise current processes and will ensure that all policies and procedures are aligned with these revisions, and that all staff receive training.

b. As stated above, CEO will revise current processes and will ensure that all policies and procedures are written and are aligned with these

revisions. All appropriate CEO staff will receive training. Policies and procedures will be centrally located and available to all staff.

Contract Monitoring

As part of their contract management responsibilities, staff assigned to manage a contract are to conduct ongoing monitoring activities. After a contractor is selected, the contract monitor is responsible for continually reviewing the contract scope of work and deliverables, timeline, and budget to monitor the contractor's progress, hold the contractor accountable, and authorize all contract expenditures. Typically, program managers are the assigned contract monitors. Contract monitors work directly with contractors and CEO's accounting and support staff and are the expert point of contact on all aspects of the contract.

What audit work was performed and what was the purpose?

We reviewed state requirements and CEO's policies and practices for monitoring contractor performance, including the oversight CEO management provides to staff directly responsible for ensuring contractors fulfill their contractual obligations. We interviewed CEO leadership and contract monitors and reviewed a sample of 22 contracts that were active at some point during Fiscal Years 2009 through 2012, totaling $88.8 million. The contracts in our sample were managed by 11 members of CEO's program management staff.

The purpose of our audit work was to determine whether CEO has established contract management processes that include adequate contract monitoring to ensure contractors comply with the performance measures and standards established in contracts.

How were the results of the audit work measured?

The State Procurement Code, Title 24 of the Colorado Revised Statutes (C.R.S.), includes contract monitoring requirements for state contracts greater than $100,000 for the types of contractor services CEO utilizes. Statute (Sections 24-103.5-101 and 24-102-205, C.R.S.) specifies that state agencies must:

- Designate at least one person to monitor the progress of each contract;

- Require that contractors report regularly on their progress in meeting contractual obligations, as laid out in the contract performance measures and standards─at CEO, all contracts include a provision for monthly progress reports to accomplish this;

- Require that designated contract monitors use contractor progress reports, as established in contracts (e.g., CEO's required monthly reports) to evaluate the contractor's performance, including whether and to what extent the overall contract scope of work, performance schedule, and budgetary requirements are met; and

- Require that designated contract monitors complete a written performance evaluation for each contractor after the contract is completed.

What problem did the audit work identify?

Overall, we found that CEO has not established an effective contract monitoring process that ensures contractors are adequately monitored and meet the performance measures and standards established in contracts. For the 22 contracts we reviewed, CEO assigned a contract monitor as required—typically a program manager. However, we found that CEO did not comply with contract monitoring requirements as follows:

- **Contractor monthly progress reports have not been submitted.** We found that for our sample of 22 contracts, 13 (59 percent) contracts, totaling $42 million, were missing required reports. Specifically:

    - For 12 of the 13 contracts, totaling $25.6 million, 307 monthly reports were due but CEO received only 219 (71 percent), meaning that on average for these 12 contracts, more than one quarter of the reports were missing.

    - For the remaining contract for $16.4 million, a total of 23 monthly reports were due over a two-year period but CEO received none.

- **Contractor monthly reports were incomplete.** We also found that for 12 (55 percent) contracts, totaling $25.9 million, some of the reports that CEO received did not contain sufficient information to make a timely assessment of contractor performance. Specifically:

    - For one contract, the contractor consistently submitted incomplete reports that did not address each of the performance measures specified in the contract. For example, the contractor was responsible for reporting on marketing activities required under the contract to increase participation in the program, but in the monthly reports, the contractor typically used the same language month to month and did not include information on marketing efforts as required. The contractor also should have reported on successes, challenges, and lessons learned, referencing the scope of

work, but this information was consistently not included in the monthly report.

- For three contracts, the contractors submitted reports for periods greater than one month, including one report that was submitted to cover seven months of work. In this instance, the report was submitted several months after the contractor completed the project and shows that the contractor completed work behind schedule. Additionally, even though CEO did not receive reports for seven months, the contract monitor authorized a $26,000 payment to the contractor that CEO had to later retract because the contractor had not complied with "Buy America" provisions in the contract.

- For 10 contracts, we were unable to tell whether the contractor reports were submitted and received in a timely manner because reports for these contracts did not include the reporting period (i.e., month and year) being referenced and CEO staff did not note a submission or receipt date.

