



# STATEWIDE SINGLE AUDIT FISCAL YEAR ENDED JUNE 30, 2013

## Report Summary



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State of Colorado

### AUTHORITY, PURPOSE, AND SCOPE

This audit was conducted under the authority of Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards* issued by the Comptroller General of the United States. We performed our audit work during the period from February through December 2013.

The purpose of this audit was to:

- Express an opinion on the State's financial statements for the Fiscal Year Ended June 30, 2013.
- Express an opinion on the State's Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2013.
- Review internal accounting and administrative control procedures, as required by generally accepted auditing standards and *Government Auditing Standards*.
- Evaluate compliance with applicable state and federal laws, rules, and regulations.
- Evaluate progress in implementing prior years' audit recommendations.

### OVERVIEW OF FINDINGS AND AUDITOR'S OPINIONS

This report presents our financial and compliance audit of the State of Colorado for Fiscal Year 2013. The report may not include all findings and recommendations from separately issued reports on audits of state departments, institutions, and agencies. However, in accordance with the federal Single Audit Act, this report includes all findings and questioned costs related to federal awards that came to our attention through our audit.

We made 78 recommendations to state agencies and higher education institutions.

### FINANCIAL STATEMENT FINDINGS

- The State's financial statements covered \$32.1 billion in total assets and \$25.3 billion in total expenditures.
- We have issued an **unqualified opinion** on the State's financial statements for the Fiscal Year Ended June 30, 2013. That means the State's financial statements presented fairly, in all material respects, the State's financial position, results of all financial operations, and cash flows in conformance with generally accepted accounting principles.
- We identified **17 internal control weaknesses** related to compliance with internal control over financial reporting and other matters.

### FEDERAL PROGRAM FINDINGS

The State expended approximately \$10.4 billion in federal funds in Fiscal Year 2013. The four largest federal programs were:

- Medicaid: \$2.6 billion
- Student Financial Assistance: \$1.5 billion
- Unemployment Insurance: \$1.1 billion
- Supplemental Nutrition Assistance Program: \$887 million
- We identified **60 internal control issues** related to the State's compliance with requirements applicable to major federal programs.
- We identified nearly **\$145,000 in questioned costs** related to federal awards granted to the State.

For further information about this report, contact the Office of the State Auditor  
303.869.2800 - [www.state.co.us/auditor](http://www.state.co.us/auditor)

## FINANCIAL STATEMENT FINDINGS

This section summarizes our report on the State's compliance with internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

### Internal Controls Over Financial Activity and Financial Reporting

State agencies are responsible for having adequate internal controls in place to ensure compliance with laws and regulations and with management's objectives. In addition, State agencies are responsible for reporting financial activity accurately, timely, and completely. As part of our audit, we reviewed the agencies' and institutions' internal control processes, including policies and procedures, related to financial reporting and tested a sample of financial transactions to ensure that internal controls were adequate and that financial activity was reported properly. We identified the need for improvements for the following State Agencies:

- **History Colorado:** History Colorado has not implemented adequate internal controls to ensure the proper preparation of accounting entries, timely reconciliations, year-end reporting, and segregation of duties. In addition, it does not have adequate internal written procedures in place for recording periodic transactions, such as debt service payments and reimbursements. This is considered a material weakness for the Department.
- **Department of Human Services:** The Department did not have strong internal controls over the County Financial Management System and payroll. These are both considered significant deficiencies.
- **Department of Labor and Employment:** Our fiscal year audit identified three issues at the Department. Specifically, we identified the following significant deficiencies:
  - The Department did not submit all of its exhibits and other reporting information timely to either the Office of the State Controller (OSC) and/or the auditors.
  - The Department lacks sufficient internal controls over its fiscal year-end calculation of earned, but unpaid, Unemployment Insurance benefits and federal grant revenue and receivables.
  - Department staff lacks understanding of the appropriate accounting for debt related transactions and did not seek additional guidance from the OSC or other State agencies for assistance. In addition, the Department's internal control process to identify, prepare, review and approve debt-related year-end adjustments was ineffective as these adjustments were recorded incorrectly and not identified during the supervisory review process.

Professional standards define the following three levels of internal control weaknesses that must be reported. Prior to each recommendation in this report, we have indicated the classification of the finding.

A *material weakness* is the most serious level of internal control weakness. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A *significant deficiency* is a moderate level of internal control weakness. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *deficiency in internal control* is the least serious level of internal control weakness. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. Deficiencies in internal control generally are reported to agencies in separate management letters and, therefore, would not be included in this report.

- **Department of Revenue:** The Department does not have any formal written procedures describing the process to make changes to GenTax, the State’s primary tax collections information system, for income tax credit review thresholds, the details of what are appropriate and allowable threshold changes, and documentation of proper approval of the changes. Additionally, GenTax users making changes and authorizing approvals of these credit thresholds are not properly segregated. In addition, the Department does not consistently retain supporting documentation of evidence of review of the daily Large Refund Reports. These issues are considered significant deficiencies.
- **Department of State:** The Department does not have adequate internal controls in place to ensure its staff adheres to State Fiscal Rules, State Procurement Rules, and State Fiscal Procedures. We identified this as a significant deficiency.

