

REPORT HIGHLIGHTS



STATEWIDE SINGLE AUDIT, FISCAL YEAR ENDED JUNE 30, 2017
FINANCIAL AUDIT

STATE OF COLORADO

FINANCIAL STATEMENT FINDINGS

- The State's financial statements covered \$37.4 billion in total assets and \$34.2 billion in total expenditures for Fiscal Year 2017.
- We have issued an unmodified opinion on the State's financial statements for the Fiscal Year Ended June 30, 2017. This 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 49 internal control weaknesses related to compliance with internal control over financial reporting.

FEDERAL PROGRAM FINDINGS

- The State expended approximately \$11.9 billion in federal funds in Fiscal Year 2017. The four largest federal programs were:
 - ▶ Medicaid: \$4.7 billion
 - ▶ Student Financial Assistance: \$1.4 billion
 - ▶ Research and Development Cluster: \$844 million
 - ▶ Highway Planning and Construction: \$797 million
- We identified 25 internal control issues related to the State's compliance with requirements applicable to major federal programs.
- We identified over \$247,000 in known questioned costs related to federal awards granted to the State. The federal portion of the questioned costs was over \$198,000.

OVERVIEW

This report presents our financial and compliance audit of the State of Colorado for Fiscal Year 2017.

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, including separately issued reports on audits of state departments, institutions, and agencies.

We made 73 recommendations to state departments and higher education institutions. Recommendations may be classified as both financial and federal; therefore, the total number of recommendations given does not match the number noted in the individual sections of this summary.

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 March 2017 through February 2018. The purpose of this audit was to:

- Express an opinion on the State's financial statements for the Fiscal Year Ended June 30, 2017.
- Express an opinion on the State's Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2017.
- 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.

FOR FURTHER INFORMATION ABOUT THIS REPORT, CONTACT THE OFFICE OF THE STATE AUDITOR 303.869.2800 - WWW.COLORADO.GOV/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 departments are responsible for having adequate internal controls in place to ensure compliance with laws and regulations and with management’s objectives. In addition, state departments are responsible for reporting financial activity accurately, completely, and in a timely manner. As part of our audit, we reviewed state departments’ internal control processes, including policies and procedures, related to financial reporting, and tested samples of financial transactions to determine whether internal controls were adequate and that financial activity was reported properly. We identified the need for improvements in these areas at the following state departments:

- DEPARTMENT OF CORRECTIONS. The Department lacked sufficient internal controls over inventory that resulted in a net difference of \$2,280,159 between fiscal year-end inventory counts and amounts recorded in the State’s accounting system, the Colorado Operations Resource Engine (CORE).
- OFFICE OF THE GOVERNOR. We identified the following issues at the Office:
 - ▶ Tax Abatements. The Office did not properly identify and report tax abatement programs to the Office of the State Controller to be included in the State’s financial statements. This is classified as a MATERIAL WEAKNESS.
 - ▶ Controls over Capital Assets. The Office did not have adequate internal controls in place to ensure that capital assets were capitalized or expensed. The discrepancies noted in the audit amounted to a net total of \$136,000. This is classified as a SIGNIFICANT DEFICIENCY.
- DEPARTMENT OF HEALTH CARE POLICY AND FINANCING. The Department did not have adequate internal controls in place over the recording of capital assets and related depreciation. The errors included \$300,000 in contractor payments that were capitalized and should have been expensed. The errors

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.

resulted in a prior period adjustment of \$97.1 million. This is classified as a MATERIAL WEAKNESS.

- DEPARTMENT OF PERSONNEL & ADMINISTRATION’S OFFICE OF THE STATE CONTROLLER (OSC). We identified the following issues at the OSC:
 - ▶ Pension standards. We identified several problems with the OSC’s processes related to the calculations, adjustments, and financial statement note disclosures required by GASB Statement No. 68. For example, calculation errors resulted in an adjustment of \$14 million in pension contributions and a \$2 million adjustment between funds. This is classified as a MATERIAL WEAKNESS.
 - ▶ Central Payroll Account Balances. Central Payroll did not have documented procedures in place for monitoring the payroll liabilities balances throughout the year and at fiscal year-end. Specifically, the Department had made entry errors that resulted in the overstatement of two accounts payable balances by \$1.3 billion at fiscal year-end. This is classified as a MATERIAL WEAKNESS.