- **Program managers have not used monthly reports to monitor contractor progress.** For the contracts where reports were submitted, we reviewed the reports and contract files and found that for 13 (59 percent) contracts, there was no clear evidence that the contract monitors consistently reviewed the reports and therefore that contractor payments were authorized based on a report review. We reviewed the most current contract expenditures that contract monitors had authorized for the 22 contracts in our sample. We reviewed 59 expenditures, totaling $18 million, and found that for 10 expenditures totaling $1.5 million, the contract monitor authorized payment without adequate supporting evidence of contractor progress. For two contractor payments totaling about $44,000, payment was made without any evidence of contractor reports for the period. For the remaining eight payments totaling about $1.45 million, the contract file did include some progress reports, but the reports were not dated and thus we could not determine whether the reports supported the payments.

- **Program managers did not complete contractor performance evaluations.** In our sample, five contracts had been completed when we conducted our review. The contract monitors for these contracts should have completed a final contractor performance evaluation for these contracts within 30 days of contract completion and included these evaluations in the State's contract database, CMS. As noted in the previous finding, for three of the five contracts, the contract monitor did not complete a contractor evaluation within the required 30 days. One of the missing contractor evaluations, which has not been completed to date,

is for the contractor noted above from whom CEO retracted a $26,000 payment because the contractor failed to meet “Buy America” provisions.

Why did the problem occur?

As noted previously, CEO has not provided staff with training or written guidance on contract management overall—this includes a lack of guidance on monitoring practices and requirements. Staff indicated that they learned how best to monitor contracts through “trial by fire” and, in general, had each developed their own individual system of monitoring practices.

- First, we spoke with seven of the 11 contract monitors responsible for managing the 22 contracts in our sample, and three of the seven (43 percent) indicated that the monthly contractor reports are not the primary tool for monitoring contractor progress or authorizing payments. The same three contract monitors stated that they did not conduct work to ensure reports were submitted consistently or timely. Another contract monitor stated that CEO staff could waive the monthly report requirement at their option. In general, contract monitors indicated that they rely primarily on undocumented phone and email conversations with contractors to determine whether the contractor’s work is progressing and that it was frequently difficult to get contractors to submit reports, or to submit complete and timely reports, thus making the reports a less useful means of determining progress.

- Second, CEO does not require that contract monitors document (1) their review of contractor progress reports, when these reports are received, or (2) the phone and email conversations some rely on for gauging contractor performance. Additionally, CEO does not require contract monitors to complete or document contractor performance evaluations upon contract completion. Two contract monitors reported that they sometimes develop written summaries of their monitoring activities, but these summaries are not typically kept in the contract files and are not consistently required or reviewed by supervisors.

In addition to the lack of written guidance and training, there was no evidence at CEO that contract monitors receive regular or consistent supervisory review. For example, there was no evidence that supervisors were reviewing contract monitoring activities of staff and comparing them to the contractor payments those staff had authorized. Additionally, CEO conducts annual written evaluations of staff on their job performance, but these evaluations do not include any assessment of contract monitoring activities. Rather, the staff evaluations only address general, generic performance measures, such as communication or customer service skills. In Fiscal Year 2011, each of the approximate 35 CEO

contract monitors was responsible for an average of 11 contracts worth a total of $5.3 million.

Why does the problem matter?

The information provided by contractors in the required monthly progress reports is intended to be used by CEO contract monitors to evaluate the contractors' progress in conjunction with authorization of contractor payment requests. Without standardized monitoring procedures, CEO cannot ensure that contract monitors are receiving and reviewing contractor reports in a timely manner, and with sufficient information to evaluate progress and base payment authorizations on their documented review. In at least one instance, as noted above, a contract monitor authorized a $26,000 payment that was not supported by contractor reports, and CEO had to retract the payment because the contractor did not comply with "Buy America" provisions. One purpose of the monthly reports is to provide contract monitors with enough information to ensure contractors are in compliance with contract provisions during the project's progression, to avoid erroneous payments.

The monthly reports further serve as a foundation for contract monitors to prepare performance evaluations of contractors upon completion of the contract. These contractor performance evaluations, which must be uploaded into CMS, are intended to be used by other state agencies to evaluate the record of a contractor before engaging in any new agreements with the contractor. When CEO does not complete these evaluations, state agencies may select contractors that have a history of inadequate performance.

Finally, without standardized monitoring procedures that address the issues identified here, CEO cannot tie contract monitors' specific job duties to their annual evaluations. This means there is no staff accountability or basis in the staff evaluations to correct or improve job performance related to contract monitoring activities.

