

Department of Public Health and Environment
Health Facilities and Emergency Medical Services Division

Health Facility Licensing Program and Cash Funds

Performance Audit

July 2025

2460P

Public Report



Legislative Audit Committee

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July 23, 2025

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the Health Facility Licensing Program and Cash Funds at the Department of Public Health and Environment (Department). The audit was conducted pursuant to Section 2-3-129, C.R.S., which requires the State Auditor to conduct an audit of the license fees paid into the Health Facilities General Licensure Cash Fund, the Assisted Living Residence Cash Fund, and the Home Care Agency Cash Fund; as well as Section 2-7-204(5), C.R.S., which requires the State Auditor to annually conduct performance audits of one or more specific programs or services in at least two departments for purposes of the SMART Government Act. The report presents our conclusions, findings, and recommendations, and the responses of the Department's Health Facilities and Emergency Medical Services Division (Division).

Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate "classified or limited use report" because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of Finding 4 related to access management of the Colorado Health Facilities Interactive (COHFI) system, and the related recommendation, to be sensitive in nature and not appropriate for public disclosure. Therefore, we have provided the details of this finding and recommendation to Department and Division management and to the Legislative Audit Committee in a confidential report, under cover "2460P-CONF Confidential Report," separate from the public report ("2460P Public Report"). The finding with omitted information in the public report includes a disclosure of the omission.

Kerri L. Hunter



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Report Highlights

Health Facility Licensing Program and Cash Funds

Department of Public Health and Environment
Health Facilities and Emergency Medical Services Division
Performance Audit • July 2025 • 2460P



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Key Concern

The Health Facilities and Emergency Medical Services Division (Division) lacks comprehensive written plans and reliable workload and other data to support budget requests that it has made over the last several years with the stated intent of maintaining the solvency of the health facility licensing cash funds. Further, the Division’s controls do not ensure appropriate licensing fees are collected, timely licensure surveys are conducted, and licensing system user access is compliant.

Key Findings

- While the Division may need the funding it requested to conduct licensing activities, it did not spend most of the \$3.1 million in one-time funding it received in Fiscal Years 2023 and 2024. Increases to fees and the Division’s annual General Fund appropriation will result in roughly a \$4.3 million increase in the Division’s annual funding between Fiscal Year 2024 and Fiscal Year 2029. Although it is actively pursuing initiatives to improve staffing, the Division has yet to develop a written plan that clearly delineates scope, cost, and timeline for implementing these initiatives. Further, the Division could not reliably identify the total licensing inspections (“surveys”) completed, complaints received, or staffing needed for federal activities paid for by federal funds.
- Our sample testing found that 7 of 20 (35 percent) license fee payments made in Fiscal Year 2024 were calculated incorrectly by Division staff, the facility, or both; 10 of 10 (100 percent) assisted living residences did not receive statutorily-required annual licensing surveys; and 10 of 50 (20 percent) other facility types did not receive a licensing survey during the 5-year period we reviewed.

Background

The Division licenses Colorado health facilities to ensure that the care and services they provide meet state requirements. In Fiscal Year 2024, there were 2,515 licensed facilities and the Division collected nearly \$7 million in licensing fees. The Division uses these fees to fund the direct and indirect costs of the Division’s licensing program and accounts for the related activities in the State’s accounting system in three cash funds; the three cash funds had a total balance of approximately \$4.5 million at the end of Fiscal Year 2024.

Audit Recommendations Made	Agency Responses		
	Agree	Partially Agree	Disagree
12	11	1	0



Chapter 1

Overview of the Health Facility Licensing Program and Cash Funds

Within the Colorado Department of Public Health and Environment (Department), the Health Facilities and Emergency Medical Services Division (Division) regulates health care facilities that operate in Colorado to ensure that the care and services they provide to residents, patients, and clients meet state and federal requirements. State requirements are enforced through the Division's licensing program, and facilities pay fees to obtain licenses required to operate. Statutes establish three health facility licensing cash funds (licensing cash funds) for the Department to use for accounting for these licensing fees—the Home Care Agency Cash Fund (Home Care Fund), for fees from all home care, health, and placement agencies [Section 25-27.5-105, C.R.S.]; the Assisted Living Residence Cash Fund (Assisted Living Fund), for fees paid by all assisted living residences [Section 25-27-107.5, C.R.S.]; and the Health Facilities General Licensure Cash Fund (General Licensure Fund), for fees from all remaining facilities, including hospitals, nursing homes, and ambulatory surgical centers [Section 25-3-103.1, C.R.S.]. The federal requirements are enforced through the Division's federal certification program, which is supported with federal funding.

Licensing Program, Fees, and the Cash Funds

In Fiscal Year 2024, there were 2,515 actively-licensed health care facilities in Colorado. Different types of facilities have different types of licenses, based on the specific services and care provided and the state regulations associated with them. The different license types have fee schedules that are detailed in state regulations [6 CCR 1011-1], and fee amounts are based in part on the facility's size (e.g., number of patient beds, total admissions). Facilities must annually reapply for licensure and pay the related license fees. Exhibit 1.1 shows, for Fiscal Year 2024, the total number of health care facilities licensed by type, the total related fees paid, and the average fee paid by a facility.

Exhibit 1.1

Total Number of Health Care Facilities Licensed by Type, Total Licensing Fees Paid, and Average Licensing Fee Paid, for Fiscal Year 2024

Facility Type	Number of Licensed Facilities	Total Licensing Fees Paid in FY 2024	Average Fee Paid in FY 2024 ¹
Home Care Agency	907	\$1,530,000	\$1,700
Assisted Living Residence	677	\$3,160,000	\$4,700
Nursing Facility	224	\$750,000	\$3,600
Ambulatory Surgical Center	159	\$390,000	\$2,500
Hospice	118	\$410,000	\$3,600
General Hospital	98	\$310,000	\$4,400
Dialysis Center	86	\$230,000	\$2,800
Other Licensed Facilities	246 ²	\$200,000	\$1,200
Total	2,515	\$6,980,000	\$2,900

Source: Office of the State Auditor analysis of Division facility data and licensing fee revenue data from the State's accounting system, the Colorado Operations Resource Engine (CORE).

¹ Across facility types, 149 facilities are owned by the State or a local political subdivision and, thus, do not pay fees and were not considered in calculating the average fee payment.

² This includes behavioral health facilities that had a license from the Division in Fiscal Year 2024 but stopped being regulated by the Division on January 1, 2025, under House Bill 23-1236.

When a facility applies to be licensed for the first time, it submits a letter of intent and associated fee to the Division at least 90 days before the anticipated opening date. The Division sends the facility owner the appropriate application and collaborates with them to ensure that all required documentation is submitted. Division staff then conduct an on-site inspection of the facility to determine whether it complies with relevant regulations. The Division refers to facility inspections as “surveys.” A facility’s license is valid for 1 year, and the facility is responsible for submitting a license renewal application and relevant fees prior to the license expiring. Facility licenses also need to be updated with the associated fee payment when there is a change of ownership, licensed capacity (i.e., the number of beds or procedure rooms), name, scope of services, license category, or address. The Department’s website contains a number of resources for facilities seeking licensure, including all of the requirements, fees, and documents necessary for a facility to become licensed, as well as a flowchart detailing the process.

The Department and the State Board of Health (Board) promulgate rules related to health facility licensing. The Board is responsible for establishing the requirements to receive and maintain a health facility license. Until recently, the Board was also charged with establishing a fee schedule with fees set at a level that will “meet the direct and indirect costs of administration and enforcement” of licensing and regulating health facilities, but the fees could not be raised more than the rate of inflation each year. For Fiscal Year 2025, the Board raised fees by 8.01 percent. However, with the

passage of House Bill 24-1417 during the 2024 Legislative Session, beginning in Fiscal Year 2026, fee schedules are no longer subject to rule-making by the Board, and instead fees will be increased by amounts set in statute—by 8 percent for Fiscal Year 2026, by 6 percent for each of the next 3 years, and by the rate of inflation from Fiscal Year 2030 onward [Sections 25-3-105(1)(a)(I)(A), (B), and (B.5), C.R.S.]. For example, in Fiscal Year 2025, base license renewal fees ranged from about \$400 to \$4,400, depending on the facility type and if the facility was Medicare and/or Medicaid certified; these fees will increase by 8 percent for Fiscal Year 2026. Facilities may also pay additional fees that are based on factors such as the number of beds or workstations. Exhibit 1.2 outlines the license renewal fees in Fiscal Years 2025 and 2026.

Exhibit 1.2

License Renewal Fees by Facility Type for Fiscal Years 2025 and 2026

Facility Type	License Renewal Fee Type	Fiscal Year 2025 Renewal Fees	Fiscal Year 2026 Renewal Fees
Home Care Agency¹	Base Renewal Fee:	\$1,431.13, or \$1,674.15 if the facility provides medical services	\$1,545.62, or \$1,808.09 if the facility provides medical services
	Additional Fees:	• \$108.01 to \$216.02 for 50+ annual admissions • \$216.02 per branch • \$54.01 per workstation	• \$116.65 to \$233.30 for 50+ annual admissions • \$233.30 per branch • \$58.33 per workstation
Assisted Living Residence	Base Renewal Fee:	\$388.84	\$419.90
	Additional Fees:	• \$111.25 per bed, or \$41.04 per bed if a High-Medicaid Utilization Facility • \$378.04 per secured unit	• \$120.14 per bed, or \$44.32 per bed if a High-Medicaid Utilization Facility • \$408.28 per secured unit
Nursing Facility	Base Renewal Fee:	\$3,928.09, or \$1,806.01 if the facility is Medicare/Medicaid certified	\$4,242.33, or \$1,950.40 if the facility is Medicare/Medicaid certified
	Additional Fees:	\$9.03 per bed	\$9.75 per bed
Ambulatory Surgical Center¹	Base Renewal Fee:	Ranges from \$1,462.88 to \$1,625.42	Ranges from \$1,579.91 to \$1,755.45
	Additional Fees:	\$225.75 per operating or procedure room	\$243.81 per operating or procedure room
Hospice^{1,2}	Base Renewal Fee:	Ranges from \$846.57 to \$4,402.16 depending on the number of patient days and service area	Ranges from \$914.30 to \$4,754.34 depending on the number of patient days and service area
	Additional Fees:	\$56.44 per workstation	\$60.96 per workstation
Hospitals^{1,3}	Base Renewal Fee:	Ranges from \$914.29 to \$2,257.52	Ranges from \$987.44 to \$2,438.12
	Additional Fees:	• \$13.54 per bed • \$507.95 to \$564.37 per off-campus location	• \$14.63 per bed • \$548.55 to \$609.52 per off-campus location
Dialysis Center	Base Renewal Fee:	\$1,806.01 to \$3,877.29, depending on the number of dialysis stations	\$1,950.49 to \$4,187.47, depending on the number of dialysis stations
	Additional Fees:	None	None
Other Licensed Facilities⁴	Base Renewal Fee:	Ranges from \$406.36 to \$3,672.34, depending on the facility type	Ranges from \$438.36 to \$3,966.13, depending on the facility type
	Additional Fees:	None	None

Source: Office of the State Auditor analysis of the Division's license fee schedules and 6 CCR 1011-1.

¹ These facility types qualify for discounts if they are a Medicare and/or Medicaid provider and/or received "deemed" status, which means they have undergone certification through a national accrediting organization and were found to meet or exceed Medicare and Medicaid requirements.

² A discount of \$300 may be applied if the business operates multiple separately licensed hospices.

³ Includes general hospitals, hospital units, psychiatric hospitals, and rehabilitation hospitals.

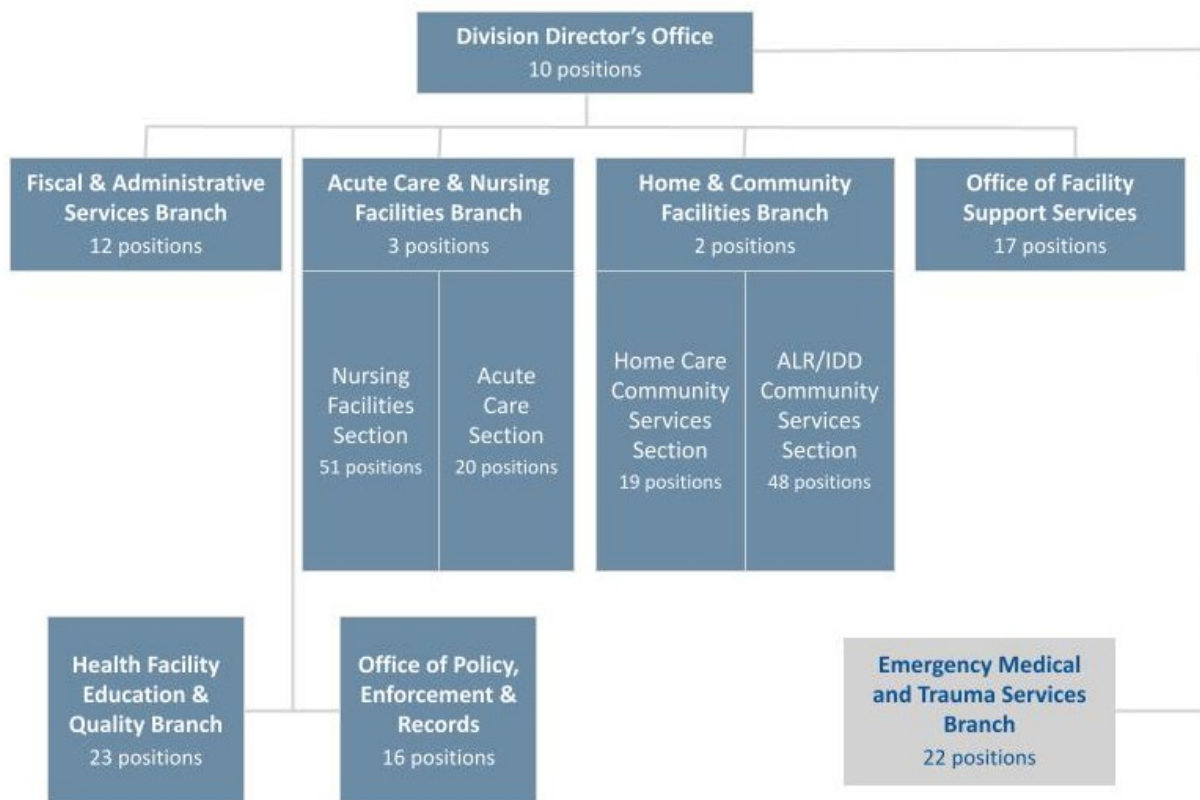
⁴ Includes birth centers, convalescent centers, community clinics, community integrated health care service agencies, freestanding emergency rooms, community residential homes for persons with developmental disabilities (group homes), and intermediate care facilities for persons with developmental disabilities.

The Division accounts for the licensing fees collected in the three licensing cash funds, based on facility type. The fees in these cash funds are used to fund the direct and indirect costs of licensing each fund's respective facilities. That is to say, money in the Home Care Fund can only be spent on activities related to the licensing of home care agencies, the Assisted Living Fund can only be expended on activities related to the licensing of assisted living residences (ALRs), and the General Licensure Fund can only be expended on activities related to the licensing of the remaining facility types enumerated in Section 25-1.5-103(1)(a)(I)(A), C.R.S. The licensing cash funds are also used to partially pay for Division-wide expenditures, such as operations and administrative staff salaries and office supplies.

Division Organization and Program Administration

Division staff across most of the Division's branches and units have responsibilities related to the licensing program. Exhibit 1.3 shows the Division's organizational structure and staffing, as of June 3, 2024.

Exhibit 1.3
Division Organizational Chart as of June 3, 2024



Source: Office of the State Auditor summary of the Division's Organization Chart.

