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STATE AUDITOR

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Colorado Office of the State Auditor

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SCHEDULE OF TABOR REVENUE FISCAL YEAR 2016

OCTOBER 2016

PERFORMANCE AUDIT

THE MISSION OF THE OFFICE OF THE STATE AUDITOR
IS TO IMPROVE GOVERNMENT
FOR THE PEOPLE OF COLORADO

LEGISLATIVE AUDIT COMMITTEE

OFFICE OF THE STATE AUDITOR

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OFFICE
OF THE STATE AUDITOR

We Set the Standard for Good Government

DIANNE E. RAY, CPA

STATE AUDITOR

October 19, 2016

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the TABOR Financial Report required under Article X, Section 20 of the Colorado Constitution (TABOR) as of June 30, 2016, as certified by the State Controller on September 1, 2016, and subsequently revised on September 15, 2016. This audit was conducted pursuant to Section 24-77-106.5, C.R.S., which requires the State Auditor to conduct an audit of the TABOR Financial Report and certification prepared by the State Controller. The report presents our findings, conclusions, and recommendations, and the responses of the Office of the State Controller.

Dianne E. Ray

OFFICE OF THE STATE AUDITOR
1525 SHERMAN STREET
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DENVER, 80203
COLORADO

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REPORT HIGHLIGHTS

SCHEDULE OF TABOR REVENUE, FISCAL YEAR 2016

PERFORMANCE AUDIT, OCTOBER 2016

OFFICE OF THE STATE CONTROLLER

CONCERN

The Office of the State Controller (OSC) did not close the Fiscal Year 2016 accounting records on time, which resulted in insufficient time for review prior to issuing the September 1 certification of TABOR revenue. Additionally, the guidance provided to departments was inconsistent.

KEY FACTS AND FINDINGS

- The OSC is statutorily required to close the State's accounting records each year by August 4. For Fiscal Year 2016, the books were not closed until August 26, which left insufficient time for departments and the OSC to make adjustments and correct errors before the statutorily-required September 1 certification of TABOR revenue.

- Subsequent to the September 1 certification, errors were identified at one department that resulted in a $23 million decrease in TABOR revenue for Fiscal Year 2016 and a $28 million decrease in TABOR revenue from prior years.

- The OSC recertified TABOR revenue on September 15. The recertification included the adjustment noted above but did not include approximately $9.7 million in additional adjustments to TABOR revenue posted to the State's accounting system subsequent to the September 1 certification.

- At the time audit work ended on September 15, there were five departments still in the process of reviewing and adjusting their Fiscal Year 2016 revenue activity which may result in additional changes to TABOR revenue.

- The OSC relies on variance analysis reports and exhibits submitted by departments to certify TABOR revenue. The OSC communicated key dates to departments in May 2016. However, the OSC provided inconsistent guidance to departments regarding the due dates for variance analysis reports. This impacted the amount of time available for the OSC to review TABOR revenue prior to the September 1 certification.

BACKGROUND

Schedule of TABOR Revenue:

- The Taxpayer's Bill of Rights (TABOR) was added to the Colorado Constitution in the November 1992 general election.
- TABOR limits are increased based on the annual inflation rate plus the percentage change in Colorado's population growth rate.
- The OSC was required to certify TABOR revenue to the Governor, General Assembly, and the Executive Director of the Department of Revenue no later than September 1, 2016.
- The Office of the State Auditor was required to audit the TABOR Financial Report by September 15, 2016.
- The OSC recertified TABOR revenue on September 15, 2016 due to identified adjustments.

KEY RECOMMENDATIONS

The Office of the State Controller (OSC) should:

- Close accounting periods in a timely manner and in accordance with state statutes.

- Work with departments prior to the close of the fiscal year to provide consistent guidance and allow sufficient time for review of TABOR revenues to ensure that accurate revenue information is used to prepare the TABOR Financial Report

The OSC agreed with these recommendations.

Office of the State Auditor

Dianne E. Ray, CPA
State Auditor

September 15, 2016

The Honorable John W. Hickenlooper
Governor
State of Colorado

The Honorable Millie Hamner
Chair
Colorado Joint Budget Committee

The Honorable Tim Neville
Chair
Colorado Senate Finance Committee

The Honorable Lois Court
Chair
Colorado House Finance Committee

Barbara Brohl
Executive Director
Colorado Department of Revenue

Dear Sirs and Mesdames:

This letter summarizes the results of our audit of the Taxpayer's Bill of Rights (TABOR) financial report as of June 30, 2016, as certified by the State Controller on September 1, 2016, and revised on September 15, 2016. Please find attached the September 1 and September 15 versions of the following: letters of certification from the State Controller, the *Preliminary Schedule of Computations Required Under Article X, Section 20 of the State Constitution as of June 30, 2016* [Unaudited]; and the *Comparison of Non-Exempt TABOR Revenues for the Fiscal Year Ended June 30, 2016* [Unaudited] (collectively referred to as the TABOR Financial Report). Our audit was conducted under the authority of Section 24-77-106.5, C.R.S., which requires the State Auditor to conduct an audit of the TABOR Financial Report and certification prepared by the State Controller and report the results no later than September 15.

Pursuant to Section 24-77-106.5, C.R.S., for each fiscal year, the State Controller shall prepare the TABOR Financial Report for the purpose of ascertaining the State's compliance with the constitutional provisions of TABOR. Based on the TABOR Financial Report, the State Controller is required to certify to the Governor, the General Assembly, and the Executive Director of the Department of Revenue no later than September 1st subsequent to the end of the previous fiscal year the following:

- Amount of state revenues in excess of the limitation on state fiscal year spending (known as the TABOR Revenue Limit) imposed by Article X, Section 20(7)(a) of the Colorado Constitution.

