

REPORT HIGHLIGHTS



STATEWIDE SINGLE AUDIT, FISCAL YEAR ENDED JUNE 30, 2019
FINANCIAL AUDIT

STATE OF COLORADO

FINANCIAL STATEMENT FINDINGS

- The State’s financial statements covered \$42.5 billion in total assets and \$34.4 billion in total expenditures for Fiscal Year 2019.
- We have issued an unmodified opinion on the State’s financial statements for the Fiscal Year Ended June 30, 2019. This means that the State’s financial statements are presented fairly, in all material respects, and that the State’s financial position, results of all financial operations, and cash flows are in conformance with generally accepted accounting principles.
- We identified 88 internal control weaknesses over financial reporting and one issue that is not related to internal controls and is therefore not classified.

FEDERAL PROGRAM FINDINGS

- The State expended approximately \$12.3 billion in federal funds in Fiscal Year 2019. The four largest federal programs were:
 - ▶ Medicaid: \$5.4 billion
 - ▶ Student Financial Assistance: \$1.4 billion
 - ▶ Research and Development Cluster: \$941 million
 - ▶ SNAP Cluster: \$703 million
- We identified:
 - ▶ 44 internal control issues related to requirements applicable to major federal programs.
 - ▶ Nearly \$2.7 million in known questioned costs related to federal awards granted to the State. The federal portion of the questioned costs was approximately \$1.3 million.

OVERVIEW

This report presents our financial and compliance audit of the State of Colorado for Fiscal Year 2019.

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 133 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 2019 through January 2020. The purpose of this audit was to:

- Express an opinion on the State’s financial statements for the Fiscal Year Ended June 30, 2019.
- Express an opinion on the State’s *Schedule of Expenditures of Federal Awards* for the Fiscal Year Ended June 30, 2019.
- 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 audit recommendations.

FOR FURTHER INFORMATION ABOUT THIS REPORT, CONTACT THE OFFICE OF THE STATE AUDITOR 303.869.2800 - WWW.COLORADO.GOV/AUDITOR

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 reporting financial activity accurately, completely, and in a timely manner; and for having adequate internal controls in place to ensure compliance with laws and regulations, and with management’s objectives. Some of the areas where we identified a need for improvement included the following, by state department:

- DEPARTMENT OF PERSONNEL & ADMINISTRATION’S OFFICE OF THE STATE CONTROLLER (OSC).
 - ▶ Statutory Compliance and Internal Controls over Financial Reporting. The OSC did not fully comply with the statutorily-required financial reporting timeframes for Fiscal Year 2019, financial statement reviews were ineffective at identifying errors in financial reporting, and a lack of timely reviews of separately issued financial statements resulted in over \$3.6 billion of adjustments that were not reflected in the financial statements submitted to the Governor and General Assembly on September 20, 2019. All adjustments were made to the final version of the financial statements in January 2020. Classification: MATERIAL WEAKNESS.
 - ▶ Prior Period Adjustments. The OSC was unable to identify and disclose all material prior period adjustments, including the impact to Taxpayer Bill of Rights revenue. Classification: MATERIAL WEAKNESS.
- OFFICE OF THE GOVERNOR. The Office of Economic Development and International Trade did not ensure that staff appropriately verified or tracked vendor changes, which led to an instance of vendor fraud during Fiscal Year 2019 and an inappropriate payment of \$34,000. Classification: SIGNIFICANT DEFICIENCY.
- HISTORY COLORADO. The Department lacked sufficient internal controls over the recording of capital assets and related depreciation, which resulted in \$6.7 million in errors. Classification: MATERIAL WEAKNESS.
- DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT. The Department did not have sufficient accounting and financial reporting controls, which resulted in a \$22.8 million error. Classification: SIGNIFICANT DEFICIENCY.
- DEPARTMENT OF TRANSPORTATION. The Department lacked adequate internal controls to ensure that its financial records were materially correct at fiscal year-end, which resulted in \$7.3 million in errors for Fiscal Year 2019. Classification: MATERIAL WEAKNESS.

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.

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 2019 audit, we determined that some state departments’ and OIT’s 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. Issues were identified at the following departments, agencies, and institutions of higher education (and related systems):

- OFFICE OF THE GOVERNOR (OIT).
 - ▶ Colorado Driver License, Record, Identification and Vehicle Enterprise Solution (DRIVES) system. Classification: MATERIAL WEAKNESS.
 - ▶ Colorado Unemployment Benefits System (CUBS), Colorado Automated Tax System (CATS), and Colorado Labor and Employment Applicant Resource (CLEAR) systems. Classification: MATERIAL WEAKNESS, SIGNIFICANT DEFICIENCY.
 - ▶ GenTax. Classification: MATERIAL WEAKNESS, SIGNIFICANT DEFICIENCIES.
 - ▶ Colorado Personnel Payroll System (CPPS). Classification: MATERIAL WEAKNESS, SIGNIFICANT DEFICIENCIES.