The **Fiscal & Administrative Services Branch** receives fee payments and manages the Division's budget, accounting, and timekeeping functions in conjunction with the **Division Director's Office**, whose staff includes the Division Director, the Deputy Directors, data analysts, and support staff. The **Office of Facility Support Services** is responsible for reviewing blueprints for new health facilities and accepting and processing license applications.

Deputy Directors within the Director's Office oversee the Division's two survey branches, which contain staff who are responsible for conducting all facility surveys, including licensing surveys. Each of these branches is divided into two sections—the **Acute Care & Nursing Facilities Branch** houses the Acute Care Section and the Nursing Facilities Section, while the **Home & Community Facilities Branch** contains the Home Care Community Services Section and the Assisted Living Residence (ALR)/Facilities for Persons with Intellectual and Developmental Disabilities (IDD) Community Services Section.

The Division's **Health Facility Education & Quality Branch** ensures facilities comply with licensure requirements by responding to facility-reported occurrences, and by verifying that a facility's plan of correction to address any deficiencies identified during a survey is adequate to protect patients or residents. The **Office of Policy, Enforcement & Records** initiates enforcement actions against facilities that remain out of compliance with state or federal requirements.

The Division's **Emergency Medical and Trauma Service Branch** licenses emergency medical service providers, but is separate from the health facility licensing program and activities.

The Division staff responsible for conducting licensing surveys are also responsible for enforcing federal requirements on behalf of the Centers for Medicare and Medicaid Services (CMS) through certification surveys. After a facility passes such a survey, the Division recommends certification to CMS and the Department of Health Care Policy and Financing (HCPF), which allows the facility to receive Medicare and/or Medicaid funds. The Division receives Medicaid and Medicare funds for the work it conducts as part of the certification program. Many of the State's licensure requirements are aligned with federal certification requirements, and since the same staff conduct licensing and certification surveys, they may conduct both surveys during a single visit to a facility. The Division Director indicated that the Division was set up this way to gain operational efficiency and lessen the administrative burden on health facilities.

Some facility types, such as adult day clinics, do not have to be licensed by the State and, therefore, do not pay license fees but must be certified by CMS. Division data indicated that there are about 1,500 facilities that do not have to be licensed but are CMS certified, bringing the total number of facilities regulated by the Division to about 4,000.

Division Revenue and Expenditures

For Fiscal Years 2020 through 2024, the Division’s regulatory activities were funded by approximately 20 different sources, 12 of which the Division relied on for all 5 years. The Division’s funding sources include state General Funds, Medicare funds from CMS, reappropriated Medicaid funds from HCPF, fee revenue in the three licensing cash funds, and other cash funds. During the 5-year period, about 60 percent of the Division’s total expenditures were related to personnel, about 10 percent were related to travel and operations expenses, about 8 percent were for indirect costs, and the remaining 22 percent of expenditures were for grants and distributions to other government agencies and non-governmental organizations. Exhibit 1.4 shows, for Fiscal Years 2020 through 2024, the Division’s annual revenue from fees to each of the three licensing cash funds, to its other cash funds, from state General Fund appropriations, and from federal revenue. It also shows the Division’s annual expenses and appropriated full-time equivalent staff (FTE).

Exhibit 1.4

Division Revenue, Expenses, and Full-Time Equivalent Employees, for Fiscal Years 2020 through 2024

Fiscal Year	2020	2021	2022	2023	2024
General Licensure Fund Fee Revenue	\$2,190,000	\$2,310,000	\$2,290,000	\$1,680,000	\$2,290,000
Assisted Living Fund Fee Revenue	\$3,280,000	\$3,110,000	\$3,060,000	\$670,000	\$3,170,000
Home Care Fund Fee Revenue	\$1,260,000	\$1,370,000	\$1,420,000	\$1,330,000	\$1,530,000
Other Cash Funds ¹	\$10,450,000	\$11,130,000	\$12,120,000	\$11,960,000	\$14,040,000
State General Funds	\$1,890,000	\$2,170,000	\$1,940,000	\$8,460,000 ²	\$3,360,000
Federal Funds ³	\$11,020,000	\$12,660,000	\$13,380,000	\$12,860,000	\$16,210,000
Total Revenue⁴	\$30,100,000	\$32,740,000	\$34,200,000	\$36,960,000	\$40,600,000
Total Expenses	\$32,270,000	\$31,340,000	\$31,780,000	\$35,180,000	\$33,150,000
Appropriated FTE	179.6	182.7	184.4	188.7	201.0

Source: Office of the State Auditor analysis of the State’s accounting system, Colorado Operations Resource Engine (CORE), and analysis of Long Bill appropriations for Fiscal Years 2020-2024.

¹ Includes the Trauma System Cash Fund, Fixed and Rotary-Wing Ambulances Cash Fund, Coroner Training Fund, Community Integrated Health Care Service Agencies, Assisted Living Residence Improvement Cash Fund, Medication Administration Fund, Indirect Cost Excess Recovery Fund, Nursing Home Penalty Cash Fund, Emergency Medical Services Account, Emergency Medical Services Peer Assistance Fund, and Behavioral Health Entity Cash Fund.

² Includes \$3.4 million to the General Licensure and Assisted Living Funds to make up for revenue lost due to waived license renewal fees for residential facilities, \$1 million to support the General Licensure Fund solvency, and \$2 million to back-fill the Emergency Medical Services Account.

³ Includes Medicare funds, Medicaid funds reappropriated from HCPF, federal grants for the Emergency Medical and Trauma Services Branch, and \$2.1 million from the federal American Rescue Plan Act that was transferred to the licensing cash funds in 2024.

⁴ Some values are different than the sum of the revenue sources because of rounding.

In Fiscal Year 2023, as part of the Governor’s “One-Time State Investment to Meet the Moment” initiative, the Division waived all renewal fees for ALRs, nursing facilities, and residential and intermediate care facilities for persons with intellectual and developmental disabilities in order to provide economic relief to facilities that had been burdened with additional care needs and staffing shortages throughout the COVID-19 pandemic. The waiver only applied to renewal fees; all other fees were charged to residential care facilities, and fees remained in place for all other facilities. The General Assembly appropriated \$700,000 to the General Licensure Fund and \$2.7 million to the Assisted Living Fund in the Fiscal Year 2023 Long Bill to account for the lost fee revenue.

Data Systems

The Division uses multiple data systems to support its operations, including to document licensing program activities and fees. Aspen Complaints/Incidents Tracking System (ACTS) is a federal system that the Division uses to track complaints relating to most facility types, regardless of whether the complaint is related to state or federal regulations. CMS also requires the Division to use Aspen Central Office (ACO or Aspen) when conducting surveys of most federally-regulated facilities (e.g., nursing homes). The Division enters the results of licensing and certification surveys for most regulated facilities into ACO. CMS has been gradually transitioning to the Internet Quality Improvement & Evaluation System (iQIES), a federal system designed to eventually replace both ACTS and ACO by consolidating their functionality into a single system.

The Division also uses the state system, the Colorado Health Facilities Interactive (COHFI) to store facility license data such as a facility’s name, size, type, and owner and administrator information. Deficiencies identified by Division staff during onsite and remote surveys of facilities are also logged in COHFI, which is where the facility is expected to upload plans of correction that address said deficiencies. COHFI is a primary means of communication between health facilities and the Division, allowing for both direct communication and mass messaging to all facilities. Health facilities submit documents to the Division, including license applications, occurrence reports, and reports on facility staff flu vaccinations, in COHFI as well. In the Fiscal Year 2025 Long Bill, the Division requested, and was appropriated, \$1.5 million for information technology capital construction, separate from its typical annual appropriations, so that the Division can purchase and develop a system to replace COHFI with greater capabilities.

Division staff are also heavily reliant on spreadsheets for tracking survey schedules, fee payments, license applications, calculations for cash fund allocations, and general accounting.

SMART Government Act

Under the State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act, state agencies must identify performance-based goals with meaningful outcome objectives, which are referred to as Wildly Important Goals (WIGs). Throughout the period that our

audit reviewed, Fiscal Years 2020 through 2024, the Division reported financial and staffing challenges in conducting routine surveys for state licensure and federal certification due to an increase in complaint allegations that must be addressed within federally prescribed timeframes. In its Fiscal Year 2025 performance plan, the Department cited the operational efficiency of the Division and the WIG for it to increase the number of inspection processing actions—which includes licensing surveys—completed each year from 1,200 in Fiscal Year 2024 to 2,400 by June 30, 2027.

Audit Purpose, Scope, and Methodology

We conducted this performance audit pursuant to Section 2-3-129, C.R.S., which requires the State Auditor to conduct an audit of the “license fees payable” into the Health Facilities General Licensure Cash Fund, the Assisted Living Residence Cash Fund, and the Home Care Agency Cash Fund, in order to “determine if the license facility fees are being used in the most efficient manner for the administration and enforcement requirements for health-care facilities.” This audit was also conducted pursuant to Sections 2-3-103(9) and 2-7-204(5), C.R.S., which require the State Auditor to conduct performance audits under the SMART Government Act. Audit work was performed from August 2024 through July 2025. We appreciate the cooperation and assistance provided by the management and staff of the Division during this audit.

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

The key objectives of the audit were to assess whether the Division has adequate processes and controls to:

- Expend licensing cash fund money in compliance with statutes, regulations, and other applicable criteria.
- Plan for its financial and staffing needs and maintain the solvency of the licensing cash funds.
- Track all health facility licenses and collect the related license fees.
- Conduct licensure surveys within required or reasonable timeframes.

The scope of the audit did not include review of the Division’s use of federal funds, enforcement practices, processes to respond to complaints and occurrences, or processes for conducting licensing surveys, as they were determined not to be significant to the audit objectives.

To accomplish our audit objectives, we performed the following audit work:

- Reviewed applicable federal and state laws, licensing program rules, Division policies and procedures, and other guidance relevant to the licensing cash funds and the Division's licensing responsibilities.
- Interviewed Division management and staff, as well as Joint Budget Committee staff.
- Analyzed aggregate licensing cash funds revenue, expenditures, and fund balance data from CORE, the State's accounting system, for Fiscal Years 2020 through 2024, to assess compliance with statute, determine the risk of insolvency, and evaluate the accuracy of the Division's fund projections.
- Analyzed the Division's methodologies for allocating money from its funding sources for personnel and operating expenses.
- Analyzed data maintained in the Division's internal spreadsheets for Fiscal Year 2024 through January 2025, used by Division staff to track license applications and fee payments, and analyzed data on license fees refunded to health facilities using data maintained in the spreadsheets and in CORE.
- Analyzed the Division's budget requests and supporting documentation for Fiscal Years 2023, 2024, and 2025, along with available data on its licensing workload.
- Collected information on the Division's vacancy rate, average salary, and staffing plans to project the collective balance of the licensing cash funds over the next 5 years under different staffing scenarios.
- Reviewed the Division's methodologies for scheduling surveys and inspections.
- Reviewed user accounts for COHFI that were active as of March 2025 to assess the Division's system controls over access to confidential information.

We relied on sampling techniques to support our work. Specifically, we selected a random sample of 20 health facilities licensed by the Division between October 2019 and October 2024, and we reviewed the Fiscal Year 2024 license applications for these sampled facilities and related fee payments maintained in COHFI to determine whether the facilities paid the correct amount of license fees. We also selected a stratified random sample of 60 health facilities licensed by the Division between October 2019 and October 2024, including a variety of facility types located across the state, to review their survey histories and assess whether the Division conducted licensure surveys within established timeframes.

The results of our random samples cannot be projected to the population. However, the sample results are valid for confirming inefficiencies in the Division’s license fee payment processes and the Division’s lack of information and standardized processes for ensuring licensing surveys occur within established timeframes.

We also relied on a targeted selection of survey travel expenses to determine whether the Division complied with statute and fiscal rules related to travel expenditures, and to assess the Division’s use of Kronos, the Executive Branch’s timekeeping system, when determining how to allocate money from the licensing cash funds. The targeted selection was chosen—from the stratified random sample of 60 health facilities licensed by the Division between October 2019 and October 2024—to include staff travel for surveys at facilities outside of the Denver-metro area that lasted longer than one day. This targeted selection is valid for assessing whether employee time entries in Kronos ensured travel expenses were paid for from the appropriate licensing cash fund, and whether the travel expenses complied with State Fiscal Rules and Department fiscal policies.

As required by auditing standards, we planned our audit work to assess the effectiveness of those internal controls that were significant to our audit objectives. Details about the audit work supporting our findings and conclusions, including any deficiencies in internal control that were significant to our audit objectives, are described in the remainder of this report. However, auditing standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use report” because of the potential damage that could be caused by the misuse of this information. We consider some specific and technical aspects of one section of the report, along with the associated recommendation, to be sensitive in nature and not appropriate for public disclosure. Therefore, some of the details of that section have been provided to the Division in a confidential report, under cover “2460P-CONF Confidential Report,” separate from the public report (“2460P Public Report”). The finding in the public report with omitted information includes a disclosure of the omission.

A draft of this report was reviewed by the Division. Obtaining the views of responsible officials is an important part of the Office of the State Auditor’s (OSA) commitment to ensuring that the report is accurate, complete, and objective. The OSA was solely responsible for determining whether and how to revise the report, if appropriate, based on the Division’s comments. The written responses to the recommendations and the related implementation dates were the sole responsibility of the Division. However, in accordance with auditing standards, we have included an Auditor’s Addendum to responses that are inconsistent or in conflict with the audit’s conclusions, findings, or recommendations.



Chapter 2

Health Facility Licensing Program and Cash Funds

House Bill 24-1417, effective July 1, 2024, included the requirement that the Office of the State Auditor (OSA) conduct an audit of the fees paid into the three health facility licensing cash funds (licensing cash funds), to “determine if the license facility fees are being used in the most efficient manner for the administration and enforcement requirements for health-care facilities” [Section 2-3-129, C.R.S.]. We reviewed multiple aspects of the Health Facilities and Emergency Medical Services Division’s (Division) management of these fees. Specifically, our audit focused on assessing whether the Division has adequate processes and controls to:

- Expend licensing cash fund money in compliance with statutes, regulations, and other applicable criteria.
- Plan for its financial and staffing needs, and maintain the solvency of the licensing cash funds.
- Track all health facility licenses and collect the related fees.
- Conduct facility inspections (“surveys”) required for licensing within established timeframes.
- Manage user access to the state system, the Colorado Health Facilities Interactive (COHFI), to ensure the security of the health facility data in the system.

To assess the Division’s compliance regarding expenditures from the three licensing cash funds, we analyzed aggregate expenditure data for State Fiscal Years 2020 through 2024, reviewed a sample of staff time entries and Division travel reimbursements for survey site visits, and examined the Division’s methodology for allocating money from the cash funds for its direct and indirect costs. We do not have audit findings regarding the Division’s cash fund expenditure compliance with statutory requirements, or staff time entry and travel reimbursement compliance with State Fiscal Rules and internal policies and procedures. We also do not have audit findings regarding the Division’s methodologies for allocating cash fund revenue to the direct and indirect costs of the licensing program.

We have audit findings in each of the other areas that we assessed. Specifically, we found the Division lacks comprehensive written plans, as well as reliable workload and other data, to support the financial and staffing budget requests that it has made over the last several years with the stated intent of maintaining the solvency of the licensing cash funds. While it is possible that the Division

may need the funding that it has requested in order to conduct licensing activities, such as surveys within timeframe requirements, we found that as of June 2025, the Division did not have the data to demonstrate a need for the specific funding amounts that it requested and received.

We also have audit findings that identified instances where the Division's processes and controls were not adequate to ensure that facility licenses and related fees were tracked and collected appropriately, that licensure surveys were conducted within established timeframes, and that user access to the COHFI system was managed in compliance with state requirements.

