

Report Highlights



Statewide Single Audit, Fiscal Year Ended June 30, 2023

State of Colorado • Financial Audit • February 2024 • 2301F

OFFICE OF THE STATE AUDITOR

C O L O R A D O

Overview

This report presents the results of our financial audit and Statewide Single Audit, including federal compliance audit work of the State of Colorado for Fiscal Year 2023.

This 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.

In this report, we made 161 recommendations to state departments and higher education institutions resulting from our audit.

Financial Statement Findings

- The State’s financial statements covered \$62.7 billion in total assets and \$48.7 billion in total expenditures for Fiscal Year 2023.
- We have issued unmodified, or “clean” opinions on the financial statements of the State’s governmental activities, business-type activities, each major fund, aggregate discretely presented component units, and the aggregate remaining fund information for the Fiscal Year Ended June 30, 2023. 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.
- We identified 108 internal control weaknesses over financial reporting, including 42 material weaknesses and 66 significant deficiencies, as well as one issue that is not related to internal controls, at 20 state departments and higher education institutions.
- The State expended approximately \$19.5 billion in federal funds in Fiscal Year 2023. The five largest federal programs were:
 - Medicaid Cluster: \$8.6 billion
 - Supplemental Nutrition Assistance Program (SNAP) Cluster: \$1.6 billion
 - Research and Development Cluster: \$1.3 billion
 - Student Financial Assistance Programs Cluster: \$1.1 billion
 - Highway Planning and Construction Cluster: \$629.2 million
- We identified 63 internal control issues related to requirements applicable to major federal programs.

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 April 2023 through February 2024. 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, 2023.
- Express an opinion on the State’s *Schedule of Expenditures of Federal Awards* for the Fiscal Year Ended June 30, 2023.
- 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.

Recommendations Made

161

Responses

Agree: **146**

Partially Agree: **14**

Disagree: **1**

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. We identified several issues, including:
 - The OSC approved the posting of a significant number of transactions totaling \$16.4 billion for State entities in CORE after the statutorily-required August 4, 2023, deadline. While the OSC has historically posted some adjustments after the deadline, the amount posted after the deadline was significant and indicated that entities were continuing to finalize their accounting as late as January 2024, which does not appear to meet the intent of the 35-day statutorily-required closing deadline.
 - The OSC did not review and reconcile State entities-submitted Exhibit Js, *Financial Statement Reconciliation*, in a timely manner. Specifically, the OSC provided their completed Exhibit Js reconciliation over 4 months after the Exhibit Js were due to the OSC and after the OSC prepared the Annual Financial Statements.
 - Classification: **Material Weakness.**
 - Errors in Compiling the State's *Schedule of Expenditures of Federal Awards* (SEFA). The OSC requires State entities to prepare and submit an Exhibit K1, *Schedule of Federal Assistance*, to report federal program information for preparing the State's SEFA. We identified several issues with the OSC's SEFA preparation, including:
 - The OSC failed to report on the SEFA a total of 416 individual lines that were reported by the State entities on their Exhibit K1s as COVID-19 federal expenditures, as required.
 - The OSC did not ensure that the federal Assistance Listing Number (ALN) was properly reported on the SEFA for total of 77 of 7497 individual lines representing 39 federal programs on the SEFA.
 - The OSC did not report the program name associated with the ALN properly on the SEFA for 17 federal program titles.
 - A total of 974 ALNs reported on the SEFA did not match ALNs reported by departments and institutions of higher education on their Exhibit K1s.
 - Classification: **Material Weakness.**
 - System and Organization Control Reports. The OSC failed to update its procedures to include a required completeness check of IT systems based on OSC staff knowledge and expertise and did not follow up with State entities to obtain missing information for IT systems. Classification: **Material Weakness.**
 - Treatment of Health Insurance Affordability Enterprise Revenue Under the Taxpayer's Bill of Rights. The OSC did not include \$13 million in premium tax monies recorded in the Enterprise Fund as TABOR non-exempt revenue in its Fiscal Year 2023 TABOR Report, although the funds resulted from and were collected as taxes specifically subject to TABOR. 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.

