

State of Colorado

# Statewide Financial Audit Fiscal Year Ended June 30, 2021

Financial Audit  
March 2022  
2101F-A



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*The mission of the Office of the State Auditor is to improve government for the people of Colorado.*



OFFICE OF THE STATE AUDITOR  
KERRI L. HUNTER, CPA • STATE AUDITOR

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March 14, 2022

Members of the Legislative Audit Committee:

Included herein is the Statewide Financial Audit Report of the State of Colorado for the Fiscal Year Ended June 30, 2021. The audit was conducted under the authority of Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all state departments, institutions, and agencies. The purpose of this report is to present the results of the Statewide Financial Audit for the Fiscal Year Ended June 30, 2021.

For Fiscal Year 2021, we are providing the results of the annual financial audit and the single audit information in two separate reports, as noted below.

Volume I – The Statewide Financial Audit Report contains financial reporting information based on our audit of the State’s *Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2021* (Annual Report). This report includes our Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. This report also contains our financial findings, conclusions, and recommendations, and the responses of the respective state departments, institutions, and agencies. Our opinions on the State’s financial statements are presented in the State’s Annual Report, which is available under separate cover.

Volume II – The Statewide Single Audit Report will present our Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance, and our Report on the Schedule of Expenditures of Federal Awards Required by Uniform Guidance. In accordance with the federal Single Audit Act, this report will include findings and questioned costs related to federal awards that came to our attention through the Statewide Single Audit.

*Government Auditing Standards* allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be omitted if the omission

is disclosed because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of certain findings, and their related responses and auditor's addenda to be sensitive in nature and not appropriate for public disclosure and have provided the details of these findings, responses, and auditor's addenda to management in a separate, confidential memorandum. Findings with omitted information include a disclosure of this omission.

This Report is intended solely for the use of management and the Legislative Audit Committee and should not be used for any other purpose. This restriction is not intended to limit distribution of the Report, which, upon release by the Legislative Audit Committee, is a matter of public record.

A handwritten signature in cursive script that reads "Kerri L. Hunter". The signature is written in black ink and is positioned in the lower-left area of the page.

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# Report Highlights



## Statewide Financial Audit, Fiscal Year Ended June 30, 2021

State of Colorado • Financial Audit • March 2022 • 2101F-A

### Overview

This report presents our financial audit of the State of Colorado for Fiscal Year 2021. The Statewide Single Audit Report is expected to be released under separate cover in June 2022 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 99 recommendations to state departments and higher education institutions resulting from our financial audit.

### Financial Statement Findings

- The State’s financial statements covered \$56.9 billion in total assets and \$46.3 billion in total expenditures for Fiscal Year 2021.
- 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 aggregate remaining fund information for the Fiscal Year Ended June 30, 2021. 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.
- Subsequent to our audit report dated January 31, 2022, in which we expressed an unmodified opinion on the State’s financial statements, the State revised the Statement of Net Position Government-Wide Financial Statements and the Statement of Net Position Proprietary Statements. We performed procedures over these revisions through March 8, 2022, and our opinion is not modified with respect to this matter.
- We identified 99 internal control weaknesses over financial reporting, including 31 material weaknesses and 68 significant deficiencies at 19 state departments and higher education institutions.

### 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 December 2020 through January 2022. We performed additional procedures over revisions to the financial statements disclosed in Note 1 through March 8, 2022. The purpose of this audit was to:

- Express an opinion on the State’s financial statements for the Fiscal Year Ended June 30, 2021.
- 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

99

### Responses

Agree: 94

Partially Agree: 5

Disagree: 0

## 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 did not close the State’s “official books” by August 4, 2021, as required by statute.
  - The Annual Financial Report issued by the OSC on January 31, 2022, materially differed from the Financial Statements the OSC submitted to the Governor and the General Assembly on September 20, 2021. The OSC and State entities made \$3.9 billion in adjustments after September 20, 2021.
  - The OSC did not identify and correct numerous errors through its preparation and review process over the Annual Financial Report. For example, the OSC did not identify a misclassification of \$2.1 billion in net position. Also, the OSC did not report in its note disclosure two transfers totaling \$29.6 million.
  - OSC did not timely implement GASB Statement No. 84, *Fiduciary Activities*, by the official closing date of August 4, 2021.  
Classification: Material Weakness.
- **Department of Labor and Employment.**
  - Internal Controls in Financial Reporting. The Department did not comply with the statutory close date for the State’s accounting records; specifically, the Department posted 37 entries totaling approximately \$480.5 million after the State’s statutory closing deadline of August 4, 2021. The Department also did not ensure it received its appropriated \$15.0 million in transfers from the State Treasurer for Fiscal Year 2021, incorrectly recorded and failed to record revenue totaling \$30.6 million, and incorrectly recorded \$60.9 million in expenditures in the State’s accounting system. Finally, the Department incorrectly reported financial information to the OSC, with a difference of \$158.1 million between its bank and accounting system balances. Classification: Material Weakness.
  - Unemployment Insurance Recording of Estimates. The Department did not document the potential impact of the 1.4 million unemployment insurance claims that were on fraud holds as of fiscal year end on its financial activity or the State’s financial statements. The Department did not calculate or record an estimated accounts payable to claimants or related accounts receivable from the federal government for any claims that were on fraud holds at year end.  
Classification: Significant Deficiency.
- **Department of Regulatory Agencies.** Internal Controls over Financial Reporting. The Department did not have sufficient internal controls to ensure accounting adjustments were posted in a timely manner to the financial statements and that exhibits were accurate and submitted to the OSC within required timeframes. The Department posted three entries totaling \$229 million over 150 days after the State’s statutory closing deadline. The Department also initially understated federal expenditures on its Exhibit K1 by approximately \$169 million, and submitted a revised Exhibit K1 to the OSC on January 13, 2022 – approximately three months after the due date. 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

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 Public Health and Environment.** Internal Controls over Inventory Adjustments and Valuation. The Department did not ensure that it appropriately tracked and safeguarded its inventory during the fiscal year. For example, the quantity in the Department’s inventory system and tracking spreadsheets differed from inventory on-hand for 99 of the 144 inventory items we sampled (69 percent) and the Department’s inventory sheets contained numerous errors and inconsistencies. In addition, the Department failed to comply with the OSC’s requirements for inventory recording and posting of adjustments before the OSC’s statutory close deadline. The Department ultimately made a \$21.3 million adjustment to increase its inventory in the State’s financial records 40 days after the State’s required close and three months after the Department identified the discrepancies. Classification: Significant Deficiency.
- **Department of Higher Education.** Internal Controls over Preparation of Exhibits. The Department lacked sufficient internal controls over preparing OSC-required exhibits, resulting in errors totaling approximately \$2.6 million. There were also multiple instances of late or incorrect exhibits submitted by the Department. Classification: Significant Deficiency.
- **History Colorado.** Accounting Controls. The Department did not complete its monthly reconciliations of capital assets during Fiscal Year 2021. Through its reconciliation performed after fiscal year end, the Department found that depreciation was misstated by approximately \$2.4 million due to prior year errors. Classification: Significant Deficiency.
- **Department of Local Affairs.** Internal Controls Over State Fiscal Year-End Expenditure Cutoff. The Department recorded several expenditure transactions improperly, resulting in errors totaling approximately \$2.9 million. Classification: Significant Deficiency.

Our opinion on the financial statements is presented in the State’s Annual Comprehensive Financial Report for Fiscal Year 2021, 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 2021 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).**
  - CUBS , CATS, and CLEAR Information Security. Classification: Material Weakness.
  - System Security Plan. Classification: Material Weakness.
  - IT Policies, Standards, and Procedures. Classification: Significant Deficiency.
  - Colorado Benefits Management System—SOC Report Review Process. Classification: Significant Deficiency.
  - GenTax and DRIVES Information Security. Classification: Significant Deficiency.
  - GenTax and DRIVES Policy Compliance. Classification: Significant Deficiency.
  - GenTax—Information Security. Classification: Significant Deficiency.
  - State Data Center Physical Access. Classification: Significant Deficiency.
  - CORE Information Security. Classification: Significant Deficiency.
  - CPPS Information Security. Classification: Significant Deficiency.
- **Department of Labor and Employment.**
  - CUBS , CATS, and CLEAR Information Security. Classification: Material Weakness.
  - IT Logical Access. Classification: Significant Deficiency.
  - CLEAR — Computer Operations Contingency Planning. Classification: Significant Deficiency.
- **Department of Health Care Policy and Financing.**
  - interChange and BIDM Complimentary User Entity Controls. Classification: Significant Deficiency.
  - interChange Service Organization Controls Reports. Classification: Significant Deficiency.

- **Department of Human Services.** Electronic Benefits Transfer System - SOC Review and Risk Assessment. Classification: Significant Deficiency.
- **Department of Personnel & Administration's Office of the State Controller (OSC).**
  - CORE Information Security. Classification: Significant Deficiency.
  - CPPS Information Security. Classification: Significant Deficiency.

**Classification of Financial Recommendations  
State of Colorado Statewide Financial Audit  
Fiscal Year Ended June 30, 2021**

<b>Agency</b>	<b>Material Weakness (Most Serious)</b>	<b>Significant Deficiency (Moderately Serious)</b>	<b>Grand Totals</b>
Education		1	1
Office of the Governor	9	16	25
Health Care Policy and Financing		9	9
Higher Education		1	1
Adams State University	1		1
Colorado State University		1	1
History Colorado		4	4
Metropolitan State University of Denver		2	2
University of Colorado		1	1
University of Northern Colorado		2	2
Western Colorado University		1	1
Human Services		2	2
Labor and Employment	11	7	18
Legislative		2	2
Local Affairs		2	2
Personnel & Administration	9	4	13
Public Health and Environment		3	3
Regulatory Agencies	1		1
Transportation		10	10
<b>Grand Totals</b>	<b>31</b>	<b>68</b>	<b>99</b>

Note: The table above includes each subpart as an individual recommendation. There were no findings classified as a Deficiency in Internal Control, the least serious deficiency level, included in this report.



# Department of Education

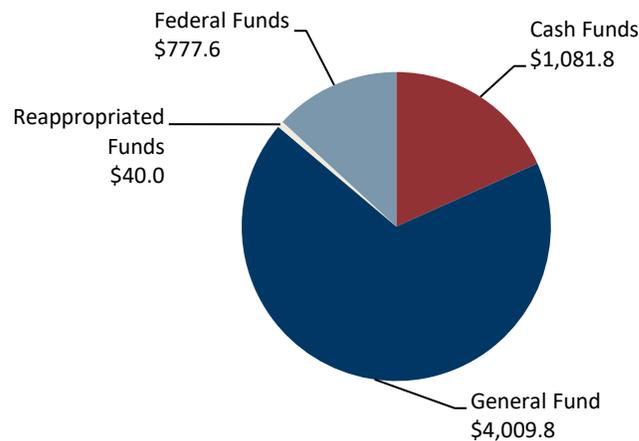
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Article IX of the Colorado Constitution places responsibility for the general supervision of the State's public schools with the Colorado State Board of Education (Board). The Board appoints the Commissioner of Education to oversee the Department of Education (Department), which serves as the administrative arm of the Board by providing assistance to 178 local school districts, which comprised 1,888 schools during Fiscal Year 2021. The Department also provides structural and administrative support to the Colorado School for the Deaf and Blind, as well as the Charter School Institute, which operate as independent agencies under the umbrella of the Department.

For Fiscal Year 2021, the Department was appropriated approximately \$5.9 billion and 609 full-time equivalent (FTE) staff.

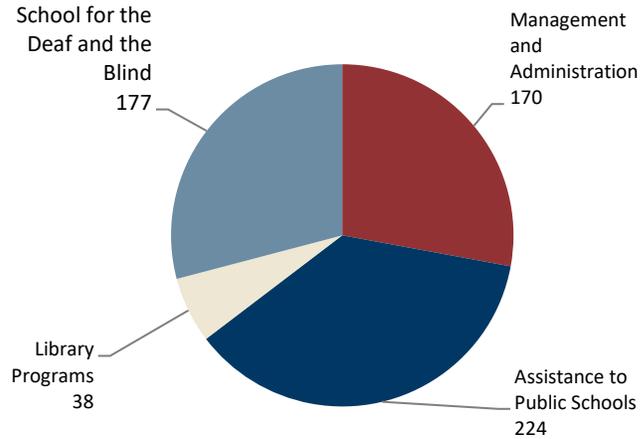
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for Fiscal Year 2021.

**Department of Education Fiscal Year 2021 Appropriations by Funding Source (in Millions)**



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

## Department of Education Fiscal Year 2021 Full-Time Equivalent Staff by Major Areas



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

The following recommendation relating to an internal control deficiency classified as a **Significant Deficiency** was communicated to the Department of Education (Department) in the previous year and has not been remediated as of June 30, 2021, because the original implementation date provided by the Department is in a subsequent fiscal year. This recommendation can be found in the original report and Section III: Prior Financial Recommendations of this report.

School Finance Administration			
Current Rec. No.	2021-001		
Prior Rec. No.	2020-001		
Classification	Significant Deficiency		
Implementation Date	A. June 2022	B. [1]	C. [1]

[1] This part of the recommendation has been implemented, partially implemented, not implemented, or is no longer applicable. See Section III: Prior Financial Recommendations of this report for information regarding this part of the recommendation.

# Office of the Governor

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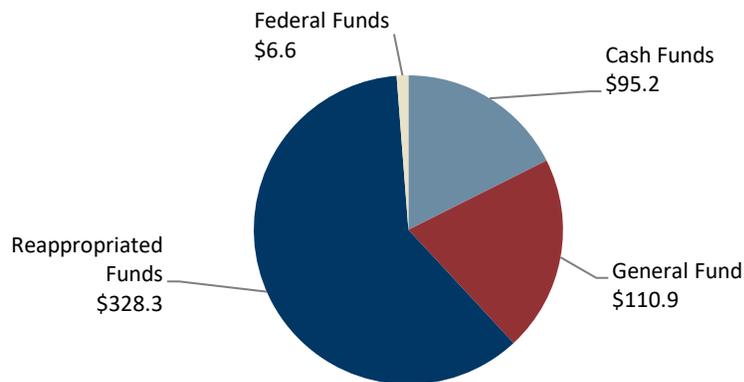
The Office of the Governor (Office) is solely responsible for carrying out the directives of the Governor of the State of Colorado. In addition to the Governor's Office, the Office also comprises:

- Office of the Lieutenant Governor
- Office of State Planning and Budgeting
- Office of Economic Development and International Trade
- Office of Information Technology (OIT)

For Fiscal Year 2021, the Office was appropriated approximately \$541.0 million and 1,179 full-time equivalent (FTE) staff.

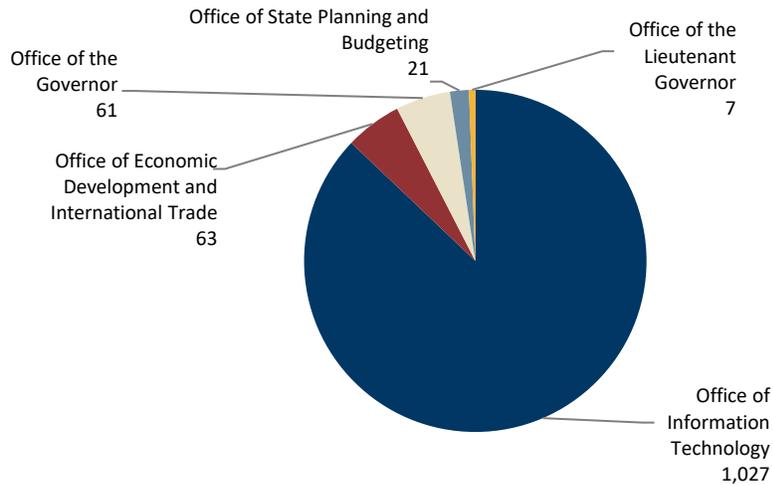
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Office for Fiscal Year 2021.