This chapter contains the results of our audit work, our findings and recommendations to the Division, and a policy consideration for the General Assembly about the level of ongoing funding provided to the Division from the General Fund and through fee increases in House Bill 24-1417.

Finding 1—Health Facility Division Budget Requests

Health facilities pay the Division annual fees to maintain their licensure, and these fees are generally expected to fund the Division’s regulatory work for licensing activities through three health facility licensing cash funds. In Fiscal Year 2024, the cash funds received the following amounts:

- The **Assisted Living Residence Cash Fund** received about \$3.2 million in fee revenue for the costs of licensing assisted living facilities.
- The **Home Care Agency Cash Fund** received about \$1.5 million in fee revenue for the costs of licensing home care facilities.
- The **Health Facilities General Licensure Cash Fund** received about \$2.3 million in fee revenue for the costs of licensing all other types of health facilities (e.g., hospitals, nursing facilities, surgical centers).

Licensing fees pay for direct and indirect costs of the Division’s licensing program, including the costs of maintaining staff who have the expertise to conduct licensing inspections (“surveys”) to ensure that facilities meet state regulations. The Division also inspects facilities for compliance with federal Medicare and Medicaid regulations on behalf of the Centers for Medicare and Medicaid Services and the Colorado Department of Health Care Policy and Financing. When possible, the Division uses a single survey of a facility to fulfill both state licensing and federal certification requirements, so the salaries for Division employees are typically paid from a combination of state and federal funds. In Fiscal Year 2024, the licensing program received \$7 million in fee revenue, \$5.1 million in federal Medicare funding, and \$8.6 million in reappropriated Medicaid funding, for total revenue of \$20.7 million.

In Fiscal Years 2023 and 2024, the Division requested increased funding from the State, citing licensing cash fund solvency issues and staffing shortages. For these 2 years, the General Assembly appropriated one-time funding to the Division totaling \$3.1 million. In Fiscal Year 2025, the Division requested and received an increase of \$2.2 million to its annual General Fund appropriation to supplement fee revenue. Additionally, changes enacted by the State Board of Health and by House Bill 24-1417 increase the fees that facilities pay by 39 percent between Fiscal Years 2024 and 2029, which translates to an increase of \$2.7 million.

The Division is responsible for managing the three licensing cash funds, which, like other cash funds, are subject to maximum reserve limits [Section 24-75-402, C.R.S.]. In general, a cash fund is not allowed to maintain a fund balance that is greater than 16.5 percent of its expenditures from the prior year. However, all three of the licensing cash funds have had excess uncommitted reserves between Fiscal Years 2020 and 2024. The OSA’s November 2024 performance audit report, *Cash Funds Uncommitted Reserves, Fiscal Year Ended June 30, 2024*, reports that these excess

uncommitted reserves ranged from \$10,000 to \$180,000 between Fiscal Years 2020 and 2023, and rose in Fiscal Year 2024, to amounts ranging from \$700,000 to \$1.1 million. This increase placed all three of the health facility licensing cash funds in the top 10 of the State's cash funds with largest excess uncommitted reserves statewide.

What audit work was performed and what was the purpose?

We interviewed Division management and budget staff, as well as Joint Budget Committee staff, to learn about the Division's budget process, staffing needs, and factors that may affect the licensing cash funds in the coming years. We reviewed data from the Colorado Operations Resource Engine (CORE) on the cash fund revenue, expenditures, and year-end balances for Fiscal Year 2020 through Fiscal Year 2024. We also reviewed annual budget requests and all documentation maintained by the Division to support its budget request calculations. We reviewed the Division's methodology for projecting the future balances in the licensing cash funds, reviewed available data on the Division's workload, and projected the cash fund balances across the next 5 years.

The purpose of our audit work was to determine whether the Division has adequate processes in place to plan for its financial and staffing needs and to maintain the solvency of the licensing cash funds.

How were the results of the audit work measured?

The Office of the State Controller (OSC) has adopted and requires state agencies, including the Division, to follow the Standards for Internal Control in the Federal Government (Green Book), published by the U.S. Government Accountability Office, as the state standard for internal controls. Additionally, the Division informed us that it develops its budget requests in line with the Governor's Budget Guidance from the Governor's Office of State Planning and Budgeting (OSPB Guidance). We applied the following principles in our assessment of the Division's budgeting process:

The Division should be prepared to spend the funding it requests. OSPB Guidance advises against making "budget requests the agency is not well prepared to implement effectively and transparently in the next fiscal year." Additionally, Green Book Principles 13 and 15 state that management should use, and externally communicate, quality information to achieve program objectives. As such, we would expect that when the Division requests funding, it would have prepared a plan to spend the funds on operational changes intended to allow it to better fulfill its mission to "protect the health, safety and welfare of the citizens and visitors of Colorado."

The Division should collect reliable data on its operations and workload to inform its budget requests. Green Book Principle 13 specifies that management should use quality information that is "appropriate, current, complete, accurate, accessible, and provided on a timely basis" to achieve program objectives. OSPB Guidance specifies that agencies should regularly collect

information on their operations, such as their workload and program outcomes. It states that it “is the intent of the Governor and the General Assembly that state budget and policy decisions be made using data, research, and evidence, and to invest in activities that allow the state to continually monitor, evaluate, and support its priorities.” OSPB Guidance also specifies that agencies should use quantitative data in budget justifications, such as workload analyses, and program outcomes and trends. Relevant Division information would include the number of surveys required and completed annually, the number of surveyors required to address its licensing workload, the overall cost per survey, and trends in the number or severity of incidents at facilities. The OSPB Guidance also advises that a program that currently has objectives but does not collect data on its activities can improve by beginning to collect data.

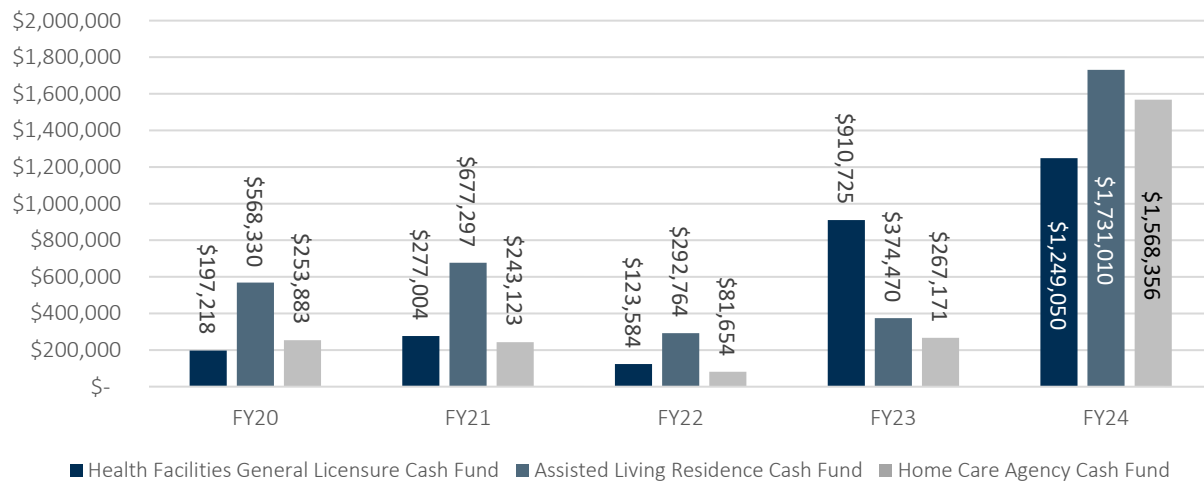
What problems did the audit work identify?

Overall, we found that the Division does not have adequate processes in place to plan for its financial and staffing needs. Specifically, we found problems in the Division’s financial planning processes that resulted in the Division not using the one-time funding it received in the years following its requests. Further, we found the Division does not have reliable, accessible aggregate data on workloads or program outcomes to inform financial or staffing planning. The problems we identified are described below.

The Division did not spend the majority of the \$3.1 million in one-time funding it requested and received in Fiscal Years 2023 and 2024. Specifically, for Fiscal Year 2023, the Health Facilities General Licensure Cash Fund received a \$1 million General Fund appropriation, and the unspent balance in that fund rose \$790,000 over the course of the year from \$120,000 to \$910,000. For Fiscal Year 2024, the three licensing cash funds received a \$2.1 million appropriation from the Revenue Loss Restoration Cash Fund: \$400,000 to the Health Facilities General Licensure Fund, \$600,000 to the Assisted Living Residence Fund, and \$1.1 million to the Home Care Agency Fund. Over the course of Fiscal Year 2024, the collective unspent balance in the cash funds rose a total of \$3 million from \$1.5 million to \$4.5 million. Exhibit 2.1 shows the end-of-year fund balances for each cash fund, during the audit period.

Exhibit 2.1

Health Facility Licensing Cash Funds Fiscal Year-End (June 30) Balances Fiscal Years 2020 through 2024



Source: Office of the State Auditor analysis of CORE data for Fiscal Years 2020 through 2024.

The Division did not use quality information to identify or communicate its staffing and financial needs.

- The Division’s Fiscal Year 2023 request for \$1 million from the General Fund did not include a calculation or details showing how the Division arrived at this amount. The request stated that it was to maintain current service levels due to issues with staffing, inflation, and increased complaints; however, when the audit team asked how the Division calculated a need for \$1 million, management confirmed it did not have documentation in support of the amount requested, such as any workload or staffing analyses showing the cost to maintain service levels. Management stated that the \$1 million request was “intended to be a stop gap while the Division explored sustainable funding options.” The Division’s lack of reliable, accessible information on its current service levels and the cost to maintain them resulted in a request for more money than it ultimately needed to maintain the solvency of the Health Facilities General Licensure Fund.
- The Division’s Fiscal Year 2024 request for \$2.1 million included projected fund balances, revenue, and expenditures which predicted a shortfall in that amount across the licensing cash funds. This shortfall of \$2.1 million never materialized. When the audit team evaluated these projections against the Division’s financial transactions in CORE, we found that the Division underestimated its Fiscal Year 2023 year-end balance by \$1.9 million (124 percent) and overestimated its Fiscal Year 2024 expenditures by \$2.7 million (45 percent). When the audit team asked about the differences between projected and actual amounts, and about the Division’s rationale at the time of its projections, the Division replied that it “was conservative in hiring staff in order to ensure sufficient future fund balances to maintain program

operations.” This budget request resulted in the General Assembly authorizing a transfer of \$2.1 million from the Revenue Loss Restoration Cash Fund to support the solvency of cash funds that already contained a surplus of \$2.4 million, bringing the total surplus in the funds to \$4.5 million.

Fiscal Year 2025 falls outside our audit review period, because the fiscal year was still ongoing at the time of our audit. However, we reviewed the Division’s budget request for that year and found issues with the data the Division included to support its request for \$2.2 million annually in ongoing funding from the General Fund. The majority of this requested amount (\$2 million) was supported by the data provided in Exhibit 2.2, which came directly from the Division’s budget request:

Exhibit 2.2

Division Budget Table, Fiscal Year 2024 Cash Fund Projections

Cash Fund	Fiscal Year 2024 Total Appropriation	Fiscal Year 2024 Estimated Fee Revenue	Shortfall
General Licensure Cash Fund 2650	\$3,312,179	\$2,276,005	(\$1,036,174)
Assisted Living Residence Cash Fund 2460	\$3,402,647	\$3,185,200	(\$217,447)
Home Care Agency Cash Fund 22R0	\$2,086,233	\$1,357,000	(\$729,233)
Total Shortfall			(\$1,982,854)

Source: Division Budget Projections taken from Table 1.a on Pages 8 and 9 of CDPHE Decision Item R-03 in the Fiscal Year 2025 Budget Request.

As shown in Exhibit 2.2, the Division indicates that the difference between the estimated fee revenue and Fiscal Year 2024 appropriation for each of the three licensing cash funds is a “shortfall.” However, we noted that the approximately \$2 million difference in the “Total Shortfall” row was mainly caused by the additional \$2.1 million appropriation/transfer from the Revenue Loss Restoration Cash Fund that the Division requested and received for Fiscal Year 2024 as one-time funding, and ultimately did not use. As such, this “shortfall” represents additional funding the Division received in Fiscal Year 2024 rather than a need for additional funding in Fiscal Year 2025. Ultimately, a need for \$2.2 million in Fiscal Year 2025 could have been addressed by spending down the funds’ collective balance of \$4.5 million rather than requiring an additional appropriation.

Why did these problems occur?

The Division requested funding without any explicit written plan to spend that funding. We asked the Division for its current plan to spend down the \$4.5 million fund balances, and as of June 2025, Division management was still in the process of developing that plan. The Division indicated that at the time the budget requests were made, it intended to use the funds primarily to improve hiring and retention. However, in response to the auditors, the Division stated that it did not want to spend the \$3.1 million in one-time funding to hire new personnel because it did not want to put itself in a position where it had to lay off those personnel when the one-time funding ran out. Avoiding using one-time funding on ongoing expenses is reasonable, but from Fiscal Year 2020 to

Fiscal Year 2024, 80 to 90 percent of licensing cash fund expenditures were comprised of staff salaries. Exhibit 2.3 shows the expenditures from the Licensing Cash Funds for Fiscal Year 2024. As such, the Division’s operations may not lend themselves to absorbing large one-time infusions of cash, and the Division may not be able to spend one-time appropriations in these amounts without displacing ongoing revenue it receives from health facility licensing fees. If this is the case, it would be more appropriate for the Division to request ongoing funding for identified needs rather than one-time infusions of cash.

Exhibit 2.3

Fiscal Year 2024 Expenditures from Licensing Cash Funds

Expenditure Category	Amount	Percent of Total Expenditures
Salaries and Benefits	\$ 5,567,000	91%
Operating and Travel	\$ 277,000	5%
Transfer Out for Indirect Costs	\$ 245,000	4%
Total	\$ 6,089,000	100%

Source: Office of the State Auditor analysis of Fiscal Year 2024 CORE Data.

Regarding the increased appropriations that the Division will receive going forward, the Division does not yet have a written plan for Fiscal Year 2025 and subsequent years that specifies how it will use the \$2.2 million increase in its annual General Fund appropriation, or the 39 percent anticipated increase in fee revenue between Fiscal Years 2024 and 2029. Together these increases amount to roughly a \$4.3 million increase in annual funding between Fiscal Years 2024 and 2029. The Division confirmed that it does not have a documented, written plan but is in the process of planning staffing initiatives using the new funding. These initiatives include:

- **Filling Vacant Positions.** The Division told us that it is “proceeding with filling all vacant positions” and that at the end of Fiscal Year 2024, it had 35 vacancies and 204 filled positions for a total of 239 positions. The General Assembly appropriated 202.4 full-time equivalent employees to the Division for that year, but the Division stated that its practice is to plan staffing “at considerably higher levels [than appropriated], with the expectation that staffing vacancies will prevent us from over-expending our Legislative appropriations.”
- **Establishing a Training Academy.** The Division typically hires new surveyors under the Health Professional III job classification and requires them to have prior medical experience. In order to widen the pool of potential job applicants, the Division is developing a program to hire and train surveyors without prior medical experience under the Health Professional I job classification. In March 2025, the Division told us that it planned to create 1 to 3 entry-level positions as part of this program; in June 2025, the Division updated this to “up to 5” positions. The Division estimates that each of these positions costs \$68,624 per year and it created three entry-level positions in May 2025, which will cost a total of \$205,872 when filled.