- OFFICE OF THE TREASURY. The Treasury lacked adequate internal controls over interest earnings. Specifically, we identified at least one issue with 11 of the 30 property tax transactions we reviewed related to interest earnings. Five transactions had payments that were not deposited in a timely manner, and two transactions lacked supporting documentation. This is classified as a SIGNIFICANT DEFICIENCY.

Our opinion on the financial statements is presented in the State’s Comprehensive Annual Financial Report for Fiscal Year 2017, which is available electronically from the Office of the State Controller’s website at:

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

INTERNAL CONTROLS OVER INFORMATION TECHNOLOGY SYSTEMS

State departments, often in cooperation with the Governor’s Office of Information Technology (OIT), are responsible for implementing, operating, maintaining, and adequately securing the State’s computer systems. During our Fiscal Year 2017 audit, we determined that some state departments’ internal controls did not comply with IT and information security related standards and/or the Colorado Information Security Policies (Security Policies) and OIT Cyber Policies. The following are the notable examples:

- GOVERNOR’S OFFICE OF INFORMATION TECHNOLOGY.
 - ▶ Audit Logging. OIT had not established procedures to monitor the Department of Revenue’s tax information system (GenTax) audit logs to ensure that all access to the GenTax database is logged according to Security Policy requirements. We also found that OIT staff had not reviewed audit settings on a regular basis to confirm that policy requirements were being configured, implemented, and retained appropriately over time. This finding is classified as a SIGNIFICANT DEFICIENCY.

- ▶ OIT Vendor Management. We identified deficiencies with OIT’s vendor management oversight practices and processes. Specifically, we found that OIT instituted a process to accept other security frameworks from vendors, in lieu of complying with the Security Policies, but could not provide documentation for the process and/or methodology to support its decision on this. This finding is classified as a SIGNIFICANT DEFICIENCY.
 - ▶ Physical Access. We identified several problems related to physical security and access management at the State’s main data center. This finding is classified as a SIGNIFICANT DEFICIENCY.
- THE COLORADO UNEMPLOYMENT BENEFITS SYSTEM (CUBS), COLORADO AUTOMATED TAX SYSTEM (CATS), COLORADO LABOR AND EMPLOYMENT APPLICANT RESOURCE (CLEAR).
 - ▶ Information Security Policies. The Department of Labor and Employment (Department) and OIT did not have adequate processes in place to ensure that the CUBS, CATS, and CLEAR systems are in compliance with State Security and OIT Cyber Policies and Internal Revenue Service Publication 1075 relating to safeguarding data backups, account management practices, and system event logs. This finding is classified as a SIGNIFICANT DEFICIENCY.
 - ▶ System Logging. The Department and OIT did not ensure that the CUBS/CATS systems are capturing, maintaining, and retaining audit logs and that those logs were being reviewed for anomalous activities, as required by Security Policies. This finding is classified as a SIGNIFICANT DEFICIENCY.
- COLORADO PERSONNEL PAYROLL SYSTEM (CPPS).
 - ▶ Information Security–Mainframe Access to CPPS Data. OIT and the OSC continued to lack internal controls over information security and to clarify and document control responsibilities between the two divisions. This finding is classified as a MATERIAL WEAKNESS.
 - ▶ Information Security. At the OSC we identified problems with CPPS audit logs, password settings, number of invalid login attempts, and service accounts. This finding is classified as a SIGNIFICANT DEFICIENCY.
 - ▶ Computer Operations. The OSC continued to lack internal controls over system interfaces and disaster recovery processes. This finding is classified as a SIGNIFICANT DEFICIENCY.
 - ▶ Change Management. OIT did not assign staff to perform regular reviews over access management to the CPPS test and production environments to ensure that access was provisioned appropriately and in accordance with Security Policies. This finding is classified as a SIGNIFICANT DEFICIENCY.
- COLORADO OPERATIONS RESOURCE ENGINE (CORE).
 - ▶ Information Security. Information security problems within CORE

were identified and related to user account management, system security configurations, and database audit logging at the OSC. This finding is classified as a MATERIAL WEAKNESS.

