Joint Budget Committee Staff

Memorandum

To: Joint Budget Committee
From: Amanda Bickel and Louellen Lowe, JBC Staff
Date: June 18, 2025
Subject: Addressing Fiscal Management Concerns at Colorado Department of Higher Education – Use of KPMG Consulting Resources

Staff recently learned that the Department of Personnel has contracted with KPMG to examine management and accounting problems at the Department of Higher Education. Staff has requested that the Executive Branch provide a brief presentation to the JBC on the provisions of this contract and the reasons for it. Since staff is currently uncertain what the Executive Branch will provide, below is a brief overview of the information currently available to staff.

New Information

In June 2025, the JBC received a new interim supplemental request from the Department of Higher Education that added to a list of problems JBC Staff had previously noted about Department administration. Based on this, staff reached out to the Office of the State Auditor and the Office of the State Controller to discuss whether changes in policies and procedures or laws might be required to address the problems at the Department. From a conversation with the State Controller on Friday June 13, 2025, staff learned the following:

- The Department of Higher Education's inability to make appropriate accounting entries and submit timely accounting reports delayed overall closing of the state's books for FY 2023-24. Because of this inability, the Office of the State Controller ultimately directed its own staff to make entries on behalf of the Department to ensure the FY 2023-24 books could be closed for the entire state.
- Based on the scope of problems at the Department, the Department of Personnel (DPA) expanded on an existing contract it had with KPMG to provide targeted consulting services for the Department of Higher Education. DPA was already providing statewide consulting services related to accounting for federal coronavirus state and local fiscal recovery funds (ARPA funds).[1] The additions for the Department of Higher Education include:
    - Tracking and reconciling the federal ARPA funds allocated through the Department

[1] Statewide consulting resources were supported within the $370 million in flexible funds allocated to the Governor's Office from ARPA funds.

  - Making recommendations on Department accounting policies and procedures such as procedures for managing and reconciling expenditures between institutions and the Department.
  - Overall management structure for the Department, including clarifying roles and responsibilities for all Department staff.
- The Department of Higher Education has not yet been successful in hiring a new controller and is therefore relying on contract accounting services, as it has been doing for multiple months. The State brought in a previous controller from the Colorado Community College System on contract for 4-5 months through June 2025, but the Department controller position is still not filled. Because of this, and because the Department's chief financial officer is new and the Department has not yet filled its vacant budget director position, DPA will be contracting with a former Department of Health Care Policy and Financing (HCPF) budget director and a former HCPF controller to help ensure the Department of Higher Education and State of Colorado accounting books can be closed for FY 2024-25.

KPMG has been working on Department-related issues for many months. Given this, staff initially proposed that KPMG speak directly to the Committee. The Governor's Office has informed us that the analysis and recommendations from KPMG are not yet complete and also emphasizes that the Executive Branch, rather than its contractors, is ultimately responsible for related decisions and proposals. Given this, OSPB will provide a presentation to the JBC about the KPMG contract and the reasons for this work and the Department or Administration will continue to keep the JBC updated on progress.

Information Previously Provided/Publicly Released

Since December, JBC Staff has been highlighting concerns about overall management at the Department of Higher Education.

<u>JBC Staff December 2024 Briefing on CDHE Management Issues, JBC Letter, Governor Response</u>

Staff's December 17, 2024 briefing raised concerns about the Department's capacity to provide timely payments, reliable data collection, and effective reporting needed for institutions of higher education. Staff noted that the Department had experienced significant turnover at all levels of staffing; and a cybersecurity attack in mid-2023 inflicted severe damage on its data and data collection abilities.[2]

Letters from the JBC to the Governor's Office and Department of Education dated January 22, 2025 asked both agencies to explore whether some administrative functions of the Department of Higher Education, including budgeting, accounting, fiscal management, and IT system/data management would be more robust if integrated within a larger entity, such as the Department of Education.