- **Reorganizing Complaint Staff.** The Division is consolidating complaint staff from its survey branches into a separate complaints team. Division staff told us that complaints constitute a large portion of the Division's workload and can disrupt survey schedules, so this reorganization will allow the survey branches to focus on surveys required for licensing and federal certification. In May 2025, the Division stated that there would be at least 1 manager and 4 surveyors on the complaints team, and estimated these positions would cost a total of \$527,340 per year. However, the Division stated that it planned to build this team with internal staff and was unable to calculate how much of this cost would be covered by existing expenditures. In June 2025, the Division updated these numbers to 7 new staff members: 1 manager, 1 supervisor, and 5 surveyors.
- **Funding Step Pay Increases.** The Division mentioned that it is using some of the funding to cover step pay costs, as required by the State's partnership agreement with the state employees union. The Division estimates, based on February 2024 data, that it spends \$706,776 annually on step pay, but was unable to identify how much of this funding comes from the licensing cash funds.
- **Creating Various New Positions.** The Division has added new positions on an ad hoc basis as it identifies staffing needs. For example, it has created more supervisor positions to increase surveyor's opportunities for career advancement, and new data staff positions due to its complex data environment. As of June 2025, the Division had created 7 new positions over Fiscal Year 2024 staffing levels that were not part of the staffing initiatives listed above. These positions will cost a total of \$517,748 per year when filled.

The Division is actively pursuing initiatives to improve its staffing; however, the Division has yet to develop a written plan that clearly delineates the scope, cost, and timeline for implementing these initiatives. The cost estimates in the bullets above total roughly \$2 million, a portion of which will be covered by other funding sources. As such, the Division's current initiatives account for less than half of the \$4.3 million funding increase. Further, without reliable, accessible aggregate data on workload and outcomes, the Division is developing plans to spend money after it has been received rather than developing those plans beforehand to justify the amounts in its budget requests.

The Division has inadequate data systems to reliably quantify its annual workload and staffing needs. Data on the Division's licensing activities is split across 4 data systems and 17 individually maintained spreadsheets, and management has not established any controls or processes to extract or compile this information reliably, for use in assessing its annual workload or staffing needs. Instead the Division told us that it collects workload data from these various sources on an ad hoc basis and manually evaluates its reliability.

The audit team attempted to quantify aspects of the Division's workload based on the available data and found that we could not reliably identify:

- **The total number of licensing complaints the Division is responsible for addressing each year.** The Division stated that it needs additional funding due to an increase in complaints against facilities. Specifically, the Division reported that the total number of complaints rose from 1,600 in Fiscal Year 2020 to 1,800 in Fiscal Year 2022. However, the Division indicated multiple times over the course of the audit that it is difficult for it to compile aggregate data on the total number of complaints received during a specific time period. We requested the total number of complaints received each year from Fiscal Year 2020 to Fiscal Year 2024, and the Division was able to collect a portion of this data from one of the federal databases, Aspen Central Office. The Division had difficulty collecting the remaining complaints from a second database called iQIES, and, ultimately, was unable to provide us with the complaint totals. The partial data we received showed that the Division received between 700 to 900 complaints per year, peaking in Fiscal Year 2022 and falling in more recent years.
- **The total number of surveys the Division completes annually.** The Division was unable to provide us with reliable data on the total number of surveys it completed each year. The Division's four survey section managers manually track their annual survey schedules for their own use, across 17 separate spreadsheets, and Division management do not confirm the accuracy of the data. We attempted to manually compile survey data for a single month from the survey schedule spreadsheets, but found that the differences in data entry, formatting, and completeness between the spreadsheets made it prohibitively time consuming.
- **The share of the Division's staffing needs that derive from its federal responsibilities.** The share of state and federal funding that goes into each Division employee's salary varies significantly between employees within the same branch and job classification, and even month-to-month for the same employee. Division budget staff indicated that they use an ad hoc approach to managing the funding sources and percentages over the course of the year. Their approach includes, for example, using additional state funds when they have a potential concern about inadequate federal funding, or switching funding sources for specific time codes based on the cash fund balances. Budget staff do not document their rationale or calculations, which makes it difficult to quantify how much of the Division's work has been supported by federal funding rather than state funding or predict how the Division will use these funding sources in the future.

This fragmented data environment makes collecting information on the Division's operations a burdensome task. For example, the SMART Act [Section 2-7-200.1, et seq., C.R.S.] requires state agencies to develop strategic plans with measurable goals so that "the general public can understand the value received for the tax dollars spent by the state." The Division reports on the total number of inspection processing actions that it takes each year to measure progress towards its SMART Act goals, but calculating this one number requires Division staff to gather and manually combine information from three data systems and various internal tracking spreadsheets. Division staff estimate that calculating this metric alone requires 10 to 20 hours of staff time. The Division has also had difficulty accurately reporting the number of vacancies it has filled. It had a SMART Act goal of filling 12 vacant positions during Fiscal Year 2025, and reported on the Governor's

Dashboard website that it had filled 58 vacant positions by the end of March 2025. However, when we examined the underlying data for this calculation we found that the Division is counting each internal promotion and transfer between the Division's branches as a filled vacancy. Based on the data the Division provided, it had 37 new hires during this time period, and 31 employees who left, resulting in a net change of 6 vacancies filled, as opposed to the reported 58.

This lack of reliable, accessible data has resulted in a budget development process where analysts seek data to support arguments that have already been framed based on internal conversations rather than first using data to identify and quantify the Division's needs. It is possible that in order to conduct licensing activities such as surveys and complaint investigations, the Division needs some portion of the money it has requested—in Finding 3 we discuss the Division's difficulty conducting timely surveys and addressing increased complaints—but the Division does not have the data to demonstrate that it needs the specific amounts of funding it has requested. When asked if it had calculated the number of surveyors needed to address its workload, the Division told us that it was “in the beginning pieces of doing that thanks to the funding we got last year.” Before this, the Division said that it was more focused on doing what it could with the number of surveyors it had rather than quantifying the number of surveyors it needed. However, not routinely tracking basic data on its workload such as the number of complaints it receives and the number of surveys it completes each year, makes it difficult for the Division to identify the full scope of its financial and staffing needs and communicate those needs transparently in budget requests. The Fiscal Year 2025 Long Bill included \$1.5 million, appropriated from the capital construction fund, to purchase a replacement for the Division's COHFI data system.

The Division does not have a written policy to guide its process for developing budget requests. The Division described an informal process for identifying its financial and staffing needs, and does not retain documentation to support key calculations in its budget requests. For example, the Division stated in its Fiscal Year 2025 request that fees would need to be increased by 85 percent to fully fund the licensing program from the cash funds. However, the Division was unable to provide calculations to support this number, and when the Joint Budget Committee asked the Division to develop a sustainability plan for the cash funds in November 2023, the Division reported that a lower increase of 32 percent was needed. The Division stated that to develop its budget, management and budget staff discuss needs and exchange comments in a Google document, but it was unable to provide documentation of this process, such as examples of working drafts or areas discussed. The Division was able to provide financial spreadsheets analyzing the cost of potential staffing changes, but none of the calculations in these spreadsheets connected to the numbers used in the budget requests.

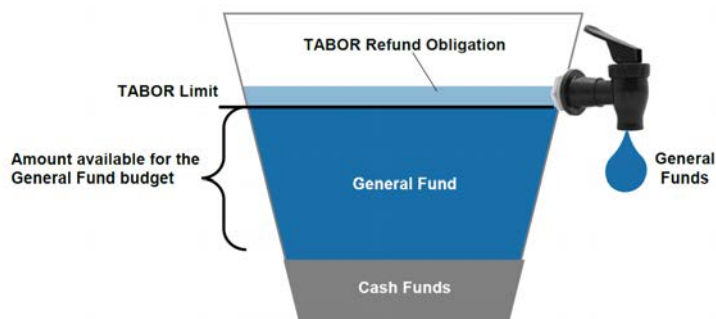
Why do these problems matter?

When the Division receives fee and other revenue that it does not have a clear plan to spend, it negatively impacts the State's ability to fund other programs and priorities.

First, fee revenue in the licensing cash funds counts towards the statewide annual revenue limit set out in the Taxpayer's Bill of Rights (TABOR). When the State's revenue exceeds the TABOR limit, it refunds the excess revenue to taxpayers from the General Fund, rather than from excess fees. This means that when the Division collects an additional dollar in licensing fees over the limit set in statute, it pushes an additional dollar of General Fund out the door as a TABOR refund.

Exhibit 2.4

Illustration of TABOR Revenue Limit



Source: Legislative Council Staff Memo posted on the General Assembly website to illustrate the TABOR Revenue Limit.

In effect, in years where the State's revenue limit is reached, every dollar an agency collects in fees restricts the General Assembly from spending a dollar from the General Fund on other priorities. During Fiscal Years 2020 through 2024, the three licensing cash funds had excess fee revenue reserves totaling approximately \$2.8 million. In Fiscal Year 2024, all three were in the top 10 cash funds with the largest excess reserve balances from annual fee revenue, statewide.

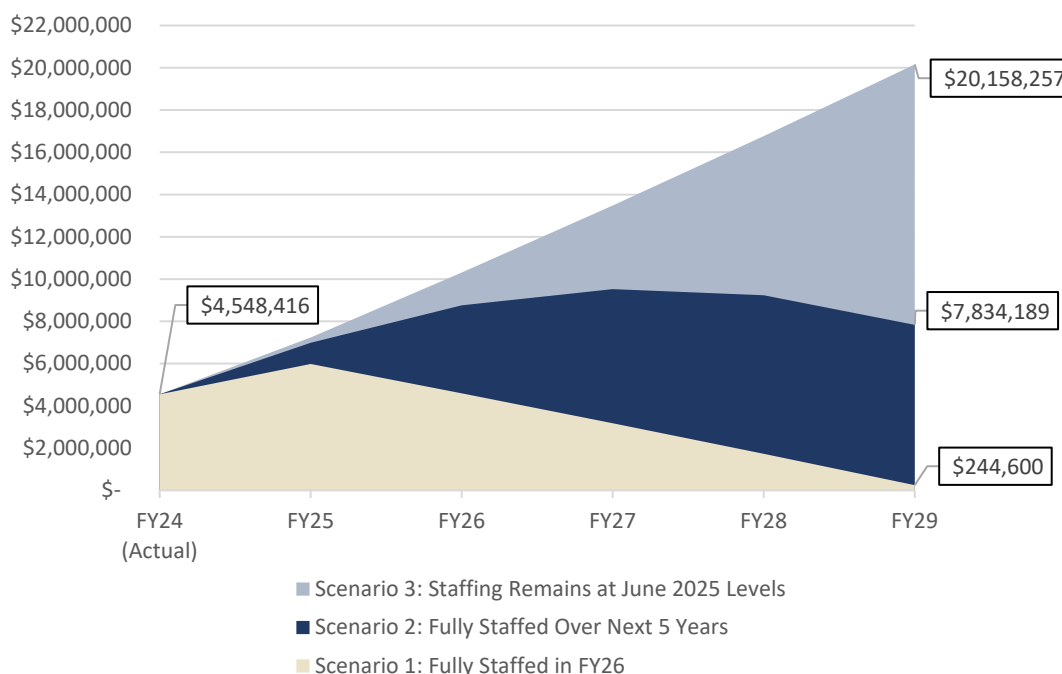
For Fiscal Years 2023 and 2024, the Division received one-time funding totaling \$3.1 million to address expected fee revenue shortages and support the solvency of its three licensing cash funds. However, we evaluated the actual fee revenue and expenditures for these years and found that the Assisted Living Residence Fund and Home Care Agency Fund would have remained solvent based on fee revenue alone, while the Health Facilities General Licensure Fund would have become insolvent by \$90,000 in Fiscal Year 2023 and \$150,000 in Fiscal Year 2024. This means that the Division did not actually need most of the \$3.1 million it estimated it needed to maintain the solvency of these cash funds. Appendix A shows the details of the audit team's cash fund solvency calculation.

Further, the licensing cash funds balances may continue to increase over the next 5 years depending on how quickly the Division is able to fill vacancies. The General Assembly has granted the Division an ongoing appropriation of \$2.2 million from the General Fund, and fee increases from the State Board of Health and House Bill 24-1417 are set to raise fees 39 percent over the next 5 years. The Division stated that, at the end of Fiscal Year 2024, it had 35 vacant positions out of 239 positions, and as of June 2025, it had filled 7 of these vacancies. If the Division's staffing remains at this level

and its overall expenditures increase by 3 percent inflation each year, we project the collective balance in the cash funds will reach \$20.2 million at the end of Fiscal Year 2029. If, on the other hand, the Division fills all vacancies by the end of Fiscal Year 2026, we project the collective balance in the licensing cash funds would be \$240,000 at the end of Fiscal Year 2029. Staffing rates between these two extremes would result in intermediate fund balances. For example, if the Division were to fill all vacancies over the course of 5 years, rather than by the end of Fiscal Year 2025, we project that the collective balance in the cash funds would rise to \$7.8 million at the end of Fiscal Year 2029. These three scenarios are shown in Exhibit 2.5.

Exhibit 2.5

Projected Collective End of Year Balance in Health Facility Cash Funds



Source: Office of the State Auditor analysis of end of fiscal year fund balance projections based on Fiscal Year 2024 CORE data and Division staffing data.

These fund balance projections are likely underestimated as they do not take into account the federal funding the Division receives to support a portion of employee salaries. The projections are based on an average cost of \$110,000 to cover the salary and benefits for each new Division employee, and account for the Division having 254 positions when fully staffed. In June 2025, the Division informed us that it expects to have 211 filled positions and 45 vacancies at the start of Fiscal Year 2026 for a total of 256 positions. Appendix B shows the details of the audit team's fund balance projections.

Finally, fees that do not translate into improvements in the Division's operations place an unnecessary financial burden on health facilities and do not serve the Division's mission of making Colorado's health facilities more safe for patients and residents.

Recommendation 1

The Health Facilities and Emergency Medical Services Division (Division) should improve its processes to plan for financial and staffing needs of the health facility licensing program by:

- A. Developing a written plan to spend down the excess balances in the Health Facility Licensing Cash Funds. This plan should be supported by an analysis of the licensing program's costs and should specify how the Division will use the funds to meet program objectives with implementation dates.
- B. Improving its data systems so that it can reliably quantify the health facility licensing program's staffing needs based on its annual workload.
- C. Creating a written policy to guide the licensing program's budget development process and retaining documentation to support its budget-related calculations.

Response

Health Facilities and Emergency Medical Services Division

A. Agree

Implementation Date: July 2026

The Division will document its current and future plans and will include the analysis of licensing program's costs and forecasts and will specify how funds are used to meet program objectives to ensure appropriate expenditures, reserve levels and fund solvency. The overall written plan will be presented to Division leadership on or before March 31, 2026, and a finalized version will be completed by July 1, 2026.

In recent years, the Division has endeavored to balance the competing challenges of limited revenues, high staff turnover, and recruitment challenges caused by our comparatively low salaries in a highly competitive field of employment. The Division took a cautious approach to both hiring and salary increases in an effort to live within its limited financial means.

After the General Assembly created more certainty in the Division's future revenues during the 2024 Legislative Session, we began to ease our spending controls by taking more aggressive steps to fill existing vacancies. The Division released all vacancies for recruitment, added positions to improve workforce capacity, and implemented a new program to broaden recruitment. The Division also executed initiatives to improve program operations and responsiveness. This includes a key initiative to establish a Complaint Program, which centralizes consumer complaints and will expedite investigative response through dedicated complaint-investigation staff. The Division has also invested in process improvement evaluations, as a part of the

Governor's WIGs [Wildly Important Goals], which are designed to eliminate waste, improve productivity, and more accurately track and evaluate workforce needs moving forward.

B. Agree

Implementation Date: May 2027

The Division will utilize data and tracking tools developed through continuing process improvement activities to track annual workloads, productivity, and staffing needs.

As a result of its longstanding revenue limitations and recruitment difficulties, the Division has focused its limited financial resources on staff recruitment and retention, to the detriment of data systems. Any available budgetary resources for data systems were dedicated to the maintenance of the Division's aging COHFI system.