- ▶ Logical Access. The Departments of Labor and Employment and Natural Resources did not have sufficient processes in place to ensure that they were in compliance with the OSC’s CORE User Access Procedures. These findings are classified as SIGNIFICANT DEFICIENCIES.

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.

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 with Uniform Guidance. 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 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.

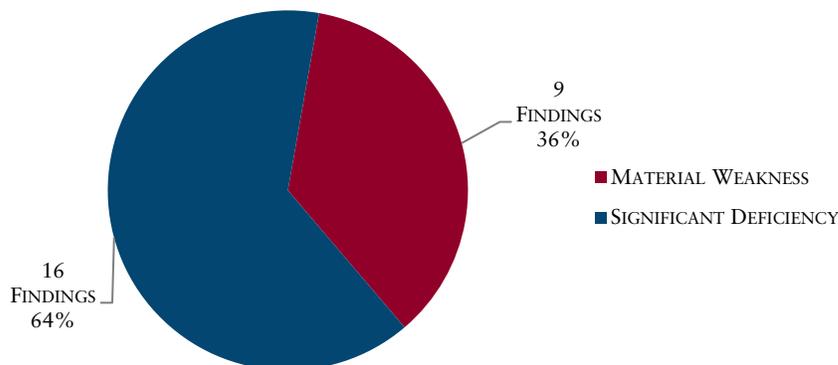
A MATERIAL WEAKNESS is the most serious level of internal control weakness. A material weakness is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a federal program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

INTERNAL CONTROLS OVER FEDERAL PROGRAMS

The following table shows the breakdown of levels of internal control weaknesses over compliance with federal requirements that we identified during our Fiscal Year 2017 audit. Prior to each recommendation in this report, we have indicated the classification of the finding.

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.

FEDERAL COMPLIANCE
INTERNAL CONTROL WEAKNESSES
FISCAL YEAR 2017



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 receive federal grant awards and administer federal programs and are, therefore, required to comply with federal program requirements. We identified problems with several departments' compliance with those requirements, as follows:

- DEPARTMENT OF CORRECTIONS. The following issues relate to the Wild Horse and Burro Resource Management Program (WHIP):
 - ▶ Allowable Costs. The Department attempted to correct previously identified errors in changes to the program; however, the corrections were not all accurate. For example, the total annual payroll charges for Department staff were charged to the WHIP program based on a budgeted rather than actual allocation of payroll costs. This is classified as a MATERIAL WEAKNESS.
 - ▶ Cash Management. The Department submitted reimbursement requests based on estimated costs of \$915,901 rather than required actual costs of \$881,991. This is classified as a MATERIAL WEAKNESS.
 - ▶ Federal Reporting. The Department failed to file either of the required financial and performance reports for the first two quarters of the fiscal year and overstated grant expenditures on one report by \$25,027. This is classified as a MATERIAL WEAKNESS.
 - ▶ Procurement. The Department could not provide documentation that it does not contract with any debarred or suspended entities, nor could it provide a listing of all contracts related to the WHIP program. This is classified as a MATERIAL WEAKNESS.