- Amount of state revenues in excess of such limitation the State is authorized to retain and spend pursuant to voter approval of Section 24-77-103.6 C.R.S. (Referendum C).

OBJECTIVES. We followed generally accepted government auditing standards when conducting our audit. The objectives of our audit were to determine (1) whether the Office of the State Controller complied with applicable laws, rules, and regulations related to Section 24-77-101 through 107, C.R.S., in preparing the TABOR Financial Report and the certification required by Section 24-77-106.5 C.R.S, and (2) whether the TABOR Financial Report and the certification were prepared in accordance with Section 24-77-101 through 107, C.R.S.

CONCLUSION. Based on the results of our audit, we determined that the TABOR Financial Report as certified by the Office of the State Controller as of September 1, 2016, agreed to the State's underlying accounting records for Fiscal Year 2016, that were contained in the State's accounting system as of August 31, 2016. Except as noted below, we noted no exceptions related to the preparation and certification of the TABOR Financial Report in accordance with applicable laws, rules, and regulations related to Section 24-77-101 through 107, C.R.S.

We identified the following potential issues related to the reliability of amounts contained in the TABOR Financial Reports as certified on September 1 and 15:

- Subsequent to the State Controller's certification of TABOR Revenue dated September 1, 2016, accounting entries have been processed by the Office of the State Controller that affect TABOR revenues and the Adjusted Limit. A portion of these adjustments are reflected in the State Controller's revised TABOR Financial Report as of September 15, 2016. The remaining adjustments, totaling $9.7 million, have not been reflected in either the September 1 or September 15, 2016, TABOR Financial Report.

- Although Section 24-30-204(3) C.R.S. requires that the official books of the State be closed no later than 35 days after the end of the June 30 fiscal year, or by August 4, the Office of the State Controller did not close the Fiscal Year 2016 books until August 26, 2016, or 22 days after the statutory deadline. As a result of the late close and the required additional timeframe for reports to be available, departments did not have sufficient time to perform final reviews and reconciliations of Fiscal Year 2016 revenue activity and balances and report any required adjustments to the Office of the State Controller prior to the statutorily-required September 1 certification date. Based on our analysis, we identified 5 departments as of the date of this letter that are still in the process of reviewing their Fiscal Year 2016 revenue activity, which could result in additional adjustments to Fiscal Year 2016 TABOR revenue.

AUDIT REPORT. Our full performance audit report will be presented to the Legislative Audit Committee in December 2016.

Sincerely,

Dianne E. Ray, CPA
State Auditor

Enc.

COLORADO
Office of the State Controller
Department of Personnel
& Administration

1525 Sherman St.
Denver, CO 80203

September 1, 2016

The Honorable John W. Hickenlooper
Governor
State of Colorado

The Honorable Bill Cadman
President of the Senate
Colorado General Assembly

The Honorable Dickey Lee Hullinghorst
Speaker of the House
Colorado General Assembly

Barbara Brohl
Executive Director
Colorado Department of Revenue

Dear Ladies and Gentlemen:

Pursuant to Section 24-77-106.5(1)(b) C.R.S., I hereby certify that for Fiscal Year 2015-16, the unaudited State revenues subject to Article X, Section 20 (TABOR) of the State Constitution as of August 31, 2016 are $12,904,019,740. Revenues are less than the Excess State Revenues Cap (ESRC) by $26,683,161, and no refund of State revenues is required in Fiscal Year 2016-17 related to Fiscal Year 2015-16 revenues subject to TABOR. Please see the attached Preliminary Schedule of Computations Required Under Article X, Section 20.

Additionally, the Comparison of Nonexempt TABOR Revenues is attached, comparing general and program nonexempt TABOR revenues for Fiscal Year 2015-16 to Fiscal Year 2014-15. Total revenues not exempt from TABOR were more than the previous fiscal year by 3.0 percent. The $12,904,019,740 nonexempt revenue is adjusted by:

- A decrease of $16,914,050 for the requalification of Adams State University as a TABOR Enterprise in Fiscal Year 2015-16, and

- An increase of $43,492,579 of newly qualified revenues recorded by Fort Lewis College and Western State Colorado University, when they disqualified as TABOR Enterprises in Fiscal Year 2015-16.

The growth rate of the nonexempt TABOR revenues is 3.0% for Fiscal Year 2015-16, which is less than the allowable TABOR growth rate of 4.4% for this fiscal year. As a result, the Amount (Over) Under the Adjusted ESRC limit decreased from $169,740,274 over the limit in Fiscal Year 2014-15 to $26,683,161 under the limit in Fiscal Year 2015-16.

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John W. Hickenlooper, Governor | June Taylor, Executive Director

The nonexempt TABOR revenues Fiscal Year Spending (FYS) limit, which, prior to Referrendum C, was the trigger used for refunding to the taxpayers, is required to be reported. For Fiscal Year 2015-16, the State revenues subject to TABOR are over the FYS limit by $2,462,302,868.

The amounts reported in the attached schedules are based on unaudited account balances, and therefore are subject to change. The State Auditor is required by statute to report on the audit of these amounts by September 15, 2016.

If there are questions concerning the information provided please feel free to contact me.