With the appropriation of IT Capital Construction funds in the FY 2024-25 Long Bill, the Division is now able to pursue the development and implementation of a new IT system to enable thorough tracking of workloads, productivity, and staffing needs.

Since receiving this appropriation, the Division worked with OIT to hire a contractor to thoroughly document the requirements for how a new system can enhance our business operations, resulting in a listing of over 130 specific system requirements. The Division has also hired a Product Owner to direct the procurement, implementation, and transition to the new system. Currently, the Division is working to draft an RFP for this new system, and expects work on the system to be substantially complete by the end of FY 2026-27.

In the meantime, the Division will continue to take steps to maximize the use of its existing data systems to provide the greatest visibility possible into our productivity and workloads.

C. Agree

Implementation Date: January 2026

Because of the nature of the work, the Division performs continuous monitoring of its revenues and expenses. The Division's financial management practices have allowed sufficient flexibility to adapt to changing conditions such as changes in workload, legislative priorities, revenues, expenses, and operating needs. Proceeding in this manner has historically enabled the Division to be as responsive as possible to the needs of the communities we serve, in spite of limited resources and funding.

The Division's prior budget requests have been submitted utilizing guidance from the Office of State Planning and Budgeting (OSPB), and the Division is committed to remaining accountable to the budgetary and fiscal requirements established by Office of the State Controller, OSPB, and CDPHE. The Division agrees that a written policy can only help demonstrate the Division's

commitment to these standards and will utilize this policy to establish procedures for routinely evaluating revenues and setting levels of reserves.

The Division will create the written policy and procedure for its process of developing and evaluating program budgets, along with the retention of supporting documentation in keeping with appropriate schedules of retention by 1/2026.

Policy Consideration Related to Funding for Health Facility Licensing Cash Funds

The Division has requested and received the following funding increases from the General Assembly to support the solvency of the health facility licensing cash funds:

- One-time appropriations of \$1 million in Fiscal Year 2023 and \$2.1 million in Fiscal Year 2024.
- A \$2.2 million increase in the Division's General Fund appropriation in Fiscal Year 2025. The Joint Budget Committee plans to reduce this annual appropriation from \$2.2 million to \$1.6 million between Fiscal Year 2025 and Fiscal Year 2029.
- Annual fee increases of 8 percent in Fiscal Year 2026, 6 percent annually in Fiscal Years 2027 through 2029, and by the annual rate of inflation thereafter. These fee increases are established by House Bill 24-1417 and, along with an 8 percent fee increase approved by the State Board of Health for Fiscal Year 2025, amount to a 39 percent (\$2.7 million) overall increase in health facility licensing fees between Fiscal Year 2024 and Fiscal Year 2029.

As of June 2025, the Division did not have reliable, accessible data to quantify its annual workload, and it was unable to provide us with calculations showing how it arrived at the requested amounts in the bullet points above. In Finding 3 we discuss the issues we identified with the Division's ability to meet established licensing survey timeframes, so it is likely that the Division needs some portion of this funding to fulfill those responsibilities. However, until the Division can clearly quantify its annual workload for the licensing program and the staffing needed to address that workload, it is unclear what amount of funding is necessary and appropriate for the Division to fulfill its statutory responsibilities.

In Finding 1, we recommend that the Division improve its data systems and develop a written plan to spend down the balances in the health facility licensing cash funds, which at the end of Fiscal Year 2024 totaled \$4.5 million. If these recommendations are not fully implemented there is a risk that the fund balances will continue to increase.

Policy Consideration: If the Health Facilities and Emergency Medical Services Division is unable to fully implement the recommendations in Finding 1, to spend down the health facility licensing cash fund balances, and to improve its data systems, the General Assembly may want to reevaluate the level of ongoing funding that it will provide to the Division. For example, it may be suitable to phase out a larger portion of the Division's General Fund appropriation as it is gradually replaced by fee revenue from House Bill 24-1417 or to decrease the percentage of the fee increases in Sections 25-3-105, 25-27-107, and 25-27.5-104, C.R.S.

Finding 2—Accuracy of Health Facility Licensing Fees

Health facilities apply for licensure and annual relicensure online via the Division’s health facility licensing database, COHFI. Facilities use their COHFI account to complete and submit an application and the associated fee payment for each license they want to obtain—for example, a company that operates assisted living residence facilities that plans to open a new facility will submit an application for licensure using its COHFI account.

Each license type has an associated fee schedule, with fee amounts that are set in rule and vary based on factors such as the number of beds at an assisted living residence, operating rooms at an ambulatory surgery center, or admissions at a home health agency, as well as whether the facility accepts or is a service provider for Medicare and Medicaid. In Fiscal Year 2024, annual licensure fees ranged from \$376 for a birthing center or convalescent center, to nearly \$29,000 for an assisted living residence facility with more than 274 rooms.

The Division has created guidance tools that are posted in COHFI for facility use in completing their applications, and the system may also be used to message the Division’s licensing staff. For annual license renewals, COHFI also sends automated notices that the renewal is due, starting 120 days before a license expires.

After a facility submits its application and fee payment, the Division’s licensing staff review the information for accuracy and completeness. Due to the complexity and variety of applications, staff may be in contact with the facility multiple times prior to issuing the license. Licensing staff track the status of license applications via an internal spreadsheet they have created. This application status tracking spreadsheet has information on license expiration dates and other staff notes, such as missing application items and the date fee payments were received. Licensing staff are notified of fee payments by the Division’s accounting staff via email, and track the payments on a separate spreadsheet.

What audit work was performed and what was the purpose?

We reviewed Department rules, Division policies and procedures, and interviewed Division staff to understand requirements and the Division’s practices for processing license applications and fee payments. To assess the accuracy of recent payments, we reviewed license applications, related fee payments, and supporting documentation for a random sample of 20 facility licenses renewed or issued in Fiscal Year 2024, as well as related financial data from the State’s accounting system, CORE, and from the Division’s application and payment tracking documents. We also reviewed the available aggregate fee payment data maintained in CORE and the Division’s internal spreadsheets for Fiscal Year 2024 through January 2025 that staff used to track the fee payments received from and refunds issued to licensed facilities.

The purpose of the audit work was to determine whether the Division has effective and efficient controls in place to ensure that facilities pay the correct amount in license fees.

How were the results of the audit work measured?

Statutes [Sections 25-3-105(1), 25-27-107(1.5), and 25-27.5-104(1), C.R.S.] require the Department to collect licensure fees from health facilities in accordance with published fee schedules. For the period this audit reviewed for fee payment accuracy (Fiscal Year 2024), these schedules were prescribed in 6 CCR 1011-1, Chapters 2-26, with each chapter prescribing the fees due for a different type of facility licensed by the Division.

Licensing staff review facility application documents against fee payments made to confirm payment accuracy, using information documented in COHFI, internal tracking spreadsheets, and Division policies and procedures. Overall, the Division is responsible for designing control activities to achieve its objectives and respond to risks [Green Book, Principle 10], so we would expect the Division to have effective processes in place to ensure the accuracy of its license fee payment transactions.

What problems did the audit work identify?

Overall, we found that the Division does not have effective and efficient controls in place to ensure that facilities pay the correct amount of license fees. We found multiple issues with the accuracy of health facility licensure fee payment transactions, as follows:

First, of the 20 license fee payments made in Fiscal Year 2024 that we reviewed, 7 (35 percent) were calculated incorrectly by Division staff, the facility, or both. For example:

- A home health agency submitted \$1,545 for its license renewal, which was the correct amount due. However, Division staff reviewing the payment incorrectly determined that the facility paid \$100 too much for the license, and erroneously issued a refund in that amount. This error was not discovered by the Division, but rather by the audit team during the review of license fee payment transactions.
- A hospice provider submitted a payment of \$4,076 to the Division for its license renewal, \$725 more than the \$3,351 that was due according to the Division's fee schedule and Department rules (6 CCR 1101-1, Chapter 21). Then, the Division staff processing the license renewal payment overlooked a discount that the facility qualified for and miscalculated the fee as \$3,651. As a result, the Division erroneously issued a \$425 refund to the facility instead of the full \$725 that was overpaid. This error also was not discovered by the Division, but rather by the audit team during the review of license fee payment transactions.

The errors in four other payments in our sample were made by the facilities incorrectly calculating the fee amount due based on the fee schedule in COHFI, and the Division's licensing staff caught and corrected the errors through refunds or the collection of additional payment prior to our audit.

Second, Division staff told us that they often receive license fee payments from facilities that are in the wrong amount and this was substantiated by our review of aggregate data for Fiscal Year 2024 fee payments. Specifically, the fee payment data for Fiscal Year 2024, which was tracked by Division staff on a spreadsheet, shows that about 515 (16 percent) of the approximately 3,300 payments for various licensing fees required refunds to be issued. We were not able to confirm how many of the 515 refunds were due to overpayments, or other reasons such as a duplicate payment or the facility submitting the wrong application, because staff did not always document the reason for a refund on their internal spreadsheet. We also saw in CORE financial data for Fiscal Year 2024 that the Division issued 514 refunds totaling about \$300,000 to facilities from the three licensing cash funds. Similar to the payment tracking spreadsheet, the reason for the refund was not always documented in CORE. Many of the refunds have a description indicating an overpayment of fees, while others simply note the facility name.

Third, the aggregate fee payment data also suggested that many facilities underpaid their fees. However, we could not quantify how many facilities underpaid because the Division does not have a standardized method for recording such payments. We also could not confirm whether all facilities made an annual fee payment, due to the data limitations. Aggregate data on fees paid by individual facilities is not available in CORE, because license fee payments are recorded in CORE as lump sums.

Why did these problems occur?

Overall, the Division's controls over ensuring fee payment accuracy rely on manual mechanisms that are inefficient and do not allow for aggregate monitoring. Specifically, we identified the following reasons for the problems with inaccurate fee payments:

Manual calculation of fees. The Division does not invoice facilities for license fees, but instead, relies on facilities to use the posted fee schedules to calculate their fee and then manually enter the fee amount they are submitting into the COHFI payment portal. Division staff calculate the amount due when processing the license application, using the same fee schedule, and contact the facility to rectify any over- or under-payments. Using a process that requires both facilities and Division staff to calculate license fees based on a schedule the Division developed, that is based on the fees set in rules, does not mitigate the risk of human error. We also saw that one of the fee schedules for residential care facilities that was developed by the Division and posted in COHFI was inaccurate; this schedule listed the annual renewal fee as \$784, which is double the \$392 set in rule [6 CCR 1101-1, Chapter 8]. Further, some Division staff were incorrectly assessing a fee of \$376 instead of the correct fee amount of \$392 for these residential care facilities. In looking at the Division's aggregate payment data for residential care facilities, we saw that, as a result of the incorrect fee

amount listed in COHFI and some Division staff assessing the wrong fee amount, the Division issued about \$10,500 in refunds to 31 of 56 (55 percent) residential care facilities in Fiscal Year 2024.

Division management told us that COHFI does not have the technical capabilities to automate the fee calculations and that invoicing facilities in advance of license renewal is not ideal, because sometimes, the Division is notified of changes that impact fee amounts due through the renewal application. For example, a facility may disclose an increase in the number of beds or admissions on its application, which could increase the fee amount due. Management also noted that the Department rule [6 CCR 1011-1, Chapter 2 2.5.1] requiring facilities seeking license renewal to “provide the Department with a license application...and the appropriate fee at least sixty (60) calendar days prior to the expiration of the existing license” is problematic for automation, because they interpret the language to mean that they cannot process a license renewal until the facility submits both the application and fee payment. However, the Division could seek a rule change that would allow it to invoice facilities and collect payment following its review of an application, but prior to issuing a license renewal. In Fiscal Year 2025, Division staff began using a spreadsheet calculation tool to calculate some of the license fees, but management noted that this fix is not ideal and still prone to error. The Division requested and received a \$1.5 million capital construction appropriation in its Fiscal Year 2025 budget for a new licensing system to replace COHFI, and management told us they would like for the new system to have the capability to automatically calculate license fees due, as part of the application. During the audit, the Division began working with a contractor to identify the requirements for a licensing system that will meet its needs, and management indicated that it anticipates selecting the new licensing system in Fiscal Year 2026.

Manual entry of fee payment data. When facility administrators pay a license fee through the COHFI payment portal, they are prompted to enter the reason for the payment. The portal does not have a drop-down menu with standardized payment reasons, but relies on facilities to determine and type in the payment reason. As a result, payments are associated with various non-standardized reasons for payment, which makes it difficult to use the payment data to monitor fee payments. For example, we wanted to use the Division’s payment data to quantify how many payments the Division received for license renewals overall, and how many were additional fees for underpayments, initial licenses, and other fees or fines. Instead we found that the data contained 143 different reasons for the 2,141 payments received between July 2024 and January 2025. We attempted to quantify just the number of license renewal payments for the same time period and found at least 33 variations of “license renewal” in the data set. Similarly, licensing staff manually enter the reason for a refund on the payment spreadsheet by documenting the date and amount of the refund in a single cell, and sometimes include the reason for the refund. This method of tracking refunds limits the Division’s ability to evaluate whether refunds were due to overpayment of fees or other situations that are less common, such as the cancellation of a renewal or submission of the wrong application.

Lack of quality assurance or secondary review of payment and refund calculations. The Division does not have controls in place to conduct secondary review of license fee payments and refunds, such as through aggregate quality assurance monitoring or supervisory review of license

applications and fee payment refunds. Under Green Book Principle 16, the Division should establish and operate activities to monitor the internal control system and evaluate the results.

Division management told us that they do not monitor fee payments on the aggregate level, are not able to export payment data from COHFI to evaluate trends or look for anomalies in the data, and do not look at how much specific facilities have paid in fees, year over year. However, by standardizing the payment data they do have, they would be able to use the payment data to monitor payments by facility, facility type, and reasons for the payments.

The Division also does not require, and supervisors do not conduct, a secondary review of individual license applications, including to ensure that each license fee is calculated correctly at the time of payment. Although supervisors document receipt of a facility's fee payment in COHFI, this is done before the application is processed and they do not review the fee payment amount to ensure that it is accurate. When facilities overpay their license fees, a Division supervisor must approve the refunds; however, this refund approval does not involve reviewing calculations or recalculating the fee to ensure the accuracy of the refund amount. All four refunds from our sample, including the two issued erroneously, were approved by supervisors.

We inquired with Division management about the lack of supervisory review over payments. They told us that they would like to initiate secondary reviews of applications and payments, but doing so would increase license processing times, unless they increase staffing or change their licensing system, COHFI. As the Division implements a new licensing system, it should look for ways to design the system to facilitate supervisory review of fees. Management also noted that staffing has been a challenge, and turnover among licensing staff and supervisors since 2022 has impacted their ability to review applications and payments. However, even a risk-based approach to secondary review of payments, such as payments for facilities with more complex fee structures, or a review triggered when a facility under- or overpays its fee, could mitigate the risk of incorrect payments and refunds.

Why do these problems matter?

When the Division's licensing staff are required to conduct extra work to process a refund or contact a facility to correct an inaccurate payment, the time to process license applications increases. During the audit, Division management told us that their licensing staff, which includes eight technicians and one supervisor, were processing an average of 335 to 350 applications every month. Additionally, Division staff process applications and review payments based on when the license is set to expire, so a mistake may not be caught for several months. Of the incorrect payments in our sample, we found that Division staff issued refunds to or collected additional payments from facilities between 20 and 107 days after the fee payment was submitted. By creating efficiencies in the licensing process, such as through automating payment calculations, the Division could potentially ease the workload of licensing staff who the Division reports are working at or over capacity, as well as reduce the burden on facilities that must also conduct extra work to calculate fees and process additional payments.

Additionally, the Division relies on license fee revenue from the licensing cash funds to fund operations and plan its budget. As such, it is important that the Division has adequate controls in place, such as supervisory review of calculations and monitoring, to ensure facilities pay fees accurately and licensing staff process the fees correctly.