**Office of the Governor Fiscal Year 2021 Appropriations by Funding Source (in Millions)**



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

## Office of the Governor Fiscal Year 2021 Full-Time Equivalent Staff by Major Areas



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

## Office of Information Technology

The *IT Consolidation Bill*, codified under state statutes [C.R.S 24-37.5 Sections 102, 103, 105, and 106] was enacted during the 2008 Legislative Session. This bill consolidated IT operations under OIT for most of the Executive Branch, but excluded the Departments of Law, State, Education, and Treasury, State-supported institutions of higher education, as well as the Judicial and Legislative branches. OIT provides IT services and infrastructure to the consolidated agencies, which includes data centers, servers, mainframe operations, data storage, operating systems, voice and data networks, and the public safety network. OIT also oversees information security, projects, and recommends strategies to maximize IT service delivery.

## Finding 2021-002 System Security Plan

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding and responses have been provided to OIT in a separate, confidential memorandum.*

The overall objective of system security planning is to enhance the level of protection over information systems and resources. The purpose of a System Security Plan (Security Plan) is to

document the security requirements for an information system and the security controls in place or planned for meeting those requirements. A Security Plan outlines the system's description, environment, and architecture, as well as the roles, responsibilities, and the expected behavior of all individuals who access and maintain the system. The development of a Security Plan is a joint effort between OIT, other third-party IT contractors, and the business owner. The business owner is the agency that owns a particular system and its data and is responsible for the accuracy, integrity, and availability of that data. The business owner also has the responsibility to authorize or deny access to its systems and data. For example, the Department of Revenue (Department) is the business owner of the GenTax and the Drivers' License, Record, Identification, and Vehicle Enterprise Solution (DRIVES) systems. As such, each department authorizes or denies access to its respective systems and data.

## **What was the purpose of our audit work and what work was performed?**

The purpose of our audit work was to determine whether OIT implemented our Fiscal Years 2019 and 2020 Security Plan recommendations for DRIVES and GenTax, as well as for other systems that meet the requirements stated in the Colorado Information Security Policies (Security Policies), developed and published by OIT.

We performed our audit work through inquiry of OIT staff, as well as inspection of supporting documentation.

## **How were the results of the audit work measured?**

We measured the results of our audit work against the Security Policies, OIT's Technical Standards, and the Office of the State Controller's (OSC) policy titled, *Internal Control System*, that states agencies shall use the *Standards for Internal Control in the Federal Government* (Green Book), published by the Government Accountability Office (GAO), as its framework for its system of internal control.

## **What problems did the audit work identify?**

During our Fiscal Year 2021 audit work, we found that OIT did not fully implement the Fiscal Year 2019 and 2020 recommendations.

## Why did these problems occur?

In discussing these problems with OIT:

- Staff did not provide an explanation for why they did not provide evidence to support implementation of the recommendation to resolve the problems identified with the GenTax Security Plan. OIT staff stated that all GenTax-related parties were working to implement the recommendation by June 2021, but subject matter experts were unavailable to meet this date.
- Staff stated that as part of the overall IT Service Management transformation project currently underway, an automated tool to resolve the problems we noted was not implemented until June 2021, and thus, staff were unable to fully transition from the manual tracking process used up to June 2021, to the automated tool by fiscal year end. In addition, the standard operating procedure being developed by OIT's Security, Risk, & Compliance Team to address the recommendation was not approved and implemented in Fiscal Year 2021 because of the transformation project.

## Why do these problems matter?

Without proper controls in place to ensure compliance with Security Policy requirements for Security Plans, necessary or appropriate IT security controls, including those related to financial reporting, may not be designed, implemented, and operating effectively, which ultimately, increases the risk to the confidentiality, integrity, and availability of the impacted systems and data.

Classification of Finding: **Material Weakness**

This finding applies to prior audit recommendations 2020-004A, 2020-004B, 2020-010B, and 2019-004B.

## Recommendation 2021-002

The Governor's Office of Information Technology should strengthen information security controls over the State's information systems and resources by:

- A. Implementing the recommendation contained within Part A of the confidential finding.
- B. Implementing the recommendation contained within Part B of the confidential finding.

## Response

### *Governor's Office of Information Technology*

#### A. Agree

Implementation Date: September 2021

The Governor's Office of Information Technology agrees to the recommendation. The GenTax SSP was updated on September 27, 2021. Please see the detailed response for more information.

#### Auditor's Addendum

A confidential auditor's addendum has been included in the confidential finding to address OIT's "agree" response.

#### B. Agree

Implementation Date: February 2022

The Governor's Office of Information Technology agrees to the recommendation. Please see the detail response for more information.

## Finding 2021-003

### IT Policies, Standards, and Procedures

The development and maintenance of IT policies, procedures, and standards is critical for all organizations, including OIT, to ensure that their business and IT objectives are being achieved, and that they are able to respond to risks. OIT's management is responsible for documenting policies, procedures, and standards to define internal control responsibilities. With guidance from OIT management, each internal OIT division's policies should be based on OIT's objectives and related risks. In most cases, policies should have accompanying standards and procedures, which provide more granular details on how to implement OIT policies.

As is the case with other large and complex organizations, OIT's policies, procedures, and standards can be far-reaching and apply across the entire organization, as well as to other state entities and vendors, and these can be system- or process-specific within OIT's various teams. For example:

- **Colorado Information Security Policies.** These policies are created and issued by OIT's Office of Information Security and achieve the information security requirements of the Colorado Information Security Act. The Security Policies are required to be implemented by OIT, state agencies, and vendors. OIT has adopted the National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53 (Rev 4), *Recommended Security Controls for Federal Information Systems*, as its security controls framework.

- **OIT Cyber Policies.** These policies further define information security requirements and responsibilities of OIT, as established in the Security Policies, and its support of certain state agencies. The OIT Cyber Policies are created and issued by OIT’s Office of Information Security.
- **OIT Enterprise Policies and Procedures.** These policies and procedures are those that establish requirements and document procedures that are to be consistently applied by OIT and all state agencies. For example, OIT has established an Enterprise IT Change Management Policy and Standard Operating Procedure that is meant to provide a stable environment and minimize disruptions to customers and IT services that OIT manages and supports. The OIT Enterprise Policies and Procedures are created and issued by staff within OIT’s various offices and divisions.
- **OIT Technical Standards.** These standards provide additional support to the Security and OIT Cyber Policies. The applicability of these standards is for those agencies in which OIT serves as the IT service provider, as directed by statute. Specifically, statute [Sections 24-37.5-102(28) and 24-37.5-105(3)(a)(b), C.R.S.] states that OIT will coordinate and deliver information technology services in providing assistance, advice, and expertise to all state agencies, except for the legislative and judicial branches, the Departments of Education, Law, State, Treasury, and state-supported institutions of higher education. OIT Technical Standards are developed and maintained by staff within OIT’s various offices and divisions, and are overseen by the Architecture Review Board.
- **OIT System Specific Procedures.** These procedures provide the granular details of how OIT is implementing policy requirements of both the Security and Cyber Policies, as well as the Technical Standards. The procedures can provide a “road map,” or a step-by-step checklist, of how, for example, to provision access to a specific system’s network or operating systems or how to perform an access review of users to a specific system. OIT system-specific procedures are developed and maintained by staff within OIT’s various offices and divisions.

## What was the purpose of our audit work and what work was performed?

The purpose of our audit work was to determine whether OIT had processes in place to ensure its various IT policies, standards, and procedures are maintained, including processes to conduct periodic reviews to determine whether policy, standards, and procedure updates are necessary, to document and track changes, and to appropriately communicate changes to those responsible for the implementation.

The audit work performed consisted of OIT staff inquiries, and requesting and reviewing Security and Cyber Policies, OIT Technical Standards, and system-specific procedures applicable to 10

systems reviewed as part of our Fiscal Year 2021 audit. In addition to our inquiries, we inspected all of these documents to determine the last OIT documented review date for each. In addition, we calculated the time between the last documented review and June 30, 2021—the end of Fiscal Year 2021—to determine whether the policy, procedures, or standards had been reviewed within OIT established timeframes, or if not defined by OIT, industry-leading standards.

## How were the results of the audit work measured?

We applied the following criteria when evaluating the effectiveness of OIT's IT policies, standards, and procedures:

- The Green Book states in Paragraphs 3.09, *Documentation of the Internal Control System*, and 12.02, *Documentation of Responsibilities through Policies*, that management is to develop and maintain documentation of its internal control system and document in policies the internal control responsibilities of the organization. Paragraph 12.05, *Periodic Review of Control Activities*, also states that management is to periodically review policies and procedures for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks. If there is a significant change in an entity's process, management reviews this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately. Finally, Paragraph 14.03, *Communication throughout the Entity*, states that management communicates quality information to enable personnel to perform key roles in achieving objectives, addressing risks, and supporting the internal control system. In these communications, management assigns the internal control responsibilities for key roles.
- NIST's SP 800-53 (Rev 5) states that policies and procedures should be reviewed and updated following an "organization-defined frequency." OIT has stated that Security and Cyber Policies are to be reviewed on an annual basis and updated, as necessary.
- In the absence of any OIT-defined frequency, we applied an annual frequency to equate to the policies, standards, or procedures as being "periodically reviewed," which is a common standard practice within the IT industry.

## What problems did the audit work identify?

During Fiscal Year 2021, we found that OIT had not reviewed and updated, as necessary, its IT policies, standards, and procedures, in accordance with its organizationally-defined frequency or industry-leading standards. Specifically, we found the following:

- **Security Policies and OIT Cyber Policies.** The following table provides our analysis on these two sets of Policies:

**Colorado Information Security Policies and OIT Cyber Policies Review Analysis  
Fiscal Year 2021 (as of June 30, 2021)**

Policy	Number of Policies Not Reviewed Out of the Total	Percentage of Policies Not Reviewed	Average Time Since Last Date Reviewed	
			Days	Years
Colorado Information Security Policies	16 of 18	89%	660	1.81
OIT Cyber Policies	19 of 20	95%	752	2.06

Source: OSA staff review of OIT’s Security and Cyber Policies obtained from OIT’s website or through an audit request.

- **OIT Technical Standards, OIT Enterprise Policies and Procedures, and OIT System Specific Procedures.** We analyzed the 30 Technical Standards and 10 Enterprise Policies and Procedures and found:
  - **Technical Standards**—Although OIT established review frequencies in 29 of these, the reviews were not performed. In 28 instances, a review had not been conducted since the Standards’ initial effective date, which may have been as early as June 2015.
  - **Enterprise Policies and Procedures**—4 out of 10 do not have an established review frequency, and one of these had not been reviewed since the Policy’s initial effective date, which may have been as early as November 2011.
  - **System Specific Procedures**—Of the 12 procedures we obtained as part of our Fiscal Year 2021 audit, none had an established review frequency. While we found that 7 of these 12 had been reviewed at some point during Fiscal Year 2021, 5 of these had not been reviewed.

The following table outlines our analysis:

**Technical Standards, Enterprise Policies and Procedures, and System Specific Procedures Review Analysis, Fiscal Year 2021 (as of June 30, 2021)**

Required Review Frequency	Technical Standard and Enterprise Policies and Procedures Subject to the Review Frequency		Number of Reviews Conducted, during Fiscal Year 2021, as of June 30, 2021	Time Since Last Date Reviewed as of June 30, 2021	
	Type	Number/Total Documents and % of Total		Days	Years
6 Months	Technical Standards	11/30 (37%)	0	1,700	4.66
12 Months	Technical Standards	9/30 (30%)	0	1,516	4.15
	Enterprise Policies and Procedures <sup>1</sup>	2/10 (20%)	0	658	1.80
Annual	Technical Standards	9/30 (30%)	0	1,860	5.18
2 Years	Technical Standards	N/A – There are no Technical Standards with an every-2-year review frequency.			
	Enterprise Policies and Procedures	1/10 (10%)	0	490	1.34
Not Established	Technical Standards	1/30 (3%)	0	1532	4.20
	Enterprise Policies and Procedures	4/10 (40%)	0	700	1.92
	System Specific Procedures	12/12 (100%)	7	438	1.20

Source: OSA staff review of OIT’s Technical Standards, Enterprise Policies and Procedures, System Specific Procedures obtained from OIT’s website or through an audit request.

<sup>1</sup>Enterprise Policies and Procedures: During Fiscal Year 2021, we found that OIT had reviewed and updated, where necessary, 3 out of 10 (30 percent) of these.

## Why did these problems occur?

Overall, and based on our Fiscal Year 2021 audit work, OIT does not have an effective process in place to ensure that all IT policies, procedures, and standards are reviewed and updated within established frequencies or industry-leading standards. More specifically:

- OIT has not fully formalized review and update frequencies for all the Security Policies, OIT Cyber Policies, OIT Technical Standards, or System Specific Procedures.
- OIT staff stated that, during Fiscal Year 2021, roles and responsibilities were reprioritized due to the COVID-19 pandemic response, and in some cases, transitions in or losses of managers and employees contributed to the various policies and procedures not being updated in a timely manner or within established review frequencies. However, OIT has neither developed a backup process nor identified staff that could step in, during these types of situations, to continue to meet management’s goals, objectives, and expectations.

## Why do these problems matter?

When IT policies and procedures are not maintained, updated, and communicated, OIT staff and others, who are subject to the requirements and processes, may not be able to adequately manage or consistently apply IT policy requirements and processes to meet management’s objectives and expectations, respond to risks appropriately, and ensure the confidentiality, integrity, and availability of the state’s information systems.

Classification of Finding: **Significant Deficiency**

This finding does not apply to a prior audit recommendation.

## Recommendation 2021-003

The Governor’s Office of Information Technology (OIT) should ensure that it has an appropriate IT governance framework in place that includes current IT policies, procedures, and standards by:

- A. Establishing and formalizing review time frames for those policies, procedures, and standards that currently do not have a documented review time frame. This establishment and formalization should apply to the Colorado Information Security Policies, OIT Cyber Policies, as well as those Technical Standards, Enterprise Policies and Procedures, and system-specific procedures communicated to management during the audit.
- B. Establishing, formalizing, and implementing a process, including identifying staff who could act in a backup role during times when OIT reprioritizes staff who are primarily in the roles of and have responsibilities for conducting reviews and updating policies, procedures, and standards, to ensure management’s goals, objectives, and expectations are met.
- C. Reviewing, updating, and maintaining policies and procedures within established review time frames.

## Response

### *Governor's Office of Information Technology*

A. Agree

Implementation Date: December 2022

OIT, through the various teams that handle reviews of policies, procedures, and standards, will establish and formalize review time frames for the referenced documents.

B. Agree

Implementation Date: December 2022

OIT will establish, formalize, and implement a process to identify alternate staff who could act in a backup role for conducting reviews and updating referenced documents.

C. Agree

Implementation Date: December 2022

OIT will review, update, and maintain policies and procedures within established review time frames.

## Finding 2021-004

### Colorado Benefits Management System—SOC Report Review Process

Within the OIT's Health and Information Services and Colorado Benefits Management System (CBMS) division, staff provide IT support to the statewide welfare eligibility determination system, also known as CBMS. Both Departments of Human Services and Health Care Policy and Financing (Departments) are the business owners and utilize CBMS to aid in determining eligibility for a number of federally and state-funded welfare programs, such as the Supplemental Nutrition Assistance Program and the Health First Colorado program, which is otherwise known as Medicaid.

The CBMS division contracts with other third-party service organizations to provide a full spectrum of IT services for the hosting and maintenance of CBMS. Specifically, the CBMS division and one other third-party service organization act as a combined overall service organization for CBMS, although they, in turn, subcontract certain services to other subservice organizations.

Through contractual specifications, the Departments require the CBMS division to obtain an annual *Statement on Standards for Attestation Engagements* (SSAE) examination that provides assurances over the CBMS division's internal controls that relate to financial reporting. These examinations are governed

by the American Institute of Certified Public Accountants (AICPA) and the results are provided in the form of a System and Organization Controls (SOC) report. Specifically, the CBMS division provides a SOC 1, Type II report (SOC 1), which relates to internal controls over financial reporting, as of the end of a specified period.