Sincerely yours,

Lynne Winchell

Lynne Winchell, MBA
Colorado Deputy State Controller

cc: June Taylor, Personnel & Administration
Henry Sobanet, OSPB

STATE OF COLORADO
PRELIMINARY SCHEDULE OF COMPUTATIONS REQUIRED
UNDER ARTICLE X, SECTION 20 -- UNAUDITED
AS OF JUNE 30, 2016

Certification Date: September 1, 2016

	FISCAL YEAR 2014-15	FISCAL YEAR 2015-16
COMPUTATION OF NONEXEMPT REVENUES		
Total State Expenditures	$ 40,414,297,024	$ 42,566,878,019
Less: Exempt Activity	28,176,543,655	29,471,766,759
Nonexempt District Expenditures	12,237,753,369	13,095,111,260
District Reserve/Fund Balance Increase (Decrease)	293,018,847	(191,091,520)
Total Nonexempt District Revenues	**$ 12,530,772,216**	**$ 12,904,019,740**
COMPUTATION OF DISTRICT FUND BALANCE CHANGES		
Beginning District Fund Balance	$ 6,844,181,851	$ 6,789,791,186
Qualifications, Disqualifications and Other Adjustments	(54,390,665)	(99,811,541)
Ending District Fund Balance	**$ 6,789,791,186**	**$ 6,689,979,645**

COMPUTATION OF SPENDING LIMITATIONS	FISCAL YEAR SPENDING	EXCESS STATE REVENUES CAP
Fiscal Year 2014-15 Limit	$ 9,976,945,707	$ 12,361,031,942
Qualification of Enterprises	(16,914,050)	(16,914,050)
Other Adjustments	(46,702)	(46,702)
Fiscal Year 2014-15 Adjusted Limit	$ 9,959,984,955	$ 12,344,071,190
Allowable TABOR Growth Rate	4.4%	4.4%
Fiscal Year 2015-16 Unadjusted Limit	$ 10,398,224,293	$ 12,887,210,322
Disqualification of Enterprises	43,492,579	43,492,579
Fiscal Year 2015-16 Adjusted Limit	$ 10,441,716,872	$ 12,930,702,901
Less: Fiscal Year 2015-16 Nonexempt District Revenues	(12,904,019,740)	(12,904,019,740)
Amount (Over)Under Fiscal Year 2015-16 Adjusted Limit	**$ (2,462,302,868)**	**$ 26,683,161**

Under(Over) Statement of Prior Years' Refunds Carried Forward to Next Refund Year	$ 45,257,634
FY 2015-16 Retention of Revenues in Excess of the Limit (not refundable) C.R.S. 24-77-103.6(1)(b)	$ 2,462,302,868

STATE OF COLORADO
OFFICE OF THE STATE CONTROLLER
COMPARISON OF NONEXEMPT TABOR REVENUES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED

	Fiscal Year 2015-16	Fiscal Year 2014-15	Increase (Decrease)	Percent Change
GENERAL REVENUES				
Individual Income Tax, Net	$ 6,009,321,330	$ 5,829,650,793	$ 179,670,537	3.1%
Sales and Use Tax, Net	2,826,501,589	2,837,452,888	(10,951,299)	-0.4%
Corporate Income Tax, Net	606,441,176	635,114,790	(28,673,614)	-4.5%
Insurance Taxes	277,452,466	256,662,582	20,789,884	8.1%
Tobacco Products Tax, Net	58,310,466	55,681,549	2,628,917	4.7%
Alcoholic Beverages Tax, Net	43,563,728	41,479,003	2,084,725	5.0%
Fiduciary Income Tax, Net	40,481,628	58,384,780	(17,903,152)	-30.7%
Interest and Investment Income	12,247,469	7,713,221	4,534,248	58.8%
Court and Other Fines	9,635,176	6,466,697	3,168,479	49.0%
Business Licenses and Permits	7,794,948	5,198,179	2,596,769	50.0%
Miscellaneous Revenue	1,424,718	2,084,932	(660,214)	-31.7%
Gaming and Other Taxes	573,330	669,155	(95,825)	-14.3%
General Government Service Fees	436,561	304,363	132,198	43.4%
Other General Revenue	40,001	60,314	(20,313)	-33.7%
Severance Tax, Net	-	16,226,732	(16,226,732)	-100.0%
TOTAL GENERAL REVENUES	9,894,224,586	9,753,149,978	141,074,608	1.4%
PROGRAM REVENUE				
Health Service Fees	877,781,268	597,926,458	279,854,810	46.8%
Fuel and Transportation Taxes, Net	611,582,083	601,514,776	10,067,307	1.7%
Motor Vehicle Registrations	255,992,618	250,417,149	5,575,469	2.2%
Miscellaneous Revenue	178,558,174	45,383,023	133,175,151	293.4%
Court and Other Fines	174,498,360	166,890,612	7,607,748	4.6%
Business Licenses and Permits	166,926,712	155,808,015	11,118,697	7.1%
Other Charges For Services	147,684,875	147,995,864	(310,989)	-0.2%
Gaming and Other Taxes	101,887,325	98,862,345	3,024,980	3.1%
General Government Service Fees	56,327,494	60,122,937	(3,795,443)	-6.3%
Rents and Royalties	53,779,416	48,129,695	5,649,721	11.7%
Public Safety Service Fees	46,672,427	35,361,469	11,310,958	32.0%
Interest and Investment Income	45,274,379	48,905,973	(3,631,594)	-7.4%
Sales and Use Tax, Net	45,222,821	50,740,590	(5,517,769)	-10.9%
Educational Fees	44,812,190	45,758,464	(946,274)	-2.1%
Local Governments and Authorities	43,177,160	29,730,406	13,446,754	45.2%
Driver's Licenses	38,235,424	33,773,790	4,461,634	13.2%
Nonbusiness Licenses and Permits	34,903,177	34,660,937	242,240	0.7%
Employment Taxes	30,767,812	29,380,594	1,387,218	4.7%
Certifications and Inspections	20,141,368	19,821,410	319,958	1.6%
Insurance Taxes	12,725,255	18,162,254	(5,436,999)	-29.9%
Severance Taxes	11,772,706	272,991,579	(261,218,873)	-95.7%
Higher Education Auxiliary Sales and Services	6,066,215	6,867,366	(801,151)	-11.7%
Other Program Revenue	5,005,895	4,995,061	10,834	0.2%
TOTAL PROGRAM REVENUES	3,009,795,154	2,804,200,767	205,594,387	7.3%
Requalification of Adams State University as a TABOR Enterprise	-	16,914,050	(16,914,050)	
Disqualification of Fort Lewis College and Western State Colorado University as TABOR Enterprises		(43,492,579)	43,492,579	
TOTAL CASH-FUNDED REVENUE	3,009,795,154	2,777,622,238	232,172,916	8.4%
TOTAL NONEXEMPT REVENUE	$ 12,904,019,740	$ 12,530,772,216	$ 373,247,524	3.0%