Recommendation 2

The Health Facilities and Emergency Medical Services Division (Division) should improve its controls to ensure the accuracy of health facility license fee payments by:

- A. Establishing and implementing a process to automate license fee calculations or invoice facilities during the licensing process. This might include ensuring that the new licensing system has the capability to automatically calculate fees and/or invoice facilities, and seeking rule change to allow the Division to invoice facilities and collect license fee payments after an application is submitted, but prior to issuing the license.
- B. Establishing and implementing processes to standardize license fee payment data in the licensing database, including reasons for payments and refunds, that will enable the Division to conduct aggregate monitoring to identify any facilities that have not paid and to identify anomalies and trends in payment amounts.
- C. Establishing and implementing a system of secondary review of license fee payments and refunds, such as through aggregate quality assurance monitoring of license fee payments and/or supervisory review of individual license fee payments and refunds to facilities, and considering how its new licensing system could help to expedite the review process.

Response

Health Facilities and Emergency Medical Services Division

A. Agree

Implementation Date: July 2027

In response to the recommendation, the Division will take urgent steps to ensure that all posted fee schedules are accurate through a series of reviews and approvals by the program manager, a member of division leadership and a member of fiscal staff. Additionally, the program will document and initiate a process for supervisory review and approval of all refund requests, along with a routine review of a sample of licensing payments to help reduce errors. Program staff will document and track the outcome of quality checks. On a quarterly basis, a member of division leadership and the licensing program manager will meet to review the results of the documented checks to evaluate trends. This work will be implemented by January 2026.

The Division's existing COHFI data system does not have the capability of automating the fee calculations or invoicing on a case by case basis. The system essentially holds documents utilized for the application and reapplication of licenses and serves as a means of communicating with individual facilities through their individual portal accounts for licensing.

The Division's new data system is planned to include a means of automation for licensing fee calculation and collection with processes built into the system to ensure the payment process is as efficient and effective as possible. The Division estimates that the new system will be substantially complete by the end of FY 2026-27.

B. Agree

Implementation Date: July 2027

In response to this recommendation, the Division will take steps to include, as part of each facility record in COHFI, the reason for payment along with information on any refunds. Financial technicians will evaluate the current payment with the most recent payment of the same type when processing a facility license to determine if any unexpected changes have occurred. Any such differences will be documented centrally in a tracking spreadsheet, and subsequently reviewed by supervisory staff and addressed as applicable. On a quarterly basis, a member of leadership and the program manager will meet to review aggregate results of the central tracking spreadsheet for quality assurance purposes. This new process will be in place by May 2026.

The Division's new data system is planned to include means of automating license fee calculations and payments, including standardized rationale for payments and refunds. The system will allow for regular aggregated monitoring of anomalies and trends. The Division estimates that the new system will be substantially complete by the end of FY 2026-27.

C. Agree

Implementation Date: January 2026

In response to the recommendation, the Division will take urgent steps to ensure that all posted fee schedules are accurate through a series of reviews and approvals by the program manager, a member of Division leadership and a member of fiscal staff. The Division will create a policy and procedure to ensure fee schedules are routinely reviewed and updated in the future following legislative or rule changes. Additionally, the program will document and initiate a process for supervisory review and approval of all refund requests, along with a routine review of a sample of licensing payments to help reduce errors. Reports of the outcomes of the quality checks for all refunds and payments will be documented, tracked, reviewed and addressed by a member of Division leadership on a quarterly basis. This work will be completed by January 2026, and will inform the final requirements published for procurement of the Division's new data system.

Finding 3—Tracking and Scheduling Licensure Surveys

The Division has approximately 120 staff who conduct licensing inspections, referred to as “surveys,” which are comprehensive evaluations of the extent to which a facility is complying with all applicable state regulations for that facility type. Licensure surveys include, for example, interviews with facility staff; observations of patient care; evaluations of the safety and cleanliness of the facility; and review of facility policies, procedures, and other records such as patient care quality management plans.

Surveyor staff comprise the majority of Division FTE and, in addition to conducting licensure surveys, they are also responsible for other regulatory inspections and reviews, such as conducting certification surveys at health facilities on behalf of the federal Centers for Medicare and Medicaid Services (CMS). These federal certification surveys are comprehensive evaluations that review health facilities’ compliance with all federal regulations. Surveyors are also responsible for investigating complaints and self-reported incidents at health facilities, and conducting targeted surveys as needed, such as to review infection control measures or to follow up on whether deficiencies identified during prior surveys have been corrected.

In many cases, health facilities have multiple active licenses. For example, ambulatory surgical centers, which primarily provide types of surgery that do not require hospitalization but do require post-surgical care, often have two licenses based on the range of services they offer—an ambulatory surgical center license and, if applicable, a convalescent center license. The Division has a survey template for most license types, to help staff account for all of the required survey work (e.g., conducting planning and research prior to beginning the survey, observing patient care practices, interviewing facility staff, assessing compliance with all applicable regulations).

Additionally, most licensed facilities are also Medicaid and/or Medicare certified, and staff routinely conduct federal certification and state licensure surveys concurrently to gain efficiencies and minimize disruption to facilities. In general, staff are assigned to conduct surveys in teams of 1 to 4 surveyors on average, for 1 to 5 days. As of Fiscal Year 2024, Division data indicated that the Division was responsible for licensing and surveying approximately 2,500 facilities.

The Division groups surveyor staff into four survey sections, split across two branches:

- In the Acute Care & Nursing Facilities Branch, the **Acute Care Section** surveys facilities such as hospitals, ambulatory surgical centers, and community clinics, and the **Nursing Facilities Section** is dedicated entirely to surveying nursing facilities, which provide long-term, skilled medical care. In Fiscal Year 2024, the Division was responsible for licensing and surveying 481 facilities within the Acute Care Section and 224 facilities within the Nursing Facilities Section.

- In the Home & Community Facilities Branch, the **Home Care Community Services Section** surveys hospices and home care agencies, and the **Assisted Living Residence (ALR)/Facilities for Persons with Intellectual and Developmental Disabilities (IDD) Community Services Section** surveys assisted living residences and facilities for persons with intellectual and developmental disabilities. In Fiscal Year 2024, the Division was responsible for licensing and surveying 1,025 facilities within the Home Care Section and 785 facilities within the ALR/IDD Section.

Surveyor section managers are responsible for scheduling all facility licensure surveys and other investigations. Survey branch chiefs and section managers meet regularly to discuss how to schedule surveys, for both state and federal requirements, that are due to be conducted. They are also responsible for addressing complaints that have come in related to facilities under their oversight, and other targeted reviews.

Licensing activities are funded by the annual fees that health facilities pay into the three licensing cash funds; for surveys where staff conduct a review of both state licensure requirements and federal Medicare certification requirements, both the licensing cash funds and federal revenue are applied.

What audit work was performed and what was the purpose?

We reviewed statutes, regulations, and Division data and other documentation related to tracking, scheduling, and conducting licensure surveys. We also interviewed Division executive management; the two survey branch chiefs and the four survey section managers; and the Division's data team to identify how timeframe requirements are applied to scheduling and how the Division monitors when surveys are due. We reviewed the survey tracking and scheduling information kept by each of the four survey sections, and as it was available, aggregate survey histories for Fiscal Years 2020 through 2024 (a 5-year period) for a stratified random sample of 60 facilities, which included facilities from each of the four survey sections and facilities across the state. The 60 facilities included 16 home health agencies, 10 ALRs, 8 hospitals, 6 nursing facilities, 5 ambulatory surgical centers, 4 hospices, 3 dialysis centers, 3 facilities for individuals with intellectual and developmental disabilities, 1 convalescent center, 1 community clinic, 1 birth center, 1 community integrated health care service agency, and 1 freestanding emergency department.

The purpose of our audit work was to assess whether the Division conducts licensure surveys within established timeframes.

How were the results of the audit work measured?

The Division is required to conduct licensure surveys. Statute [Section 25-1.5-103(1)(a)(I)(B), C.R.S.] requires the Department to conduct licensing inspections of health facilities as part of its regulatory oversight. The Division refers to these inspections as licensure surveys, and tasks the four

survey section managers with tracking and scheduling all licensure surveys that are due to be conducted.

- Statute requires the Division to conduct licensure surveys for ALRs annually [Section 25-27-104(2)(b), C.R.S.].
- For all other facility types, neither statute nor rule specify how frequently the Division needs to conduct licensure surveys. However, the Division Director stated that the Division has an obligation to minimize the cost and burden of surveys and as such, the Division aligns licensure surveys with federal certification surveys and other reviews, such as complaint investigations. Overall, the Division reports that it has established a routine survey cycle of every 3 years, to align with Medicare certification survey cycles, which CMS requires for many facility types.

The Division also cites the importance of the annual survey cycle for ALRs and 3-year survey cycle for other facility types in numerous reports. For example, in its Fiscal Year 2024 budget request, the Division stated that the 1- and 3-year survey cycles “...were established to ensure that facilities are complying with health and safety regulations and proactively address concerns quickly after they arise, all to protect patient and resident health and safety.” In a November 2023 Health Facilities Cash Fund Sustainability Plan report that the Division prepared and submitted to the Joint Budget Committee, the Division stated that scheduling relicensure surveys for once every 3 years is intended “to maximize efficiencies” and reduce administrative impact. It also acknowledges that maintaining the 3-year survey cycle is challenging, but that when it cannot regularly inspect facilities, it “decreases the likelihood of discovering potential areas of concern and proactively addressing them prior to an incident or harmful occurrence, which greatly impacts public safety.”

The Division is required to implement an extended and/or reduced-scope survey cycle.

Statute [Section 25-1.5-103(1)(a)(I)(C), C.R.S.] requires the Department to establish in rule an extended survey cycle or a tiered inspection or survey system, to allow for scheduling less frequent and/or reduced-scope licensure surveys for facilities, including ALRs, that have maintained good standing. Rules promulgated by the Department do not specify a standard survey cycle, but Department rule does specify that the Division will extend its standard licensure survey cycle up to 3 years, or use a reduced scope survey, for eligible licensees [6 CCR 1011-1, Section 2.10.2]. The statute establishing this requirement indicates that the intent is to reduce unnecessary or “overly burdensome” government oversight that hinders the productivity, viability, and vitality of health providers that have a demonstrated history of complying with laws and regulations and providing high quality care. It also was intended to reward these providers by “offer[ing] relief from the burdens and costs associated with wasteful state regulation.”

What problems did the audit work identify?

Overall, we found that the Division is not consistently conducting licensure surveys in accordance with established timeframes. Specifically, we identified the following problems with the timeliness of the Division’s licensure surveys.

First, we found that although the Division maintains survey documentation for each survey that staff have completed, it does not compile the information into data showing that it conducted licensure surveys for all of the health facilities it licensed during Fiscal Years 2020 through 2024; the total number of licensure surveys it conducted during this 5-year period; or when surveys were completed. Rather, the Division is only able to confirm that a survey was conducted and when, by reviewing the individual survey documentation for a facility. Division management confirmed that survey data, entered into the four data systems the Division uses (three federal, one state), cannot feasibly be compiled into the aggregate for all facilities due to system limitations, as discussed in Finding 1 of this report. Division management also confirmed that survey information in the four data systems is frequently inaccurate or incomplete. Additionally, while the state data system, COHFI, provides a survey tracking feature, the Division does not consistently use it and does not intend to use it because it is in the process of replacing that data system.

Survey section managers also could not provide reliable documentation to confirm when staff had last conducted licensure surveys for all facilities within their section's purview. Specifically, we found that the survey section managers could only provide the monthly planning spreadsheets that they compile from the four data systems, primarily for their own use in noting the surveys due and making staff assignment notes and not to routinely compile data or statistics, for example, for Division management. In these spreadsheets, survey staff format facility and survey data with strike-throughs to indicate a survey was completed, and a branch chief commented that the schedules do not reliably indicate when surveys actually occurred. In addition, we found that surveys marked as completed in the schedules often were not corroborated by other survey data that the Division provided.

As such, we reviewed aggregate survey histories for Fiscal Years 2020 through 2024 for a sample of 60 facilities that the Division's data team compiled for the audit from the four data systems used by the Division. We found:

- **For all 10 ALRs in our sample, the Division failed to conduct annual licensure surveys, as required by statute.** Specifically, we found and the Division confirmed that 3 ALRs received no licensure surveys during Fiscal Years 2020 through 2024, and 7 ALRs each received only 1 licensure survey during this 5-year period. The Division's data indicated that other types of onsite and remote reviews of these facilities were conducted during the time period, ranging from 1 to 18 surveys of each of the 10 ALRs over the 5-year period due in part to complaints and self-reported deficiencies, but none of those reviews equated to a licensure survey, which is comprehensive of all state regulations regarding safety and operations. In early Fiscal Year 2025, the Division conducted licensure surveys for 6 of the ALRs, including the 3 ALRs that received no licensure surveys during the 5-year audit period.
- **For the 50 other facilities in our sample that should have received a licensure survey during Fiscal Years 2020 through 2024, we found that 10 (20 percent) did not.** Specifically, we found and the Division confirmed that 10 facilities (4 hospitals, 2 ambulatory surgical

centers, 1 home health agency, 1 convalescent center, 1 dialysis facility, and 1 community clinic) did not receive a licensure survey during this 5-year period. Additionally, for 6 facilities (2 home health agencies, 2 nursing facilities, 1 hospice, and 1 ambulatory surgical center), although the Division stated that licensure surveys occurred, it did not provide documentation to support this, and Division data indicated that licensure surveys had not been conducted at these facilities. Division data indicated that the Division had conducted other types of surveys at most of these facilities during the 5-year period, including federal certification surveys at 3 of the facilities, but not a state licensure survey.

We also found that the Division does not have an extended survey cycle or a tiered inspection or survey system, to allow survey section managers to schedule less frequent and/or reduced-scope licensure surveys for facilities that have maintained good standing, as required by statute and rule. Rule [6 CCR 1011-1, Section 2.10.2] states that, for qualifying facilities, the survey cycle will be extended, or reduced-scope surveys will be used. However, Division management confirmed that it has not implemented extended survey cycles or reduced-scope surveys. Further, the Division does not have written guidance to specify, what would qualify a facility for this type of reduced inspection cycle. One survey section manager stated that they informally extend the survey cycle for facilities they consider low-risk, but they had no documentation to support how or when this occurs. The other three survey sections confirmed they generally aim to adhere to the Division’s established 3-year routine survey cycle.

Why did these problems occur?

Overall, the Division lacks the information and standardized processes needed to ensure that facilities undergo required licensure surveys, and that they occur within established timeframes. Specifically:

The Division does not have a reliable data system for tracking surveys. The Division maintains survey data in four different information systems and there is no way to electronically compile aggregate survey information, such as survey due dates and completion dates, for the different facility types. The Division is only able to manually compile survey information for each specific facility. According to Division management, it has been undergoing numerous “process improvement” changes to address its lack of adequate data, including the hiring of a data team responsible for streamlining and producing survey data for staff. In addition, as the Division implements a new licensing system, as discussed in Finding 2, it should ensure that the system is designed to facilitate comprehensive monitoring of all licensure survey due dates, completion dates, and staff scheduling.

The Division has not established guidelines or practices for staff to consistently enter survey data. Currently, the Division has not provided written guidance to staff and it has not established practices to ensure that staff are consistently entering accurate and complete survey information into the four information systems used by the Division. As a result, we saw many inconsistencies in the Division’s survey data. Specifically, the survey history data that the Division was able to provide for

our sample of facilities contained numerous inaccuracies relating to the types of surveys received by a facility. For example, the Division stated that certain surveys that were documented as licensure surveys were actually complaint surveys and that some surveys documented as federal recertification surveys were also licensure surveys. When we asked Division management how these errors had occurred, they responded that in certain cases, survey staff had not entered any data to document that they had conducted a licensure survey because they had not found any instances of non-compliance, which would have prompted them to create a separate survey event in the data system. Division management also clarified that while the survey program was able to provide this additional information due to their familiarity with the work, the data team—which had compiled the survey data for us—“...would not have been able to know about this practice.” We also found numerous data entry errors relating to when the surveys were conducted, the staff who conducted the surveys, whether the survey was conducted onsite or remotely, due dates for complaint surveys, and facility addresses. The Division attributed these errors to the incompatibility between the state and federal data systems it uses to document surveys.