## **What was the purpose of our audit work and what work was performed?**

Our audit work was designed to gain an understanding of CBMS' service and subservice organizations and how the service organizations' systems of internal controls impact the CBMS division's internal controls. Our audit work included reviewing the most recent reports provided to the Departments by the CBMS division, including six CBMS SOC 1 reports, and performing inquiries with CBMS division staff regarding the service and subservice organizations.

## **How were the results of the audit work measured?**

The AICPA SSAE No. 18 [AT-C 320.10(b)(i)] states that management must acknowledge and accept its responsibility for preparing its description of the service organization's system and its assertion, including the completeness, accuracy, and method of presentation of the description and assertion.

The OSC policy entitled, *Internal Control System*, requires state agencies to use the Green Book as its framework for its system of internal control. Green Book Paragraph OV4.08, *Documentation Requirements*, states that documentation is a necessary part of an effective internal control system and is required for the effective design, implementation, and operating effectiveness of an entity's internal control system.

## **What problems did the audit work identify?**

Through our review of the CBMS SOC 1 report issued by the CBMS division, we found that the CBMS division inaccurately represented certain third-party service organizations as either a service organization or subservice organization, or as both a service organization and subservice organization in the report. Specifically, the CBMS division did not address or update changes to a discontinued subservice organization, in Section II-CBMS' Assertion of the SOC 1 report, resulting in a potential misrepresentation of the provided IT services; and OIT was listed as both a service organization and a subservice organization in Section III-Description of CBMS and the Program Eligibility and Application Kit (PEAK), which provides an overview of operations of the CBMS SOC 1 report.

## Why did these problems occur?

CBMS division staff stated that there is an informal process in place to review and update the CBMS system description and assertions sections of the SOC 1 report, which are the responsibility of the CBMS division. However, CBMS division staff did not state whether this informal process was followed to ensure the accuracy and completeness of those sections, but simply stated that it incorrectly identified the information.

## Why do these problems matter?

Without a formalized pre-engagement review and update process in place, CBMS division staff may not accurately or completely describe or represent the internal control system in place during the duration of the SSAE examination, which ultimately could increase the likelihood of errors in its assertions and mislead users of the report, such as with the Departments or external auditors.

Classification of Finding: **Significant Deficiency**

This finding does not apply to a prior audit recommendation.

## Recommendation 2021-004

The Governor's Office of Information Technology's Health and Information Services and Colorado Benefits Management System (CBMS) division should improve its internal controls over financial reporting by formalizing and following the pre-engagement review and update process over the required information it is responsible for preparing within the CBMS System and Organization Controls (SOC) 1, Type II report, to ensure that its assertions, including the listing of service and subservice organizations, and the description of the CBMS division's internal controls are accurate and complete.

## Response

*Governor's Office of Information Technology*

Agree

Implementation Date: December 2021

The Governor's Office of Information Technology (OIT) affirms the FY2020 CBMS SOC 1, Type II report included descriptions of service and subservice organizations that were incorrectly identified. CBMS has updated its assertions in the 2021 SOC report. CBMS will also formalize the SOC audit process and follow it to ensure the listing of service and subservice organizations, and the description of CBMS' internal controls, are accurate and complete. The CBMS SOC audit process will be in place by December 31, 2021.

## Finding 2021-005

### GenTax and DRIVES Information Security

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding and response have been provided to OIT in a separate, confidential memorandum.*

Responsibility for the reliability and availability of the GenTax and DRIVES system is shared between the Department of Revenue (Department), the business and data owner, and OIT, the IT service provider. The Department and Division of Motor Vehicles also work with a third-party contractor, FAST Enterprises, to provide DRIVES support.

### What was the purpose of our audit work and what work was performed?

The purpose of our audit work was to determine whether the Department, with OIT’s support, had adequate information security controls designed, implemented, and operating effectively over GenTax and DRIVES. We performed inquiries of and reviewed documentation provided by the Department and OIT.

### How were the results of the audit work measured?

We measured the results of our audit work using the following criteria:

- Security Policies and Supplemental Guidance, developed and published by OIT.
- Publication 1075, *Tax Information Security Guidelines for Federal, State, and Local Agencies* (Publication 1075), developed and published by the IRS.
- The Green Book, which has been established by the OSC as the internal control framework to be used by state agencies.

## What problem did the audit work identify?

We found an information security problem with an OIT practice related to GenTax and DRIVES.

We identified this same problem during our Fiscal Year 2020 audit and recommended that OIT discontinue the specific information security practice causing the problem. However, OIT disagreed with the recommendation.

## Why did this problem occur?

OIT staff continued the specific information security practice causing the problem and did not work with the Department, as the business and data owner, to determine whether OIT's current practice was within the Department's risk tolerance.

## Why does this problem matter?

The identified problem elevates the risk of system compromise and can affect the confidentiality, integrity, and availability of the GenTax and DRIVES systems. In turn, if GenTax and DRIVES information security processes and controls are not appropriately implemented and managed, this can adversely impact the reliability of data that is processed, stored, and generated by the systems, as well as the automated application controls that are built into them.

Classification of Finding: **Significant Deficiency**

This finding does not apply to a prior audit recommendation.

## Recommendation 2021-005

The Governor's Office of Information Technology should strengthen information security controls over the GenTax and Drivers' License, Record, Identification, and Vehicle Enterprise Solution (DRIVES) systems by:

- A. Implementing the recommendation as noted in Part A of the confidential finding.
- B. Implementing the recommendation as noted in Part B of the confidential finding.

## Response

### *Governor's Office of Information Technology*

#### A. Partially Agree

Implementation Date: June 2022

The Governor's Office of Information Technology will work with the Department as identified in the Confidential Finding response to consider the options.

#### Auditor's Addendum

A confidential auditor's addendum has been included in the confidential finding to address OIT's "partially agree" response.

#### B. Partially Agree

Implementation Date: June 2022

The Governor's Office of Information Technology will work with the Department as identified in the Confidential Finding response to consider the options.

#### Auditor's Addendum

A confidential auditor's addendum has been included in the confidential finding to address OIT's "partially agree" response.

## Finding 2021-006

### GenTax and DRIVES Policy Compliance

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate "classified or limited use" report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response and auditor's addendum, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding, response, and auditor's addendum have been provided to OIT in a separate, confidential memorandum.*

The Department of Revenue (Department) is the business owner of the GenTax and DRIVES systems. Each system fulfills the following functions:

- GenTax is the State's primary information system for processing taxes collected by the State, including estate, sales, severance, business, and individual and corporate income taxes. Most users in the system work for the Department's Division of Taxation, but other divisions within the Department have a variety of access that allows for and addresses reporting, accounting, monitoring, or other data sharing needs.

- DRIVES provides an integrated solution for drivers and vehicle services, as well as business licensing and revenue accounting. State and County Divisions of Motor Vehicles' employees use DRIVES. Most users in the system work for the State Division of Motor Vehicles, but other divisions within the Department have a variety of access that allows for and addresses reporting, accounting, monitoring, or other data sharing needs.
- GenTax and DRIVES must comply with the Security Policies developed and published by OIT. In addition, GenTax contains Federal Tax Information (FTI) and must adhere to the IRS requirements and guidelines, contained within IRS Publication 1075, to ensure the adequate protection of the FTI data it receives, processes, stores, or transmits.

## **What was the purpose of our audit work and what work was performed?**

The purpose of our audit work was to determine OIT's progress in implementing our Fiscal Year 2020 recommendation.

We performed our work through inquiry of OIT staff and review of supporting documentation.

## **How were the results of the audit work measured?**

We measured the results of our audit work against IRS Pub 1075, *Standards for Internal Control in the Federal Government*, and *Security Policies*, and the Green Book.

## **What problem did the audit work identify?**

We found that OIT did not fully implement the prior audit recommendation.

## **Why did this problem occur?**

In discussing these problems with OIT, staff stated that GenTax-related resources, including subject matter experts, were unavailable to implement the recommendation. However, OIT staff did not provide a reason why the process related to DRIVES was not fully implemented.

## **Why does this problem matter?**

This problem increases the risk that the GenTax and DRIVES systems may not align with management's risk tolerance related to information security, which in turn, could threaten the confidentiality, integrity, and availability of the system and its data, including any sensitive or financially-related data.

Classification of Finding: **Significant Deficiency**

This finding applies to prior audit recommendation 2020-003A.

## Recommendation 2021-006

The Governor's Office of Information Technology (OIT) should work with the Department of Revenue to improve GenTax and Drivers' License, Record, Identification, and Vehicle Enterprise Solution (DRIVES) IT controls, as well as further protecting Federal Tax Information data GenTax receives, processes, stores, or transmits by:

- A. Implementing recommendation Part A as noted in the confidential finding.
- B. Implementing recommendation Part B as noted in the confidential finding.

## Response

*Governor's Office of Information Technology*

- A. Partially Agree

Implementation Date: December 2021

The Governor's Office of Information Technology partially agrees with the recommendation and will take an alternative approach to implementation. Please see the detailed response for more information.

### Auditor's Addendum

A confidential auditor's addendum has been included in the confidential finding to address OIT's "partially agree" response.

- B. Partially Agree

Implementation Date: September 2021

The Governor's Office of Information Technology partially agrees with the recommendation and will take an alternative approach to implementation. Please see the detailed response for more information.

### Auditor's Addendum

A confidential auditor's addendum has been included in the confidential finding to address OIT's "partially agree" response.

## **Finding 2021-007**

### **GenTax—Information Security**

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding and response have been provided to OIT in a separate, confidential memorandum.*

Responsibility for the reliability and availability of the GenTax system is shared between the Department of Revenue (Department) and OIT. More specifically, OIT primarily provides logical access and system security support for the GenTax operating system and application. As part of providing this support, OIT’s Identity and Access Management team is responsible for provisioning user access for the system, which includes ensuring that unauthorized employees do not retain access to the operating system and that inactive accounts are disabled within the documented requirements.

### **What was the purpose of our audit work and what work was performed?**

The purpose of our audit work was to determine whether OIT implemented our Fiscal Year 2020 recommendation for OIT to comply with certain IRS Publication 1075 and OIT Cyber Policies by resolving the specific causes we noted were preventing OIT from doing so. This recommendation was originally made, in part, in Fiscal Year 2014. We performed our audit work through inquiry of OIT management and staff.

### **How were the results of the audit work measured?**

We measured the results of our audit work against specific system account management requirements noted in IRS Publication 1075 and OIT Cyber Policies.

### **What problem did the audit work identify?**

During our Fiscal Year 2021 audit work, we found that OIT did not implement our prior audit recommendation.

## Why did this problem occur?

OIT staff stated that they were unable to implement our Fiscal Year 2020 recommendation because it was unable to resolve the specific cause of the related issue. OIT also stated that they experienced personnel changes with subject matter experts and issues with the vendor that ultimately led to OIT being unable to implement the recommendation in Fiscal Year 2021.

## Why does this problem matter?

The deficiencies noted increase the risk of unauthorized access and could, therefore, threaten the confidentiality, integrity, and availability of the GenTax system and its data. Ultimately, if key GenTax information security processes and controls are not in place and operating effectively, the State's ability to conduct tax processing operations in a secure manner could be adversely impacted, as well as the reliability of the data related to the State's financial reporting.

Classification of Finding: **Significant Deficiency**

This finding applies to prior audit recommendation 2020-006.

## Recommendation 2021-007

The Governor's Office of Information Technology (OIT) should comply with IRS Publication 1075 and OIT Cyber Policies by implementing the recommendation as noted in the confidential finding.

## Response

*Governor's Office of Information Technology*

Agree

Implementation Date: March 2022

The Governor's Office of Information Technology (OIT) agrees with the recommendation. Please see the detailed response for more information.

## Finding 2021-008

### State Data Center Physical Access

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate "classified or limited use" report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response and auditor's addendum, to be sensitive in nature and not*

*appropriate for public disclosure. Therefore, the details of the following finding, response, and auditor's addendum have been provided to OIT in a separate, confidential memorandum.*

OIT maintains two data centers throughout the state. The purpose of these data centers is to centrally manage the servers and computers that store critical information for various state agency systems.

## **What was the purpose of our audit work and what work was performed?**

The purpose of our audit work was to determine whether OIT implemented our Fiscal Year 2020 Physical Security recommendation. Specifically, we recommended that OIT should ensure physical access management processes are effective and comply with Colorado Information Security Policies (Security Policies) and OIT Cyber Policies.

We performed our audit work through inquiry of the OIT data center management staff.

## **How were the results of the audit work measured?**

We measured the results of our work against Security Policies and OIT Cyber Policies, which are composed of policies developed by OIT for those IT services it provides to the state agencies.

## **What problems did the audit work identify?**

During our Fiscal Year 2021 audit work, OIT stated it had not yet implemented the prior audit recommendation.

## **Why did these problems occur?**

OIT data center management staff stated that, although they had prioritized the completion of the physical infrastructure upgrades to the main data center they are still working to fully implement the upgrades, which could have an impact on implementing the recommendations.

## **Why do these problems matter?**

In combination, these deficiencies increase the risk of inappropriate or unauthorized physical access to systems and data, which, in turn, could result in a risk to the confidentiality, availability, and integrity of state systems and data housed at the data center. Ultimately, if physical access to the data center is not managed appropriately, it could adversely impact the accuracy and completeness of information relevant to the State's financial reporting activities.

## Recommendation 2021-008

The Governor’s Office of Information Technology (OIT) should comply with Colorado Information Security Policies and OIT Cyber Policies over physical access by:

- A. Implementing recommendation Part A as noted in the confidential finding.
- B. Implementing recommendation Part B as noted in the confidential finding.
- C. Implementing recommendation Part C as noted in the confidential finding.

## Response

### *Governor’s Office of Information Technology*

- A. Agree

Implementation Date: March 2022

The Governor’s Office of Information Technology (OIT) agrees to implement recommendation Part A as noted in the confidential finding.

- B. Agree

Implementation Date: March 2022

The Governor’s Office of Information Technology (OIT) agrees to implement recommendation Part B as noted in the confidential finding.

- C. Partially Agree

Implementation Date: March 2022

The Governor’s Office of Information Technology (OIT) partially agrees to implement recommendation Part C to the extent that OIT can only implement their portion of the finding and work with the agency to implement their portion in the confidential finding.

### Auditor’s Addendum

A confidential auditor’s addendum has been included in the confidential finding to address OIT’s “partially agree” response.

## CUBS, CATS, and CLEAR—Information Security

During Fiscal Year 2021, the Office of the State Auditor conducted audit work that resulted in a finding and recommendation addressed jointly to OIT and the Department of Labor and Employment related to information security for the Colorado Unemployment Benefits System, Colorado Automated Tax System, and Colorado Labor and Employment Accounting Resource system. This finding and recommendation, and the responses of these agencies, are included in the Department of Labor and Employment chapter within Section II: Financial Statement Findings of this report. See Recommendation 2021-024. This recommendation is classified as a **Material Weakness**.

## CORE Information Security

During Fiscal Year 2021, the Office of the State Auditor conducted audit work that resulted in a finding and recommendation addressed jointly to OIT and the Department of Personnel & Administration related to information security for CORE. This finding and recommendation, and the responses of these agencies, are included in the Department of Personnel & Administration chapter within Section II: Financial Statement Findings of this report. See Recommendation 2021-032. This recommendation is classified as a **Significant Deficiency**.

## CPPS Information Security

During Fiscal Year 2021, the Office of the State Auditor conducted audit work that resulted in a finding and recommendation addressed jointly to OIT and the Department of Personnel & Administration related to information security for Colorado Personnel Payroll System. This finding and recommendation, and the responses of these agencies, are included in the Department of Personnel & Administration chapter within Section II: Financial Statement Findings of this report. See Recommendation 2021-034. This recommendation is classified as a **Significant Deficiency**.



