



**STATE OF COLORADO
OFFICE OF THE STATE AUDITOR**

REPORT SUMMARY

**J. DAVID BARBA, CPA
State Auditor**

**STATE OF COLORADO
STATEWIDE SINGLE AUDIT
FISCAL YEAR ENDED JUNE 30, 2000**

Authority, Purpose, and Scope

This audit was conducted under the authority of Section 2-3-103 et seq., C.R.S., which authorizes the Office of the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The audit was conducted in accordance with generally accepted auditing standards and the financial and compliance standards contained in the *Government Auditing Standards* issued by the U.S. General Accounting Office. We performed our audit work during the period January 2000 through November 2000.

The purpose of this audit was to:

- C Express an opinion on the State's General Purpose Financial Statements for the fiscal year ended June 30, 2000.
- C Express an opinion on the State's Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2000.
- C Review internal accounting and administrative control procedures as required by generally accepted auditing standards.
- C Evaluate compliance with applicable state and federal laws, rules, and regulations.
- C Evaluate progress in implementing prior audit recommendations.

We expressed an unqualified opinion on the State's General Purpose Financial Statements and the State's Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2000. They are presented in the Financial Statement section of this report.

Current Year Findings and Recommendations

This report presents the results of the statewide financial and compliance audit for Fiscal Year 2000. The report may not include all the findings and recommendations related to audits performed of state departments, institutions, and agencies which are issued under separate report covers. However, in accordance with the Single Audit Act, this report does include all findings and questioned costs

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related to federal awards which came to our attention through either the statewide audit or separate audits. The following presents highlights of the more significant findings included in this report arranged by subject matter. Please refer to the Recommendation Locator in the next section for the recommendations, responses, implementation dates, and location of the full text of the findings, recommendations, and agency responses for each agency.

Federal Grants

The State received about \$3.4 billion in federal grants in Fiscal Year 2000. We noted areas for improvements in the administration of some federal programs as follows:

G Medicaid - Health Care Policy and Financing. The majority of the problems found with the administration of Medicaid occurred at Health Care Policy and Financing unless otherwise noted and include the following areas:

- Cost allocation plans were not approved. Indirect costs, those costs that benefit more than one program, may be recovered with federal dollars with a federally approved cost allocation plan. The plans for Fiscal Years 2000 and 2001 plans have not been approved resulting in questioned costs of \$2 million.
- Unallowable Medicaid expenditures were incurred. In a sample of 208 Medicaid expenditures, there were problems with 202 items, totaling \$93,454 (federal share \$46,867). The most prevalent problem was a lack of Electronic Data Interchange (EDI) agreements, which are providers' attestation that they have appropriate medical records to support electronic claims.
- Risk assessments were not performed for the Medicaid Management Information System (MMIS). About \$1.89 billion in claims were processed through MMIS in Fiscal Year 2000. Federal regulations require a biennial risk analysis and security review of the system to help identify problems to assist in developing strong controls over claims processing.
- Eligibility errors were found for individuals, totaling about \$1,200, and for providers totaling \$43,000. For individuals, in one case there was insufficient information to determine Medicaid eligibility and in another case benefits were paid to an ineligible individual. For providers, we noted problems primarily involving a lack of required documentation of necessary licenses and registrations for 118 providers in a sample of 208 payments.
- Quality of care issues are a concern at nursing facilities. There are requirements for assessing quality of care at nursing facilities as well as required action plans for care deficiencies. Public

Health was found to lack focus on quality of care and needs to improve citing of deficiencies at facilities. Training, supervision, and team building could improve the assessment and follow-up on care issues noted during inspections.

- Duplicate payments and service provision systems exist for mental health services at the Department of Human Services. We found that Regional Centers were being paid for mental health services that may have already been included in the base for capitation payments. About \$452,000 in capitated payments could be removed from the base and transferred to the Regional Centers and developmental disabilities system without significantly impacting rates. These funds could serve people on waiting lists.