Recommendation No. 3:

The Colorado Energy Office (CEO) should improve its contract monitoring processes by:

a. Ensuring that any established training and written guidance on contract management include specific requirements on contract monitoring responsibilities, such as how contractor progress reports should be used in conjunction with informal phone and email updates, the extent to which monitoring activities must be documented to support payment

authorizations, and the completion of a final performance evaluation for contractors.

b. Developing a system of supervisory review that includes a review of monitoring activities against authorized contractor payments, and annual CEO staff evaluations that specifically assess contract monitoring activities.

Colorado Energy Office Response:

a. Agree. Implementation date: April 2013.

CEO currently maintains requirements for monthly program monitoring and progress updates. We recognize, however, that we need to formalize a standard process and develop templates to standardize the documentation of all program reports. This will include designing documentation to capture informal conversations, telephone calls, and emails with vendors. We will document and provide roles and responsibilities to program managers that will clarify the relationship expected between program managers and financial staff and clarify the approval required prior to vendor payment. CEO will also ensure that all staff has been trained on these expectations.

b. Agree. Implementation date: July 2013.

CEO agrees that our current staff evaluation processes are not thorough enough to include the evaluation of the performance of program managers as it relates to the specific details of contract management requirements. We have begun the review of our evaluation tools and will work with the Governor's Office to establish appropriate materials. CEO will create policies and procedures for supervisors that will include evaluation methods and timelines for staff review, which will be reviewed, approved, and implemented by the new CEO Director.

Travel and Other Expenditures

CEO leadership authorizes short-term and one-time activities to fulfill its mission of advancing Colorado's energy resources by furthering at least one of CEO's four overarching office goals: (1) create jobs, (2) foster energy security, (3) reduce consumer costs, and (4) protect the environment. The activities that CEO initiates in service of this mission and these goals can range from energy

conference and event registrations to memberships, advertising campaigns, and event sponsorships—all in the interest of maintaining a skilled and knowledgeable staff and a strong presence in the energy market.

The table below shows CEO's expenditures on these types of activities between Fiscal Years 2007 and 2012. During this period, CEO had an average of 34 FTE staff.

Colorado Energy Office
Expenditures by Fiscal Year and Activity
Fiscal Years 2007 Through 2012

Activity	2007	2008	2009	2010	2011	2012	Activity Total
Advertising	$400	$8,400	$257,000	$185,400	$260,100	$84,200	**$795,500**
Dues & Memberships	$7,800	$54,000	$28,300	$67,300	$21,700	$15,100	**$194,200**
Fees & Registrations	$18,100	$22,500	$46,700	$37,000	$48,600	$45,300	**$218,200**
Travel, In-State	$15,500	$49,700	$76,200	$98,100	$73,700	$51,500	**$364,700**
Travel, Out-of-State	$15,600	$32,500	$53,100	$48,200	$78,900	$74,700	**$303,000**
Travel, Out-of-Country	$3,900	$2,800	$21,200	$9,000	$13,400	$3,400	**$53,700**
Annual Totals	**$61,300**	**$169,900**	**$482,500**	**$445,000**	**$496,400**	**$274,200**	**$1,929,300**

Source: Office of the State Auditor's analysis of data from the Colorado Financial Reporting System (COFRS).

What audit work was performed and what was the purpose?

Upon an initial review of CEO's expenditures as listed in the table above, we noted that spending in some categories appeared high and fluctuated greatly year to year, particularly during Fiscal Years 2009 through 2012, the years in which CEO received revenue from the Recovery Act. As such, we selected a sample of 40 expenditures made during the six-year period from these categories (i.e., advertising, dues and memberships, registrations, and travel) to review. Our sample of 40 expenditures totaled about $243,000.

The purpose of our review was to determine if CEO's process for authorizing and justifying these types of expenditures is adequate.

How were the results of the audit work measured?

We used the following criteria by which to measure the results of our review:

- CEO is required to follow State Fiscal Rules. State Fiscal Rule 5-1 requires that all employee travel must have prior written or electronic authorization by the approving authority, and all foreign travel must also have prior written or electronic approval from the Governor's Office. Nothing in State Fiscal Rules or elsewhere specifies who the approving authority should be for the CEO Director.

- State Fiscal Rule 2-1 requires that all expenditures by state agencies must be "for official state business purposes only" and "reasonable and necessary under the circumstances."