- DEPARTMENT OF CORRECTIONS. Colorado Operations Resource Engine (CORE). Classification: SIGNIFICANT DEFICIENCY.

- DEPARTMENT OF HEALTH CARE POLICY AND FINANCING. Colorado interChange. Classification: SIGNIFICANT DEFICIENCY.

- METROPOLITAN STATE UNIVERSITY OF DENVER. Banner. Classification: SIGNIFICANT DEFICIENCIES.

- UNIVERSITY OF NORTHERN COLORADO. CORE and Banner. Classification: SIGNIFICANT DEFICIENCY.

- DEPARTMENT OF HUMAN SERVICES. Electronic Benefits Transfer System. Classification: MATERIAL WEAKNESS.

- JUDICIAL BRANCH. CORE. Classification: SIGNIFICANT DEFICIENCY.

- DEPARTMENT OF LABOR AND EMPLOYMENT. CUBS, CATS, and CLEAR systems. Classification: SIGNIFICANT DEFICIENCY.

- DEPARTMENT OF MILITARY AND VETERANS AFFAIRS. CORE. Classification: SIGNIFICANT DEFICIENCY.

Our opinion on the financial statements is presented in the State’s Comprehensive Annual Financial Report for Fiscal Year 2019, 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)

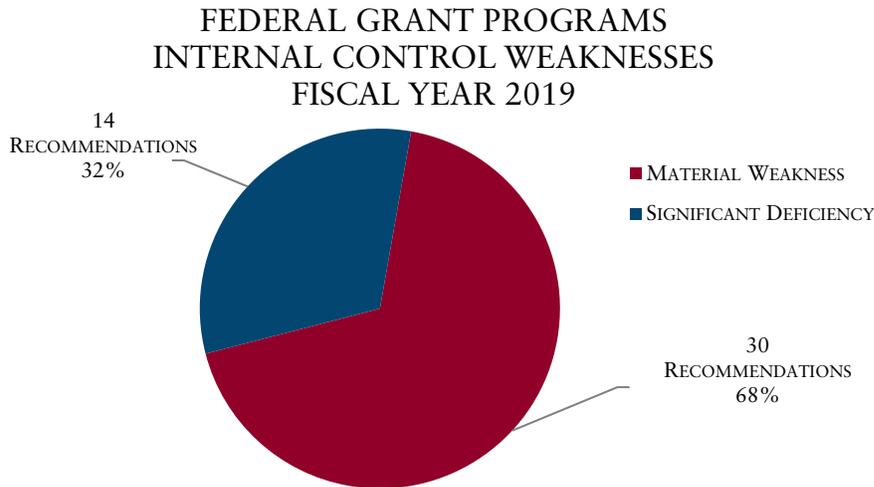
- DEPARTMENT OF REVENUE. Colorado DRIVES system. Classification: MATERIAL WEAKNESS, SIGNIFICANT DEFICIENCY.

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

INTERNAL CONTROLS OVER FEDERAL PROGRAMS

The following chart shows the breakdown of levels of internal control weaknesses over compliance with federal requirements that we identified during our Fiscal Year 2019 audit. Prior to each recommendation in this report, we have indicated the classification of the finding. For Fiscal Year 2019, we have changed the methodology used to count recommendations with each subpart now counted as an individual recommendation.



- DEPARTMENT OF CORRECTIONS.
 - ▶ Wild Horse and Burro Resource Management program. Cash Management and Federal Reporting. The Department did not ensure that corrected reimbursement requests and updated federal reports were submitted to the federal Bureau of Land Management. Classification: SIGNIFICANT DEFICIENCY.
- DEPARTMENT OF HEALTH CARE POLICY AND FINANCING. Overall, we identified issues with the Department’s compliance with eligibility requirements for Medicaid. In total, we identified nearly \$2.7 million in known questioned costs and over \$286 million in likely questioned costs. For example, we found the following:
 - ▶ Medicaid Controls over Eligibility Determinations. In 32 of the 125 Medicaid case files tested (26 percent), we identified at least one error. These errors

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.