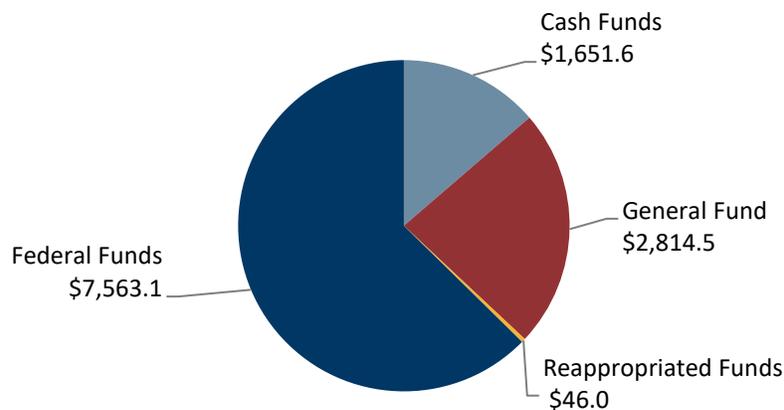
# Department of Health Care Policy and Financing

The Department of Health Care Policy and Financing (Department) is responsible for developing financing plans and policy for publicly funded health care programs. The principal programs the Department administers are (1) Health First Colorado, Colorado’s Medicaid program (Medicaid) which provides health services to eligible needy persons, and (2) the federal Children’s Health Insurance Program, which is known in Colorado as the Children’s Basic Health Plan (CBHP). CBHP furnishes subsidized health insurance for low-income children aged 18 years or younger and pregnant women 19 and older who are not eligible for Medicaid.

For Fiscal Year 2021, the Department was appropriated approximately \$12.1 billion and 557 full-time equivalent (FTE) staff.

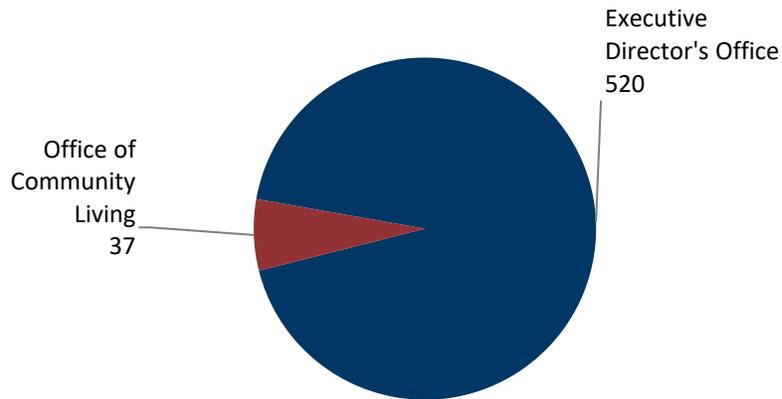
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for Fiscal Year 2021.

**Department of Health Care Policy and Financing Fiscal Year 2021  
Appropriations by Funding Source (In Millions)**



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

**Department of Health Care Policy and Financing Fiscal Year 2021  
Full-Time Equivalent Staff by Major Areas**



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

## **Finding 2021-009**

### **Colorado interChange and Business Intelligence and Data Management System Complementary User Entity Controls**

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding and response have been provided to the Department in a separate, confidential memorandum.*

The Department has three systems with unique functions and uses these systems to administer and manage federal programs, such as the Medicaid program and CBHP: (1) Pharmacy Benefit Management System, which processes pharmacy and drug rebates; (2) Colorado interChange (interChange), which processes provider enrollment and payments; and (3) the Business Intelligence and Data Management System (BIDM), which provides data analytics and reporting functions.

The Department contracts with several third-party service organizations for the processing of Medicaid data, claims, and the overall maintenance and operations of the systems, and requires each to have an examination performed by an independent service auditor. Examinations of this type are governed by the American Institute of Certified Public Accountants (AICPA) and result in one of various types of System and Organization Controls (SOC) reports. For example, a SOC 1, Type II (SOC 1) report provides the service auditors’ opinion as to whether management has fairly presented its description of the service organization’s system of internal controls over financial

reporting and whether the internal controls have been suitably designed and are operating effectively to achieve the related control objectives, over a specified period. Service organizations will also state that there are certain internal controls, referred to as Complementary User Entity Controls (User Controls), that must be designed, in place, and operating effectively at the user entity, in this case at the Department, for the controls listed in the report that are supported by the service organization to be fully relied upon by the user entity.

## **What was the purpose of our audit work and what work was performed?**

The purpose of our audit work was to gain an understanding of and determine whether the User Controls identified by the service organizations for interChange and BIDM were in place and operating effectively over the period of review. We obtained and reviewed the most recent SOC 1 reports that were provided to the Department from the interChange and BIDM service organizations, which included three SOC 1 reports, in order to identify the necessary IT User Controls that the Department needed to have in place. We also made inquiries of Department staff in performing our audit work.

## **What problems did the audit work identify and how were the results of the audit work measured?**

Our Fiscal Year 2021 audit work identified problems with the Department's IT procedures and information security compliance, as they relate to certain interChange and BIDM SOC 1 IT User Controls. We measured the results of our audit work against the Office of the State Controller's (OSC) policy, *Internal Control System*, which requires state agencies to use the *Standards for Internal Control in the Federal Government* (Green Book), published by the U.S. Government Accountability Office (GAO), as its framework for its system of internal controls; and Colorado Information Security Policies that are developed and issued by the Governor's Office of Information Technology.

## **Why did these problems occur?**

In discussing these problems with Department management and staff, they stated the following:

- They are in the process of modernizing business processes related to their internal procedures.
- They did not establish and communicate their expectations for performing procedures related to the IT general controls in which we found problems.

- They accepted the risk associated with not implementing certain IT general controls but did not formally document the risk assessment.
- They have not yet formalized and implemented a process to address one of the problems we identified.

## Why do these problems matter?

Failure to demonstrate implementation of required IT general controls over financial reporting with interChange and BIDM does not provide for adequate assurances over the maintenance, operations, integrity, and security of the systems and their data. Ultimately, this poses a risk to the integrity of the financial information being generated and maintained by the systems.

Classification of Finding: **Significant Deficiency**

This finding does not apply to a prior audit recommendation.

## Recommendation 2021-009

The Department of Health Care Policy and Financing should improve IT controls over the Colorado interChange and the Business Intelligence and Data Management systems by:

- A. Implementing the recommendation as noted in Part A of the confidential finding.
- B. Implementing the recommendation as noted in Part B of the confidential finding.
- C. Implementing the recommendation as noted in Part C of the confidential finding.
- D. Implementing the recommendation as noted in Part D of the confidential finding.
- E. Implementing the recommendation as noted in Part E of the confidential finding.
- F. Implementing the recommendation as noted in Part F of the confidential finding.

## Response

### *Department of Health Care Policy and Financing*

A. Agree

Implementation Date: June 2022

The Department will implement the recommendation as described in the Department's response in Part A of the confidential finding.

B. Agree

Implementation Date: June 2022

The Department will implement the recommendation as described in the Department's response in Part B of the confidential finding.

C. Agree

Implementation Date: June 2022

The Department will implement the recommendation as described in the Department's response in Part C of the confidential finding.

D. Agree

Implementation Date: June 2022

The Department will implement the recommendation as described in the Department's response in Part D of the confidential finding.

E. Agree

Implementation Date: June 2022

The Department will implement the recommendation as described in the Department's response in Part E of the confidential finding.

F. Agree

Implementation Date: June 2022

The Department will implement the recommendation as described in the Department's response in Part F of the confidential finding.

## **Finding 2021-010**

### **Colorado interChange SOC Report**

In 2017, the Department implemented the interChange system to replace the legacy Medicaid Management Information System. The Medicaid program is the State's program, partially funded through the federal Medicaid grant, which provides public health insurance to eligible low-income citizens. The Department is responsible for both the Medicaid program and the interChange system. The fiscal agent responsible for performing internal controls and processing claims and payments, significant to the Department's administration of the federal Medicaid program, is Gainwell Technologies LLC (Gainwell), formerly DXC Technology Services, LLC.

Gainwell hosts the interChange system for the Department and manages IT services related to the maintenance and support of the system infrastructure and software. The Department's contractual agreement with Gainwell requires it, as a service organization for the Department, to have an annual SOC examination performed by an independent service auditor. Examinations of this type are governed by the AICPA and result in one of various types of SOC reports. For the Department, Gainwell provides a SOC 1 report, which provides an independent auditor's opinion on whether the service organization's internal controls over financial reporting, including those over the system, have been suitably designed and operate effectively over a specified period.

### **What was the purpose of our audit work and what work was performed?**

The purpose of our audit work was to determine whether the Department implemented our Fiscal Year 2020 interChange SOC 1 reporting process recommendation, in which we recommended that the Department improve controls over its financial reporting by developing, documenting, implementing, and communicating a process for conducting annual reviews of the interChange SOC 1 reports to determine if any issues have been noted and whether actions are necessary to remediate these issues.

As part of our Fiscal Year 2021 audit work, we also sought to determine the Department's compliance with SOC 1 report requirements established and published within the Fiscal Procedures Manual, by the OSC. We performed our audit work through inquiry of Department staff, as well as inspection of supporting documentation.

### **How were the results of the audit work measured?**

The OSC's policy, *Internal Control System*, requires state agencies to use the Green Book, published by the GAO, as its framework for its system of internal control. Specifically, Green Book Paragraph OV4.08, *Documentation Requirements*, states that documentation is a necessary part of an effective

internal control system and is required for the effective design, implementation, and operating effectiveness of an entity's internal control system.

Green Book Paragraph 14.03, *Communication throughout the Entity*, states that management should communicate quality information to enable personnel to perform key roles in achieving objectives, addressing risks, and supporting the internal control system. In these communications, management should assign the internal control responsibilities for key roles.

Fiscal Procedures Manual Section 3.41, *Statewide System and Organizational Controls Reviews*, includes agency responsibilities related to the receipt and review of SOC 1 reports. Specifically, the Department must:

- Provide the OSC a copy of its SOC 1 reports within 10 business days of receipt by the Department.
- Annually review the SOC 1 reports and determine whether any actions are necessary to remediate any issues noted.
- Provide a summarized remediation plan to the OSC, including the steps for remediation and when such steps will be taken.

## **What problems did the audit work identify?**

During our Fiscal Year 2021 audit work, we found that the Department partially implemented our Fiscal Year 2020 recommendation related to the interchange SOC 1 reporting process. Specifically, we found the following:

- The Department developed and documented a desk manual, Contracts and Compliance Management Desk Manual (Manual), that addresses SOC 1 reports, including the roles and responsibilities to perform a review of the SOC 1 report and to document the review in a report summary; however, the Manual was not communicated to staff responsible for following the processes nor was the process implemented by the end of Fiscal Year 2021.
- In the process of reviewing the Manual to determine the disposition of the prior year audit recommendation, we noted that the Department did not document in the Manual a process related to the receipt and review of SOC 1 reports, as required by the OSC's Fiscal Procedures Manual.

## Why did these problems occur?

Based on our inquiries with the Department, we noted the following:

- The Department stated that it planned to fully implement the process by July 2021; however, the Department did not provide a reason for why the process detailed in the Manual was not communicated to and implemented by staff as of the end of Fiscal Year 2021.
- Although Department staff confirmed that they must comply with the Fiscal Procedures Manual's SOC 1 report requirements, the Department's Controller and Health Information Office had not developed a formalized process to include the missing reference to the Fiscal Procedures Manual requirement.

## Why do these problems matter?

Without a formalized SOC 1 review process in place, the Department may not become aware of issues identified in the report relating to the controls its service organizations have designed, implemented, and operate over contracted services, as they relate to financial reporting and compliance with federal regulations. As a result, the Department may fail to address serious issues that impact the data reliability of the interChange system.

Classification of Finding: **Significant Deficiency**

This finding applies to prior audit recommendation 2020-014.

## Recommendation 2021-010

The Department of Health Care Policy and Financing should improve processes over the Colorado interChange's System and Organization Controls (SOC) reporting by:

- A. Communicating the processes documented within its newly developed Contract and Compliance Management Desk Manual (Manual) to the appropriate staff responsible for following the processes.
- B. Implementing the procedures contained within the Manual by conducting the annual review processes on the SOC 1, Type II reports received from its service organizations to determine if any issues have been noted and whether actions are necessary to remediate these issues.
- C. Formalizing a process to comply with the Office of the State Controller's Fiscal Procedures Manual, *Statewide System and Organizational Controls Reviews* requirements.

## Response

### *Department of Health Care Policy and Financing*

A. Agree

Implementation Date: July 2021

The Department communicated the process to staff on July 7, 2021 in compliance with the July 2021 implementation date provided in August 2020.

B. Agree

Implementation Date: June 2021

The Department formally documented the process for the review of SOC 1 reports in June 2021. However, the Department had already been following a process to review the SOC 1 reports prior to formally documenting it.

### **Auditor's Addendum**

As discussed in the finding, we did not find evidence that the Department communicated or implemented the Contract and Compliance Management Desk Manual during the fiscal year that would outline reviews of the SOC reports received by the Department.

C. Agree

Implementation Date: June 2022

The Department will develop, implement, and document the process to comply with the OSC Fiscal Procedure Manual, Statewide System and Organizational Controls Reviews requirements.



# Department of Higher Education

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The Department of Higher Education (Department) was established under state statute [Section 24-1-114, C.R.S.] and includes all public higher education institutions in the state. It also includes the Auraria Higher Education Center; the Colorado Commission on Higher Education; the Colorado Student Loan Program, dba College Assist; CollegeInvest; History Colorado; and the Division of Occupational Education.

State public institutions of higher education are governed by 10 different boards. The governing boards and the schools they oversee are as follows:

- **Board of Regents of the University of Colorado**
  - University of Colorado Boulder
  - University of Colorado Denver Anschutz Medical Campus
  - University of Colorado Denver
  - University of Colorado Springs
- **Board of Governors of the Colorado State University System**
  - Colorado State University–Fort Collins
  - Colorado State University–Pueblo
  - Colorado State University–Global Campus
- **Board of Trustees for the University of Northern Colorado**
  - University of Northern Colorado
- **Board of Trustees of the Colorado School of Mines**
  - Colorado School of Mines
- **State Board for Community Colleges and Occupational Education**

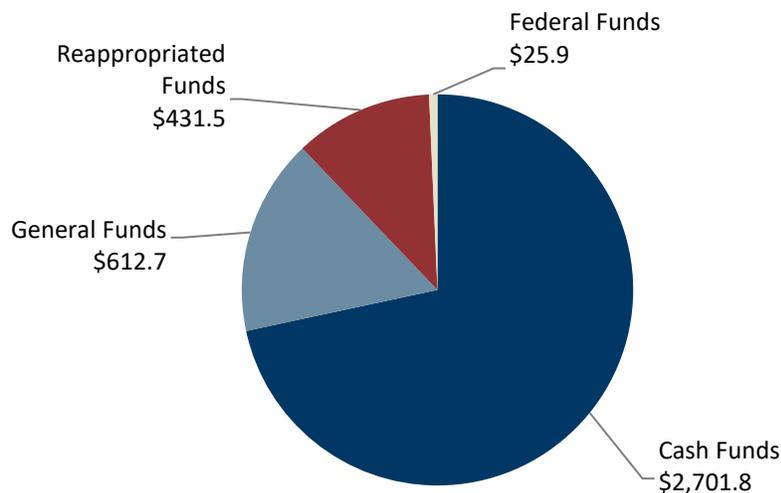
Arapahoe Community College	Community College of Denver
Colorado Northwestern Community College	Front Range Community College
Community College of Aurora	Lamar Community College
Morgan Community College	Pueblo Community College
Northeastern Junior College	Red Rocks Community College
Otero Junior College	Trinidad State Junior College
Pikes Peak Community College	

- **Board of Trustees for Adams State University**  
Adams State University
- **Board of Trustees for Colorado Mesa University**  
Colorado Mesa University
- **Board of Trustees for Metropolitan State University of Denver**  
Metropolitan State University of Denver
- **Board of Trustees for Western Colorado University**  
Western Colorado University
- **Board of Trustees for Fort Lewis College**  
Fort Lewis College

For Fiscal Year 2021, the Department was appropriated approximately \$3.8 billion and 26,733 full-time equivalent (FTE) staff.