## Internal Controls Over Information Technology Systems

State agencies, often in cooperation with the Governor’s Office of Information Technology (OIT), are responsible for implementing, maintaining, and adequately securing the state’s computer systems. During our Fiscal Year 2013 audit, we determined that some state agencies’ computer systems did not comply with information technology-related auditing standards and/or the Colorado Information Security Policies. Specifically, we identified problems with a total of four computer systems at three agencies, resulting in four audit recommendations to the applicable agencies and/or OIT. The following bullets describe notable examples of these issues:

- The OIT did not implement all necessary controls related to access management and logging access over the GenTax system.
- The OIT has not implemented controls related to improving access control management, conducting system hardening, and improving disaster recovery over the KRONOS information system. KRONOS is a timekeeping and leave tracking system.
- The Department of Health Care Policy and Financing has not fully implemented user access controls over the Medicaid Management Information System (MMIS) to ensure compliance with state information security policies and industry best practices to effectively manage access to the MMIS application.
- The Department of Revenue and OIT did not fully implement controls related to access management and system hardening for the Colorado State Titling and Registration System (CSTARS), which is the primary information system for automating and tracking motor vehicle registrations and titles.

Our opinion on the financial statements is presented in the State’s Comprehensive Annual Financial Report for Fiscal Year 2013, which is available electronically from the Office of the State Controller’s website at <https://www.colorado.gov/pacific/osc/cafr>.

## FEDERAL PROGRAM FINDINGS

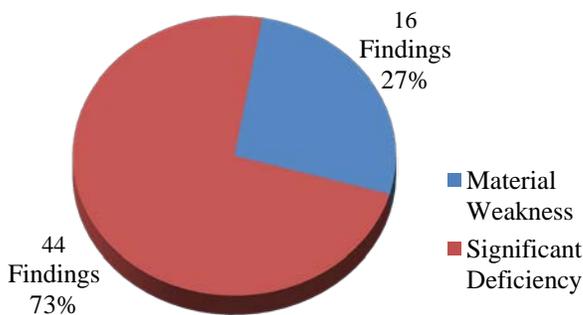
This section summarizes our report on the State’s compliance with requirements applicable to major federal programs and internal control over compliance in accordance with the federal Office of Management and Budget’s (OMB) *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. We planned and performed the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements that could have a direct and material effect on a major federal program occurred. As part of our audit, we determined the State’s compliance with federal regulations and grant requirements,

such as activities allowed or unallowed, allowable costs, cash management, eligibility, reporting, and subrecipient monitoring

## Internal Controls Over Federal Programs

The following table shows the breakout of types of internal control weaknesses over compliance with federal requirements that we identified during Fiscal Year 2013. Prior to each recommendation in this report, we have indicated the classification of the finding.

**Federal Compliance  
Internal Control Weaknesses  
Fiscal Year 2013**



A *material weakness* is the most serious level of internal control weakness. A material weakness is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A *significant deficiency* is a moderate level of internal control weakness. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

A *deficiency in internal control* is the least serious level of internal control weakness. A deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a compliance requirement of a federal program on a timely basis.

## Compliance with Federal Program Requirements and Federal Reporting

Various state departments administer federal programs in Colorado and are required to comply with federal program requirements. We identified problems with several departments' compliance with those requirements. In the following bullets, we first discuss federal compliance issues at two departments—the Department of Human Services and the Department of Health Care Policy and Financing—that administer the State's largest federal programs that provide health care and human services benefits. We also describe federal compliance problems at four other state agencies that administer federal programs.

- **Department of Human Services:** The Department was not in compliance with federal requirements for four out of the six programs tested during our Fiscal Year 2013 audit. In addition, we identified errors in the Low-Income Energy Assistance Program (LEAP) based on testwork performed related to a prior audit recommendation. Specifically, we identified the following examples of federal compliance issues with the Department's administration of its federal programs:
  - **Supplemental Nutrition Assistance Program (SNAP):** The Department's SNAP Quality Assurance annual reports, for Federal Fiscal Years 2010 through 2012, state that the program's error rate for eligible cases was above the national average in two of the three fiscal years.

While the national error rate improved over the three-year period, the program's error rate worsened over the same time period. We identified this as a material weakness.