COLORADO
Office of the State Controller
Department of Personnel
& Administration

1525 Sherman St.
Denver, CO 80203

September 15, 2016

The Honorable John W. Hickenlooper
Governor
State of Colorado

The Honorable Bill Cadman
President of the Senate
Colorado General Assembly

The Honorable Dickey Lee Hullinghorst
Speaker of the House
Colorado General Assembly

Barbara Brohl
Executive Director
Colorado Department of Revenue

Dear Ladies and Gentlemen:

This letter revises the previous TABOR revenue certification letter dated September 1, 2016. Since September 1, the Department of Public Safety identified $23,209,446 of TABOR exempt revenue in Fiscal Year 2015-16, and $28,571,834 of TABOR exempt revenue from Fiscal Years 2013-15 that had previously been recorded as nonexempt in those respective fiscal years. Other prior year adjustments included an increase in nonexempt revenue of $346,219 from the Department of Natural Resources and an increase of $12,232 in the base adjustment for prior year revenues from disqualified enterprises The net result of these changes were to reduce total nonexempt revenue and the TABOR refund liability, and to increase the amount of TABOR revenue under the Excess State Revenues Cap, from the amounts certified previously.

Therefore, pursuant to Section 24-77-106.5(1)(b) C.R.S., I hereby re-certify that for Fiscal Year 2015-16, the unaudited State revenues subject to Article X, Section 20 (TABOR) of the State Constitution as of August 31, 2016 are $12,880,810,294. Revenues are less than the Excess State Revenues Cap (ESRC) by $49,905,378, and no refund of State revenues is required in Fiscal Year 2016-17 related to Fiscal Year 2015-16 revenues subject to TABOR. Please see the attached Preliminary Schedule of Computations Required Under Article X, Section 20.

Additionally, the Comparison of Nonexempt TABOR Revenues is attached, comparing general and program nonexempt TABOR revenues for Fiscal Year 2015-16 to Fiscal Year 2014-15. Total revenues not exempt from TABOR were more than the previous fiscal year by 2.8 percent. Fiscal Year 2014-15 nonexempt revenue is adjusted by:

- A decrease of $16,914,050 for the requalification of Adams State University as a TABOR Enterprise in Fiscal Year 2015-16,

- An increase of $43,492,579 of newly qualified revenues recorded by Fort Lewis College and Western State Colorado University, when they disqualified as TABOR Enterprises in Fiscal Year 2015-16, and

- A decrease of $28,225,615 for revenue originally recognized as nonexempt from TABOR that should have been recognized as exempt, primarily due to reclassification of revenues at the Department of Public Safety.

The growth rate of the nonexempt TABOR revenues is 2.8% for Fiscal Year 2015-16, which is less than the allowable TABOR growth rate of 4.4% for this fiscal year. As a result, the Amount (Over) Under the Adjusted ESRC limit decreased from $169,740,274 over the limit in Fiscal Year 2014-15 to $49,905,378 under the limit in Fiscal Year 2015-16.

The nonexempt TABOR revenues Fiscal Year Spending (FYS) limit, which, prior to Referrendum C, was the trigger used for refunding to the taxpayers, is required to be reported. For Fiscal Year 2015-16, the State revenues subject to TABOR are over the FYS limit by $2,470,448,133.

The remaining amount of Fiscal Year 2014-15 revenue in excess of the limit to be refunded is $31,165,536.

The amounts reported in the attached schedules are based on unaudited account balances, and therefore are subject to change. The State Auditor is required by statute to report on the audit of these amounts by September 15, 2016.

If there are questions concerning the information provided please feel free to contact me.

Sincerely yours,

Robert Jaros

Robert Jaros, CPA, MBA, JD
Colorado State Controller

cc: June Taylor, Personnel & Administration
Henry Sobanet, OSPB

STATE OF COLORADO
PRELIMINARY SCHEDULE OF COMPUTATIONS REQUIRED
UNDER ARTICLE X, SECTION 20 -- UNAUDITED
AS OF JUNE 30, 2016

Certification Date: September 14, 2016

	FISCAL YEAR 2014-15	FISCAL YEAR 2015-16
COMPUTATION OF NONEXEMPT REVENUES		
Total State Expenditures	$ 40,414,297,024	$ 42,566,878,019
Less: Exempt Activity	28,176,543,655	29,494,976,205
Nonexempt District Expenditures	12,237,753,369	13,071,901,814
District Reserve/Fund Balance Increase (Decrease)	293,018,847	(191,091,520)
Total Nonexempt District Revenues	**$ 12,530,772,216**	**$ 12,880,810,294**
COMPUTATION OF DISTRICT FUND BALANCE CHANGES		
Beginning District Fund Balance	$ 6,844,181,851	$ 6,789,791,186
Qualifications, Disqualifications and Other Adjustments	(54,390,665)	(99,811,541)
Ending District Fund Balance	**$ 6,789,791,186**	**$ 6,689,979,645**