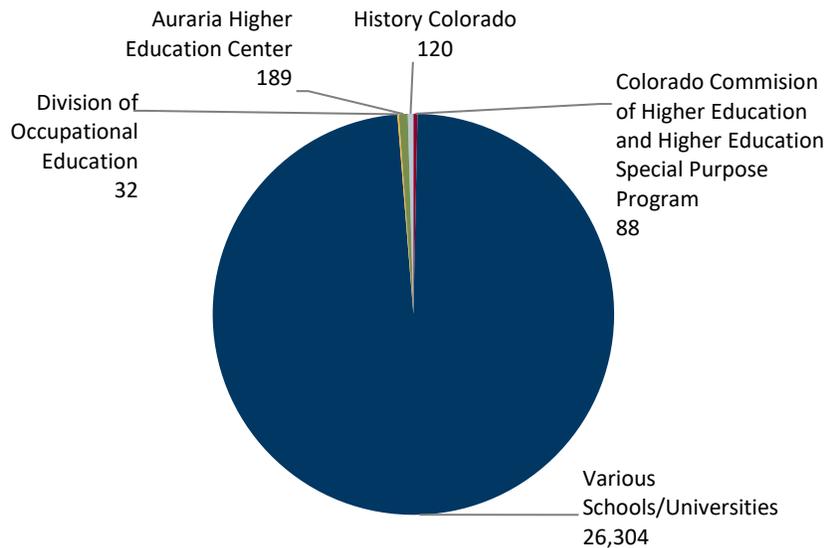
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for (current fiscal year) Fiscal Year 2021.

**Department of Higher Education Fiscal Year 2021 Appropriations by Funding Source (in Millions)**



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

## Department of Higher Education Fiscal Year 2021 Full-Time Equivalent Staff by Major Areas



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

### Finding 2021-011 Internal Controls over Preparation of Exhibits

Departments must prepare financial information in accordance with generally accepted accounting principles (GAAP), as required in statute [Section 24-30-204(1), C.R.S.]. The Department's accounting staff are responsible for all financial reporting, including the reporting of fiscal year-end accounting information through exhibits submitted to the Office of the State Controller (OSC). The OSC requires that state departments and institutions of higher education prepare and submit exhibits to the OSC after each fiscal year end to assist in its preparation of the State's financial statements and required note disclosures.

The Department reports its fiscal year federal expenditures to the OSC on the Exhibit K1, *Schedule of Federal Assistance*, for inclusion in the State's *Schedule of Expenditures of Federal Awards* (SEFA). In order to prepare the State's SEFA, the OSC requires state departments to submit an Exhibit K1 each year to report expenditures, receipts, and receivables for each federal grant program administered by the department during the fiscal year.

## What was the purpose of our audit work and what work was performed?

The purpose of our audit work was to assess the adequacy and effectiveness of the Department's Fiscal Year 2021 internal controls over the preparation of OSC exhibits and to determine whether the Department implemented our Fiscal Year 2020 audit recommendation. We reviewed the Department's exhibits submitted to the OSC for Fiscal Year 2021 and the related supporting documentation to verify the accuracy of the information reported.

Additionally, we reviewed the Department's progress in implementing our Fiscal Year 2020 audit recommendation related to the Exhibit K1 preparation. During that audit, we recommended that the Department strengthen its internal controls by reviewing the information on the Exhibit K1 to ensure it is accurate and complete, and coordinate with the OSC when it receives new federal funding to determine how Department staff should report the information on the Exhibit K1.

## How were the results of the audit work measured?

We measured the results of our audit against the following:

- The OSC's *Fiscal Procedures Manual* (Manual), Chapter 1, Sections 3.3 and 3.7a, requires State departments to “establish internal controls for their departments” in order to “maintain an internal control environment that enhances sound business practices, clearly defines roles, responsibilities, and accountability and provides for the prevention and detection of fraudulent activity.” This includes controls over the preparation of the applicable exhibits for submission to the OSC per the requirements of the Manual. The Manual also contains specific instructions for the completion of various exhibits, including the following:
  - Exhibit F2, *Schedule of Operating Leases*, is used to report future minimum payments for operating leases, which are contracts that permit the use of an asset without transferring ownership of the asset.
  - Exhibit K1, *Schedule of Federal Assistance*, is used to report the Department's federal expenditure information to the OSC to aid the OSC in preparing the State's SEFA. The instructions state that the OSC relies on the accuracy of amounts and other information reported on the Exhibit.

## What problems did the audit work identify?

We identified errors and omissions related to 2 of 5 (40 percent) of the Department's exhibits submitted to the OSC for Fiscal Year 2021. Specifically, we found the following issues:

- **Exhibit F2.** The Department’s Exhibit F2 contained errors that resulted in an overstatement of lease payments totaling approximately \$1.0 million. Specifically, the Department overstated its required lease payments by approximately \$1.4 million. The Exhibit F2 also reported amounts that did not agree to the lease agreement, which led to an understatement of about \$486,000. Further, the Exhibit F2 incorrectly included an amount for minimum sublease rentals which led to an overstatement of about \$131,000. After we brought these issues to the Department’s attention, the Department worked with the OSC and submitted a revised Exhibit F2 to correct the errors.
- **Exhibit K1.** We found that the Department did not implement our prior audit recommendation related to the preparation of the Exhibit K1. Specifically, we found that the Exhibit K1 did not accurately report the amount for Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) [Assistance Listing Number (ALN) 21.027]. These funds were omitted from the Department’s original Exhibit K1 submission, which led to an understatement of federal expenditures of about \$1.6 million. After we brought this issue to the Department’s attention, they submitted a revised Exhibit K1 to the OSC to correct the error.

## Why did these problems occur?

The Department lacked adequate internal controls over preparation and submission of exhibits to the OSC for Fiscal Year 2021. Specifically, the Department did not follow instructions in the Manual for preparing OSC-required exhibits and their review process did not catch the errors identified. For example, on the Exhibit F2 spreadsheet where operating leases are calculated, the Department’s review did not identify amounts from hidden rows that were erroneously included in the calculation. Furthermore, the Department did not implement our prior audit recommendation to coordinate with the OSC regarding how to report new federal funding on the Exhibit K1. Specifically, the Department did not coordinate with the OSC on the CSLFRF funds, which were new in Fiscal Year 2021, leading to the omission of the CSLFRF expenditures on the Exhibit K1.

## Why do these problems matter?

Strong financial accounting internal controls, including effective review processes and procedures over exhibits, are necessary for the Department to ensure that its financial information is recorded and reported appropriately. Without sufficient internal controls, the Department cannot ensure that it is providing complete and accurate financial information to the OSC and, ultimately, that the State’s financial statements are complete and accurate.

Classification of Finding: **Significant Deficiency**

This finding applies to prior audit recommendation 2020-073C\*.

\*The prior audit recommendation will be included in the Disposition of Prior Audit Recommendations section of the Fiscal Year 2021 Statewide Single Audit Report, released under separate cover.

## Recommendation 2021-011

The Department of Higher Education (Department) should strengthen internal controls over the preparation and review of fiscal year-end exhibits submitted to the Office of the State Controller (OSC) by reviewing the information on exhibits to ensure they are accurate and complete prior to submission and coordinating with the OSC when the Department receives new federal funding to determine how it should report the information on the Exhibit K1, *Schedule of Federal Assistance*.

### Response

*Department of Higher Education*

Agree

Implementation Date: September 2022

DHE will be implementing a documented review of all exhibits to be submitted to the Office of State Controller (OSC) by a person who is not the preparer of the exhibit. The preparer will present and review all exhibits with the Chief Financial Officer or other Executive Staff prior to the submission deadline. A reviewed and signed copy by the Chief Financial Officer or other Executive Staff will be kept on file with our year-end close files. DHE will ensure that all staff involved in the preparation and review processes of this recommendation receive adequate training to ensure the exhibits are accurate and comply with the OSC submission requirements. DHE will provide sufficient cross-training of accounting personnel in regard to the key preparation and review controls related to the exhibits, so that in the event of turnover or unexpected leaves of absence, the controls will continue to operate as designed. DHE will request additional training from the OSC on the submission requirements. DHE's active participation in additional training will ensure that there is an understanding of any newly implemented requirements and will also give an opportunity to clarify any areas of uncertainty in producing the department's exhibits.

# Adams State University

The Board of Trustees of Adams State University is the governing board for Adams State University (University). The Board of Trustees has oversight and responsibility in the areas of finance, resources, academic programs, admissions, role and mission, and personnel policies.

The Board consists of nine members appointed by the Governor to serve 4-year terms. Additionally, an elected member of the faculty of the University serves for a 2-year term and an elected member of the student body of the University serves for a 1-year term. The President of the University is responsible for providing leadership for the University and administering the policies and procedures of the Board of Trustees. The Board conducts its business at regular monthly meetings, all of which are open to the public.

The University is a liberal arts university with graduate programs in Teacher Education, Business, Counseling, and Art. Section 23-51-101, C.R.S., provides that the University shall be a general baccalaureate institution with moderately selective admission standards. The University is a regional educational provider approved to offer limited professional programs, Hispanic programs, undergraduate education degrees, masters' level programs, PH.D. level programs, and 2-year transfer programs with a community college role and mission, except for vocational education programs.

Full-time equivalent (FTE) student, faculty, and staff reported by the University for the last 3 fiscal years were as follows:

**Adams State University Full-Time Equivalent (FTE)  
Students, Faculty, and Staff, Fiscal Years 2019 through 2021**

	2019	2020	2021
Resident Students	1,553.9	1,482.0	1,519.3
Nonresident Students	715.0	778.8	821.7
<b>Total Students</b>	<b>2,268.9</b>	<b>2,260.8</b>	<b>2,341.0</b>
Faculty FTEs	168.8	174.1	194.6
Staff FTEs	142.5	140.1	131.6
<b>Total Staff and Faculty FTEs</b>	<b>311.3</b>	<b>314.2</b>	<b>326.2</b>

Source: Adams State University's Fiscal Year 2021 Financial Statements.

## Finding 2021-012

### Accounting Reconciliation and Reporting Controls

Adams State University's accounting department is responsible for all of the University's financial accounting and reporting, including the accurate entry and approval of financial transactions in the University's accounting system and preparation of its financial statements. The University's accounting department is also responsible for the timely submission of accurate fiscal year-end accounting information through exhibits to the Office of the State Controller (OSC) for inclusion in the State's financial statements. Annually, the OSC provides instructions on financial reporting and exhibits through its *Fiscal Procedures Manual* (Manual) and also provides due dates for exhibit submission in the OSC's open/close calendar.

### What was the purpose of our audit work and what work was performed?

The purpose of the audit work was to assess the adequacy and effectiveness of the University's internal controls over accounting and reporting activities, and to determine whether the University complied with applicable accounting standards during Fiscal Year 2021. In addition, we reviewed the University's progress in implementing our Fiscal Year 2020 audit recommendation related to improving accounting controls. At that time, we specifically recommended that the University continue to improve its internal controls over financial activities by enhancing its fiscal year-end reconciliation and exhibit preparation procedures and ensuring that effective overall supervisory reviews and approvals are in place.

As part of our audit testing, we reviewed the University's accounting entries that staff made to record their proportionate share of the collective pension amounts of the State Division Trust Fund of the Colorado Public Employee's Retirement Association at June 30, 2021. Additionally, we reviewed the University's exhibits and related supporting documentation that were prepared and submitted to the OSC for Fiscal Year 2021 in order to determine whether the University staff prepared this information accurately in accordance with the OSC's Manual and submitted the exhibits by the OSC's due dates.

### How were the results of the audit work measured?

We measured our audit work against the following criteria:

- Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The University is required to allocate and report pension expenses in accordance with the GASB requirements.

- State Fiscal Rule 1-2, *Internal Controls*, Rule 3.5, requires that institutions of higher education shall “implement internal accounting and administrative controls that reasonably ensure that financial transactions are accurate, reliable, conform to the Fiscal Rules, and reflect the underlying realities of the accounting transaction (substance rather than form).”
- The OSC’s Manual describes higher education institutions financial statement requirements in Chapter 3: Section 5, Financial Statements. Specifically, institutions must provide a draft of their financial statements to the OSC by September 15, 2021, the date specified in the open/close calendar, with their Exhibit J, *Financial Statement Reconciliation*, submission. The Exhibit J is used to reconcile the institution’s account balances contained in Colorado Operations Resource Engine (CORE), the State’s accounting system, to the institution’s financial statements.
- The OSC’s Manual contains specific instructions for completing exhibits and the open/close calendar specifies the due dates for each exhibit. Specifically:
  - Exhibit K1, *Schedule of Federal Assistance*, is used to report federal expenditure information to the OSC to aid the OSC in preparing the State’s *Schedule of Expenditures of Federal Awards* (SEFA) and was due on October 1, 2021.
  - Exhibit V2, *Proprietary Fund Noncash Transactions*, provides information on noncash transactions of funds using proprietary fund-type accounting and was due on August 24, 2021.

## What problems did the audit work identify?

Overall, we determined that the University had not fully implemented our Fiscal Year 2020 audit recommendation. Our Fiscal Year 2021 audit work determined that the University made progress in the implementation of supervisory review controls and approval procedures related to year-end financial activity during Fiscal Year 2021. However, we determined that the additional controls were ineffective in preventing and/or identifying and correcting a year-end GASB Statement No. 68 expense allocation error. Further, the additional internal controls did not ensure the accurate and timely submission of exhibits to the OSC.

We specifically identified the following issues:

- The GASB Statement No. 68 pension expenses amounting to \$1.18 million were not accurately allocated to the various operating expense categories in the University’s financial statements in accordance with GASB requirements.
- The University’s Exhibit J, *Financial Statement Reconciliation*, was not submitted to the OSC until October 21, 2021, or 36 days after the due date of September 15, 2021.

- The University’s Exhibit K1, *Schedule of Federal Assistance*, inappropriately excluded \$9.1 million of the University’s Coronavirus Aid, Relief, and Economic Security (CARES) Act federal expenditures and overstated the COVID Institutional Aid program expenditures by nearly \$1.7 million. In addition, the exhibit was not submitted to the OSC until October 12, 2021, or 11 days after the due date of October 1, 2021.
- The University’s Exhibit V2, *Proprietary Fund Noncash Transactions*, incorrectly included \$2.1 million in unrealized gain/loss on investments that was attributed to the cash with State Treasury and did not require reporting.

After we brought the errors to University staff’s attention, staff corrected the University’s financial statements and submitted a corrected Exhibit K1 to the OSC on October 28, 2021, and a corrected Exhibit V2 to the OSC on November 18, 2021.

## Why did these problems occur?

While the University made progress in implementing supervisory reviews and contracted with independent, experienced accountants to review the exhibits and financial statements during Fiscal Year 2021, it failed to detect an error in the GASB 68 expense allocation. In addition, the University accounting department lacked backup responsibilities in cases of employee turnover to ensure continuity of effective internal control systems. Specifically, turnover in the Controller position and the Assistant Controller position within the accounting department required employees without proper training to complete the financial statement and exhibit submission process. These employees were not aware of timelines established in the OSC’s Manual to prepare accurate and complete financial statements and exhibits.

## Why do these problems matter?

Without adequate controls in place over financial activities, the University cannot ensure the accurate and timely completion of its reported financial information and, ultimately, the State’s financial statements.

Classification of Finding: **Material Weakness**

This finding applies to prior audit recommendations 2020-015A and 2020-015B.