The Division does not have adequate rules related to licensure survey timeframes. The Department and the Board of Health (Board) promulgate rules regarding health facility licensing activities. The Division Director stated that the intent of current statutory and regulatory provisions related to licensure survey timeframes are clear; however, we identified the following deficiencies in Department and Board rules that ultimately lead to miscommunication between staff and Division management on licensure survey expectations and minimum requirements.

- The Division Director confirmed that annual licensure surveys of ALRs are required by statute, which states that rules promulgated by the Board must at a minimum include requirements for “[a]nnual inspection of [ALRs] by the department or its designated representative” [Section 25-27-104(2)(b), C.R.S.]. However, Department and Board Rules do not provide sufficient direction on what types of inspections are sufficient to meet this statutory requirement. The Division, which refers to all facility inspections as surveys, is responsible for ALR inspections but rules do not specify how staff should fulfill this statutory requirement, such as whether staff need to conduct these surveys on-site to assess the ALR’s compliance with all licensing regulations, or whether or when remote surveys or facility self-reviews would be appropriate. As a result, during our review to confirm that licensure surveys occurred for a sample of 10 ALRs we saw that there is uncertainty among Division management as to what fulfills the annual inspection requirement and how to implement licensure survey requirements. For example, the Division Director indicated there is discretion in how the Division may exercise annual inspection oversight for licensing, including conducting surveys of ALRs every 3 years and allowing ALRs to conduct “self-reviews” in the interim years. Further, one member of management commented that annual licensure surveys of ALRs may not be necessary, in part due to how frequently the Division conducts other types of surveys, particularly for complaints. They also commented that annual licensure surveys may not be feasible given the significant workload and administrative burden the surveys place on the Division and on facilities.

- For all licensed facilities other than ALRs, the Division has stated that its informal policy to perform licensure surveys every 3 years is important to ensuring patient safety and welfare. However, during our audit, we saw that the Division's survey sections approach the timing of licensure surveys differently. For example, some survey section managers provided that they adhere to federal survey intervals for licensure surveys, when available, which range from 1 to 7 years, while the branch chief who oversees other sections indicated that they follow the 3-year expectation. In addition, the Division Director emphasized that staff are expected to conduct multiple types of surveys concurrently when possible, such as licensure and federal certification surveys, to reduce the cost and burden of surveys, and that doing so meets the intent of statutes. However, without established rules that specify requirements for licensure survey timeframes, staff are routinely expected to use their discretion to decide which surveys are required when and which surveys to conduct concurrently, and the Division does not have documentation to support that staff's judgments are appropriate.
- The Division Director confirmed that an extended and/or reduced-scope survey cycle is required by statute, which states that rules promulgated by the Department must include requirements to allow for scheduling less frequent and/or reduced-scope licensure surveys for facilities that have maintained good standing, including ALRs. However, Department rule does not indicate how or when Division staff should identify eligible facilities and apply the statutory requirement for extended and/or reduced-scope cycle surveys, or when staff should reassess facilities' fulfilment of the criteria. Consequently, staff have expressed confusion and uncertainty about applying requirements for extended and/or reduced scope survey requirements. One survey section manager commented that implementing extended survey cycles or reduced-scope surveys could be a challenge because it would further complicate the current survey scheduling practices. For example, if a Medicare-certified facility is found to be non-compliant with a federal regulation, the facility has a specific timeframe to achieve compliance, at which point the facility will be surveyed again, resetting the facility's licensure survey cycle.

The Division lacks written policies and procedures related to licensure surveys. The Division has not established written policies or procedures related to how frequently licensure surveys should be conducted for facilities other than ALRs. In addition, the Division has not established written policies or procedures to implement its statutory obligation to extend licensure schedules or conduct reduced-scope licensure surveys for eligible facilities. According to Division management, the Division had extended licensure survey cycles and conducted reduced-scope licensure surveys for compliant facilities until around 2015, but stopped doing so due to high levels of turnover among senior management.

The Division has not conducted an assessment of the resources needed to complete all licensure surveys within established timeframes or, alternatively, the licensure survey schedule it can meet with existing resources. The Division relies on survey section managers to schedule all licensure surveys based on the statutory requirement that ALRs undergo annual surveys and the Division's informally established plan to conduct licensure surveys at all other facility types every 3 years. However, Division management does not monitor or track whether licensing staff are

meeting those established deadlines, and if not, why. In addition, the Division does not have data on how long surveys take or the number of surveys that licensing staff can complete within a given timeframe. Without this information, the Division is not able to determine whether current established timeframes are feasible for existing staff levels or whether adjustments are needed in either the timeframes or number of licensing staff. Further, the Division does not have the information needed to support the statements made in its budget requests regarding staff workload capabilities, as discussed in Finding 1 of this report.

Why do these problems matter?

As the Division has reported, when it does not regularly conduct licensure surveys of health facilities, the risk of significant harm being caused to facility patients and residents increases. The Division stated in its Fiscal Year 2025 budget request that for the approximately one-third of facilities (792 facilities) it regulates that are not federally certified, "...state licensing is the only form of regulatory oversight" and that "Failure to visit health facilities regularly puts patients and residents at risk of harm." The Division also noted in its budget request that because two-thirds of the facilities it licenses (1,562 facilities) serve Medicare and/or Medicaid clients, the lack of effective state oversight of health facilities risks the safety and well-being of high-risk individuals such as seniors and individuals with disabilities.

Division management emphasized that the need to ensure facilities receive timely licensure surveys has driven their budget requests. However, over the audit review period, as noted in Finding 1, the Division has lacked the data to quantify the resources it needs to do so, and Division management instead has relied on their knowledge of the program and the information and data available on facilities overdue for initial licensure or relicensure surveys. Given these concerns, the Department's Fiscal Year 2025 performance plan lists operational efficiency at the Division as a "Wildly Important Goal" to "...protect healthcare consumers through fair, routine regulatory oversight, accountability to industry standards, and demonstrate improved, timely responses, benefiting Colorado's licensees and citizens." Implementing the statutory requirement to establish an extended survey cycle or a tiered survey system, to allow for scheduling less frequent and/or reduced-scope licensure surveys for facilities that have maintained good standing, would both comply with statute and allow the Division to redirect resources to higher-risk facilities where the Division's oversight is needed the most, and to increase its facility licensing actions in line with the Department's performance plan.

Recommendation 3

The Health Facilities and Emergency Medical Services Division (Division) should ensure that it conducts health care facility licensure surveys within established timeframes by:

- A. Ensuring that its new licensing system includes the capabilities to monitor and track licensure survey information such as due dates and completion dates.

- B. Establishing and implementing guidelines and processes for Division staff to use when entering survey data into licensing systems and monitor the data to help ensure that it is accurate and complete.
- C. Working with the Board of Health (Board) and the Department of Public Health and Environment (Department) to promulgate rules that establish clear survey timeframes for licensing. At a minimum, Board rules for assisted living residences (ALR) should include the scope of annual licensure surveys of ALRs, and whether or when remote licensure surveys or facility self-reviews are appropriate based on statute. Rules for all other facility types should specify timeframes and whether or when remote licensure surveys are appropriate. When Board rules have clear timeframes for licensure surveys, Department rules should be updated to specify how extended and/or reduced-scope survey cycles will be implemented, including how and when staff will reassess qualifying facilities' fulfillment of eligibility criteria. The Division should ensure that staff follow all rules.
- D. Establishing and implementing written policies and procedures relating to scheduling licensure surveys, including clear requirements for staff on how frequently licensure surveys need to be conducted for all facility types; whether the surveys need to be onsite; how to conduct reduced-scope licensure surveys and/or schedule extended licensure survey cycles for eligible facilities and how to identify such facilities; and the documentation staff must maintain to track and confirm that surveys occurred, and when.
- E. Conducting an assessment of what resources are needed to complete all licensure surveys within currently established timeframes, or alternatively, what licensure survey schedule it can meet with existing resources. Based on the results of this assessment, the Division should propose any necessary statutory changes to the General Assembly.

Response

Health Facilities and Emergency Medical Services Division

A. Agree

Implementation Date: July 2027

The Division has already taken proactive steps to develop a plan to evaluate the efficiency and effectiveness of its facility inspections and complaint investigations activities. The Division is presently in the process of developing, documenting, and implementing a formal method to track planned work and completion steps as they occur. These improvements will enable the Division to manually track workload progression and will be in place no later than July 2026. Division leadership will monitor the survey workload at least quarterly with program managers to ensure timelines are being met.

Documented requirements for the Division's new data system already include automation for programmatic workload assignment, tracking, and data collection. The Division expects that the data system will be substantially complete by the end of FY 2026-27.

B. Agree

Implementation Date: July 2026

In response to this recommendation, the Division will take immediate steps to document and implement a formal process to ensure that staff members enter accurate and timely information into the existing survey and inspection data systems. The Division will generate quarterly sampling reports in order to monitor adherence to this new process and will take steps to mitigate deviations. This process will be implemented by 7/2026.

Requirements published in the RFP for the Division's new data system will include preferences for controls related to the input of information related to survey activities along with an ability to run data reports for quality control assessments.

C. Partially Agree

Implementation Date: December 2026

In review of the rule and audit report, the Division agrees the rule can be made clearer by better specifying in rule when the schedule for the extended survey cycle would apply. However, the frequency and type of surveys and survey schedules varies for each differing provider type, and therefore cannot be set in rule. These schedules are not static, and are modified both to be responsive to consumer quality of care concerns and to coincide with the federal and state work the Division conducts for the Centers for Medicare and Medicaid Services (CMS) and the Department of Health Care Policy and Financing (HCPF), respectively.

The purpose of the extended survey cycle, which is set in rule per statute, is to recognize those facilities that have good compliance histories by extending their survey inspection cycle up to three years. The Division implements this rule in its General Licensing Chapter 2 rules which are applicable to all facility types.

The Division will address this finding by documenting in formal policy and procedure to specify that the extended survey cycle is based on meeting the required criteria, utilizing a look-back from the most recent applicable routine inspection date. This policy and procedure will be documented and executed by 7/2026.

The Division will begin a stakeholder process to review proposed changes to the Chapter 2 rules which will address the recommendation for clarity and will focus on the use of the look-back period. Proposed changes will be presented to the Board of Health for rulemaking no later than 12/2026.

Auditor's Addendum

Establishing required licensure survey timeframes in rule is necessary for ensuring the Division fulfills its statutory responsibility to ensure that Colorado's health facilities are meeting state regulations. The Division highlights in its budget requests that routine licensure surveys are critical to ensuring patient safety and welfare. However, the Division has no clearly established or public requirements for how it performs this essential form of oversight, including how frequently it must conduct licensure surveys for facilities other than assisted living residences (ALRs); whether or when staff may perform licensure surveys remotely; or, for ALRs, the required scope of licensure surveys or whether or when facility self-reviews suffice. While we recognize that federal survey timeframes are complex and vary by facility type, we found that the Division's lack of clear licensure survey requirements and the resulting confusion among management contributed significantly to its failure to conduct timely licensure surveys for several facilities in our sample during the 5-year period we reviewed. Moreover, establishing these requirements in rule in addition to internal policies and procedures would give the public and the General Assembly the accurate, up-to-date information on the Division's survey activities that they need to hold the Division accountable for its statutory mandate to ensure facilities meet state regulations.

D. Agree

Implementation Date: July 2026

The Division will evaluate each survey inspection program, along with the newly implemented Complaint Program, to determine and identify the current types and timelines for all survey and inspection schedules and will document this in policy and procedure by July 2026.

The Division took proactive steps to develop a plan to evaluate the use of resources and time spent for facility inspections and complaint investigations in order to better determine the number of staff that may be needed to responsively meet timelines and incorporated this in the Governor's WIGs. This work, which is planned for completion by June 2026, will result in the development of a method to track planned work and completion steps as they occur.

E. Agree

Implementation Date: July 2026

The Division will evaluate each survey inspection program, along with the newly implemented Complaint Program, to determine and identify the current types, timelines and necessary staff and resources for all survey and inspection schedules and will document this in policy and procedure by July 2026.

The Division took proactive steps to develop a plan to evaluate the use of resources and time spent for facility inspections and complaint investigations in order to better determine the number of staff that may be needed to meet responsive timelines and incorporated this in the

Governor's WIGs. This work, which is planned for completion by June 2026, will result in the development of a method to track planned work and completion steps as they occur. In addition, this work will enable the Division to collect data in order to best estimate the number of staff and resources necessary to remain in alignment with documented expectations.

At this time, the Division does not anticipate a need for statutory changes, but will work with the Governor's Office and General Assembly if it determines that such changes may be necessary.

Finding 4—COHFI Access Management

Government Auditing Standards allow for information that is considered sensitive in nature resulting in security concerns to be issued through “classified or limited use reports” because of the potential damage that could be caused by the misuse of this information. We consider some specific and technical aspects of this finding and recommendation to be sensitive in nature and not appropriate for public disclosure. Therefore, some of the details of this section have been provided to the Division in a separate, confidential report.

The Governor’s Office of Information Technology (OIT) developed the web-based system, COHFI, for the Division’s use in managing its regulatory activities for licensing health facilities. COHFI houses health facility information that includes a history of facility applications, payments, and survey (i.e., inspection) information on identified deficiencies and plans of correction. COHFI is also a primary means of communication between health facilities and the Division, and health facilities use COHFI to submit to the Division required self-reporting of compliance and safety issues that require Division investigation.

COHFI is split into 3 main modules, which contain information about a facility’s (1) surveys, (2) licenses, and (3) occurrences (e.g., events that may impact patient safety), and contains confidential and protected information. The Division determines which users receive access to which modules, and in general, provides staff with read-only access to the 3 modules. With the exception of some fiscal, policy, and education staff, the Division grants all staff access to COHFI. In addition to Division staff, inspectors at the Department of Public Safety’s Division of Fire Prevention and Control (DFPC) receive COHFI access to review facility information that can inform their fire safety inspections of health facilities, which are a required component of licensing surveys.

What audit work was performed and what was the purpose?

We obtained and analyzed a list generated by OIT of all 215 active COHFI accounts that were created for Division use, as of March 19, 2025. We reviewed OIT’s Colorado Information Security Policies (CISPs), which establish requirements governing information system access for all state systems, and interviewed Division management to gain an understanding of their processes for granting, monitoring, and deactivating COHFI accounts.

The purpose of the audit work was to assess the Division’s compliance with OIT system access requirements for its licensing database, COHFI.

What problems did the audit work identify and how were the results of the audit work measured?

Overall, we found that the Division has not complied with some OIT system access requirements for COHFI. Statute [Section 24-37.5-105.2(4), C.R.S.] designates the state agency as responsible for user access to all state information technology systems. We found that the Division has not effectively managed COHFI user access in compliance with some statutory and CISP requirements.

Why did these problems occur?

The Division lacks written policies or procedures and a process to govern COHFI user access. Division management indicated that the “standard OIT policies that govern all systems and software used by state agencies” are what it uses to govern COHFI access. However, Division management stated that it has not developed policies and procedures to govern COHFI user access, and until we reviewed COHFI access, they were not aware they could review a list of all accounts and users.