- DEPARTMENT OF HEALTH CARE POLICY AND FINANCING. We identified the following issues at the Department:
 - ▶ Vendor Management. The Department failed to hold its service providers accountable for contract provisions. This finding is classified as a MATERIAL WEAKNESS.
 - ▶ Medicaid Eligibility. In seven of the 40 case files tested (18 percent), we identified at least one eligibility issue related to documentation, system issues, and processing applications in a timely manner. This is classified as a SIGNIFICANT DEFICIENCY.
 - ▶ Provider Eligibility. The Colorado interChange does not have an alert to notify the Department when a provider license is noted as expired in the system and the Department does not have an interim process to identify when a provider's license has expired. This is classified as a SIGNIFICANT DEFICIENCY.
 - ▶ Federal reporting and personnel costs. We identified SIGNIFICANT DEFICIENCIES in the Department's federal reporting and certification of

personnel costs for both the Medicaid and the Children's Basic Health Plan (CBHP) programs.

- DEPARTMENT OF HUMAN SERVICES. We identified the following examples of federal compliance issues at the Department:
 - ▶ Colorado Child Care Assistance Program (CCCAP). We identified at least one error in 51 of the 60 case files tested (85 percent) related to parental fee calculations, timely processing of applications, and missing or inadequate case file documentation. This is classified as a MATERIAL WEAKNESS.
 - ▶ Child Care Health and Safety. In 20 of the 56 inspection cases tested, we found issues with the documentation, lack of follow-up letters, and untimely acknowledgement of inspection by providers. This is classified as a SIGNIFICANT DEFICIENCY.
 - ▶ Child Care Automated Tracking System (CHATS). We found problems with the Department's separation of duties and access management procedures and processes. This finding is classified as a MATERIAL WEAKNESS.
 - ▶ Cash Management. The Department did not comply with the 4-day draw pattern under the Cash Management Improvement Act Agreement for the Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), Child Care, Child Support Enforcement, Low-Income Home Energy Assistance Program (LEAP), and Social Security Disability Insurance Programs. This is classified as a SIGNIFICANT DEFICIENCY.
 - ▶ Grant Expenditure Financial Reporting. The Department incorrectly reported \$37.9 million in Low-Income Home Energy Assistance Program expenditures and \$583,000 in Child Care and Development Block Grant expenditures as direct rather than pass-through expenditures in its reporting for the State's *Schedule of Expenditures of Federal Awards*. This is classified as a SIGNIFICANT DEFICIENCY.

- DEPARTMENT OF PUBLIC SAFETY. We identified the following issues related to the Department's administration of the federal Disaster Grant program:
 - ▶ Grant Expenditure Financial Reporting. The Department misreported federal Disaster Grant expenditures totaling \$3.8 million for inclusion in the State's *Schedule of Expenditures of Federal Awards*. This is classified as a SIGNIFICANT DEFICIENCY.
 - ▶ Cash Management. The Department did not request federal reimbursement for expenditures in compliance with required draw patterns during Fiscal Year 2017. Specifically, we found that the Department requested federal reimbursement on average every 17 days which is not in compliance with the 5-day timeline outlined in the Agreement. This is classified as a SIGNIFICANT DEFICIENCY.

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 2016 or earlier are not included.

OUTSTANDING STATEWIDE SINGLE AUDIT REPORT RECOMMENDATIONS BY FISCAL YEAR							
	TOTAL	2016	2015	2014	2013	2012	2011
IMPLEMENTED	36	22	10	1	2	0	1
PARTIALLY IMPLEMENTED	37	18	16	0	1	2	0
NOT IMPLEMENTED	6	2	4	0	0	0	0
DEFERRED	11	11	0	0	0	0	0
NO LONGER APPLICABLE	1	1	0	0	0	0	0
TOTAL	91	54	30	1	3	2	1

SUMMARY

OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor’s report issued: UNMODIFIED.