- In addition to State Fiscal Rules, the Governor's Office Employee Guidelines manual states that for CEO staff, "all travel should be explicitly aligned with [C]EO's mission and goals." CEO has developed a travel *Expenditure Request and Authorization* form to authorize staff travel expenditures that includes a narrative field for travel justification.

- For all non-travel purchases of $100 and greater, CEO requires staff to justify the expenditures by completing a non-travel *Expenditure Request and Authorization* form, and for all non-travel purchases of $5,000 and greater, a second justification form that supplements the *Expenditure Request and Authorization* form was required during our review period. These forms detail the information needed to justify expenditures. For all purchases $100 and greater, the "who, what, where, when, and why" of the request are needed to support the purchase. For all purchases $5,000 and greater, the former CEO Director required additional information, including the direct impact of the purchase on each of CEO's four overarching office goals (i.e., create jobs, foster energy security, reduce consumer costs, and protect the environment), as well as calculations showing the return on investment and impact on CEO's budget.

What problem did the audit work identify?

Overall we found issues with 16 (40 percent) of the 40 expenditures in our sample. These 16 expenditures totaled about $87,300. Specifically, we found issues in the following areas:

- **Approvals for the CEO Directors' travel.** Of the 40 expenditures we reviewed, six expenditures totaling about $13,000 were incurred by former CEO directors for travel-related costs. We found that all six expenditures were missing appropriate approvals authorizing the directors' travel. Specifically:

- Four of the expenditures, totaling about $8,300, were approved by a subordinate rather than by someone in either a supervisory position or at the same level as the former CEO directors. Of these four expenditures, two were for out-of-country travel and there was no documentation of the Governor's Office approval, as required by the State Fiscal Rules.

- One expenditure for about $3,800 was approved by the former director himself, for reimbursement after he paid for the travel costs out-of-pocket.

- One expenditure for about $900 had no documented approval for the out-of-country travel cost.

- **Justification for travel expenditures.** Of the 40 expenditures in our sample, we found that five (13 percent) expenditures, totaling about $8,400, were missing adequate travel justification documentation. Specifically, the five expenditures (two for out-of-country trips) did not include supporting documentation to illustrate how the trips were "reasonable and necessary" under the circumstances. For example:

  - One $4,300 expenditure for airfare to Japan and China did not include any information on the persons and organizations that would be contacted during the trip or how the trip would benefit CEO; the only information provided was that it was for the "Governor's Economic Development Mission."

  - One $1,100 expenditure for a five-night hotel stay only had the justification statement "WGA Conference. On 7/2 has meeting full day," with no information on what the conference was for or how the employee's attendance would benefit CEO.

  - One $1,400 expenditure paid for an employee of another state agency to attend a conference that a CEO employee also attended. CEO's travel *Expenditure Request and Authorization* form did not include documentation on why CEO was paying for the non-CEO staff member's travel expenditures. Additionally, this expenditure was not approved in advance as required by the State Fiscal Rules.

  - One $700 expenditure paid for the Director and a staff member to fly from Denver to Alamosa on the state plane. CEO paid a total of about $1,400 for the round trip to use the state plane, even though the cost of driving both ways for the trip would have totaled about $236, about $1,150 less than CEO expended. The travel *Expenditure Request and Authorization* form did not include

information on why the extra expense of using the state plane was necessary.

- **Justification for other expenditures.** We found that seven (18 percent) of the 40 expenditures in our sample for items such as advertising costs, dues and memberships, and registrations were not supported by adequate information to justify the purchases were beneficial for the office or reasonable and necessary for state business. The cost for these seven items was more than $65,000 and included the following:

  - One $25,000 expenditure was only supported by the notation "2008 Membership" on the non-travel *Expenditure Request and Authorization* form, and did not have any additional information to indicate who or what the membership was for. Further, this expenditure was recorded incorrectly in CEO's financial records and was listed as a registration cost, rather than as a membership cost.

  - Two expenditures totaling $15,000, each for $5,000 or more, were incurred for event sponsorships and were approved for payment without being supported by justification that cited how the sponsorships impacted CEO's four overarching office goals, and without showing the return on investments or impact on CEO's budget.

  - One expenditure for $1,500 was incurred on behalf of an ex-CEO employee. Prior to terminating his employment with the State, the CEO employee enrolled in an energy-related certification training. CEO then allowed the ex-employee to attend the training at the State's expense, more than a month after employment was terminated. CEO was unable to demonstrate how this expenditure was reasonable or necessary for state business under the circumstances.