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[2] https://leg.colorado.gov/sites/default/files/fy2025-26_hedbrf2.pdf

The Governor's Office responded on February 22 that "while there are many strategies to advance Colorado's commitment to the Big Blur, the Polis-Primavera administration does not support the colocation of operational functions from the Department of Higher Education into the Department of Education." It instead suggested greater interest in exploring integration with the Department of Labor and Employment. The response from the Governor's Office noted that: "In November 2024, CDHE embarked on strategic systems improvement work for federal and state funded programs and fiscal management and standard operating procedures," but it provided no other detail.

February 2024 Colorado Single Statewide Audit for FY 2023-24

The Office of the State Auditor highlighted significant concerns about the Department of Higher Education's accounts and controls capacity in the FY 2023-24 single statewide audit. As described in the audit:

"We experienced extreme delays in receiving requested supporting documentation for purposes of testing the accuracy and completeness of the Department's accounting records as well as the effectiveness of its internal controls. In addition, we identified the following errors:

- The Department posted 115 entries into CORE, totaling approximately $241.5 million, between 1 and 122 days after the OSC's closing deadline of August 5, 2024.
- The Department submitted all four of its required exhibits to the OSC between 3 and 73 days after their respective due dates.
- The Department incorrectly recorded federal revenues in CORE for the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program, resulting in an overstatement of $4.7 million in revenue, and failed to record $2.5 million in TABOR revenue received from higher education institutions throughout the year for indirect cost recoveries, which understated TABOR revenue at fiscal year end.
- The Department failed to submit any of its four statutorily-required quarterly reports for Fiscal Year 2024 to the OSC.
- Classification: Material Weakness."[3]

The Department of Higher Education was one of three departments asked to appear in person before the Legislative Audit Committee, in light of the seriousness of the problems.

The single statewide audit also included findings that were extremely critical of the Office of the State Controller (OSC; part of the Department of Personnel), finding a material weakness based in large part on the volume of transactions that were recorded after the statutorily-required August 5, 2024, close deadline. The problems highlighted for the OSC appear to have been tied in large part to the extreme delays and failures at the Department of Higher Education, since the OSC and the State Controller bear ultimate responsibility for the state's accounts.

[3] https://leg.colorado.gov/sites/default/files/documents/audits/2401f_statewide_single_audit_fy_2024_0.pdf

March 2025 Late Supplemental

On March 8, 2025, OSPB notified the JBC that they had identified a significant error in state accounting for H.B. 23-1246 (Support In Demand Career Workforce). The Department of Higher Education had failed to file roll-forward paperwork with the State Controller's Office. As a result, money that was supposed to roll forward from FY 2023-24 to FY 2024-25 based on statutory provisions had instead reverted to the General Fund at the end of FY 2023-24. As a result, the General Fund reserve at the end of FY 2023-24 was overstated by **$30.0 million**. At the same time, the Colorado Community College system, the recipient of the H.B. 23-1246 funds, had the money in-hand, was unaware of the problem, and had been spending these same funds throughout FY 2024-25. The JBC modified appropriations for FY 2023-24 and FY 2024-25 to restore community college access to the funds, but the problem highlighted the severe risks to the State of accounting problems in the Department of Higher Education.[4]

June 2025 Interim Supplemental

In June 2025, the Governor's Office submitted an interim supplemental request intended to address additional accounting errors at the Department of Higher Education. As indicated in the request, the Department has requested $1.0 million GF to fulfill commitments pursuant to SB 23-005, to various institutions of higher education. The request states that "due to the timing of the grant distributions and a misunderstanding of the authority granted by SB 23-005, CDHE underexpended its FY 2023-24 appropriation, over-committed its FY 2024-25 appropriation, and committed the balance of the grant funds to institutions of higher education in FY 2025-26 without the spending authority necessary to do so." The details of the issue are addressed in the June 18, 2025 supplemental request packet.

[4] https://leg.colorado.gov/sites/default/files/indemand-03-12-25.pdf