G Children's Health Insurance Program - Health Care Policy and Financing. The Children's Basic Health Plan (CBHP) provides subsidized health insurance for children in low-income families not eligible for Medicaid. We found problems in the following areas:

- Administrative expenditures are excessive. For each dollar spent on CBHP, about 27 cents of this amount is spent on administration. We found that the complexity of the administrative structure, combined with the relatively small number of children served and start up costs, have contributed significantly to administrative costs.
- Eligibility discrepancies exist within CBHP. Under the CBHP state eligibility rule, a child's social security number is required; however, federal guidance states that social security numbers should not be required. CBHP eligibility rules also require that an alien resident identification number be provided; however, in practice self-declarations are accepted. Additionally, there were discrepancies in 4 out of 20 eligibility files sampled, potentially leading to claims being erroneously paid or denied.
- Retroactive enrollment changes are not treated appropriately. Reconciliations are not performed on retroactive enrollment changes and necessary adjustments to capitation payments are not being made. During April and May 2000 there were 61 retroactive disenrollment adjustments that should have resulted in almost \$14,000 in reductions to capitation payments made to providers.
- Coordination is lacking with the Medicaid program. Between May 1999 and April 2000 we found that 1,830 out of 15,691 CBHP children were simultaneously enrolled in CBHP and the Medicaid program. We estimated that this cost the State approximately \$242,000 in excess capitation payments. We also noted that for the first 10 months of Fiscal Year 2000, CBHP referred 5,353 applicants to county departments of social services as potentially being eligible for Medicaid rather than CBHP. As of the end of April 2000, only 1,252 referrals had been

- resolved. These delays in finalizing applications could cause families to postpone needed medical care for their children.
- Premium records were not accurately maintained for families enrolled in CBHP. The Department's administrative contractor, Child Health Advocates (CHA), is responsible for charging and collecting monthly family premiums. CHA was allowed to "archive" or discontinue follow-up on amounts totaling \$292,600 because of problems with maintaining accurate records of amounts owed to the program. Of this amount, about \$67,500 remains outstanding. We also noted problems with 14 of the 67 premium accounts tested. We found families were charged for some premiums not owed and at the same time were not billed in a timely manner for other premiums owed.
 - No mechanism exists to ensure that CHA complies with federal requirements for CBHP. About \$18 million out of the \$18.5 million of expenditures for CBHP in Fiscal Year 2000 were directly or indirectly controlled by CHA, because CHA performs many administrative functions including eligibility determination and enrollment. If the Department were to classify CHA as a subrecipient for federal award reporting purposes, CHA would be required to have an annual audit that would evaluate its compliance with federal requirements.

G Research and Development - Department of Higher Education. We found the following problems in various Universities and Colleges:

- University of Colorado. An individual working on the National Science Foundation grant within the Center for Spoken Language was overpaid approximately \$6,800 over a period of three months. When the employee was reduced to part-time status, he continued to receive his full-time salary. We also noted concerns with federally-purchased equipment. Insufficient equipment records were maintained at the Colorado Springs campus and some federal assets that were disposed of did not have the required internal approval at the Boulder campus.
- Metropolitan State College of Denver. The Rocky Mountain Teacher Education Collaborative grant was overcharged \$37,112 in salary expenditures. The overcharge related to a salary allocation. The allocation changed and the payroll department was not notified and continued to charge the grant at the previous rate.
- School of Mines. The University designates a principal investigator as the individual responsible for approving grant expenditures submitted by a subrecipient. While proper supervision of subrecipients may be occurring, documentation was not available to support proper monitoring of subrecipients.

G Student Financial Aid - Department of Higher Education. We found the following problems in various Universities and Colleges:

- University of Southern Colorado. No reconciliation was performed between the University's general ledger and the subsidiary system used to track loans receivable for Perkins loans. We found an unreconciled discrepancy of about \$237,000 at June 30, 2000. We also found that documentation in some individual loan files was not sufficient and failed to include items such as exit interview information.
- Western State College. A discrepancy of over \$20,000 was found between the federal financial aid posted on the general ledger and the amounts reflected on the financial aid office records at the college. Efforts by the College to reconcile this difference identified approximately \$4,000 of funds that were overawarded and were required to be returned to the federal programs.
- School of Mines. The University lacks adequate policies and procedures regarding documentation to be maintained for students receiving aid. Consequently, we found that a conflicting policy existed for determining satisfactory academic progress. Also, insufficient documentation was available to demonstrate that lenders were notified, and that appropriate counseling sessions were performed for students borrowing for the first time and students leaving school for the Federal Family Education Loan program.