  - Three expenditures totaling about $23,800, two of which were for $9,000 or more, were incurred for annual membership dues to industry organizations. However, the justifications did not provide explanations of how CEO or the State would benefit from the memberships, how the memberships impacted CEO's four overarching office goals, or of the return on investments or impact on CEO's budget.

Why did the problem occur?

The issues identified occurred for three reasons. First, it is not clear who should approve each of the CEO Director's travel costs or other work-related costs such as individual industry memberships. CEO's internal expense approval forms require an approval for all expenses of more than $100, regardless of who incurs the expense. However, policies governing all cabinet-level staff, including the CEO Director, state that cabinet-level staff must be preapproved by the Governor's Office for out-of-country and out-of-state travel, but these policies do not include requirements for in-state travel approvals or other work-related costs, such as those incurred by the CEO Director.

Second, CEO indicated that it did not adhere to the State Fiscal Rule requiring written or electronic approval from the Governor for foreign travel because CEO is part of the Governor's Office. However, State Fiscal Rules specifically require documentation of this approval, from all offices that are subject to State Fiscal Rules.

Finally, CEO appears to be inconsistent in the way it is communicating and enforcing the office's policies for justifying travel and other expenditure requests. Some CEO employees indicated that the agency does not consistently provide employees with guidance on travel authorization requirements or require that employees use, as applicable, and complete the three expenditure justification forms created for authorizing travel and non-travel purchases of more than $100. Rather, CEO allows employees to simply state the name of a conference or organization on the forms and does not require them to provide other details of the purchase. In addition, for non-travel purchases of more than $5,000, CEO does not consistently require the supplemental information tying the purchase back to an overall office goal or budget.

Why does the problem matter?

The State Fiscal Rules governing the approval and justification of expenditures for travel and other costs are designed to ensure that state funds are spent responsibly and for the benefit of the State. When established controls are not followed, there is a risk that state funds, such as the $243,000 we tested, will be used to pay for expenditures that are not necessary or beneficial to the State.

Although we did not identify any fraudulent transactions, giving an employee the authority to approve his or her supervisor's travel and other expenditures, such as the $37,000 spent by former directors in our sample, places that employee in a difficult position and increases the risk of inappropriate expenditures.

By establishing policies and procedures regarding spending without enforcing those polices, CEO has no assurance that funds are spent in the best interest of the State and support CEO's mission, and policies do not have the intended effect of demonstrating propriety, providing transparency, and preserving public confidence. Fiscal planning and monitoring is essential to successful program and activity management. Whether costs are one-time or ongoing, it is important that they be accounted for and clearly tied to the purpose they support.

Recommendation No. 4:

The Colorado Energy Office (CEO) should strengthen its controls over expenditures by:

a. Working with the Governor's Office to establish, implement, and document an expenditure approval process for expenses incurred by the CEO Director that includes direction on which travel and other expenditures made by the CEO Director must be authorized by someone in a superior position.

b. Ensuring that approval for all out-of-country travel is well documented and approved in advance by the Governor's Office in written or electronic format.

c. Enforcing the existing policy requiring all employees, including the Director, to provide a justification for expenditures that explicitly aligns with CEO's mission and goals and, if applicable, with the goals of the program that the expenditure benefits.

Colorado Energy Office Response:

a. Agree. Implementation date: February 2013.

   The Governor's Office requires Cabinet-level staff to attain preapproval for expenditures only when traveling out of state. Note: This expectation applies to Cabinet members as they (alone) are required to travel throughout the state as necessary to serve the Governor. CEO will develop a travel schedule and budget for the Director that will cover all anticipated travel both in and out of state for the upcoming calendar year. This plan will be submitted with the CEO budget request to the Governor's Office for approval. Modifications to this plan will be submitted for approval on a case-by-case basis. CEO will also create policies and procedures for this process.

b. Agree. Implementation date: July 2013.

   CEO has established and implemented policies and procedures for all travel, including out-of-state, which is located in the office's central repository. The CEO accounting department has been trained to monitor all travel requests and to adhere to the guidelines established by CEO leadership and the Governor's Office. We will ensure that the new CEO Director is provided with this documentation and that all processes are followed.

c. Agree. Implementation date: July 2013.

   CEO currently has established policies and procedures requiring preapproval for all expenditures of more than $100, and the CEO accounting department has been trained and is held accountable to monitor all requests and to adhere to the guidelines established by CEO leadership and the Governor's Office. We have conducted a "Lean" process review of some of our process forms and intend to revise some of the existing processes to create consistency and ensure the documentation of accurate alignment of expenditures with CEO's mission and goals.