COMPUTATION OF SPENDING LIMITATIONS	**FISCAL YEAR SPENDING**	**EXCESS STATE REVENUES CAP**
Fiscal Year 2014-15 Limit	$ 9,976,945,707	$ 12,361,031,942
Qualification of Enterprises	(16,914,050)	(16,914,050)
Other Adjustments	(30,079,950)	(34,470)
Fiscal Year 2014-15 Adjusted Limit	$ 9,929,951,707	$ 12,344,083,422
Allowable TABOR Growth Rate	4.4%	4.4%
Fiscal Year 2015-16 Unadjusted Limit	$ 10,366,869,582	$ 12,887,223,093
Disqualification of Enterprises	43,492,579	43,492,579
Fiscal Year 2015-16 Adjusted Limit	$ 10,410,362,161	$ 12,930,715,672
Less: Fiscal Year 2015-16 Nonexempt District Revenues	(12,880,810,294)	(12,880,810,294)
Amount (Over)Under Fiscal Year 2015-16 Adjusted Limit	**$ (2,470,448,133)**	**$ 49,905,378**

Under(Over) Statement of Prior Years' Refunds Carried Forward to Next Refund Year	$ 31,165,536
FY 2015-16 Retention of Revenues in Excess of the Limit (not refundable) C.R.S. 24-77-103.6(1)(b)	$ 2,470,448,133

STATE OF COLORADO
OFFICE OF THE STATE CONTROLLER
COMPARISON OF NONEXEMPT TABOR REVENUES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
UNAUDITED

	Fiscal Year 2015-16	Fiscal Year 2014-15	Increase (Decrease)	Percent Change
GENERAL REVENUES				
Individual Income Tax, Net	$ 6,009,321,330	$ 5,829,650,793	$ 179,670,537	3.1%
Sales and Use Tax, Net	2,826,501,589	2,837,452,888	(10,951,299)	-0.4%
Corporate Income Tax, Net	606,441,176	635,114,790	(28,673,614)	-4.5%
Insurance Taxes	277,452,466	256,662,582	20,789,884	8.1%
Tobacco Products Tax, Net	58,310,466	55,681,549	2,628,917	4.7%
Alcoholic Beverages Tax, Net	43,563,728	41,479,003	2,084,725	5.0%
Fiduciary Income Tax, Net	40,481,628	58,384,780	(17,903,152)	-30.7%
Interest and Investment Income	12,247,469	7,713,221	4,534,248	58.8%
Court and Other Fines	9,635,176	6,466,697	3,168,479	49.0%
Business Licenses and Permits	7,794,948	5,198,179	2,596,769	50.0%
Miscellaneous Revenue	1,424,718	2,084,932	(660,214)	-31.7%
Gaming and Other Taxes	573,330	669,155	(95,825)	-14.3%
General Government Service Fees	436,561	304,363	132,198	43.4%
Other General Revenue	40,001	60,314	(20,313)	-33.7%
Severance Tax, Net	-	16,226,732	(16,226,732)	-100.0%
TOTAL GENERAL REVENUES	9,894,224,586	9,753,149,978	141,074,608	1.4%
PROGRAM REVENUE				
Health Service Fees	877,781,268	597,926,458	279,854,810	46.8%
Fuel and Transportation Taxes, Net	611,582,083	601,514,776	10,067,307	1.7%
Motor Vehicle Registrations	255,992,618	250,417,149	5,575,469	2.2%
Miscellaneous Revenue	178,558,174	45,729,242	132,828,932	290.5%
Court and Other Fines	174,498,360	166,890,612	7,607,748	4.6%
Business Licenses and Permits	166,926,712	155,808,015	11,118,697	7.1%
Other Charges For Services	147,684,875	147,995,864	(310,989)	-0.2%
Gaming and Other Taxes	101,887,325	98,862,345	3,024,980	3.1%
General Government Service Fees	56,327,494	60,122,937	(3,795,443)	-6.3%
Rents and Royalties	53,779,416	48,129,695	5,649,721	11.7%
Public Safety Service Fees	23,462,981	6,789,635	16,673,346	245.6%
Interest and Investment Income	45,274,379	48,905,973	(3,631,594)	-7.4%
Sales and Use Tax, Net	45,222,821	50,740,590	(5,517,769)	-10.9%
Educational Fees	44,812,190	45,758,464	(946,274)	-2.1%
Local Governments and Authorities	43,177,160	29,730,406	13,446,754	45.2%
Driver's Licenses	38,235,424	33,773,790	4,461,634	13.2%
Nonbusiness Licenses and Permits	34,903,177	34,660,937	242,240	0.7%
Employment Taxes	30,767,812	29,380,594	1,387,218	4.7%
Certifications and Inspections	20,141,368	19,821,410	319,958	1.6%
Insurance Taxes	12,725,255	18,162,254	(5,436,999)	-29.9%
Severance Taxes	11,772,706	272,991,579	(261,218,873)	-95.7%
Higher Education Auxiliary Sales and Services	6,066,215	6,867,366	(801,151)	-11.7%
Other Program Revenue	5,005,895	4,995,061	10,834	0.2%
TOTAL PROGRAM REVENUES	2,986,585,708	2,775,975,152	210,610,556	7.6%
Requalification of Adams State University as a TABOR Enterprise		16,914,050	(16,914,050)	
Disqualification of Fort Lewis College and Western State Colorado University as TABOR Enterprises		(43,492,579)	43,492,579	
Prior Year Errors		28,225,615	(28,225,615)	
TOTAL CASH-FUNDED REVENUE	2,986,585,708	2,777,622,238	208,963,470	7.5%
TOTAL NONEXEMPT REVENUE	$ 12,880,810,294	$ 12,530,772,216	$ 350,038,078	2.8%

