

# REPORT HIGHLIGHTS



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

STATE OF COLORADO

## FEDERAL PROGRAM FINDINGS

- The State expended approximately \$18.0 billion in federal funds in Fiscal Year 2020. The four largest federal programs were:
  - ▶ Medicaid: \$6.2 billion
  - ▶ Unemployment Insurance: \$4.4 billion
  - ▶ Student Financial Assistance: \$1.3 billion
  - ▶ Research and Development Cluster: \$1.0 billion

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by Uniform Guidance; and Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance:

- We have issued a disclaimer of opinion on Unemployment Insurance 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 internal controls over compliance with federal Uniform Guidance, if any, could be both material and pervasive.
- A qualified opinion is issued when an auditor detects material instances of noncompliance. We issued qualified opinions on the following programs:
  - ▶ Child Care and Development Fund Cluster
  - ▶ Children's Health Insurance Program
  - ▶ Coronavirus Relief Fund
  - ▶ Food Distribution Cluster
  - ▶ Medicaid Cluster
  - ▶ Minerals Leasing Act

## OVERVIEW

This report presents our compliance audit of the State of Colorado for Fiscal Year 2020. The Statewide Financial Audit Report, which was released under separate cover in March 2021, includes the financial- and IT-related findings and recommendations from our Fiscal Year 2020 audit.

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.

In this report, we made 106 recommendations to state departments and higher education institutions that were not previously included in the Statewide Financial Audit Report.

## 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 May 2021. The purpose of this audit was to:

- Express an opinion on compliance for each of the State's major federal programs for the Fiscal Year Ended June 30, 2020.
- Express an opinion on the State's *Schedule of Expenditures of Federal Awards* 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.

# FEDERAL PROGRAM FINDINGS

We identified:

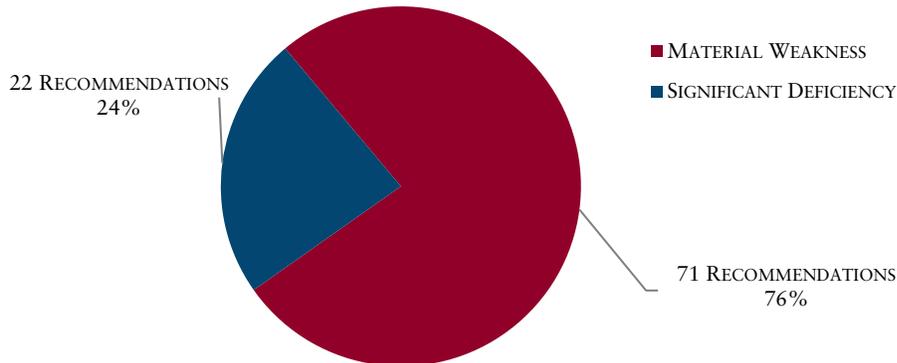
- ▶ 110 internal control issues related to requirements applicable to major federal programs.
- ▶ More than \$52.7 million in known questioned costs related to federal awards granted to the State. Federal regulations require auditors to report *questioned costs* identified through the audit, which are federal grant expenditures made in violation or possible violation of the related grant requirements, and/or federal expenditures that lack adequate supporting documentation.

The following 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 2020 audit. Prior to each recommendation in this report, we have indicated the classification of the finding.

FEDERAL GRANT PROGRAMS  
INTERNAL CONTROL WEAKNESSES  
FISCAL YEAR 2020



- DEPARTMENT OF LABOR AND EMPLOYMENT.
  - ▶ Unemployment Insurance. Several significant problems were identified related to the Department’s compliance with the federal requirements of the Unemployment Insurance (UI) program, such as failure to cross-match UI benefit payment amounts with employer-reported wage records; a backlog of Unemployment Insurance claims that had not been adjudicated as of the end of Fiscal Year 2020; neglecting to use the Treasury Offset Program, a tool used to recover overpayments; an issue

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.

with the form used by claimants that resulted in approximately \$52.1 million in overpayments during Fiscal Year 2020; as well as fraudulent claims that were paid by the Department. Our findings resulted in \$52.3 million in known questioned costs. Classification: MATERIAL WEAKNESS.