- resulted in a total of \$124,012 in known questioned costs and approximately \$283 million in likely questioned costs. Classification: MATERIAL WEAKNESS.
- ▶ Medicaid Eligibility–Missing Social Security Numbers. Over 2,000 of the individuals who had Medicaid claims paid on their behalf during the time period of July 2018 through March 2019 did not have a Social Security Number (SSN) documented in Colorado interChange at the time the claims were paid. Further, the Department found that 1,590 of the individuals had never had an SSN documented in the Colorado Benefits Management System, which feeds eligibility information, including SSNs, to Colorado interChange. As a result of the missing SSNs, we identified nearly \$2.3 million in known questioned costs and approximately \$2.3 million in likely questioned costs. Classification: MATERIAL WEAKNESS.
 - ▶ Medicaid Claims Payments. The Department made payments to providers on behalf of beneficiaries that were deemed ineligible for Medicaid at the time services were provided. The Department inappropriately paid providers for services provided to the individuals even though they were not eligible for Medicaid resulting in \$181,320 in known questioned costs and \$835,587 in likely questioned costs. Classification: MATERIAL WEAKNESS.
 - ▶ Medicaid Eligibility–Duplicate Social Security Numbers and State IDs. The Department did not have adequate internal controls in place during Fiscal Year 2019 to prevent or detect instances of duplicate Social Security Numbers and/or State IDs, resulting in \$69,849 in known questioned costs. Classification: MATERIAL WEAKNESS.
- DEPARTMENT OF HUMAN SERVICES.
 - ▶ Colorado Child Care Assistance Program (CCCAP)–Eligibility. We identified at least one error in 11 of the 30 case files tested (37 percent) and found known questioned costs of \$188. Classification: 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 2018 or earlier are not included.

STATEWIDE SINGLE AUDIT REPORT RECOMMENDATION STATUS AS OF FISCAL YEAR 2019 NOT FULLY IMPLEMENTED AS OF FISCAL YEAR 2018 BY FISCAL YEAR OF RECOMMENDATION								
	TOTAL	2018	2017	2016	2015	2014	2013	2012
IMPLEMENTED	99	54	17	19	6	0	2	1
PARTIALLY IMPLEMENTED	47	33	12	0	1	0	1	0
NOT IMPLEMENTED	19	17	1	1	0	0	0	0
DEFERRED	16	11	2	1	2	0	0	0
NO LONGER APPLICABLE	14	6	5	0	3	0	0	0
TOTAL	195	121	37	21	12	0	3	1

NOTE: Effective with this Fiscal Year 2019 report, we have changed the methodology used to count recommendations with each subpart now counted as an individual recommendation.



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?	YES	

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 following major programs which were qualified:

- Child Care and Development Fund Cluster
- Children's Health Insurance Program
- Medicaid Cluster
- Minerals Leasing Act

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

Auditee qualified as low-risk auditee?		NO
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IDENTIFICATION OF MAJOR PROGRAMS	
CFDA NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
12.300	Basic and Applied Scientific Research
12.401	National Guard Military Operations and Maintenance (O&M) Projects
14.269	Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)
15.437	Minerals Leasing Act
16.575	Crime Victim Assistance
17.225	Unemployment Insurance
17.258 17.259 17.278	WIOA Adult Program, WIOA Youth Activities, WIOA Dislocated Worker Formula Grants (WIOA Cluster)
20.219 20.205	Recreational Trails Program, Highway Planning And Construction (Highway Planning and Construction Cluster)
20.223	Transportation Infrastructure Finance and Innovation Act (TIFIA) Program
84.010	Title I Grants To Local Educational Agencies
84.027 84.173	Special Education Grants to States, Special Education Preschool Grants (Special Education Cluster)
84.032	Federal Family Education Loans
93.069	Public Health Emergency Preparedness (PHEP)
93.268	Immunization Cooperative Agreements
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)
93.658	Foster Care Title IV-E
93.659	Adoption Assistance
93.767	Children's Health Insurance Program
93.775 93.777 93.778	State Medicaid Fraud Control Units, State Survey And Certification Of Health Care Providers And Suppliers (Title XVIII) Medicare, Medical Assistance Program (Medicaid Cluster)
Various* Research and Development Cluster	
* CFDA numbers are specifically identified in the <i>Schedule of Expenditures of Federal Awards</i> .	

**CLASSIFICATION OF FINDINGS
STATE OF COLORADO STATEWIDE SINGLE AUDIT
FISCAL YEAR ENDED JUNE 30, 2019**

	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	-	-	2	-	-	2
CORRECTIONS	-	-	1	2	-	3
OFFICE OF THE GOVERNOR	11	-	19	-	-	30
HEALTH CARE POLICY AND FINANCING	-	28	2	9	-	39 *
HISTORY COLORADO	3	-	7	-	-	10
HUMAN SERVICES	3	-	3	3	-	9
JUDICIAL	-	-	4	-	-	4
LABOR AND EMPLOYMENT	-	-	6	-	-	6
METROPOLITAN STATE UNIVERSITY OF DENVER	-	-	4	-	-	4
MILITARY AND VETERANS AFFAIRS	-	-	2	-	-	2
PERSONNEL & ADMINISTRATION	11	-	1	-	1	13
PUBLIC HEALTH AND ENVIRONMENT	-	-	2	-	-	2
REVENUE	2	-	1	-	-	3
TRANSPORTATION	2	-	-	-	-	2
TREASURY	-	2	-	-	-	2
UNIVERSITY OF NORTHERN COLORADO	-	-	2	-	-	2
GRAND TOTALS	32	30	56	14	1	133

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, included in this report.