

REPORT HIGHLIGHTS



STATEWIDE SINGLE AUDIT, FISCAL YEAR ENDED JUNE 30, 2014
FINANCIAL AUDIT

STATE OF COLORADO

FINANCIAL STATEMENT FINDINGS

- The State's financial statements covered \$33.9 billion in total assets and \$26.8 billion in total expenditures.
- We have issued an unqualified opinion on the State's financial statements for the Fiscal Year Ended June 30, 2014. 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 27 internal control weaknesses related to compliance with internal control over financial reporting and other matters.

FEDERAL PROGRAM FINDINGS

The State expended approximately \$10.9 billion in federal funds in Fiscal Year 2014. The four largest federal programs were:

- Medicaid: \$3.5 billion
 - Student Financial Assistance: \$1.4 billion
 - Supplemental Nutrition Assistance Program: \$840 million
 - Unemployment Insurance: \$799 million
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- We identified 50 internal control issues related to the State's compliance with requirements applicable to major federal programs.
 - We identified nearly \$440,000 in questioned costs related to federal awards granted to the State. The federal portion of the questioned costs was over \$220,000.

OVERVIEW

This report presents our financial and compliance audit of the State of Colorado for Fiscal Year 2014.

The report may not include all financial- and compliance-related 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 76 recommendations to state agencies and higher education institutions.

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 of February through December 2014. The purpose of this audit was to:

- Express an opinion on the State's financial statements for the Fiscal Year Ended June 30, 2014.
- Express an opinion on the State's Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2014.
- 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.

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303.869.2800 - WWW.STATE.CO.US/AUDITOR

FINANCIAL STATEMENT FINDINGS

This section summarizes our report on the State’s compliance with internal controls 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, completely, and in a timely manner. 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 in these areas at the following State agencies:

- DEPARTMENT OF AGRICULTURE. The Department has not ensured that basic internal controls, such as documented, formal policies and procedures, have been kept up to date, developed, or put into practice for both the Budget and Business Operations Unit (Unit) and the Brands Division (Division). Specifically, Unit staff could not provide sufficient supporting documentation for revenue transactions and lacked appropriate segregation of duties. Additionally, the Division lacks written policies and procedures over business functions, such as the collecting, recording, and reconciling of inspection fees. This is classified as a SIGNIFICANT DEFICIENCY.
- OFFICE OF THE GOVERNOR. The Office’s current internal controls and the documentation of internal controls are inconsistent across the Office. In addition, not all functional areas provide basic controls, such as documented, formal policies and procedures and an effective secondary review to ensure staff are aware of their responsibilities and can adequately perform their duties. For example, the Office of Information Technology (OIT) recorded \$105,000 expenditures in the incorrect accounts, capitalized about \$5.0 million in expenditures incorrectly, and recorded approximately \$7.5 million in the wrong fiscal year. We identified this as a MATERIAL WEAKNESS.
- DEPARTMENT OF HEALTH CARE POLICY AND FINANCING. The Department currently does not have a secondary review process in place over the calculation of CBHP program capitated rates. Rates contained within MMIS and used as a basis for provider payments did not agree with the established actuarial capitation rate for

Professional standards define the following three levels of financial-related internal control weaknesses. 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.

the provider. The Department determined it owed the provider group an additional amount of approximately \$45,000. We identified this as a SIGNIFICANT DEFICIENCY.