- **Department of Labor and Employment.** Internal Controls Over Financial Reporting. We identified errors with the Department’s exhibits and payroll process, including the following:
 - The Department overstated its fiscal year-end estimates on its Exhibit P, *Major Accounting Estimates in Excess of \$5 million*, by \$266.2 million.
 - The Department overstated its prior period adjustments by almost \$7.0 million.
 - The Department did not complete its payroll reconciliations in a timely manner. In addition, the Department issued 17 manual, or “CHOP,” checks totaling \$30,000 that only had one person preparing and reviewing them.
 - Classification: **Material Weakness.**
- **Department of Military and Veteran’s Affairs.** Compliance with Spending Authority. The Department spent nearly \$2.7 million from the Real Estate Proceeds Cash Fund from Fiscal Years 2021 through 2023 (\$1.9 million of the \$2.7 million was spent in Fiscal Year 2023) without obtaining the General Assembly’s approval through the appropriations process. Classification: **Material Weakness.**
- **Department of Transportation.** Accounting Controls. The Department lacked adequate financial accounting controls for Fiscal Year 2023, as follows:
 - The Department posted \$877.3 million of journal entries after August 4, 2023 that the Department should have identified and recorded as part of the Department’s closing process prior to that time.
 - The Department overstated one expenditure transaction by over \$1.7 million.
 - The Department made errors on its Exhibit K1, *Schedule of Federal Assistance*, in the initial submission filed on September 28, 2023, totaling \$17.1 million.
 - Classification: **Significant Deficiency.**
- **Department of Higher Education.** Internal Controls Over Financial Reporting. We experienced extreme delays in receiving requested supporting documentation for purposes of testing the accuracy and completeness of the Department’s accounting records as well as the effectiveness of its internal controls. In addition, we identified the following errors:
 - The Department posted 56 entries to the State’s financial accounting system, CORE, totaling approximately \$81.5 million between 3 and 90 days after the OSC’s closing deadline of August 4, 2023.
 - The Department submitted 2 of their 5 exhibits 13 and 50 days after their respective due dates.
 - Classification: **Material Weakness.**
- **Department of Public Health and Environment.** Internal Controls Over Inventory Adjustments. The Department overstated its inventory balance in CORE by over \$50.3 million in comparison to the actual amount of inventory held by the Department. Classification: **Significant Deficiency.**
- **Department of Public Safety.** Internal Controls Over Financial Reporting. The Department did not have adequate financial reporting controls and did not comply with applicable accounting standards related to the Disaster Emergency Fund. As a result, the Department inappropriately recorded \$73.2 million in FEMA disaster reimbursements. Classification: **Material Weakness.**

Our opinion on the financial statements is presented in the State’s Annual Comprehensive Financial Report for Fiscal Year 2023, which is available electronically from the Office of the State Controller’s website at:

<https://osc.colorado.gov/financial-operations/financial-reports/acfr>

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 2023 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. Some of the issues were identified at the following departments and agencies (and related systems):

- **Office of the Governor (OIT).**
 - GenTax Information Security—Access Management. Classification: **Material Weakness.**
 - GenTax and DRIVES Information Security—Access Management. Classification: **Material Weakness.**
 - Colorado Automated Tax System Information Security. Classification: **Material Weakness.**
 - Secure Configuration Exception Request Procedure and Documentation. Classification: **Significant Deficiency.**
 - State Data Center Physical Access. Classification: **Significant Deficiency.**
 - Governance and Oversight. Classification: **Significant Deficiency.**
 - Colorado Payroll and Personnel System—Information Security. Classification: **Significant Deficiency.**
 - Colorado Automated Tax System—Disaster Recovery Plan. Classification: **Significant Deficiency.**
 - IT Governance and Access Management. Classification: **Significant Deficiency.**
- **Department of Health Care Policy and Financing.**
 - CBMS, interChange, and BIDM—Information Security. Classification: **Significant Deficiency.**
 - Internal Controls Over CBMS. Classification: **Significant Deficiency.**
- **Department of Human Services.**
 - Internal Controls Over CBMS. Classification: **Significant Deficiency.**
- **Department of Labor and Employment.**
 - Colorado Automated Tax System—Disaster Recovery Plan. Classification: **Significant Deficiency.**
- **Department of Personnel and Administration – Office of the State Controller.**
 - Colorado Payroll and Personnel System—Information Security. Classification: **Significant Deficiency.**
- **Department of Revenue.**
 - GenTax and DRIVES—IT Governance, Information Security, and Computer Operations. Classification: **Significant Deficiency.**
- **Department of Transportation.**
 - IT Governance and Access Management. Classification: **Significant Deficiency.**

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.