- DEPARTMENT OF HEALTH CARE POLICY AND FINANCING. Overall, we identified issues with the Department’s compliance with requirements for Medicaid and the Children’s Basic Health Plan (CBHP). In total, we identified approximately \$403,000 in known questioned costs and over \$166.5 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 resulted in a total of \$25,120 in known questioned costs and \$165.6 million in likely questioned costs. Classification: MATERIAL WEAKNESS.
  - ▶ Children’s Basic Health Plan Eligibility and Improper Payments. In 16 of 25 case files tested (64 percent), we identified at least one error related to eligibility, resulting in known questioned costs of \$10,913 and likely questioned costs of \$3,805. Through data analyses, we also identified 53 ineligible beneficiaries with related payments resulting in \$158,413 in known questioned costs and \$789,815 in likely questioned costs. We also found problems with the Department’s monitoring of local counties and medical assistance eligibility sites regarding eligibility determinations. Classification: MATERIAL WEAKNESS.
  - ▶ Medical Assistance Payments for Deceased Beneficiaries. We identified the following Fiscal Year 2020 payments made after the date of the beneficiary’s death: Medicaid fee-for-service payments for 273 beneficiaries resulting in \$17,041 in known questioned costs and \$77,840 in likely questioned costs; and Medicaid and CBHP capitation payments for 846 beneficiaries resulting in \$168,224 in known questioned costs and \$54,600 in likely questioned costs. Classification: MATERIAL WEAKNESS.
  - ▶ Presumptive Eligibility. The Department did not fully comply with federal and state regulations regarding Medicaid and CBHP presumptive eligibility during Fiscal Year 2020. In eight out of 20 Medicaid (40 percent) and seven out of 20 CBHP (35 percent) presumptive eligibility cases reviewed, the Department did not end presumptive eligibility as required by federal regulation. In addition, five of the 57 presumptive eligibility sites were not re-certified within 2 years, as required, during Fiscal Year 2020. We also found several problems with the Department’s monitoring of presumptive eligibility sites and other issues. Classification: MATERIAL WEAKNESS.
  - ▶ Refunding of Federal Share of Medicaid and CBHP Overpayments to Providers. The Department did not fully comply with federal regulations for recovering, reporting, and refunding the federal share of Medicaid and CBHP overpayments during Fiscal Year 2020. For six of 13 Medicaid (46 percent) overpayments and two of five CBHP (40 percent) overpayments

tested, the Department failed to recover, or seek to recover, the overpayment and failed to refund to CMS resulting in \$23,646 in known questioned costs; and did not refund \$12,176 within 1 year of discovery. Classification: MATERIAL WEAKNESS.

- ▶ Provider Eligibility. The Department did not fully comply with federal and state regulations for Medicaid and CBHP provider eligibility during Fiscal Year 2020. Specific issues identified included providers with suspended or expired licenses who continued to be shown as eligible in Colorado interChange and missing license information in Colorado interChange. Classification: MATERIAL WEAKNESS.

- DEPARTMENT OF HUMAN SERVICES.

- ▶ Colorado Child Care Assistance Program – Eligibility. We identified at least one error in 10 of the 25 case files tested (40 percent) and found known questioned costs of \$4,421. Classification: MATERIAL WEAKNESS.
- ▶ Colorado Child Care Assistance Program – Health and Safety Requirements. We identified at least one issue with 10 of the 40 providers tested (25 percent), related to licensing specialists’ failure to follow up on incomplete and/or late provider responses, failure to obtain providers’ acknowledgment of receipt of licensing reports, and a lack of documentation for provider response receipt dates. Classification: MATERIAL WEAKNESS.
- ▶ Internal Controls Over Food Distribution Cluster Inventory. The Department did not reconcile its physical inventory to federal information system reports, and did not have an adequate review process in place over monthly inventory reports. Classification: MATERIAL WEAKNESS.

- DEPARTMENT OF LOCAL AFFAIRS.

- ▶ Section 8 Housing Choice Vouchers and Mainstream Vouchers Programs – Quality Assurance Reviews. The Department did not follow up with subrecipients on the Department-identified issues that required subrecipients’ corrective action in 26 of the 28 Quality Assurance reviews we tested (93 percent). Classification: MATERIAL WEAKNESS.

- DEPARTMENT OF PERSONNEL & ADMINISTRATION, DEPARTMENT OF HIGHER EDUCATION, AND DEPARTMENT OF EDUCATION.

- ▶ Compliance with Federal Coronavirus Relief Fund (CRF) Subrecipient Monitoring Requirements. The Department of Personnel & Administration’s Office of the State Controller (OSC) did not adequately communicate subrecipient monitoring responsibilities to other state departments. This led to the Department of Higher Education and Department of Education failing to comply with federal subrecipient monitoring requirements for the CRF program during Fiscal Year 2020. Classification: MATERIAL WEAKNESS.

- DEPARTMENT OF TREASURY. Minerals Leasing Act – Subrecipient Monitoring and Reporting. The Department did not ensure that subrecipients received required award information in accordance with federal regulations. The Department also did not properly report subrecipient expenditures for inclusion in the State’s Schedule of Expenditures of Federal Awards. Classification: MATERIAL WEAKNESS.

## SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR RECOMMENDATIONS

The following table includes an assessment of our disposition of Financial and Federal audit recommendations reported in previous Statewide Single Audit Reports. Prior years’ recommendations that were fully implemented in Fiscal Year 2019 or earlier are not included.

STATEWIDE SINGLE AUDIT REPORT RECOMMENDATION STATUS AS OF FISCAL YEAR 2020 NOT FULLY IMPLEMENTED AS OF FISCAL YEAR 2019 BY FISCAL YEAR OF RECOMMENDATION						
	TOTAL	2019	2018	2017	2016	2015
IMPLEMENTED	63	50	8	1	2	2
PARTIALLY IMPLEMENTED	24	14	6	4	0	0
NOT IMPLEMENTED	19	9	7	3	0	0
DEFERRED	37	37	0	0	0	0
NO LONGER APPLICABLE	12	7	1	0	0	0
<b>TOTAL</b>	<b>151</b>	<b>117</b>	<b>22</b>	<b>8</b>	<b>2</b>	<b>2</b>

NOTE: The table above includes each recommendation subpart as an individual recommendation.