## Recommendation 2021-012

Adams State University (University) should continue to improve its internal controls over financial activities by ensuring adequate review of the Governmental Accounting Standards Board Statement No. 68 pension expense allocation computation and identifying and implementing back-up responsibilities and training staff for those responsibilities to ensure the University submits complete and accurate financial statements and related exhibits in accordance with the timelines established by the Office of the State Controller's *Fiscal Procedures Manual*.

## Response

*Adams State University*

Agree

Implementation Date: June 2022

We have upgraded an accounting position to an Assistant Controller level to give more stability to higher level accounting functions such as financial statements and exhibits. Turnover in both the Controller Position and the Assistant Controller position has prevented us from having both positions filled as planned. We have had a vacancy in at least one of the positions since May 2021, and have been actively advertising and working to recruit applicants. However, we still have not filled the Assistant Controller position to date. We will continue to contract with experienced accountants to help fill this role when possible to ensure financial statements and exhibits including Governmental Accounting Standards Board Statement No. 68 pension expense allocation computation are accurate and submitted within the timelines established.

# Colorado State University System

The institutions that compose the Colorado State University System (System) are established in Title 23, C.R.S. The Board of Governors (Board) has control and supervision of three distinct institutions: Colorado State University (a land-grant university), Colorado State University–Pueblo (a regional, comprehensive university), and Colorado State University–Global Campus (an online university).

The 15-member Board consists of nine voting members appointed by the Governor and confirmed by the Senate for 4-year terms, and six advisory members representing the student bodies and the faculty councils for each of the three institutions, elected for 1-year terms.

The Board administers the Colorado State University Fund located in the State Treasury. The Board is authorized to set tuition, pay expenses, and hire officials. The chief academic and administrative officers are the System’s Chancellor and the President of each institution.

## Colorado State University

In 1870, the Territorial Council and House of Representatives of the Territory of Colorado created the Agricultural College of Colorado (College). When the Territory became a state in 1876, the College was placed under the governance of the State Board of Agriculture.

The College began admitting its first students in 1879. It was also designated that year as Colorado’s land-grant college and recipient of federal endowment support under the Morrill Act of 1862. Subsequent federal legislation led to the establishment of the Agricultural Experiment Station and the Extension Service of the College.

State legislation also made the College responsible for the Colorado State Forest Service. Following several name changes, the College became Colorado State University in 1957. In this report, the terms Colorado State University and CSU refer to Colorado State University–Fort Collins.

### Resident Instruction

The following eight colleges offer more than 74 undergraduate degrees, 110 Academic Graduate Degrees, and 30 Professional Graduate Degrees including Doctor of Veterinary Medicine:

- College of Agricultural Sciences
- College of Health and Human Sciences
- College of Liberal Arts
- College of Business
- Walter Scott, Jr. College of Engineering
- Warner College of Natural Resources
- College of Natural Sciences
- College of Veterinary Medicine and Biomedical Science

## **Colorado State University (CSU) Extension**

The mission of CSU Extension is to provide information and education and encourage the application of research-based knowledge in response to local, state, and national issues affecting individuals, youth, families, agricultural enterprises, and communities of Colorado. CSU Extension disseminates among the people of Colorado useful and practical information on subjects related to (a) agricultural production, marketing, and natural resources; (b) family living; (c) 4-H and other youth activities; and (d) rural and community development. The location of professional staff throughout the State permits CSU Extension to respond to the needs of local communities.

## **Agricultural Experiment Station**

The Agricultural Experiment Station provides a basis for agricultural research and study programs on the Fort Collins campus and at nine research centers located throughout the State. The mission of the Agricultural Experiment Station is to conduct research that addresses the economic viability, environmental sustainability, and social acceptability of activities impacting agriculture, natural resources, and consumers in Colorado. It is a public service organization that disseminates the results of its research to the public through CSU Extension and various publications and conferences.

## **Colorado State Forest Service**

The Colorado State Forest Service provides management, protection, and utilization of Colorado State Forest lands.

## **Colorado State University—Pueblo**

Colorado State University—Pueblo (CSU-P) was incorporated in 1935 as Southern Colorado Junior College. One year later, local citizens decided to support the institution with county taxes. They organized the Pueblo Junior College District and the school was renamed Pueblo Junior College. In 1951, Pueblo Junior College became the first accredited junior college in Colorado.

In 1963, Colorado's General Assembly enacted legislation changing Pueblo Junior College to a four-year institution—Southern Colorado State College—to be governed by the board of trustees of state colleges. By then, four new buildings had been erected on the new campus north of Pueblo's Belmont residential district. On July 1, 1975, the State Legislature granted the institution university status. Three years later, the Colorado State Board of Agriculture assumed governance of the University of Southern Colorado. In July 2003, the University was renamed Colorado State University—Pueblo.

CSU-P is accredited at the bachelor's and master's levels. CSU-P is a regional, comprehensive university, with moderately selective admissions standards displaying excellence in teaching and learning. CSU-P emphasizes professional, career-oriented, and applied programs at the undergraduate and graduate levels while maintaining strong programs in the liberal arts and sciences. CSU-P has

received the federal government’s designation as a Hispanic Serving Institution granted to universities with at least 25 percent of the student population of Hispanic descent.

## Colorado State University—Global Campus

Colorado State University—Global Campus (CSU-Global) was incorporated in 2008. CSU-Global is a baccalaureate and graduate online university with the mission in Colorado of offering baccalaureate degree programs for nontraditional students in partnership with the Colorado community college system and selected master-level graduate programs. The mission of CSU-Global is to offer online programs that are career-relevant and tailored to existing and emerging industry and occupational trends within Colorado. CSU-Global will cater to working adults and other nontraditional students who already have college credit or a 2-year degree and want to complete their bachelor’s and/or master’s degrees. CSU-Global admitted its first students during the fall 2008 semester.

The System reports full-time equivalent (FTE) student, faculty, and staff for 3 continuous fiscal years as follows:

### Colorado State University Full-Time Equivalent (FTE) Students, Faculty, and Staff, Fiscal Years 2019 through 2021

	2019	2020	2021
Resident Students	18,001	17,702	16,817
Nonresident Students	8,464	8,691	8,220
<b>Total Students</b>	<b>26,465</b>	<b>26,393</b>	<b>25,037</b>
Faculty FTEs	1,738	1,771	1,750
Staff FTEs	5,565	5,650	5,637
<b>Total Staff and Faculty FTEs</b>	<b>7,303</b>	<b>7,421</b>	<b>7,387</b>

Source: Colorado State University System’s Fiscal Year 2021 Financial Statements.

**Colorado State University—Pueblo Full-Time Equivalent (FTE) Students, Faculty, and Staff, Fiscal Years 2019 through 2021**

	2019	2020	2021
Resident Students	2,871	2,695	2,471
Nonresident Students	488	433	398
<b>Total Students</b>	<b>3,359</b>	<b>3,128</b>	<b>2,869</b>
Faculty FTEs	217	209	228
Staff FTEs	343	372	401
<b>Total Staff and Faculty FTEs</b>	<b>560</b>	<b>581</b>	<b>629</b>

Source: Colorado State University System’s Fiscal Year 2021 Financial Statements.

**Colorado State University—Global Campus Full-Time Equivalent (FTE) Students, Faculty, and Staff, Fiscal Years 2019 through 2021**

	2019	2020	2021
Resident Students	3,186	2,993	2,964
Nonresident Students	5,363	5,597	5,520
<b>Total Students</b>	<b>8,549</b>	<b>8,590</b>	<b>8,484</b>
Faculty FTEs	339	308	312
Staff FTEs	183	212	187
<b>Total Staff and Faculty FTEs</b>	<b>522</b>	<b>520</b>	<b>499</b>

Source: Colorado State University System’s Fiscal Year 2021 Financial Statements.

## **Finding 2021-013**

### **Accurate and Timely Reporting of Assets in Financial Statements and Exhibits Submitted to the Office of the State Controller**

Colorado State University (CSU-Global) reports its total assets in both its annual financial statements and exhibits that it submits to the Office of the State Controller (OSC). CSU-Global is required to prepare its financial statements in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) establishes GAAP for state and local government entities through the issuance of GASB statements, which CSU-Global must comply with when preparing its financial statements.

To ensure accurate reporting of assets, CSU-Global performs account reconciliations on a monthly basis. These reconciliations involve comparing general-ledger account balances within CampusNexus, CSU-Global’s financial reporting system, to supporting documentation, such as monthly bank statements and accounts receivable aging reports. An important step in this process

involves matching cash receipts to corresponding accounts receivable items and reversing accrued entries so that cash assets are reported as cash, rather than accounts receivable. For instance, CSU-Global records a receivable when it disburses Federal Student Financial aid to students and submits a drawdown request to the U.S. Department of Education for reimbursement. The receivable should then be reversed during the monthly reconciliation process when CSU-Global's Financial Aid bank account shows that the drawdown request has been completed and funds were deposited into the account. Additionally, CSU-Global records a receivable each month from the System to account for interest earnings on investments held at the Colorado State University Treasury. The receivable should then be reversed during the subsequent month's reconciliation process when the Operating bank account shows that the Colorado State University Treasury has allocated the interest earnings to each campus.

After the final reconciliation at fiscal-year end, CSU-Global prepares financial statements and submits exhibits to the OSC, including Exhibit J, *Financial Statement Reconciliation*, and Exhibit M, *Custodial Risk of Cash Deposits*. The Exhibit J reconciles CSU-Global's financial statements to the trial balance recorded within the Colorado Operations Resource Engine (CORE), the State's accounting system. The Exhibit M reports CSU-Global's cash balances at financial institutions, not including the amounts at the State Treasury.

## **What was the purpose of our audit work and what work was performed?**

The purpose of our audit work was to determine whether CSU-Global properly reported its cash and accounts receivable balances as of June 30, 2021, both in its financial statements and in exhibits submitted to the OSC. As part of our audit testwork, we reviewed the June 2021 monthly reconciliations and supporting documentation for CSU-Global's Cash and Cash Equivalents, and Grants and Other Accounts Receivable to determine if the account balances that were reported in the financial statements were complete and accurate as of June 30, 2021.

Additionally, we reviewed CSU-Global's Exhibit J, Exhibit M, and supporting documentation for each to determine whether the information submitted to the OSC for Fiscal Year 2021 was complete, accurate and submitted timely.

## **How were the results of the audit work measured?**

We measured our audit work against the following criteria:

- Generally accepted accounting principles for accrued revenue. GASB Codification Section Co5, para. .106 and Section 1600, para. .130 and .131, requires, CSU-Global to prepare its financial statements using “the economic resources measurement focus and the accrual basis of accounting” and to recognize revenue “when an exchange, in the ordinary course of operations,

is effected...” Furthermore, CSU-Global should reverse any accruals it has made, for example in accounts receivable, when it actually receives cash for transactions that were previously recognized as revenue so that received funds are reported in the correct balance sheet account.

- CSU-Global’s Financial Rules policy specifies that routine examination and reconciliation of transaction records to official university records is required to verify the accuracy of the records, the appropriateness of the transactions, and their compliance with policy.
- The OSC’s Fiscal Procedures Manual, which contains instructions for completing exhibits, states: “Departments should ensure all required exhibits are submitted on time ... and are thoroughly reviewed for completeness and that balances agree to CORE balances where applicable. Additionally, departments must submit revised exhibits if balances or information reported on prior versions has changed in a timely manner.”
- The OSC’s Open/Close Calendar for Fiscal Year 2021, which contains due dates for submitting exhibits, specifies that Exhibit M was due August 24, 2021, and Exhibit J was due September 8, 2021.

## **What problems did the audit work identify?**

We determined that CSU-Global did not report correct cash and accounts receivable balances in its financial statements as of June 30, 2021. Additionally, CSU-Global did not present accurate information in the Exhibit J and Exhibit M that it submitted to the OSC, and it was untimely in submitting both the Exhibit J and a revised Exhibit M.

Specifically, in its financial statements, CSU-Global erroneously reported a Cash and Cash Equivalents balance of \$25.5 million when the balance should have been reported as \$31.6 million (a \$6.1 million understatement) and erroneously reported a Grants and Other Accounts Receivable balance of \$7.0 million when the balance should have been reported as \$1.9 million (an approximate \$5.1 million overstatement).

Similarly, in the Exhibit J that it submitted to the OSC, CSU-Global understated its total cash and overstated its accounts receivable balances the same amounts. In the Exhibit M that it submitted to the OSC, CSU-Global understated its total cash balance by about \$6.0 million.

We also determined that CSU-Global submitted its Exhibit J to the OSC on October 12, 2021, which was 34 days after the required due date. Although CSU-Global initially submitted an Exhibit M to the OSC by the August 24 due date, the errors we identified and communicated to CSU-Global management on October 29 resulted in a required revised submission of Exhibit M; CSU-Global did not submit a revised Exhibit M to the OSC until January 11, 2022, or 74 days later.

## Why did these problems occur?

Overall, CSU-Global did not have sufficient internal controls in place to ensure that when staff prepare account reconciliations, they adhere to the procedures outlined within the Financial Rules policy, and management did not have sufficient controls in place to ensure exhibits were submitted by their due dates or that revised exhibits were submitted soon after the errors were discovered. Specifically, CSU-Global's reconciliation of the fiscal year-end Cash and Cash Equivalents balance during the month of June did not include steps to ensure the receivable balance that was recorded for a financial aid drawdown request was reversed, based on receipts shown in the financial aid bank account. Additionally, CSU-Global's reconciliation of the Grants and Other Receivables balance did not include the reversal of the monthly interest income accrual entries. Further, CSU-Global did not have sufficient reviews in place to identify either error. Finally, CSU-Global reported to us that the Exhibits J and M were submitted late due to management oversight.

## Why do these problems matter?

Without adequate controls in place to ensure that account balance reconciliations are properly prepared, CSU-Global cannot ensure the accuracy and completeness, both of its financial statements and the exhibits it submits to the OSC. In addition, failure to submit exhibits by their required due dates and to submit revisions in a timely manner results in noncompliance and potential delays in the State's financial reporting timeline.

Classification of Finding: **Significant Deficiency**

This finding does not apply to a prior audit recommendation.

## Recommendation 2021-013

The Colorado State University–Global Campus should strengthen its internal control over financial reporting by ensuring its account balance reconciliations are accurate and complete and ensuring exhibits are submitted by their due dates and that exhibit revisions are submitted soon after errors are identified.

## Response

*Colorado State University—Global*

Agree

Implementation Date: January 2022

The Colorado State University – Global Campus has implemented new accounting procedures to help ensure the accuracy and timeliness of all financial reporting obligations. For example, the review of account reconciliations have transitioned from staff to management and additional quarterly analysis is performed to ensure the reasonableness of transactions recorded to the financial statements. Furthermore, all accounting staff involved with account reconciliations and financial reporting will receive training on all accounting policies and State reporting requirements. All new hire employees will receive this training within their first 30 days of hire with additional training conducted on an as needed basis, but no less than annually. Lastly, accounting management will proactively evaluate all State financial reporting timelines, document all reports/financial data within the upcoming quarter, and establish internal due dates that are prior to the established State timelines to help ensure financial information is submitted timely. Any revisions will be submitted within 48 hours of identification.

In December 2021, The Colorado State University – Global Campus hired an Assistant Controller to manage, develop and implement additional controls to further strengthen our internal controls over financial reporting as well as to ensure all staff adhere to documented procedures.

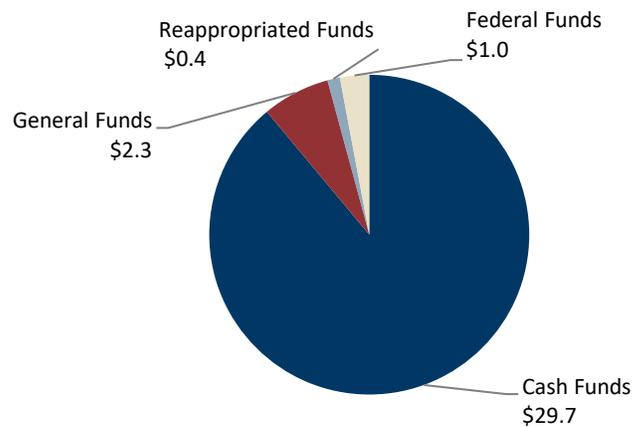
# History Colorado

History Colorado (Department), founded in 1879 as the State Historical Society, is an educational institution of the State and acts as a trustee in collecting, preserving, exhibiting, and interpreting collections and properties of state historical significance. The Department maintains museums and historical sites, and provides assistance to local and regional historical societies and museums. It also distributes gaming revenue to gaming cities through a statewide grant program for historic preservation.