- **Temporary Assistance for Needy Families Program:** The Department did not properly monitor or provide adequate guidance and training to counties regarding case file documentation; data consistency; timely processing of eligibility; benefit calculations; improper payments; and Income, Eligibility, and Verification System information. We identified this as a material weakness for the program.
  - **Vocational Rehabilitation Program:** The Department has pervasive problems in its administration of this program that raise questions about its oversight, system of internal controls, and culture of accountability. We identified problems in each area we reviewed, resulting in 20 audit findings. Overall, the Department has not established effective program management practices to ensure that it carries out both its responsibilities under federal and state laws and its duty to taxpayers. We noted a material weakness overall for the program.
  - **Colorado Child Care Assistance Program:** The Department did not properly monitor or provide adequate training regarding eligibility and case management procedures. Furthermore, the Department lacks a process, such as a standard report, to identify case files that have been closed by a county but left "open" in the Child Care Automated Tracking System. We identified this as a significant deficiency for the program.
- **Department of Health Care Policy and Financing:** Our Fiscal Year 2013 audit did not identify any problems related to eligibility determinations for the Medicaid program. However, we did identify a significant deficiency in eligibility determinations for the Children's Basic Health Plan (CBHP) program, in which case file documentation was lacking or missing entirely from the reviewed case files. We found additional issues, classified as significant deficiencies for both the Medicaid and CBHP programs, such as the Department's reporting under the Federal Funding Accountability and Transparency Act (Transparency Act) and inadequately documented procedures for the Medicaid Eligibility Quality Control program.
  - **Department of Local Affairs:** The Department did not comply with the federal Housing and Urban Development's Section 8 Housing Choice Voucher Program's reporting requirements, by not filing accurate reports in a timely manner, and not completing timely roll forwards of equity. We identified this as a significant deficiency.
  - **Department of Public Health and Environment:** The Department was not in compliance with federal requirements for two out of four programs tested during our Fiscal Year 2013 audit. Specifically, we identified the following federal compliance issues with the Department's administration of its federal programs and consider both as significant deficiencies:
    - **HIV Care Formula Grants:** The Department does not have policies or procedures in place to require the maintenance of documentation for supervisory reviews for HIV Care eligibility determinations.
    - **Superfund Program:** The standard contract used by the Superfund program included suspension and debarment language related to the entity, but not to its principals. Further, the Department did not use any of the other acceptable methods of verification for the principals.
  - **Department of Education:** The Department was not in compliance with federal reporting related to the Transparency Act for the School Improvement Grant program. We identified this as a significant deficiency.

- **Governor’s Office:** The Office does not have adequate internal controls in place over, and is not in compliance with, federal suspension and debarment regulations for the Weatherization Assistance Program. We identified this as a significant deficiency.

## Summary of Progress in Implementing Prior Recommendations

This report includes an assessment of our disposition of audit recommendations reported in the previous Statewide Single Audit Reports. Prior years’ recommendations that were implemented in Fiscal Year 2012 or earlier are not included.

<b>Outstanding Statewide Single Audit Report Recommendations by Fiscal Year</b>							
	<b>Total</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Implemented	31	12	7	6	3	2	1
Partially Implemented	40	24	5	5	5	1	-
Not Implemented	5	4	1	-	-	-	-
Deferred	8	6	2	-	-	-	-
Not Applicable	3	1	2	-	-	-	-
<b>Total</b>	<b>87</b>	<b>47</b>	<b>17</b>	<b>11</b>	<b>8</b>	<b>3</b>	<b>1</b>

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# Summary of Auditor's Results

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## Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?  Yes  No

Significant deficiencies identified that are not considered to be material weaknesses?  Yes  No

Noncompliance material to financial statements noted?  Yes  No

## Federal Awards

Internal control over major programs:

Material weaknesses identified?  Yes  No

Significant deficiencies identified that are not considered to be material weaknesses?  Yes  No

Type of auditor's report issued on compliance for major programs: Qualified

Unqualified for all major programs except for the following major programs, which were qualified:

- Supplemental Nutrition Assistance Program Cluster
- Housing Voucher Cluster
- Student Aid Financial Cluster
- Rehabilitation Services-Vocational Rehabilitation Grants to States
- School Improvement Grants Cluster
- Temporary Assistance for Needy Families Cluster
- Research and Development Cluster
- Medicaid Cluster

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB *Circular A-133*?

  X   Yes        No

Identification of major programs:

<b>CFDA Number</b>	<b>Name of Federal Program or Cluster</b>
10.551, 10.561	Supplemental Nutrition Assistance Program, State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP Cluster)
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
14.871, 14.879	Section 8 Housing Choice Vouchers, Mainstream Vouchers, Family Unification Program (Housing Voucher Cluster)
17.225	Unemployment Insurance
20.205, 20.219	Highway Planning and Construction, Recreational Trails Program (Highway Planning & Construction Cluster)
64.015	Veterans State Nursing Home Care
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements
81.042	Weatherization Assistance for Low-Income Persons
84.032	Federal Family Education Loans
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
84.367	Improving Teacher Quality State Grants
84.377, 84.388	School Improvement Grants; School Improvement Grants, Recovery Act (School Improvement Grants Cluster)
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance

93.558, 93.714	Temporary Assistance for Needy Families, ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program (TANF Cluster)
93.575, 93.596	Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF Cluster)
93.658	Foster Care - Title IV-E
93.720, 93.775, 93.777, 93.778	ARRA – Survey and Certification Ambulatory Surgical Center Healthcare Associated Infection (ASC-HAI) Prevention Initiative, State Medicaid Fraud Control Units, State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare, Medical Assistance Program (Medicaid Cluster)
93.767	Children’s Health Insurance Program
93.917	HIV Care Formula Grants
Various	Research and Development Cluster
Various	Student Financial Aid Cluster

Dollar threshold used to distinguish  
between type A and B programs: \$24.9 million

Auditee qualified as low-risk auditee?      \_\_\_\_\_Yes        X  No