SCHEDULE
OF TABOR REVENUE 2016

OVERVIEW

The Taxpayer's Bill of Rights (TABOR) was added as Article X, Section 20 of the Colorado Constitution in the November 1992 general election. TABOR limits the annual growth in state revenues to the sum of the inflation rate and the percentage change in the State's population; this is called the TABOR growth rate. Any money the State raises above that amount must be returned to the taxpayers.

Section 24-77-106.5, C.R.S., requires that the State Controller prepare and distribute a TABOR Financial Report annually to the Governor, the General Assembly, and the Executive Director of the Department of Revenue no later than September 1 following the end of a fiscal year. The TABOR Financial Report is required to include the following:

- The amount of state revenues in excess of the limitation on state fiscal year spending, and,
- The amount of state revenues in excess of such limitation the state is authorized to retain and spend pursuant to voter approval of Referendum C.

Referendum C was approved by the voters in November 2005 and established a new revenue limit, which is referred to as the Excess State Revenues Cap.

The TABOR Financial Report prepared by the Office of the State Controller (OSC) for Fiscal Year 2016 includes the *Preliminary Schedule of Computations Required Under Article X, Section 20 of the State Constitution as of June 30, 2016* [Unaudited]; and the *Comparison of Non-Exempt TABOR Revenues for the Fiscal Year Ended June 30, 2016* [Unaudited].

AUDIT SCOPE AND METHODOLOGY

This performance audit was conducted in order to comply with statutory requirements. Section 24-77-106.5, C.R.S., requires that the State Auditor conduct an audit of the TABOR Financial Report and certification of excess state revenues prepared by the State Controller. We performed our audit work during the period June 2016 through September 2016.

The reporting for this performance audit includes a letter from the State Auditor reporting on the results of the performance audit. This letter from the State Auditor was transmitted in accordance with Section 24-77-106.5(2), C.R.S., to the Governor, Joint Budget Committee, the Finance Committees of the House of Representatives and the Senate, and the Executive Director of the Department of Revenue, on September 15, 2016, along with the OSC certification and TABOR Financial Report dated September 1, 2016, and the OSC recertification and updated TABOR Financial Report dated September 15, 2016. We acknowledge the cooperation and assistance provided by the State Controller and staff at the OSC.

The overall objective of our audit was to evaluate the TABOR Financial Report and certification of excess state revenues issued by the State Controller pursuant to Sections 24-77-101 through 107, C.R.S. Specifically, our objectives were to determine the following:

- Whether the OSC complied with applicable laws, rules, and regulations related to Article X, Section 20 of the State Constitution (TABOR) in preparing the financial report and certification required by Section 24-77-106.5, C.R.S.

- Whether the schedules contained in the TABOR Financial Report and the certification submitted were prepared in accordance with Sections 24-77-101 through 107, C.R.S.

We planned our audit work to assess the effectiveness of those internal controls that were significant to our audit objectives. To accomplish our audit objectives, we:

- Identified and documented our consideration of changes to statutory, regulatory, and other legal requirements that impact TABOR and are applicable to the audit and the audit objectives.

- Reviewed, evaluated, and reperformed key calculations used by the OSC in the preparation of its TABOR Financial Report, including TABOR revenues, the anticipated TABOR growth rate, revenues exempt from TABOR requirements, the TABOR Adjusted Spending Limit, and the Excess State Revenues Cap.

- Reviewed reports submitted by state departments detailing changes in TABOR revenue from prior years, base fiscal year spending, and changes in TABOR enterprise status.

- Reviewed the accounts and transactions that are not included as TABOR revenue and determined whether they met the statutory or voter-approved requirement to be classified as exempt.

- Evaluated and, where appropriate, tested internal controls around the preparation of the TABOR Financial Report by the State Controller.

We conducted this performance audit in accordance with generally accepted government auditing standards. As part of our annual statewide financial audit that is currently ongoing for Fiscal Year 2016, we will also conduct a financial audit of the State's financial statements and the final *Schedule of Computations Required Under Article X, Section 20 of the State Constitution*, with field work scheduled to be completed in February 2017. The objective of the financial audit is to express opinions as to whether the State's basic financial statements and the *Schedule of Computations Required Under Article X, Section 20 of the State Constitution* are fairly presented, in all material respects, in conformity with generally accepted accounting principles. The results of the financial audit and related work performed over the *Schedule of Computations Required Under Article X, Section 20 of the State Constitution* are not included in the scope of this performance audit.

OVERALL CONCLUSION

Based on the results of our audit, we determined that the TABOR Financial Report as certified by the OSC on September 1, 2016, agreed to the State's underlying accounting records for Fiscal Year 2016, that were contained in the State's accounting system as of August 31, 2016. We also determined that the adjustments reported by the OSC on the September 15 recertification agreed to the supporting documentation provided by the OSC. Except as noted below, we noted no exceptions related to the preparation and certification of the TABOR Financial Report in accordance with applicable laws, rules, and regulations related to Sections 24-77-101 through 107, C.R.S.