For Fiscal Year 2021, the Department was appropriated approximately \$33.4 million and 121 full-time equivalent (FTE) staff.

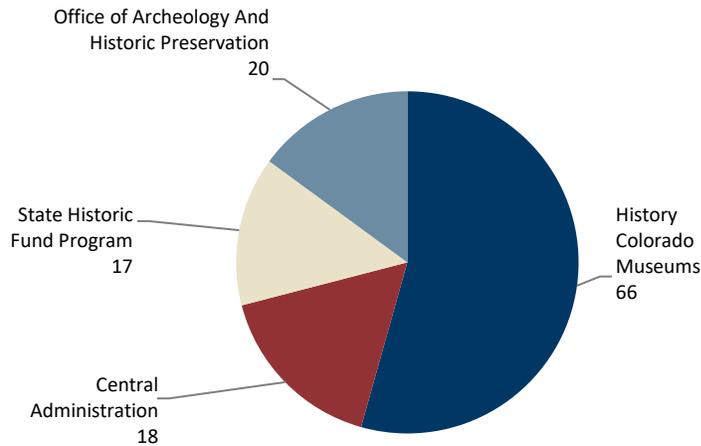
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for Fiscal Year 2021.

## History Colorado Fiscal Year 2021 Appropriations by Funding Source (in Millions)



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

## History Colorado Fiscal Year 2021 Full-Time Equivalent Staff by Major Areas



Source: Joint Budget Committee Fiscal Year 2021-22 Long Appropriations Bill.

### Finding 2021-014 Accounting Controls

The Department's accounting staff are responsible for its financial reporting, including the accurate entry into, and review and approval of financial transactions in CORE. This includes responsibility for the accurate recording of capital assets and expenditures. Departments must prepare financial information in accordance with GAAP and the OSC's Manual.

Capital assets are owned assets with an estimated useful life greater than 1 year that meet certain capitalization thresholds. The Department's capital assets are comprised of land, buildings, art, historical treasures, and equipment. Capital assets are recorded as an asset—or capitalized—at historical cost, including ancillary costs necessary to place the assets in their intended location and condition for use. Ancillary costs include freight, site preparation, appraisal fees, and installation charges. Other than land, all capital assets are depreciated over their estimated useful life, using the straight-line method. As new capital assets are acquired, Department staff will enter information about the asset, including its cost, the type of capital asset it is, and its useful life into a fixed asset module within CORE. CORE calculates depreciation automatically on a daily basis and automatically records the depreciation monthly, based on the Department's input of asset information into the fixed asset module. The Department's policies require accounting staff to perform a reconciliation of capital assets on a monthly basis, as well as at fiscal year end to ensure that the capital asset balances and the depreciation is correct in CORE. Specifically, the policy requires this reconciliation to include a review of all expenditures to ensure that expenditures related to a capital asset were correctly capitalized and a review of all capital assets in CORE to ensure that they are appropriately recorded in the fixed asset module. The Department's accounting staff should

also recalculate the depreciation amounts and compare them to the balances in CORE to ensure that they are being calculated and recorded correctly.

As of June 30, 2021, the Department had capital assets totaling approximately \$100.7 million. The Department had recorded \$4.9 million in depreciation expense in CORE related to capital assets for Fiscal Year 2021.

Department accounting staff are also responsible for reporting fiscal year-end accounting information through exhibits to the OSC. The OSC collects information from state departments and institutions of higher education after each fiscal year end through submitted exhibits. The OSC's exhibits are standard templates that all departments use in order to ensure the OSC receives the correct information that is needed to prepare the State's financial statements and required note disclosures. This includes information such as financial amounts related to prior period adjustments and federal grant reporting information such as the ALN, which is a unique identifier for each federal award. Department accounting staff input ALN information into CORE when recording transactions impacting the federal grant. This allows the Department to track grant spending associated with a specific ALN.

## **What was the purpose of our audit work and what work was performed?**

The purpose of our audit work was to determine the adequacy and effectiveness of the Department's Fiscal Year 2021 internal controls over capital assets, the recording of expenditures, and the preparation of OSC exhibits.

Our testwork included a review of the Department's processes for ensuring capital assets are properly recorded and depreciated, which included requesting to review a random sample of 3 of 12 monthly reconciliations as well as fiscal year-end capital asset reconciliations to determine whether the Department's capital asset records were appropriately reviewed and maintained. We also reviewed four expenditure transactions the Department recorded to the CORE capital asset module during Fiscal Year 2021. We reviewed each transaction to determine whether it was accurately recorded and reported in the correct fiscal year.

We reviewed the Department's exhibits submitted to the OSC for Fiscal Year 2021 and the related Department-prepared supporting documentation. We performed testwork to determine whether the Department prepared the exhibits in accordance with the Manual and the related instructions.

## How were the results of the audit work measured?

We measured the results of our audit against the following:

- **Requirements for Capital Asset Recognition.** The Department’s policy, *Fixed Asset Accounting* (HC-ACC-02), requires a monthly and year-end capital asset reconciliation to review all capital assets. The Department must complete this reconciliation prior to the scheduled mass depreciation run in CORE each month. This policy also requires the Department to review all expenses to ensure all amounts recorded as a capital asset meet the requirements for capitalization. This policy further requires the Department’s capital asset schedule—or listing of capital assets with recorded amounts—to be updated to reflect additions, disposals, and depreciation calculations. The Department’s process is to update this schedule during its monthly capital asset reconciliation.

The OSC’s Manual (Chapter 4, Section 2.7) states that “all matters related to the capital asset including depreciation are the responsibility of the departments.” This section goes on to note that CORE will calculate depreciation on an individual basis, based on the asset information that the Department entered into CORE’s fixed asset module.

- **Requirements for Exhibits.** The Manual contains specific instructions for the completion of various exhibits, which include the following:
  - **Exhibit K1**, *Schedule of Federal Assistance*, is used to report federal expenditure information to the OSC to aid the OSC in preparing the State’s SEFA.
  - **Exhibit PPA**, *Prior Period Adjustments*, is used to report a correction of an error from a prior fiscal year.

The Manual (Chapter 1, Sections 3.3 and 3.7a) requires State departments to “establish internal controls for their departments” in order to, “Maintain an internal control environment that enhances sound business practices, clearly defines roles, responsibilities, and accountability and provides for the prevention and detection of fraudulent activity.” This includes controls over the preparation of the applicable exhibits for submission to the OSC per the requirements of the Manual. In addition, per the Manual, departments are required to submit the exhibits in a timely manner based on the OSC’s fiscal year open/close calendar. The OSC required departments to submit the majority of exhibits by August 24, 2021.

- **Requirements for Expenditure Recording.** The Manual (Chapter 1, Section 2.7) states that “for financial statement purposes, it is important to ensure transactions are dated and recorded in the correct budget fiscal year and fiscal year. When entering transactions during this time,

please verify that the budget fiscal year, fiscal year, transaction date, and accounting period correspond to the budget fiscal year and fiscal year in which the transactions apply.”

Section 1600 of GASB’s *Basis of Accounting* states that expenditures should be recognized in the accounting period in which the fund liability is incurred.

- **Requirements for Internal Controls.** State Fiscal Rule 1-2 (3.5), *Internal Controls*, requires state departments to “implement internal accounting and administrative controls that reasonably ensure that financial transactions are accurate, reliable, and conform to State Fiscal Rules,” and reflect the underlying realities of the accounting transaction (substance rather than form)”.

## What problems did the audit work identify?

Based on our audit testwork, we identified issues with the Department’s financial reporting for Fiscal Year 2021. Specifically, we found the following problems:

**Year-End Reconciliation Errors.** We determined that the Department did not complete any of the 12 monthly reconciliations during Fiscal Year 2021. The Department began the fiscal year end reconciliation in July 2021 with a completion date of September 15, 2021, or 36 days after the Department’s required deadline. Furthermore, Department staff reported that, while completing their monthly reconciliations for Fiscal Year 2022, they identified additional capital assets that were incorrectly recorded in the fixed asset module within CORE. When Department staff completed the reconciliation, they found that depreciation for Fiscal Year 2021 was misstated in CORE due to prior-year errors by approximately \$2.4 million.

**Exhibit Errors.** The Department did not submit 10 of their 11 exhibits to the OSC by the due date. The deadline for these exhibits was August 24, 2021. We reviewed the Department’s submission email to the OSC and noted nine of the exhibits were submitted on September 1, 2021, or 8 days late. One exhibit was submitted 58 days late on October 21, 2021. In addition, we identified errors related to 2 of 11 (18 percent) of the Department’s exhibits for Fiscal Year 2021. Specifically, we found the following errors:

- **Exhibit K1, *Schedule of Federal Assistance*.** During our testing, we noted the Exhibit K1 was not prepared according to the OSC’s exhibit instructions, as follows:
  - First, the Department used the Fiscal Year 2020 Exhibit K1 template instead of the Fiscal Year 2021 template and, as a result, failed to provide OSC-required information. The missing information included whether or not the Department had received Personal Protective Equipment, which was required by the OSC for federal reporting. In addition, the employer tax ID number was not included, an ALN was incomplete, and whether or not a federal grant was a research and development grant was missing from the exhibit.

- Second, the Department only reported cash expenditures and incorrectly omitted \$897 accrued expenditures from the exhibit. In four instances, the Department recorded federal expenditures in an incorrect ALN in CORE. Based on our review, we determined that the Department reported its federal expenditures by ALN on its Exhibit K1 correctly; however they were reported incorrectly in CORE. The Department resubmitted the Exhibit K1 to the OSC twice in order to correct these errors.
- **Exhibit PPA, *Prior Period Adjustment*.** The Department incorrectly reported the amount of one transaction on its Exhibit PPA. The difference of what the Department reported and what was recorded in CORE was \$150. The Department subsequently submitted a correct Exhibit PPA to the OSC.

**Expenditure Reporting Error.** 1 of 4 capital asset expenditure transactions we tested (25 percent) was paid and recorded in the incorrect fiscal year. Specifically, the invoice totaling approximately \$23,000 was dated June 11, 2020, which is in Fiscal Year 2020, but the Department did not pay it until September 23, 2020, which was during Fiscal Year 2021.

## Why did these problems occur?

Overall, the Department lacked adequate internal controls over its financial accounting during Fiscal Year 2021. Specifically:

**Policies and procedures, and new staff training, are inadequate.** The Department's policies and procedures over capital assets do not include detailed steps for how to complete the capital asset reconciliations. During Fiscal Year 2021, the Department experienced employee turnover and had limited staff to perform the reconciliations. Although the Department hired new staff towards the end of Fiscal Year 2021 and assigned them responsibility for completing the reconciliations, the lack of detailed instructions failed to ensure the new employees had adequate direction to complete the reconciliations appropriately. In addition, the Department did not ensure new staff were properly trained on exhibit and expenditure transactions to ensure they were completed timely and accurately.

**Financial information is not reviewed adequately.** The Department did not have an adequate review process in place over exhibits and capital asset-related and other expenditure transactions to ensure that the correct information was submitted to the OSC and that expenditure transactions were paid and recorded in the correct fiscal year.

## Why do these problems matter?

Strong financial accounting internal controls, including effective review processes and procedures over financial transactions, capital asset reconciliations, and exhibits are necessary to ensure that balances are reported accurately and in accordance with generally accepted accounting principles.

Without sufficient internal controls, the Department cannot ensure that its financial information is recorded appropriately, that it is providing complete and accurate financial information to the OSC, and ultimately, that the State's financial statements are accurate.

Classification of Finding: **Significant Deficiency**

This finding does not apply to a prior audit recommendation.

## Recommendation 2021-014

History Colorado should improve its internal controls over financial reporting by:

- A. Updating and implementing policies and procedures related to the preparation and review of monthly capital asset reconciliations. The policies and procedures should include specific instructions regarding how and when to complete the capital asset reconciliations so that new staff are able to complete the reconciliations.
- B. Ensuring the capital assets reconciliations are completed every month before the mass depreciation entry is run in the Colorado Operations Resource Engine (CORE).
- C. Developing and providing training to new staff on the preparation and submission of exhibits and the timely and accurate recording of transactions in CORE.
- D. Implementing a detailed review process over financial information recorded in CORE and exhibits reported to the Office of the State Controller to ensure financial information is recorded accurately and that exhibits are accurate, complete, and submitted by the deadline.

## Response

*History Colorado*

- A. Agree

Implementation Date: June 2022

History Colorado will update and implement policies and procedures related to the capital asset reconciliation with adequate details for staff to complete the reconciliations.

- B. Agree

Implementation Date: July 2021

History Colorado implemented a process in July 2021 to reconcile CORE Fixed Asset Module monthly run results with the monthly Balance Sheet (Asset and Accumulated Depreciation) and

Income Statement (Depreciation Expenses) results in CORE. In addition, each asset's monthly and accumulative depreciation expenses are manually calculated and aggregated by category to match the CORE Fixed Asset Module and CORE financial statements Fixed Asset results.

C. Agree

Implementation Date: June 2022

History Colorado have had discussion with OSC and decide to adopt procedures in the current Fiscal Procedures Manual to train accounting staff for the purpose of preparation and submission of exhibits. Accounting staff will also receive updates and training from OSC during the open close period.

D. Agree

Implementation Date: June 2022

History Colorado will implement detailed review process and follow procedures in the current Fiscal Procedures Manual to ensure accuracy and timeliness of the exhibits preparation and submission and recording of financial information in the CORE system.

# Metropolitan State University of Denver

Established in 1963 as Colorado’s “College of Opportunity,” Metropolitan State University of Denver (University or MSU Denver) is the fourth largest higher education institution in Colorado, in relation to the number of students served, and one of the largest public 4-year universities in the United States. With a modified open-enrollment policy, students who are at least 20 years old need only have a high school diploma, a general educational development (GED) high school equivalency certificate, or the equivalent to gain admission.

The University is governed by the Board of Trustees, an 11-member board consisting of nine voting members appointed by the Governor of Colorado with the consent of the Senate, and a faculty and a student representative, both of which are non-voting.

The University offers over 100 major fields of study and 99 minors, 47 certificates, and 40 licensure programs through its College of Business, School of Education, School of Hospitality, College of Letters, Arts and Sciences, and College of Health and Applied Sciences. Degrees include Bachelor of Science, Bachelor of Arts, Bachelor of Fine Arts, Bachelor of Music, Bachelor of Music Education, and 12 Masters majors and ten Masters certificates. Academic bachelor programs range from the traditional, such as English, art, history, biology, and psychology, to business-related degrees in computer information systems, accounting and marketing, and professional-directed programs in nursing, healthcare management, criminal justice, premedicine, prelaw, and preveterinary science. The Master’s major programs include art in teaching, social work, professional accountancy, health administration, business administration, cybersecurity, Clinical Behavioral Health, and Human Nutrition and Dietetics.

Enrollment and faculty and staff information is provided below. Full-time equivalent students reported by the University for the last 3 fiscal years are as follows:

## Metropolitan State University of Denver Full-Time Equivalent (FTE) Students, Faculty, and Staff, Fiscal Years 2019 through 2021

	2019	2020	2021
Resident Students	14,570	14,067	13,139
Nonresident Students	538	521	501
<b>Total Students</b>	<b>15,108</b>	<b>14,588</b>	<b>13,641</b>
Faculty FTEs	836	825	713
Staff FTEs	533	544	550
<b>Total Staff and Faculty FTEs</b>	<b>1,369</b>	<b>1,369</b>	<b>1,263</b>

Source: Metropolitan State University of Denver’s Fiscal Year 2021 Financial Statements.