G Food Stamps - Human Services. The Department is not citing counties for all instances of noncompliance found during county site visits; reports are not always issued promptly to the counties; and follow-up on noncompliance issues is not always timely. Of particular concern is the Department's oversight of the Denver Department of Social Services, which accounts for about 26 percent of the State's Food Stamp program participants. The Department had not addressed several deficiencies in the Denver Food Stamp office noted in a 1998 audit of the State's Electronic Benefit Payments card system. The Department should strengthen its oversight of counties to ensure deficiencies are addressed and to improve the State's payment error rate for Food Stamps.

G Block Grants for the Treatment of Substance Abuse - Human Services. The Department did not review 3 out of 4 annual independent audit reports for Managed Service Organizations (MSOs). As required, MSOs contracted with 37 drug and alcohol abuse centers to provide services to about 199,000 individuals in Federal Fiscal Year 2000.

G Byrne Formula Grant Program - Public Safety. This grant is one of the largest sources of non-operating law enforcement monies available for systems and program improvements in the State. We noted several areas for improvement, as follows:

- Salary charges to federal programs are not adequately supported. Pay activity reports reflecting actual time spent on each federal program are not maintained to support charges to grants. Therefore, required quarterly reconciliations between actual time worked and time allocations could not be performed as required by federal guidelines. We also noted that vacation and sick leave was not charged equitably among grants.
- The Cash Management Improvement Act (CMIA) is not followed. Public Safety is subject to, but is not following CMIA, which requires agencies to follow specific time frames for federal grant expenditure reimbursement to minimize lost interest to either the federal government or the State. As a result, for the months tested the State lost approximately \$6,000 in interest.
- Site visit plans are inadequate. Site visits of subgrantees are not conducted in accordance with departmental policy. Internal policy requires site visits in a variety of circumstances based on such factors as risk and dollar value of the subgrant. At the current rate of scheduled visits, it would take over 15 years to visit each subgrantee.
- Federal Financial Status Reports are inconsistent. We found that program income was not reported accurately, administrative expenditures for the match portion of the grant are not reported in a timely manner, and that unliquidated obligations are not properly reported.

G Cash Management Improvement Act (CMIA) - Treasury. The U.S. Treasury - State Agreement lists the federal programs that are covered by CMIA, the funding techniques, draw patterns for each agency, and the methods of calculating state and federal interest liabilities. The Department does not determine if state agencies are following the prescribed draw patterns and related provisions of the Cash Management Improvement Act. Failure to follow the appropriate draw patterns can result in an interest liability due to the federal government or lost interest earnings to the State.

Financial Reporting

The State Controller's Office minimizes the risk of inaccurate financial reporting by establishing standard policies and procedures. However, we found that processes at some state agencies could be improved as follows:

G Revenue. We found problems in processing and recording various taxes as follows:

- Procedures are lacking over estimated tax payments. Manual adjustments are made to taxpayer accounts but are not always adequately reviewed. A problem account may be

- temporarily canceled from the system, but never uncanceled, impairing needed follow-up. In addition, needed billings are not generated in a timely manner.
- Deficiencies were found in the processing and review of installment payments on estate taxes. In a review of 5 out of 18 tax files, we found that principal and interest is calculated manually and not reviewed by a supervisor, that there is no method for identifying late payment or non-payment of installments, and that late filers are not always billed in a timely manner.
 - Income taxes on wages earned through June 30 are not consistently factored into the accrual calculation of revenue for frequent filers. Without using a wage withholding methodology that always accrues taxes through June 30, the Department is lacking basic financial information to consistently calculate income tax revenue.

G Corrections. The Department's total inmate health care costs for Fiscal Year 2000 is estimated to be \$13,664,000, of which \$11,047,000 has been paid as of June 30, 2000. The remaining liability was understated by \$664,000. Incurred but not reported claims should be supported by an acceptable mathematical model that would be consistent from period to period.