PREPARATION OF THE FISCAL YEAR 2016 TABOR FINANCIAL REPORT

As required by statute [Section 24-77-106.5, C.R.S.], the OSC annually prepares a TABOR Financial Report and letter of certification that outline State revenues subject to Article X, Section 20 (TABOR) of the State Constitution. The TABOR Financial Report for Fiscal Year 2016, which consists of the *Preliminary Schedule of Computations Required Under Article X, Section 20 of the State Constitution as of June 30, 2016* [Unaudited] and the *Comparison of Non-Exempt TABOR Revenues for the Fiscal Year Ended June 30, 2016* [Unaudited], contains several elements required by statute, including state fiscal year spending, total revenues, reserves (fund balance), revenues the State is allowed to retain and spend pursuant to Referendum C, and debt. The key elements contained in the TABOR Financial Report are further defined below.

TABOR REVENUE LIMIT

Article X, Section 20(7)(a) of the State Constitution contains a formula for calculating the TABOR Revenue Limit which involves multiplying a base amount by the TABOR growth rate. The base amount for the TABOR Revenue Limit is the lesser of either the prior year's revenue or spending limit.

TABOR GROWTH RATE

Article X, Section 20(7)(a) limits the annual growth in state revenues to the sum of the inflation rate and the percentage change in the State's population in the prior calendar year. For Fiscal Year 2016, the TABOR growth rate was 4.4 percent.

EXCESS STATE REVENUES CAP

In November 2005, Referendum C, which would allow the State to spend or save the full amount of revenue it collected during a specified subsequent five-year period, was approved in the general election. During Fiscal Year 2005, the General Assembly enacted House Bill 05-1194 as the enabling legislation for Referendum C, making it effective as of July 1, 2005. Referendum C allowed the State to spend or save the full amount of revenue it collected from Fiscal Years 2006 through 2010 in order to set the spending limit equal to revenue. After this 5 year break, Referendum C allows the State to keep revenue up to a capped amount known as the Excess State Revenues Cap (Cap). Beginning in Fiscal Year 2011, the Cap was equal to the highest amount of revenue that was collected in the 5 previous years, multiplied by the TABOR growth rate. In subsequent years, the Cap is calculated using the previous year's Cap multiplied by the TABOR growth rate. The State is allowed to retain and spend revenue in excess of the TABOR Revenue Limit but must refund revenue above the Excess State Revenues Cap.

EXEMPT AND NONEXEMPT REVENUE

All revenue collected by the state is included in the TABOR revenue limit calculation or "nonexempt" revenue unless it is exempted under Article X, Section 20(7)(a) as follows:

- Revenue collected by an enterprise which is defined as a government-owned business receiving under 10 percent in grants of annual revenue from state and local governments.
- Voter approved revenue exemptions.

WHAT WAS THE PURPOSE OF THE AUDIT WORK?

The purpose of our audit work was to determine whether the State Controller complied with applicable laws, rules, and regulations related to Article X, Section 20, of the State Constitution (TABOR) in preparing the Fiscal Year 2016 TABOR Financial Report and certification required by Section 24-77-106.5, C.R.S., and whether the schedules contained within the Fiscal Year 2016 TABOR Financial Report and the certification were prepared in accordance with Sections 24-77-101 through 106.5, C.R.S.

WHAT AUDIT WORK WAS PERFORMED AND HOW WERE RESULTS MEASURED?

We reviewed the OSC's internal controls and processes around the preparation of the TABOR Financial Report, as well as amounts contained on the TABOR Financial Report. Specifically, we reviewed the OSC's policies and procedures regarding preparation of the report; obtained the Schedules contained within the TABOR Financial Report and performed testing of the Schedules which included verifying amounts to the Colorado Operations Resource Engine (CORE), and recalculating the TABOR revenue limit, TABOR growth rate, and Excess State Revenues Cap; and reviewed variance analysis reports submitted by department controllers to the OSC related to the TABOR Financial Report.

Section 24-30-204(3) C.R.S., states, "The official books of the state shall be closed no later than 35 days after the end of the fiscal year. As of this date, all adjusted revenue, expenditures, and expense accounts shall be closed into the state accounting system in order to divide the financial details of the state into comparable periods." Because the State's fiscal year ends on June 30, the official books for Fiscal Year 2016 were required by this statute to be closed by August 4, 2016.

The OSC utilizes information contained in CORE to prepare the TABOR Financial Report. The OSC annually compares current fiscal year TABOR revenue to prior fiscal year TABOR revenue by reviewing variance analysis reports submitted by the departments. These reports allow the OSC to identify and investigate reasons for variances and to assist in validating the accuracy of the TABOR Financial Report. The OSC directed departments in its May 2016 Fiscal Procedures Manual (Manual) to prepare and submit an Exhibit I, *Letter of Certification of Financial Accounting and Reporting Systems*, and instructed departments to submit the Exhibit I and variance analysis reports by August 24. This is to ensure that the OSC had the most complete and accurate information on which to base the TABOR Financial Report by September 1. The OSC relies on TABOR variance explanations from the departments along with OSC management review of the TABOR Financial Report to serve as the primary controls to ensure the accuracy of the TABOR Financial Report.

WHAT PROBLEM DID THE AUDIT WORK IDENTIFY?