Federal Program Findings

We identified:

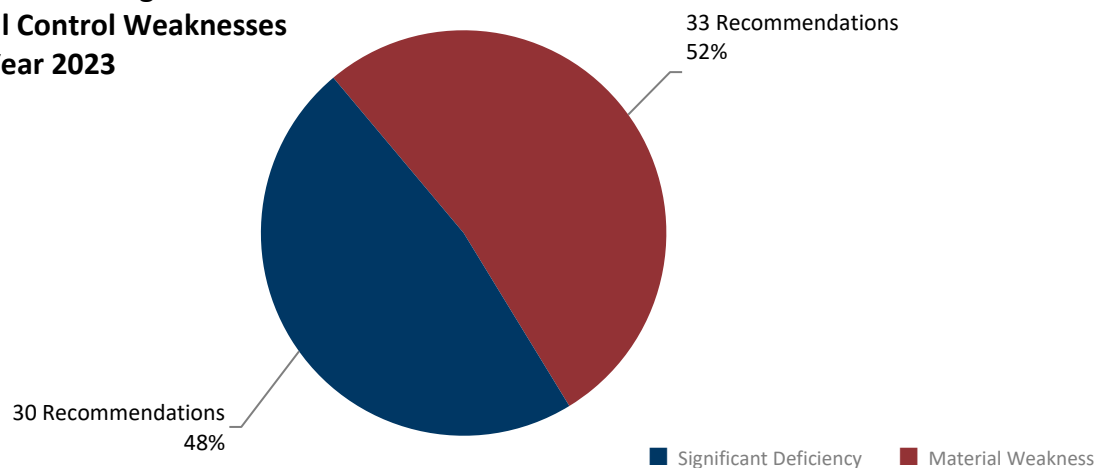
- 63 internal control issues related to requirements applicable to major federal programs.
- Approximately \$341,840 in known questioned costs related to federal awards granted to the State. Of these questioned costs, \$334,425 related to COVID-19 funding. Federal regulations require auditors to report 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 requirement, such as activities allowed or unallowed, allowable costs, cash management, eligibility, reporting, subrecipient monitoring, and special tests and provisions, that are applicable to major federal programs. and internal controls over compliance with federal Uniform Guidance.

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 2023 audit. Prior to each recommendation in this report, we have indicated the classification of the finding.

**Federal Grant Programs
Internal Control Weaknesses
Fiscal Year 2023**



Some of the areas where we identified a need for improvement included the following, by state department:

- **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 \$77,224 in known questioned costs. For example, we found the following:
 - Medicaid Controls Over Eligibility Determinations. In 3 of the 60 Medicaid case files tested (5 percent), we identified at least one error related to eligibility. Classification: **Material Weakness.**
 - Children’s Basic Health Plan Controls over Eligibility Determinations. In 6 of 60 case files tested (10 percent), we identified at least one error related to eligibility. In 2 of these 6 samples, we identified two ineligible beneficiaries. Classification: **Material Weakness.**
 - Medicaid Eligibility—Social Security Numbers Associated with Multiple State IDs. The Department did not have adequate internal controls in place during Fiscal Year 2023 to monitor and correct any instances of multiple State IDs associated with the same SSN. Classification: **Material Weakness.**
 - Presumptive Eligibility for Medicaid and CBHP. The Department did not fully comply with federal and state regulations regarding Medicaid and CBHP presumptive eligibility during Fiscal Year 2023. In 4 out of 40 Medicaid (10 percent) and 3 out of 37 CBHP (8 percent) presumptive eligibility cases reviewed, the Department did not end presumptive eligibility as required by federal regulation. In addition, in 1 of 40 Medicaid cases (3 percent), the Presumptive Eligibility Site determining eligibility did not notify the county within five business days that the applicant was presumptively eligible, as required by federal regulation. Classification: **Material Weakness.**
- **Department of Public Safety.**
 - Disaster Grants (Presidentially Declared Disasters) Subrecipient Monitoring. The Department did not comply with federal regulations or its own policies and procedures related to subrecipient monitoring. Specifically, we identified issues with 16 of the 17 (94 percent) subrecipients we tested. Classification: **Material Weakness.**
 - Internal Controls Over Exhibit K1 FEMA Disaster Grants Program Reporting, Activities Allowed or Unallowed and Allowable Costs/Cost Principles. The Department did not have adequate internal controls over financial reporting, and did not comply with applicable accounting standards. Specifically, the Department could not provide sufficient supporting documentation for \$29.2 million of the \$166.2 million of FEMA Disaster Grants Program expenditures reported on its Fiscal Year 2023 Exhibit K1, *Schedule of Federal Assistance*, related to funds expended by another state department—Colorado Department of Public Health and Environment (CDPHE). In addition, we identified issues with 28 of the 64 (44 percent) CDPHE pass-through expenditures reported on the Department’s Exhibit K1 that we selected for testing, which resulted in total of \$10, 053 in known questioned costs. Classification: **Material Weakness.**
 - Disaster Grants – Public Assistance (Presidentially Declared Disasters) Federal Reporting. The Department did not accurately report certain amounts on any of the 8 (100 percent) Federal Financial Status Reports (FFR) tested. Specifically, the Department overreported the amount of the cumulative-to-date recipient share of expenditures by a total of approximately \$26.2 million. In addition, the Department understated the amount reported as Federal Funds Disbursed by a total of approximately \$8.8 million. The Department also did not report any Disaster Grant subawards in the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System for Fiscal Year 2023 and, therefore, did not comply with FFATA reporting requirements. Classification: **Material Weakness.**
- **Department of Labor and Employment.** Rehabilitation Services – Vocational Rehabilitation Grants to States—Federal Reporting. We identified one or more issues with all four (100 percent) federally-required financial reports we tested for the Department’s Division of Vocational Rehabilitation (Division). For example, in total, the Division was unable to provide documentation to support over \$25 million in expenditures reported by the Division. Classification: **Material Weakness.**
- **Department of Public Health and Environment.** Compliance with Federal Procurement and Suspension and Debarment Requirements. The Department could not provide documentation to support that suspension and debarment verification procedures were performed for 1 of the 23 (4 percent) transactions we reviewed. In addition, the Department could not provide documentation of a purchase order or a state contract for 1 of the 9 (11 percent) procurement transactions tested. The Department paid that vendor \$184,433 during the year ended June 30, 2023. This error resulted in known questioned costs of \$184,433. Classification: **Significant Deficiency.**

- **Department of Early Childhood.** Colorado Child Care Assistance Program (CCCAP). The Department did not fully comply with federal and state CCCAP requirements, related to parent fee calculations. Specifically, we identified errors that resulted in a total of \$1,543 in known questioned costs. Classification: **Significant Deficiency**.
- **Department of Human Services.** Internal Controls Over Exhibit K1, *Schedule of Federal Assistance*. The Department misreported federal expenditures for two federal programs on its Exhibit K1. Specifically, the Department incorrectly identified \$12.2 million of expenditures for one program and \$323,000 of expenditures for another program as indirect and direct expenditures rather than expenditures passed through to subrecipients on its Exhibit K1. Classification: **Significant Deficiency**.

Summary of Progress in Implementing Prior Recommendations

The following table includes an assessment of our disposition of Financial and Federal audit recommendations, including IT recommendations, reported in previous Statewide Single Audit Reports. Prior years' recommendations that were fully implemented in Fiscal Year 2022 or earlier are not included.

Statewide Single Audit Report Recommendation Status as of Fiscal Year 2023 by Fiscal Year

	Total	2022	2021	2020	2019
Implemented	132	60	47	22	3
Partially Implemented	36	18	12	6	-
Not Implemented	23	15	6	2	-
Deferred	20	17	2	1	-
No Longer Applicable	20	2	11	2	5
TOTAL	231	112	78	33	8

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