   CEO requires the use of three justification forms, to preapprove non-travel expenditures, to preapprove travel expenditures, and to justify an expense prior to the Director's signature. CEO believes that only the Director's justification form that was used for a period of months was not consistently used.

Overall Office Management

CEO is like other state energy offices in that, in order to serve in its role as a catalyst for advancements and improvements in the energy industry, many of the programs and projects CEO initiates are innovative and ambitious by nature. Many are high-risk in that there is limited assurance they will succeed or produce results. At the same time, substantial funding is available to state energy offices to implement these programs and projects to improve the industry. The National Association of State Energy Officials reports that in 2009 and 2010, in addition to the $3 billion in Recovery Act funding awarded to states for energy programs, $3 billion was awarded from state-derived funding, and $4.7 billion was awarded by the private sector.

The extraordinary amount of funding that has been available in recent years has presented considerable opportunities for industry developments. At the same time,

however, CEO and other government energy offices ultimately serve as stewards of public funds and thus face the challenge of selecting, funding, and managing projects in a manner that can withstand critical merit review and scrutiny by stakeholders and the general public.

What audit work was performed and what was the purpose?

Throughout the audit, we spoke with and requested and reviewed information from 28 staff within CEO, the Governor's Office, and the State Controller's Office to identify CEO's core management policies and practices and assess its overall administration of programs and other activities funded by the State, federal grants, and private resources for Fiscal Years 2007 through 2012.

The purpose of our audit work was to determine whether CEO has established adequate office management policies and practices to ensure funds are spent effectively and appropriately.

How were the results of the audit work measured?

We used the following criteria by which to measure the results of our audit work:

- The National Association of State Energy Officials sponsored a 2011 study on best practices in project management for state energy offices. The study provides summary information on management practices that were found critical to ensuring state energy projects are ultimately successful, including:

    - Determining the project resources needed, as the project is developed. This includes earmarking available funding and internal staff resources, as well as identifying any external partnerships needed to fill resource gaps.

    - Establishing internal project management processes and controls that provide a "roadmap" for staff as they develop the project. This includes requiring, for each project, an overall project budget and a "project management plan" that clearly shows project expectations and evaluations. Typically, project milestones and accountability metrics should be included in the project management plan, as well as an exit strategy that may be used to sunset unsuccessful projects and redirect resources to other areas.

    - Establishing clear goals and strategies specific to each project that are supported by data the project team compiles during planning and updates as their project knowledge-base evolves.

  - o Creating a working environment where project team members are allowed to be innovative in identifying and developing opportunities but are experienced in project management, particularly at the leadership level.

- In addition to these best practices for all state energy offices, statutes note that Colorado state agencies should deliver public services in the most cost-effective and efficient manner possible (Section 24-38-201, C.R.S.) and should be authorized and encouraged to improve their services and save money wherever possible (Section 24-38-101, C.R.S.). Additionally, Colorado statutes state that government agencies should institute and maintain systems of internal accounting and administrative control that include (1) adequate authorization and record-keeping procedures to provide effective accounting control over funding streams and expenditures and (2) an effective process of internal review and adjustment for changes in conditions. [Section 24-17-102(1)(c) and (e), C.R.S.]

What problem did the audit work identify?

Overall, we found deficiencies in CEO's management policies and practices, including deficiencies in CEO's internal accounting and administrative control systems. All together, the issues we identified lead us to question CEO's ability to implement programs and projects successfully. Specifically, we found:

- **CEO does not establish program budgets or staffing requirements.** We requested, but CEO does not calculate or maintain and thus could not provide the following:

  - o A comprehensive master budget for any year within Fiscal Years 2007 through 2012. CEO receives and expends funding from multiple sources for program and non-program activities but does not establish an annual budget to show how CEO plans to allocate funding each year from all available sources to each program or non-program activity. CEO was also unable to provide comprehensive information on how the funding received for each year was spent on program and non-program activities.

  - o A comprehensive, annual budget for any year for any of the 34 programs that CEO administered within Fiscal Years 2007 through 2012. Budgets are needed to specify the anticipated and actual costs associated with administering programs.

- The annual anticipated and actual FTE allocations used to administer 33 of the 34 implemented programs. CEO prepares FTE allocations for the Weatherization Assistance Program.

