

REPORT HIGHLIGHTS



STATEWIDE FINANCIAL AUDIT, FISCAL YEAR ENDED JUNE 30, 2020
FINANCIAL AUDIT

STATE OF COLORADO

FINANCIAL STATEMENT FINDINGS

- The State's financial statements covered \$45.9 billion in total assets and \$39.2 billion in total expenditures for Fiscal Year 2020.
- We have issued a disclaimer of opinion on the Unemployment Insurance Fund and Business Type Activities of the State of Colorado for the fiscal year ended June 30, 2020. A disclaimer of opinion is issued when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.
 - ▶ The State of Colorado did not have an adequate methodology to substantiate the estimated amount of receivables and payables within the Unemployment Insurance Fund of \$510 million and \$872 million, respectively, as of June 30, 2020. The receivable balance includes potential overpayments and comprises 54% of total assets of the Unemployment Insurance Fund, and 3% of Business-Type Activities. The payable balance includes potential claims outstanding at year-end and comprises 92% of total liabilities of the Unemployment Insurance Fund and 7% of the Business-Type Activities.
- We have issued unmodified, or "clean" opinions on the financial statements of the State's governmental activities, each major fund except the Unemployment Insurance Fund, aggregate discretely presented component units, and aggregate remaining fund information for the Fiscal Year Ended June 30, 2020. This means that these financial statements are presented fairly, in all material respects, and that the financial position, results of all financial operations, and cash flows are in conformance with generally accepted accounting principles. The general fund is one of the major funds and also included in the governmental activities.
- We identified 75 internal control weaknesses over financial reporting, including 27 material weaknesses and 48 significant deficiencies at 13 state departments and higher education institutions.

OVERVIEW

This report presents our financial audit of the State of Colorado for Fiscal Year 2020. The Statewide Single Audit Report will be released under separate cover in June 2021 and will include all findings and questioned costs related to federal awards, in accordance with the federal Single Audit Act.

These reports may not include all financial- and compliance-related findings and recommendations from separately issued reports on audits of state departments, institutions, and agencies.

In this report, we made 75 recommendations to state departments and higher education institutions resulting from our financial audit.

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 2020 through March 2021. The purpose of this audit was to:

- Express an opinion on the State's financial statements for the Fiscal Year Ended June 30, 2020.
- 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.

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 LABOR AND EMPLOYMENT.
 - ▶ Unemployment Insurance (UI) Financial Reporting. The Department had not adjudicated all claims for UI benefits that were paid during Fiscal Year 2020, and therefore could not estimate the amount of payments that had been made due to error or fraud. In addition, the Department did not have an adequate methodology for calculating and recording the estimated amount of receivables and payables for UI payments, which resulted in unverifiable adjustments of \$2.1 billion in the Unemployment Insurance Fund. Classification: MATERIAL WEAKNESS.
 - ▶ Internal Controls Over Financial Reporting. The Department posted 142 entries totaling \$944.3 million up to 44 days late and an additional three adjustments totaling \$2.1 billion, detailed in the previous bullet, in February 2021. The Department also submitted six of 10 exhibits after the OSC deadline and had errors and omissions on two of the exhibits that included a \$20.9 million understatement of cash and an approximately \$1.4 billion omission of expenditures for reporting on the State's Schedule of Federal Assistance. Classification: MATERIAL WEAKNESS.
- DEPARTMENT OF PERSONNEL & ADMINISTRATION'S OFFICE OF THE STATE CONTROLLER (OSC). Internal Controls Over Financial Reporting. The OSC had numerous errors in financial reporting, including the failure to separately report activity within the Highway Users Tax Fund and errors within 7 of 22 (32 percent) note disclosures. Classification: MATERIAL WEAKNESS.
- DEPARTMENT OF HEALTH CARE POLICY AND FINANCING. Controls Over Capital Assets. The Department did not properly capitalize software enhancements, amounting to \$64.3 million for Fiscal Years 2017 through 2020. Classification: MATERIAL WEAKNESS.
- DEPARTMENT OF EDUCATION. School Finance Administration. Over \$1 million in expenditures tested, including salaries, that were recorded to the Department's appropriation for Public School Finance Act administration did not appear to be related to the administration of the Act. Classification: SIGNIFICANT DEFICIENCY.
- DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT. Accounting Controls. The Department posted \$52.8 million in year-end adjustments after the deadlines. Classification: SIGNIFICANT DEFICIENCY.