According to Division management, after COHFI went live in 2020, they never implemented a process for monitoring COHFI account access. Rather, management relied on the former Division business technology liaison to monitor accounts, for both Division staff and outside users like DFPC inspectors. When this individual left the Division, no one took over this responsibility and, instead, users with write/edit permissions in COHFI, such as supervisors, began managing the accounts of the staff on their teams. DFPC did not have write/edit permissions or a process to notify the Division when staff were off boarded.

Why do these problems matter?

The purpose of system access controls is to identify and reduce security risks for IT assets and software [CISP-001, 2]. Although our review did not find any instances of unauthorized access, the Division’s lack of policies, procedures, and monitoring activities for COHFI accounts creates the risk that confidential and protected data may be accessed, used, or disclosed improperly. State agencies, including the Division, are responsible for protecting information in accordance with all state requirements to keep information safe, secure, and protected from unauthorized access.

Recommendation 4

The Health Facilities and Emergency Medical Services Division (Division) should work with the Governor’s Office of Information Technology to ensure that the Division complies with state system access requirements with respect to the Colorado Health Facilities Interactive (COHFI) system by developing written policies and procedures and implementing a process to govern

COHFI user access. The Division should also ensure that a user access process is implemented for any system that replaces COHFI.

Response

Health Facilities and Emergency Medical Services Division

Agree

Implementation Date: January 2026

The Division will work with the Governor's Office of Information Technology (OIT) and fiscal staff to develop a formal policy and procedure to ensure compliance with the state system access requirements for all users of COHFI. Moving forward, the Division will incorporate a means of ensuring appropriate security measures for all accounts in newly developed systems as set forth in policy and procedure.



Appendix A

Auditor Calculations of Licensing Cash Fund Solvency Based on Fee Revenue

Health Facilities General Licensure Cash Fund (2650)¹

	FY21	FY22	FY23	FY24
Prior Fiscal Year End Balance	\$197,218	\$277,004	\$123,584	\$(89,275)
Fee Revenues	\$2,306,367	\$2,285,979	\$1,678,935	\$2,287,103
Appropriation to Backfill Fee Cancellations ²	N/A	N/A	\$653,000	N/A
Expenditures	\$(2,226,581)	\$(2,439,399)	\$(2,544,794)	\$(2,348,778)
Fee Revenue + Backfill – Expenditures	\$79,786	\$(153,420)	\$(212,859)	\$(61,675)
Fiscal Year End Balance	\$277,004	\$123,584	\$(89,275)	\$(150,950)

Assisted Living Residence Fund (2460)

	FY21	FY22	FY23	FY24
Prior Fiscal Year End Balance	\$568,330	\$677,297	\$292,764	\$371,970
Fee Revenues	\$3,105,182	\$3,055,486	\$670,154	\$3,161,232
Appropriation to Backfill Fee Cancellations ²	N/A	N/A	\$2,732,000	N/A
Expenditures	\$(2,996,215)	\$(3,440,019)	\$(3,322,948)	\$(2,411,535)
Fee Revenue + Backfill – Expenditures	\$108,967	\$(384,533)	\$79,206	\$749,697
Fiscal Year End Balance	\$677,297	\$292,764	\$371,970	\$1,121,667

Home Care Agency Cash Fund (22R0)

	FY21	FY22	FY23	FY24
Prior Fiscal Year End Balance	\$253,883	\$243,123	\$81,654	\$267,171
Fee Revenues	\$1,369,288	\$1,422,601	\$1,332,306	\$1,529,690
Expenditures	\$(1,380,048)	\$(1,584,070)	\$(1,146,789)	\$(1,328,505)
Fee Revenue – Expenditures	\$ (10,760)	\$ (161,469)	\$ 185,517	\$ 201,185
Fiscal Year End Balance	\$243,123	\$81,654	\$267,171	\$468,356

Source: Office of the State Auditor analysis of Colorado Operations Resource Engine (CORE) and Division data.

¹ The four characters in parentheses are the CORE fund code for the fund.

² In Fiscal Year 2023, the Division waived fees for residential facilities such as assisted living residences and nursing facilities, as part of an executive branch initiative to reduce the financial burden on health facilities during the COVID-19 Pandemic. The Division requested and received a \$3.4 million appropriation from the General Fund to backfill this lost revenue.



Appendix B

Auditor Projections of Future Licensing Cash Fund Balances

Scenario 1: Fully Staffed in FY26	FY24 (Actual)	FY25	FY26	FY27	FY28	FY29
Beginning Balance	\$1,552,367	\$4,548,416	\$5,981,420	\$4,593,804	\$3,175,499	\$1,725,949
Total Revenue	\$9,084,866	\$7,536,266	\$8,139,167	\$8,627,517	\$9,145,168	\$9,693,878
Fee Revenue	\$6,978,024	\$6,978,024	\$7,536,266	\$8,139,167	\$8,627,517	\$9,145,168
Fee Increases	N/A	\$558,242	\$602,901	\$488,350	\$517,651	\$548,710
One-Time Appropriation ¹	\$2,100,000	N/A	N/A	N/A	N/A	N/A
Other Revenue (Fines) ²	\$6,842	N/A	N/A	N/A	N/A	N/A
Total Expenditures	\$6,088,817	\$6,103,262	\$9,526,783	\$10,045,822	\$10,594,718	\$11,175,228
3% Inflation ³	N/A	\$182,665	\$248,773	\$351,408	\$361,951	\$372,809
Total Cost to Fill New Positions ⁴	N/A	\$1,250,960	N/A	N/A	N/A	N/A
3 New Entry Level Positions	N/A	\$205,872	N/A	N/A	N/A	N/A
5 New Complaint Staff Positions	N/A	\$527,340	N/A	N/A	N/A	N/A
7 Other New Positions	N/A	\$517,748	N/A	N/A	N/A	N/A
Portion of 15 New Positions Filled	N/A	15	0	0	0	0
Filled Vacancies over FY24 Level	N/A	7	28	0	0	0
Average Salary + Benefits for Division Employees	N/A	\$110,000	\$113,300	\$116,699	\$120,200	\$123,806
Cost of Filled Vacancies over FY24 Level	N/A	\$770,000	\$3,172,400	\$–	\$–	\$–
Expenditures Shifted to General Fund ⁵	N/A	\$(2,189,180)	\$(2,186,832)	\$(2,019,202)	\$(1,832,257)	\$(1,624,556)
Fiscal Year Ending Balance	\$4,548,416	\$5,981,420	\$4,593,804	\$3,175,499	\$1,725,949	\$244,599
Filled Positions at Year End	204	226	254	254	254	254
Total Positions at Year End	239	254	254	254	254	254

Scenario 2: Fully Staffed Over Next 5 Years	FY24 (Actual)	FY25	FY26	FY27	FY28	FY29
Beginning Balance	\$1,552,367	\$4,548,416	\$6,982,188	\$8,754,471	\$9,523,777	\$9,235,876
Total Revenue	\$9,084,866	\$7,536,266	\$8,139,167	\$8,627,517	\$9,145,169	\$9,693,878
Fee Revenue	\$6,978,024	\$6,978,024	\$7,536,266	\$8,139,167	\$8,627,517	\$9,145,168
Fee Increases	N/A	\$558,242	\$602,901	\$488,350	\$517,651	\$548,710
One-Time Appropriation ¹	\$2,100,000	N/A	N/A	N/A	N/A	N/A
Other Revenue (Fines) ²	\$6,842	N/A	N/A	N/A	N/A	N/A
Total Expenditures	\$6,088,817	\$5,102,494	\$6,366,884	\$7,858,211	\$9,433,070	\$11,095,565
3% Inflation ³	N/A	\$182,665	\$218,750	\$256,611	\$296,322	\$337,960
Total Cost to Fill New Positions ⁴	N/A	\$250,192	\$250,192	\$250,192	\$250,192	\$250,192
3 New Entry Level Positions	N/A	\$41,174	\$41,174	\$41,174	\$41,174	\$41,174
5 New Complaint Staff Positions	N/A	\$105,468	\$105,468	\$105,468	\$105,468	\$105,468
7 Other New Positions	N/A	\$103,550	\$103,550	\$103,550	\$103,550	\$103,550
Portion of 15 New Positions Filled	N/A	3	3	3	3	3
Filled Vacancies over FY24 Level	N/A	7	7	7	7	7
Average Salary + Benefits for Division Employees	N/A	\$110,000	\$113,300	\$116,699	\$120,200	\$123,806
Cost of Filled Vacancies over FY24 Level	N/A	\$770,000	\$793,100	\$816,893	\$841,400	\$866,642
Expenditures Shifted to General Fund ⁵	N/A	\$(2,189,180)	\$(2,186,832)	\$(2,019,202)	\$(1,832,257)	\$(1,624,556)
Fiscal Year Ending Balance	\$4,548,416	\$6,982,188	\$8,754,471	\$9,523,777	\$9,235,876	\$7,834,189
Filled Positions at Year End	204	214	224	234	244	254
Total Positions at Year End	239	242	245	248	251	254

Scenario 3: Staffing Plateaus at June 2025 Levels	FY24 (Actual)	FY25	FY26	FY27	FY28	FY29
Beginning Balance	\$1,552,367	\$4,548,416	\$7,232,380	\$10,305,653	\$13,482,064	\$16,765,072
Total Revenue	\$9,084,866	\$7,536,266	\$8,139,167	\$8,627,517	\$9,145,168	\$9,693,878
Fee Revenue	\$6,978,024	\$6,978,024	\$7,536,266	\$8,139,167	\$8,627,517	\$9,145,168
Fee Increases	N/A	\$558,242	\$602,901	\$488,350	\$517,651	\$548,710
One-Time Appropriation ¹	\$2,100,000	N/A	N/A	N/A	N/A	N/A
Other Revenue (Fines) ²	\$6,842	N/A	N/A	N/A	N/A	N/A
Total Expenditures	\$6,088,817	\$4,852,302	\$5,065,894	\$5,451,106	\$5,862,160	\$6,300,694
3% Inflation ³	N/A	\$182,665	\$211,244	\$217,582	\$224,109	\$230,833
Total Cost to Fill New Positions ⁴	N/A	N/A	N/A	N/A	N/A	N/A
3 New Entry Level Positions	N/A	N/A	N/A	N/A	N/A	N/A
5 New Complaint Staff Positions	N/A	N/A	N/A	N/A	N/A	N/A
7 Other New Positions	N/A	N/A	N/A	N/A	N/A	N/A
Portion of 15 New Positions Filled	N/A	0	0	0	0	0
Filled Vacancies over FY24 Level	N/A	7	0	0	0	0
Average Salary + Benefits for Division Employees	N/A	\$110,000	\$113,300	\$116,699	\$120,200	\$123,806
Cost of Filled Vacancies over FY24 Level	N/A	\$770,000	\$—	\$—	\$—	\$—
Expenditures Shifted to General Fund ⁵	N/A	\$(2,189,180)	\$(2,186,832)	\$(2,019,202)	\$(1,832,257)	\$(1,624,556)
Fiscal Year Ending Balance	\$4,548,416	\$7,232,380	\$10,305,653	\$13,482,064	\$16,765,072	\$20,158,256
Filled Positions at Year End	204	211	211	211	211	211
Total Positions at Year End	239	239	239	239	239	239

Source: Office of the State Auditor analysis of Fiscal Year 2024 fund balance data from Colorado Operations Resource Engine (CORE) and Division staffing data.

¹ The Division requested and received \$2.1 million from the Revenue Loss Restoration Cash Fund in Fiscal Year 2024 to support the solvency of the Health Facility Licensing Cash Funds.

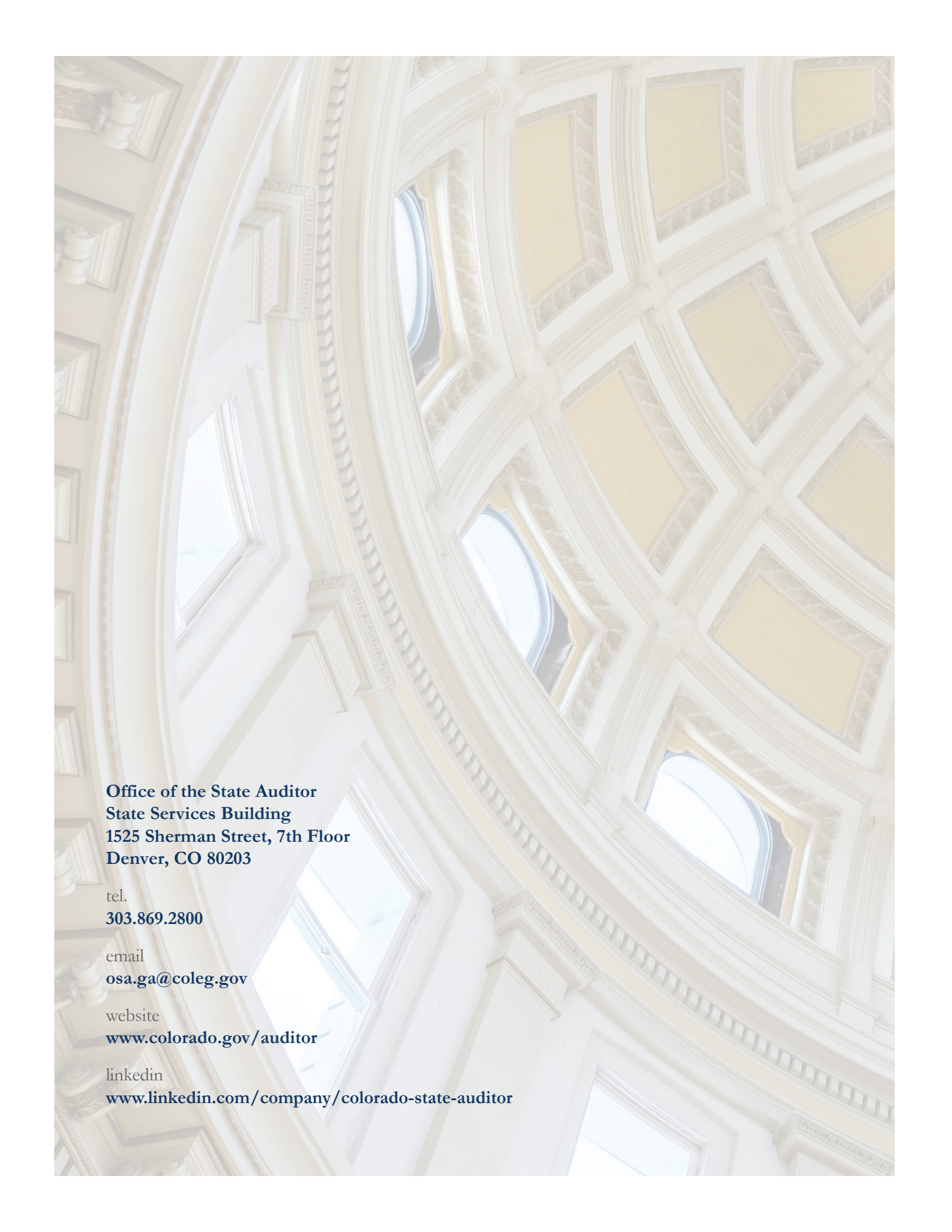
² Other Revenue is included here so that the fiscal year ending balance for Fiscal Year 2024 foots, but we do not project it forward.

³ This accounts for inflation on the total expenditures before a portion of the expenditures is shifted to the General Fund.

⁴ As discussed in Finding 1, the Division provided us with cost estimates for planned staffing initiatives, which account for 15 new positions. In **Scenario 1** we include the total cost of filling these 15 positions in Fiscal Year 2025; in **Scenario 2** we divide the cost by 5 and spread it across the 5-year period; and in **Scenario 3** we exclude the cost of these positions to show staffing plateauing at June 2025 levels.

⁵ For each year, we subtract off the previous year's expenditures shifted to General Fund before adding in the current year's expenditures, so that the General Fund appropriation does not compound.





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