- **CEO has not established internal program management processes and controls.** For the period we reviewed (Fiscal Years 2007 through 2012), CEO did not institute internal requirements for program staff on how to develop, manage, or assess the programs, contracts, or other activities the office administers. To date, CEO has relied on the federal requirements attached to grant awards to guide staff on program management activities, but these federal requirements do not apply to all programs and do not specify the internal processes CEO should use to guide program management and ensure the office as a whole is operating effectively. For example, federal requirements do not outline when state agencies should establish written policies and procedures or conduct staff training or supervisory review to ensure those policies and procedures are followed. To date, CEO has not established any written policies and procedures for staff on program and contract management responsibilities and has not provided training for staff on these responsibilities. CEO has also not conducted regular and consistent supervisory review of staff that includes a review of contract and program management activities and an assessment of staff through evaluations that specify whether and to what extent staff are meeting their core job responsibilities.

- **CEO does not maintain adequate data or data systems to support planning and monitoring activities.** We requested basic planning and monitoring information for all programs and contracts that were active at any point within Fiscal Years 2007 through 2012. In addition to the budget and staffing information noted above that was requested but was not available, we requested historical information (e.g., all contract payments, program start and end dates) and performance information (e.g., contractor reports, program goal and strategy documentation). We found that in virtually all instances, CEO could not easily locate the program and contract information we requested. In some instances, CEO ultimately could not provide the information we requested.

    - For programs, CEO has not established any requirements regarding what program information must be maintained or where files should be kept. Staff have each maintained their own system of data files and personal notes, using multiple physical and electronic locations, to document historical and performance information about the programs they manage. As a result, in some instances CEO does not have data available to support program performance indicators, such as how goals were determined or whether milestones were reasonable. Staff have access to a shared

hard drive, which at least some use to store some program information, but CEO does not require they do so or prescribe a standardized method for sharing program files. In many instances, files on the shared drive were kept under a person's first or last name and, as such, were not easily identified by program.

- For contracts, CEO has established a paper filing system, rather than an electronic system. This means that CEO could not provide us with a list of all contracts that were active within our testing period, or the payments made under those contracts, without looking through each of the paper files to compile the information. When a payment is made under a contract, CEO accounting staff record the payment on a handwritten sheet in each paper file. One staff member does use an electronic spreadsheet showing data on all CEO contracts (e.g., start and end dates, total payments allowed and made to date), but this spreadsheet contained mistakes, has not been updated regularly, and was not used by other staff. As noted previously, CEO has not utilized the State's contract database, CMS, for data management purposes.

Why did the problem occur?

CEO leadership have stated that because of the uncertainty in annual funding streams, the enormity of responding to the Recovery Act funding and associated federal requirements, and the high level of staff turnover throughout the period, the office intends to, but has not yet been able to effectively address the management deficiencies described above.

We identified the following factors that we believe have hampered CEO's ability to resolve the issues described throughout this report.

- **Incomplete accounting practices.** To date, CEO has not utilized an internal accounting system to manage its funding streams and program funding allocations. Instead, CEO has relied on the state's accounting system, COFRS, which is only capable of tracking CEO's expenditures by funding source (e.g., Recovery Act grant funds) or expenditure category (e.g., in-state travel), and which does not track expenditures under each of CEO's established programs. In many cases, multiple funding sources are used to administer a program, and as such, CEO is not systematically tracking spending by program and is not able to give an accurate, complete account of total program spending without reviewing multiple documents and staff notes, which may be unreliable.

- **Revenue-based focus.** In order to operate as a cohesive office and demonstrate that individual programs and services are administered cost-

effectively, CEO needs to expand its operating and management structure to focus not only on grant and other revenue opportunities but also on (1) whether and to what extent programs and other work activities are producing intended results and (2) how the office will prioritize its activities, post-Recovery Act funding, and allocate resources to continuing programs and other work activities. CEO should establish clear office priorities that lay out how all funding streams and other resources can best be utilized. With the statutory changes made by House Bill 12-1315, CEO's funding streams through Fiscal Year 2017 have stabilized. This should give the office the opportunity to reassess overall office priorities and functions and determine which programs merit continued funding in light of past performance and office priorities.