We noted the following issues with the TABOR Financial Report for Fiscal Year 2016:

FISCAL YEAR 2016 ACCOUNTING RECORDS WERE NOT CLOSED WITHIN STATUTORY TIMEFRAME, RESULTING IN INSUFFICIENT TIME FOR REVIEW. The official accounting records of the State are statutorily required to be closed by August 4. For Fiscal Year 2016, the OSC did not close the accounting records until August 26, 2016, or 22 days after the statutory deadline. As a result, departments had only 3 days after the books closed to review revenue activity, make necessary adjustments, and report back to the OSC on reasons for and appropriateness of significant revenue variances. In turn, the OSC had insufficient time to review Fiscal Year 2016 activity including generating and reviewing diagnostic reports to identify potential errors and anomalies, departments' responses, and process adjustments prior to the

September 1 certification date and the creation of the TABOR Financial Report.

Subsequent to the State Controller certifying TABOR revenue on September 1, a misclassification by one department was identified of approximately $23 million as nonexempt rather than exempt TABOR revenue in Fiscal Year 2016, and approximately $28 million that was incorrectly categorized as nonexempt rather than exempt TABOR revenue in prior years. As a result, the OSC provided a revised TABOR Financial Report and recertified TABOR revenue on September 15, 2016, to reflect the correction of the errors. We also determined that approximately $9.7 million in additional department revenue adjustments that had been recorded in CORE as of September 15, 2016, were not reflected in either the September 1 or September 15 certifications.

As of September 15, five departments were still in the process of reviewing and adjusting their Fiscal Year 2016 revenue activity. As a result, departments may continue to identify necessary adjustments which could result in additional revisions to Fiscal Year 2016 TABOR revenue subsequent to the State Controller's recertification. The OSC reports that it may approve revenue adjustments up until the final audited financial statements are issued; the OSC will reflect these revenue adjustments in the final TABOR revenue report expected to be issued in the spring of 2017.

THE OSC PROVIDED INCONSISTENT GUIDANCE TO DEPARTMENTS REGARDING DUE DATES. The OSC instructed the departments in its May 2016 Manual to submit an Exhibit I certifying that amounts reported in the financial accounting system were accurate, and variance analysis reports describing significant TABOR revenue differences by August 24. However, just before the due date, the OSC provided clarification to departments extending the deadline to submit the variance analysis reports to August 29. On August 30, we received information from the OSC stating that they had allowed some departments to delay submission of the Exhibit I until September 30.

WHY DID THE PROBLEM OCCUR?

At the beginning of Fiscal Year 2015, the State replaced its 24-year-old financial reporting system (COFRS) with CORE. In our Fiscal Year 2015 Schedule of TABOR Revenue performance audit report issued in September 2015, we reported CORE implementation-related issues that resulted in a finding to the OSC. Specifically, we noted that the OSC experienced difficulties after the implementation that resulted in significant delays in the data entry, reporting, and the closing of the State's financial accounting records, which happened on October 9, 2015, for Fiscal Year 2015. We recommended in that report that the OSC ensure that it complies with state law related to the preparation of the annual TABOR Financial Report including closing financial accounting periods in a timely manner in accordance with State statutes to ensure that accurate revenue information is available to prepare the annual TABOR Financial Report.

While the OSC closed the books for Fiscal Year 2016 earlier than Fiscal Year 2015, the OSC continued to experience difficulties resulting from CORE implementation that caused delays in data entry, communication, and the closing of the State's books. In addition, the lack of clear, consistent guidance on Exhibit I due dates reduced the OSC's ability to rely on the information submitted by departments prior to the September 1 certification date in order to ensure that TABOR revenues recorded as of that date were accurate.

WHY DO THESE PROBLEMS MATTER?

A lack of sufficient processes that allow for timely reviews of and adjustments to TABOR revenue increases the risk of inaccurate reporting of information as well as the risk of noncompliance with the constitutional provisions and state laws, rules, and regulations related to TABOR. Further, providing an accurate TABOR Financial Report is especially important if the State were to exceed allowable spending limits under the constitutional provisions of TABOR for a fiscal year. While the amounts recertified by the OSC on September 15, 2016 continue to indicate that the State is under the limit for Fiscal Year

2016, during a refund year, the executive director of the Department of Revenue relies on the TABOR Financial Report certified by the OSC on September 1 to determine the amount to be refunded on individuals' income tax returns.

RECOMMENDATION 1

The Office of the State Controller should ensure that it complies with state law related to the preparation of the annual TABOR Financial Report. This should include:

A Closing financial accounting periods in a timely manner and in accordance with state statutes.

B Working with departments prior to the close of the fiscal year to provide consistent guidance and allow sufficient time for review of TABOR revenues to ensure that accurate revenue information is used to prepare the TABOR Financial Report.

RESPONSE

OFFICE OF THE STATE CONTROLLER

A AGREE. IMPLEMENTATION DATE: AUGUST 2017.

Since the implementation of the Colorado Operations Resource Engine (CORE) in July 2014, accounting period closes were delayed due to issues experienced with labor allocation. These issues were minimized, and a regular accounting period close was established in late Fiscal Year 2016. In Fiscal Year 2017, monthly accounting periods are scheduled to close in a timely manner, and the OSC has targeted closing the official books on August 4, 2017, which is 35 days after the last day of the fiscal year in accordance with statute.

B AGREE. IMPLEMENTATION DATE: JUNE 2017.

The OSC will provide clear guidance to departments at the open/close training scheduled for May 2017. This guidance will include the timing of the submission of Exhibit I, in which departments certify the accuracy of amounts reporting in the financial system and submit a variance analysis for significant TABOR revenue differences from the prior year. The OSC's target date for submission of the Exhibit I for Fiscal Year 2017 is August 4, 2017, which should allow for sufficient time for review. The open/close training will also include revisions to the Fiscal Procedures Manual to address expectations for submission of all year-end exhibits and the fiscal year-end closing calendar. The OSC will communicate clearly and consistently any changes in the timing of submission of the Exhibits.