G Education. The Department failed to record a \$1.5 million invoice in Fiscal Year 2000. An invoice for services received in February 2000 was recorded in Fiscal Year 2001.

G Military Affairs. All transactions were not recorded properly at fiscal year-end. Construction projects were not tracked separately, assets were overstated due to a transfer of assets to another agency, and utility invoices, totaling about \$61,000, were not recorded in the proper period.

G Natural Resources. We have noted problems in the past and continue to find issues with the Division of Wildlife's handling of hunting and fishing licenses. Excess inventories of licenses are being maintained, and voided hunting and fishing licenses are not being tracked separately from other returns.

Internal Controls Expenditures: The State has established procedures for making payments to vendors and has recently begun increasing its use of credit cards. We noted specific problems at the following agencies:

G Human Services. We found several payment problems in the following areas:

- Controls over purchasing cards are lacking. In a sample of 40 credit card purchases, we found problems with 23 items, including purchases by unauthorized cardholders, inappropriate

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- purchases, circumvention of spending limits, and inadequate supporting documentation for purchases.
- **Disability Determination Services Division (DDS)** is not making timely payments to vendors. In a test of 97 payments, 52 were made 45 or more days after the invoice was received by DDS.
- G Public Safety.** Almost half of the 25 credit card expenditures tested (totaling \$9,000) were not approved. The expenditures lacked a supervisor's signature, as required by the Department's policies.
- G Historical Society.** Three out of 25 transactions tested were payments for duplicate invoices. The vendors returned the duplicate payments in all 3 cases. Because payments were detected by vendors and not the Society, there is a risk that other duplicate payments may have occurred but not have been detected.
- G Revenue.** Controls are lacking over the review of earned income credits, which are available for low-income Colorado residents. We found that 5 returns in a sample of 60 were calculated incorrectly, this resulted in over-refunds to taxpayers, totaling about \$1,350. We also found that 27 returns in the same sample did not include the required supporting documentation.

Payroll/Personnel: The State has standard personnel procedures in place to ensure accurate payroll. However, we found areas where improvements can be made. Problem areas include:

- **Agriculture.** In a test of 25 employee files, we found three performance evaluations were not performed timely as required by state statute. We also noted a lack of or conflicting information in personnel files, including three W-4's with incomplete or missing information.
- **Human Services.** We found that in some instances employees' hours are erroneously recorded as overtime shift hours rather than non-overtime shift hours because of deficiencies in the timekeeping system. In addition, not all timesheets contain documented evidence of supervisory approval, and reconciliations are not always adequate between the expected payroll on the State's payroll system and payroll information obtained from departmental sources.
- **Judicial.** A performance evaluation was erroneously done on a contract employee. Applying salaried employee personnel policies to contract employees could be exposing the Department to a liability. A written policy for treatment of contract employees and clarification between contractual employee arrangements versus salaried employee positions could circumvent potential problems.

Recommendation Locator

The following Recommendation Locator is organized by recommendation. It includes the page where the recommendation can be found, the comment, and the agency's responses. In addition, the Appendix contains a Locator organized by department. Additional columns have been added to provide the information necessary to meet Single Audit reporting requirements. The CFDA No./Compliance Requirement/Federal Entity column indicates the federal program, type of compliance requirement by letter, and applicable federal agency. The contact for the Corrective Action Plan designates the state agency contact person. For those findings not subject to the Single Audit Act, the CFDA No./Compliance Requirement/Federal Entity column will be marked not applicable.

Summary of Progress in Implementing Prior Year Recommendations

This report includes an assessment of the disposition of prior audit recommendations reported in the Statewide Single Audit Reports and the Statewide Financial and Compliance Audit Reports for Fiscal Years 1996 through 1999. If a recommendation was reported in both reports, it is only included once in the following table.

Statewide Single and Financial Audit Reports for Fiscal Year:					
	Total	1999	1998	1997	1996
Implemented	32	15	12	4	1
Partially Implemented	21	15	4	2	-
Not Implemented	11	6	3	1	1
Deferred	5	3	1	1	-
Total	69	39	20	8	2