- **Lack of infrastructure and undefined expectations.** CEO leadership has not established the infrastructure needed to support effective program management activities and demonstrate the value of the work conducted by staff. Specifically, CEO has not established criteria and a process for assessing program effectiveness. As such, staff do not know what should be focused on to foster program success. Additionally, CEO has not clearly defined roles and responsibilities for program management activities. For example, CEO has not required program management staff to monitor program spending, or to maintain program information. In 2011, the State Controller's Office reviewed CEO's process for authorizing contractor payments, at CEO's request, and found that program management and accounting staff were not aware of who was responsible for reviewing contractor invoices and approving payments. Virtually all staff we spoke with over the course of the audit reported that they learned their job responsibilities in a "trial by fire" manner and that staff members operated independently of one another; in many instances, staff were unaware of what was happening within the office, outside of their program areas. In light of CEO's high turnover among leadership and lack of collective office knowledge among remaining staff members, CEO should work with the Governor's Office as necessary to establish an appropriate infrastructure to ensure the effectiveness of the office.

Why does the problem matter?

CEO expended more than $252 million in federal, state, and private funds over the past six years, but because of the problems identified here, there is ultimately no assurance the collective funds CEO received were spent cost-effectively.

By focusing only on revenue opportunities and not accounting for total spending by program—or establishing and utilizing budget information to guide what and to what extent office resources should be allocated to a program—CEO cannot determine whether the cost of administering a program is justified. If CEO does

not scrutinize the programs it administers on overall cost compared to whether and to what extent programs produce intended results, CEO cannot demonstrate to taxpayers and other stakeholders that programs should continue to be funded, regardless of the revenue made available to energy advancement efforts.

By not establishing internal operational policies and controls and allowing staff to operate without written office guidance, regular training, supervisory review, centralized data management systems, or requirements for maintaining program data, CEO has no assurance that staff are effective in their roles and that programs are managed well. Further, CEO cannot demonstrate to stakeholders or the public that the office is operating well.

Ultimately, we were unable to conclude on whether, overall, CEO's programmatic efforts have been effective or valuable because of the lack of data and data management systems noted throughout this report. Additionally, CEO has experienced substantial staff turnover throughout the testing period and into the publication of this report. Without program data, data systems, or historical staff knowledge to inform the audit findings, we cannot say, and thus CEO cannot say, whether or to what extent the office has operated as an effective unit. The statutory changes established by House Bill 12-1315 include a provision that requires the Office of the State Auditor to complete another performance audit of CEO prior to January 15, 2017. If CEO does not establish the internal management policies and practices recommended in this audit, subsequent audits will have no basis for assessing CEO's effectiveness.

Recommendation No. 5:

The Colorado Energy Office (CEO) should improve its overall office management policies and practices, to ensure public services are delivered in the most cost-effective and efficient manner possible, by:

a. Establishing an internal system of accounting that collects comprehensive financial information for each individual program, including program budget and expenditure data, and program budget-to-actual data comparisons. This accounting system should be used by CEO in conjunction with the Colorado Financial Reporting System (COFRS), the State's accounting system, to ensure CEO has the ability to and does track all expenditures by both the funding source and the program or project funded.

b. Analyzing, on a regular basis, the overall costs of each program compared to whether and to what extent the program is producing intended results, and using that analysis in conjunction with program performance

information and overall office priorities to determine which programs merit continued funding.

c. Working with the Governor's Office, as needed, to develop and implement the infrastructure necessary to support effective program management activities. This should include establishing criteria and a process for assessing program effectiveness and clearly defining program management roles and responsibilities among staff.

Colorado Energy Office Response:

Agree. Implementation date: July 2013.

a. CEO is in the process of evaluating current systems in the Governor's Office and other departments as a benchmark to assist us in developing a more functional and efficient accounting system. We are reexamining our chart of accounts to better allow budget-to-actual analysis and will develop metrics for each program.

b. CEO will need to set up a new chart of accounts in order to create discrete program-level budgets in COFRS, which cannot be implemented until the new fiscal year. Until that time, we will continue to define and report on measureable outcomes for each existing program. CEO leadership is reexamining staffing levels and skill sets to ensure that we have an appropriate number of FTE staff, and the appropriate talent for each position.

c. CEO has undergone a tremendous shift in roles and responsibilities with the adoption of House Bill 12-1315 in May 2012. After the struggle to secure funding, CEO is working to complete the closeout procedures required by the Department of Energy for American Reinvestment and Recovery Act dollars received. The Deputy Chief of Staff has been the Interim Director of CEO since the Director left in June 2012, which has provided the opportunity to align our office policies, procedures, and processes with that of the Governor's Office. CEO will work on developing and implementing this infrastructure.

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