INTERNAL CONTROL OVER FINANCIAL REPORTING		
Material Weaknesses Identified?	YES	
Significant deficiencies identified that are not considered to be material weaknesses?	YES	
Noncompliance material to financial statements noted?	NO	

FEDERAL AWARDS

INTERNAL CONTROL OVER MAJOR PROGRAMS		
Material Weaknesses Identified?	YES	
Significant deficiencies identified that are not considered to be material weaknesses?	YES	

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

Unmodified for all major programs except for the Wild Horse and Burro Resource Management, which was adverse, and for the following major programs which were qualified:

- Child Care and Development Fund Cluster
- Children’s Health Insurance Program
- Medicaid Cluster
- Student Financial Assistance Program Cluster

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) (Audit Findings) of Uniform Guidance	YES	
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IDENTIFICATION OF MAJOR PROGRAMS	
CFDA NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
10.551, 10.561	Supplemental Nutrition Assistance Program, State Administrative Matching Grants for the Special Nutrition Assistance Program (SNAP Cluster)
10.553, 10.555, 10.556, 10.559	School Breakfast Program, National School Lunch Program (NLSP), Special Milk Program for Children, Summer Food Service Program for Children, National School Lunch Program (NLSP), Summer Food Service Program for Children (Child Nutrition Cluster)
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
14.871, 14.879	Housing Voucher Cluster
15.229	Wild Horse and Burro Resource Management
15.605, 15.611	Fish and Wildlife Cluster
84.126	Rehabilitation Services–Vocational Rehabilitation Grants to States
84.367	Improving Teacher Quality State Grants
93.558	Temporary Assistance for Needy Families (TANF) Cluster
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.575, 93.596	Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund (Child Care and Development Fund Cluster)
93.767	Children’s Health Insurance Program
93.775, 93.777, 93.778	State Survey and Certification of Health Care Providers and Suppliers, State Medicaid Fraud Control Units, Medical Assistance Program (Medicaid Cluster)
93.917	HIV Care Formula Grants
96.001	Social Security Disability Insurance (Disability Insurance/SSI Cluster)
97.036	Disaster Grants–Public Assistance (Presidentially Declared Disasters)
Various	Student Financial Assistance Programs Cluster

Dollar threshold used to distinguish between type A and B programs: \$30 MILLION.

Auditee qualified as low-risk auditee?	No
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CLASSIFICATION OF FINDINGS
STATE OF COLORADO STATEWIDE SINGLE AUDIT
FISCAL YEAR ENDED JUNE 30, 2017

	MATERIAL WEAKNESS <i>(Most Serious)</i>		SIGNIFICANT DEFICIENCY <i>(Moderately Serious)</i>		OTHER	GRAND TOTALS
	FINANCIAL REPORTING	FEDERAL PROGRAM COMPLIANCE	FINANCIAL REPORTING	FEDERAL PROGRAM COMPLIANCE		
ADAMS STATE UNIVERSITY	1	-	-	-	1	2
AGRICULTURE	-	-	-	-	1	1
AURARIA HIGHER EDUCATION CENTER	3	-	1	-	-	4
COLORADO COMMUNITY COLLEGE SYSTEM	-	-	-	2	-	2
COLORADO STATE UNIVERSITY - PUEBLO	-	1	-	-	-	1
CORRECTIONS	-	4	1	-	-	5
OFFICE OF THE GOVERNOR	4	-	12	-	-	16
HEALTH CARE POLICY AND FINANCING	2	2	1	7	-	12 *
HUMAN SERVICES	-	2	-	4	-	6
LABOR AND EMPLOYMENT	-	-	3	1	-	4
NATURAL RESOURCES	-	-	1	-	-	1
PERSONNEL & ADMINISTRATION	5	-	8	-	-	13
PUBLIC SAFETY	-	-	-	2	-	2
REVENUE	2	-	2	-	-	4
TREASURY	-	-	1	-	-	1
GRAND TOTALS	17	9	30	16	2	74

Note: *Some findings are classified as both financial reporting and federal program compliance internal control weaknesses. Therefore, the total number of findings reported in this table does not equal the total number of recommendations in the report.

There were no findings classified as a DEFICIENCY IN INTERNAL CONTROL, the least serious deficiency level.