- DEPARTMENT OF HUMAN SERVICES. The Department does not have adequate internal controls or an effective review process over accounting transactions and revenue reconciliations at the Veterans Community Living Centers. Specifically, we identified problems with six of 24 transactions recorded by the Living Centers' on the State's accounting system, COFRS, and five of the six sampled revenue reconciliations between the Living Centers' MATRIX billing system and COFRS. This is considered a MATERIAL WEAKNESS for the Department.
- JUDICIAL DEPARTMENT. The Office of Attorney Regulation Counsel lacks a policy requiring that financial information for the Counsel be adequately reviewed and/or reconciled by a staff member other than the preparer. As a result, Fiscal Year 2014 revenue was overstated by \$2.5 million in one fund, and expenses were overstated by \$861,000 and \$1.7 million, respectively, in two funds. Additionally, we found that the Counsel's bank reconciliation did not reconcile with the general ledger and differences between the general ledger and the bank balance were not adequately supported. We identified this as a SIGNIFICANT DEFICIENCY.
- MILITARY AND VETERANS AFFAIRS. The Department does not have internal controls in place over donations to Veterans Memorial Cemetery of Western Colorado (Cemetery). Specifically, the Department does not have policies or procedures in place for the proper collection, recording, depositing, and reconciling of Cemetery donations. For example, the Department did not deposit the cash received into an approved bank account. Instead, the funds were deposited into a State employee's personal account and then that employee wrote a check from that account to the Department for deposit with Treasury. In addition, the Department did not deposit donations in a timely manner, or in the correct fiscal year. This recommendation is classified as a SIGNIFICANT DEFICIENCY.
- DEPARTMENT OF PERSONNEL & ADMINISTRATION. The Department's Central Payroll staff have not ensured basic internal controls, such as documented, formal policies and procedures, have been updated and followed. Further, an effective secondary review is not in place over payroll reconciliations and amounts reported to the IRS. Specifically, we found that quarterly Form 941 reports submitted to the IRS did not reconcile with underlying worksheets, tracking spreadsheets, and supporting documentation prepared by Central Payroll. This recommendation is classified as a MATERIAL WEAKNESS.
- DEPARTMENT OF REVENUE. The Department lacks an effective supervisory review of business and severance withholding fiscal year-end accruals. This resulted in understatements of the business tax and severance withholding tax short-term receivable accruals totaling approximately \$12.2 million. Additionally, the Department did not follow its original methodology to perform an historical

analysis to estimate long-term business tax receivable accruals and income tax receivable and payable accruals as of June 30, 2014. This recommendation is classified as a SIGNIFICANT DEFICIENCY.

- DEPARTMENT OF STATE. We identified accounting errors in three of the 33 accounting transactions and two of the four exhibits we tested. These errors included misstatements of expenditures totaling over \$358,000. This is classified as a SIGNIFICANT DEFICIENCY.
- DEPARTMENT OF TRANSPORTATION. The Department improperly recognized approximately \$96 million of expenses it made on the High Performance Transportation Enterprise's behalf during Fiscal Year 2014 as assets under construction instead of offsetting reimbursements. This is classified 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 2014 audit, we determined that some State agencies' internal controls did not comply with information technology-related auditing standards and/or the Colorado Information Security Policies. Specifically, we identified problems with physical access to a data center as well as three computer systems at three agencies, resulting in six audit recommendations to the applicable agencies and/or OIT. The following bullets describe notable examples of these issues:

- OIT and the Department of Revenue did not implement all necessary controls related to access management and logging access over the GenTax system.
- OIT did not implement all necessary controls to properly oversee the process to manage changes made within the GenTax system.
- OIT did not implement all necessary controls to properly oversee the process to manage changes made within the CPPS system.
- OIT did not have all necessary controls in place to manage physical access to the State's primary data center.
- The Office of the State Controller did not fully hold state agencies accountable for managing user access to the COFRS system.

FEDERAL PROGRAM FINDINGS

This section summarizes our report on the State's compliance with requirements applicable to major federal programs and internal controls 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

Our opinion on the financial statements is presented in the State's Comprehensive Annual Financial Report for Fiscal Year 2014, which is available electronically from the Office of the State Controller's website at:

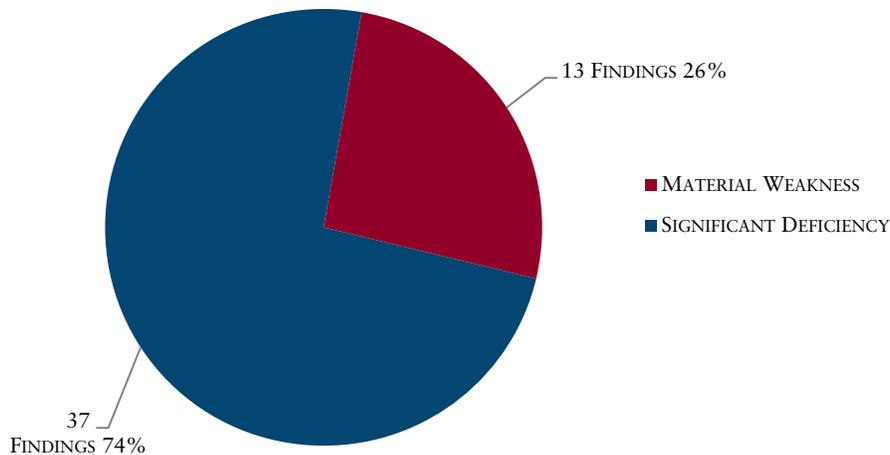
[HTTPS://WWW.COLORADO.GOV/PACIFIC/OSC/CAFR.](https://www.colorado.gov/pacific/osc/cafr)

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 had 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 our Fiscal Year 2014 audit. Prior to each recommendation in this report, we have indicated the classification of the finding.

FEDERAL COMPLIANCE
INTERNAL CONTROL WEAKNESSES
FISCAL YEAR 2014



Professional standards define the following three levels of internal control weaknesses over compliance related to Federal Programs. 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, 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 two out of the eight programs tested during our Fiscal Year 2014 audit. Specifically, we identified the following examples of federal compliance issues with the Department's administration of its federal programs:
 - ▶ Temporary Assistance for Needy Families Program. The Department did not provide adequate guidance and training to counties regarding case file documentation; data consistency; and Income, Eligibility, and Verification System information. We identified this as a SIGNIFICANT DEFICIENCY for the program.
 - ▶ Colorado Child Care Assistance Program. The Department did not properly monitor or provide adequate training regarding eligibility and case management procedures. We identified this as a SIGNIFICANT DEFICIENCY for the program.
- DEPARTMENT OF HEALTH CARE POLICY AND FINANCING. We identified SIGNIFICANT DEFICIENCIES in eligibility determinations for both the Medicaid and the Children's Basic Health Plan (CBHP) programs, 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 lack of reporting under the Federal Funding Accountability and Transparency Act (Transparency Act) and inadequate support for personnel costs charged to federal grants during Fiscal Year 2014.
- DEPARTMENT OF EDUCATION. The Department was not in compliance with federal reporting related to the Transparency Act for the School Improvement and Child Nutrition Grants. We identified this as a SIGNIFICANT DEFICIENCY.
- DEPARTMENT OF PUBLIC SAFETY. The Department relies on sub-recipients to fill out and return a form containing information needed to record the subawards in the Federal Subaward Reporting System FSRs. We found that the Department did not have a sufficient process in place to follow up with sub-awardees who had not submitted their form. We identified this as a SIGNIFICANT DEFICIENCY.
- DEPARTMENT OF TRANSPORTATION. We identified a SIGNIFICANT DEFICIENCY with the Department's reporting under the Transparency Act.

SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR RECOMMENDATIONS

This report includes an assessment of our disposition of audit recommendations reported in previous Statewide Single Audit Reports. Prior years' recommendations that were fully implemented in Fiscal Year 2013 or earlier are not included.

OUTSTANDING STATEWIDE SINGLE AUDIT REPORT RECOMMENDATIONS BY FISCAL YEAR							
	TOTAL	2013	2012	2011	2010	2009	2008
IMPLEMENTED	36	19	10	3	2	2	0
PARTIALLY IMPLEMENTED	37	22	11	1	1	1	1
NOT IMPLEMENTED	6	5	1	0	0	0	0
DEFERRED	21	19	1	1	0	0	0
NOT APPLICABLE	1	1	0	0	0	0	0
TOTAL	101	66	23	5	3	3	1