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

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.

- METROPOLITAN STATE UNIVERSITY OF DENVER. Incorrect Recording of Asset and Liability Transfer. The University improperly recorded an asset transfer by approximately \$8.3 million and an interest rate swap by approximately \$11.5 million. Classification: MATERIAL WEAKNESS.
- ADAMS STATE UNIVERSITY. Accounting Reconciliation and Reporting Controls. The University's financial information was not accurate and properly reconciled, which resulted in approximately \$45.0 million in corrections after these issues were identified in our audit. Classification: SIGNIFICANT DEFICIENCY.

Our opinion on the financial statements is presented in the State's Comprehensive Annual Financial Report for Fiscal Year 2020, 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)

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 2020 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 and agencies (and related systems):

- OFFICE OF THE GOVERNOR (OIT).
 - ▶ GenTax and Drivers' License, Record, Identification, and Vehicle Enterprise Solution (DRIVES) Policy Compliance. Classification: MATERIAL WEAKNESS.
 - ▶ GenTax and DRIVES Information Security. Classification: SIGNIFICANT DEFICIENCY.
 - ▶ GenTax Information Security. Classification: SIGNIFICANT DEFICIENCIES.
 - ▶ Pandemic Unemployment Assistance System (PUA) Change Management. Classification: SIGNIFICANT DEFICIENCY.
- DEPARTMENT OF PERSONNEL & ADMINISTRATION'S OFFICE OF THE STATE CONTROLLER (OSC). CORE Information Security. Classification: MATERIAL WEAKNESS.
- DEPARTMENT OF HEALTH CARE POLICY AND FINANCING.
 - ▶ Business Intelligence and Data Management System (BIDM) SOC Reports. Classification: MATERIAL WEAKNESS.
 - ▶ Colorado interChange SOC Reports. Classification: SIGNIFICANT DEFICIENCY.

- UNIVERSITY OF COLORADO.
 - ▶ PeopleSoft Vendor Management and Data Center Physical Security. Classification: SIGNIFICANT DEFICIENCY.
 - ▶ PeopleSoft Information Security. Classification: SIGNIFICANT DEFICIENCY.
 - ▶ PeopleSoft Change Management. Classification: SIGNIFICANT DEFICIENCY.
- DEPARTMENT OF HUMAN SERVICES. Colorado Personnel Payroll System— Information Security. Classification: SIGNIFICANT DEFICIENCY.
- DEPARTMENT OF LOCAL AFFAIRS. CORE Information Security. Classification: SIGNIFICANT DEFICIENCY.

CLASSIFICATION OF FINANCIAL FINDINGS
STATE OF COLORADO STATEWIDE FINANCIAL AUDIT
FISCAL YEAR ENDED JUNE 30, 2020

	MATERIAL WEAKNESS <i>(Most Serious)</i>	SIGNIFICANT DEFICIENCY <i>(Moderately Serious)</i>	GRAND TOTALS
ADAMS STATE UNIVERSITY	-	2	2
EDUCATION	-	3	3
OFFICE OF THE GOVERNOR	5	16	21
HEALTH CARE POLICY AND FINANCING	5	1	6
HUMAN SERVICES	-	4	4
LABOR AND EMPLOYMENT	6	4	10
LEGISLATIVE	-	4	4
LOCAL AFFAIRS	-	1	1
METROPOLITAN STATE UNIVERSITY OF DENVER	1	-	1
PERSONNEL & ADMINISTRATION	10	1	11
PUBLIC HEALTH AND ENVIRONMENT	-	3	3
UNIVERSITY OF COLORADO	-	7	7
WESTERN COLORADO UNIVERSITY	-	2	2
GRAND TOTALS	27	48	75

Note: There were no findings classified as a DEFICIENCY IN INTERNAL CONTROL, the least serious deficiency level, included in this report.