## **Finding 2021-015**

### **Information Technology General Controls—Banner Information Security**

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding and responses have been provided to the University in a separate, confidential memorandum.*

Metropolitan State University of Denver utilizes an enterprise resource planning system called Banner for various financial processes, including financial reporting, procurement, payroll, and others. The University’s Information Technology Services (ITS) department is responsible for managing IT general controls for Banner. IT general control management duties relevant to information security for Banner are divided among the database administrator, infrastructure, security management, and systems administration functions within ITS.

### **What was the purpose of our audit work and what work was performed?**

The purpose of the audit work was to review IT general controls related to information security over the Banner system, through inquiries with ITS staff and reviewing supporting documentation and configuration settings.

### **What problems did the audit work identify and how were the results of the audit work measured?**

We identified two areas needing improvement related to information security controls over Banner. We measured the results of our audit work against MSU Denver’s IT policies and the Colorado Information Security Policies (CISP), issued by the Governor’s Office of Information Technology and the Office of the State Controller’s policy, *Internal Control System*, which requires state agencies to use the *Standards for Internal Control in the Federal Government* (Green Book), published by the U.S. Government Accountability Office, as its framework for its system of internal controls.

## Why did these problems occur?

These problems occurred due to the following reasons:

- University management's risk assessment of certain Banner information security controls did not consider or establish a risk tolerance associated with the identified problems.
- University management did not clearly define and formalize its expectations with certain information security procedures.

## Why do these problems matter?

Without effectively designed, formalized, and operational Banner information security policies and processes, the risk increases that unauthorized individuals could retain access to Banner, that unauthorized changes could occur within the system, and that staff are not performing controls and processes within management's risk tolerance. Consequently, such risks could potentially result in the misappropriation of University assets and/or material misstatements to the University's financial statements.

Classification of Finding: **Significant Deficiency**

This finding applies to prior audit recommendation 2019-018A.

## Recommendation 2021-015

Metropolitan State University Denver should improve its information security controls over Banner by:

- A. Implementing the recommendation noted in Part A of the confidential finding.
- B. Implementing the recommendation noted in Part B of the confidential finding.

## Response

*Metropolitan State University of Denver*

A. Agree

Implementation Date: May 2022

Metropolitan State University of Denver agrees with the recommendation and will implement the confidential finding.

B. Agree

Implementation Date: May 2022

Metropolitan State University of Denver agrees with the recommendation and will implement the confidential finding.

# University of Colorado

The University of Colorado (University) was established on November 7, 1861, by an Act of the Territorial Government. Upon the admission of Colorado into the Union in 1876, the University was declared an institution of the State of Colorado and the Board of Regents was established under the State Constitution as its governing authority.

The University consists of the system office and the following three accredited campuses:

- University of Colorado Boulder
- University of Colorado Denver | Anschutz Medical Campus
- University of Colorado Colorado Springs

The three campuses comprise 26 schools and colleges, which offer 178 programs of study at the undergraduate level and 292 at the graduate level, offering 383 bachelor and master's degrees, along with 110 doctorates.

The Board of Regents is charged constitutionally with the general supervision of the University and the exclusive control and direction of all funds of and appropriations to the University, unless otherwise provided by law. The Board of Regents consists of nine members serving staggered six-year terms, one elected from each of the State's seven congressional districts and two elected from the State at large.

The Board of Regents appoints the President of the University. The President is the chief executive officer of the University. The President is responsible for the administration of the University and for compliance of all University matters with applicable regent laws and policies and state and federal constitutions, laws, and regulations. The President is the chief academic officer of the University, responsible for providing academic leadership for the University in meeting the needs of the State, and shall maintain and advance the academic policies of the University. The President is also the chief spokesperson for the University and interpreter of its policy, and represents and interprets the roles, goals, and needs of the University throughout the State and elsewhere, as appropriate. The Chancellors are the chief academic and administrative officers at the campus level, responsible to the President for the conduct of the affairs of their respective campuses in accordance with the policies of the Board of Regents.

Enrollment and faculty and staff information is provided below. Full-time equivalent (FTE) students reported by the University for the last 3 fiscal years are as follows:

**University of Colorado Full-Time Equivalent (FTE)  
Students, Faculty, and Staff, Fiscal Years 2019 through 2021**

	2019	2020	2021
Resident Students	41,817	41,845	42,113
Nonresident Students	17,742	17,904	17,539
<b>Total Students</b>	<b>59,559</b>	<b>59,749</b>	<b>59,652</b>
Instructional Faculty FTEs	6,986	7,246	7,439
Other Faculty and Staff FTEs	14,495	14,911	14,754
<b>Total Staff and Faculty FTEs</b>	<b>21,481</b>	<b>22,157</b>	<b>22,193</b>

Source: University of Colorado’s Fiscal Year 2021 Financial Statements.

**Finding 2021-016  
PeopleSoft Access Management**

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding and responses have been provided to the University in a separate, confidential memorandum.*

The University Information Systems Services (UIS) unit is responsible for administering user access to a variety of the University’s enterprise-wide applications and systems, including PeopleSoft, which is the University’s general ledger and accounting system, including payroll, accounts receivable and accounts payable.

**What was the purpose of our audit work and what work was performed?**

The purpose of our audit work was to determine whether UIS had access management IT general controls designed, in place, and operating effectively, related to PeopleSoft, during Fiscal Year 2021.

As part of our audit testwork, we reviewed UIS’s progress in implementing our Fiscal Year 2020 audit recommendations related to PeopleSoft Access Management. The University agreed with the recommendations and indicated they would implement them by December 31, 2021.

## How were the results of the audit work measured?

The results of our audit work were measured against the University's Security Standards and the Office of the State Controller's policy, *Internal Control System*, which requires state agencies to use the *Standards for Internal Control in the Federal Government* (Green Book), published by the U.S. Government Accountability Office, as its framework for its system of internal controls.

## What problems did the audit work identify?

We noted problems related to UIS's access management processes for PeopleSoft, including that UIS did not fully implement our Fiscal Year 2020 recommendations.

## Why did these problems occur?

UIS staff stated that they did not retain documentation to substantiate the access management processes under review. Additionally, UIS has not developed a procedure to require staff to retain any such documentation.

## Why do these problems matter?

Without adequate access management controls in place to ensure the confidentiality and integrity of the data in the PeopleSoft system, there is an increased risk that the University's financially significant information may fall into the hands of individuals who are not authorized to view the information, or who could make unauthorized changes to system data.

Classification of Finding: **Significant Deficiency**

This finding applies to prior audit recommendation 2020-018B.

## Recommendation 2021-016

The University of Colorado's University Information Services unit should improve PeopleSoft access management controls by implementing the recommendation as noted in the confidential finding.

## Response

*University of Colorado*

Agree

Implementation Date: December 2021

Management Agrees—A solution will be implemented by the end of December 2021.

# University of Northern Colorado

Eighteen years after the City of Greeley, Colorado, was founded, a movement was started to establish a “normal” school to supply teachers for the community and the State. The law creating the State Normal School, as the University of Northern Colorado was first known, was signed April 1, 1889. In 1911, the name was changed to Colorado State Teachers College. The University of Northern Colorado retained that name until 1935 when it was renamed Colorado State College of Education. In 1957, another name change occurred making it the Colorado State College. The Act changing the name to the University of Northern Colorado (UNC or University) became law on May 1, 1970, thus making official the university-level work which it has offered since 1929.

The Board of Trustees is the governing body of the University and is comprised of seven members appointed by the Governor, with consent of the Senate, for 4-year terms (effective for terms beginning July 1, 1987); one faculty member elected by the faculty and one student member elected by the student body.

The University seeks to provide all students with a broad general education as well as preparation for selected professions within the fields of business, education, health services, music and related areas; and pre-professions such as prelaw, pre-medicine and others. Historically, the principal emphasis has been preparing students for careers in education.

Enrollment and faculty and staff information is provided below. Full-time equivalent (FTE) students reported by the University for the last 3 fiscal years are as follows:

**University of Northern Colorado Full-Time Equivalent (FTE) Students, Faculty, and Staff, Fiscal Years 2019 through 2021**

	2019	2020	2021
Resident Students	7,257	7,016	6,356
Nonresident Students	1,436	1,304	1,067
<b>Total Students</b>	<b>8,693</b>	<b>8,320</b>	<b>7,423</b>
Faculty FTEs	514	482	441
Staff FTEs	358	339	290
<b>Total Staff and Faculty FTEs</b>	<b>872</b>	<b>821</b>	<b>731</b>

Source: University of Northern Colorado’s Fiscal Year 2021 financial statements.

## **Finding 2021-017**

### **Internal Controls over HEERF—Lost Revenue Calculation**

The University's Accounting Department is responsible for the accurate financial reporting for the University, including the recording of financial transactions in compliance with standards. The Governmental Accounting Standards Board (GASB) establishes the generally accepted accounting principles (GAAP) that the University is required to follow in recording its financial transactions. When the University receives federal funding, GASB standards specify when the transactions are required to be recorded.

The federal Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA) and the American Rescue Plan Act of 2021 (ARPA) appropriated Higher Education Emergency Relief Fund (HEERF) funds that may be utilized by higher education institutions to recoup lost academic and auxiliary revenues or as reimbursement for other pandemic-related expenditures that institutions incurred between March 13, 2020—the date the national emergency for the COVID-19 disease outbreak was declared—and July 31, 2021. HEERF funds appropriated through the CRRSAA are referred to as HEERF II funds and HEERF funds appropriated through the ARPA are referred to as HEERF III funds. CRRSAA also allowed for previously awarded Coronavirus Aid, Relief, and Economic Security Act (CARES) funds to be used for additional allowable uses under CRRSAA. The University was awarded approximately \$8.7 million and \$22.0 million of HEERF II and HEERF III funds, respectively, to be utilized by July 13, 2021, and July 12, 2022, respectively. The University management reviewed the program requirements and identified eligible expenditures, including lost revenue, in order to recognize revenues when the University has met all applicable eligibility requirements, including time requirements related to these funds.

### **What was the purpose of our audit work and what work was performed?**

The purpose of our audit work was to test the University's financial statement recognition of HEERF revenue during Fiscal Year 2021. We obtained and reviewed the University's supporting documentation for HEERF revenue recognized during Fiscal Year 2021, including any lost revenue calculations and other reimbursed expenditures. We performed inquiries of UNC staff to understand the related process and internal controls and recalculated the University's calculation of lost revenue.

### **How were the results of the audit work measured?**

CRRSAA Section 314(c)(1) states that institutions of higher education receiving HEERF funds may use the funds received to defray expenses associated with coronavirus (including lost revenue, reimbursement for expenses already incurred, technology costs associated with a transition to distance education, faculty and staff trainings, and payroll). The HEERF Lost Revenue Frequently

Asked Questions (FAQs) document contains additional guidance provided by the U.S. Department of Education and states, “Due to the difficulty of estimating precisely when an institution should have received revenue that it otherwise did not as a result of the COVID-19 pandemic, an institution may estimate its lost revenue for the period from the declaration of the national emergency due to the COVID-19 pandemic (85 FR 15337), on March 13, 2020, through the end of its HEERF grant performance period...”

GASB Statement No. 33, paragraph 21, as amended, specifies that the University should recognize revenues when the University has met all applicable eligibility requirements, including time requirements.

## **What problem did the audit work identify?**

We found that the University did not correctly record its federal revenue related to the HEERF grant during Fiscal Year 2021. Specifically, the University miscalculated the Fiscal Year 2020 lost revenue that was claimed during Fiscal Year 2021. Although federal HEERF grant requirements only allowed lost revenue to be calculated for a portion of Fiscal Year 2020—from March 13, 2020, through June 30, 2020—University staff calculated Fiscal Year 2020 lost revenue from July 1, 2019, through June 30, 2020. As a result, the University’s federal revenue for Fiscal Year 2021 was overstated by \$1.7million.

After we notified the University that we had identified the error, University staff recorded an entry to its financial records to correct the error. In addition, the University was still within the allowable period for the HEERF funds and was able to use the \$1.7 million on other allowable uses.

## **Why did this problem occur?**

The University did not have sufficient internal controls in place to ensure that accounting staff were appropriately trained on federal grant requirements related to the recording of federal HEERF revenue. The preparer and reviewer of the Fiscal Year 2020 lost revenue calculation indicated that they were not aware of the program requirement to begin the calculation as of March 13, 2020, and remove any revenues and expenditures from prior to that date of declaration of the national emergency from the calculation.

## **Why does this problem matter?**

Without adequate controls over recognizing federal revenues in compliance with requirements, the University cannot ensure the accuracy and completeness of its reported information, and, ultimately, the State’s financial statements. The University is responsible for utilizing HEERF funds in accordance with CRRSAA requirements and recognizing the corresponding revenue.

Classification of Finding: **Significant Deficiency**

This finding does not apply to a prior audit recommendation.

## Recommendation 2021-017

The University of Northern Colorado should improve its internal controls by ensuring that the personnel responsible for lost revenue calculations comply with Higher Education Emergency Relief Fund requirements. This should include ensuring that staff are appropriately trained on federal grant requirements related to revenue recognition.

## Response

*University of Northern Colorado*

Agree

Implementation Date: January 2022

The provisions and requirements of the Higher Education Emergency Relief Fund were completely new and provided a unique federal funding stream to support the immense financial impact resulting from the COVID-19 pandemic. The University has closely reviewed the lost revenue calculations allowed for FY2020-21 (Lost Auxiliary Revenue and Lost Tuition Revenue) and have consulted with peer institutions and our external auditors. Based on these efforts, we are confident that the error in calculating lost auxiliary revenue for FY2019-20 was an isolated incident based on unique and extenuating circumstances, and that subsequent calculations are accurate and correct.

## Finding 2021-018

### Internal Controls over Exhibit K1

The University reports its fiscal year federal expenditures to the Department of Personnel & Administration's Office of the State Controller (OSC) on the Exhibit K1 (Exhibit K1), *Schedule of Federal Assistance*, for inclusion in the State of Colorado's Schedule of Expenditures of Federal Awards (SEFA). In order to prepare the State's SEFA, the OSC requires state departments and universities to submit an Exhibit K1 each year to report expenditures, receipts, and receivables for each federal grant program administered by the department or university during the fiscal year. For Fiscal Year 2021, the University reported \$109.6 million in federal expenditures on the Exhibit K1.

## What was the purpose of our audit work and what work was performed?

The purpose of our audit work was to evaluate whether UNC's Exhibit K1 submitted to the OSC for Fiscal Year 2021 was accurate.

We obtained the University's Exhibit K1 and supporting documentation. We performed inquiries of University staff to understand the related process and internal controls over the Exhibit K1 preparation. We performed analytic procedures and reconciliations of amounts reported on the Exhibit K1 to evaluate the accuracy of the information and to assess UNC's compliance with federal requirements.

## How were the results of the audit work measured?

The University and the State are required to comply with the reporting requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) for the SEFA. Federal regulations [2 CFR Section 200.510] specifically require that the SEFA include information on each federal award expended during the year. The University is required to report their information to the OSC through the Exhibit K1 in order to ensure that the State's SEFA complies with these requirements.

Per the OSC's *Fiscal Procedures Manual* (Manual), all federal award amounts expended during the fiscal year should be reported on the Exhibit K1.

## What problem did the audit work identify?

We found that UNC misstated its federal expenditures for Fiscal Year 2021 on its Exhibit K1. Specifically, we found that the University omitted Coronavirus Relief Fund (CRF) (Assistance Listing Number 21.019) expenditures of approximately \$24.7 million. We also found that the University reported several inaccurate amounts for the Student Financial Aid (SFA) Cluster programs, which resulted in an overstatement of SFA Cluster expenditures of approximately \$6.8 million. These errors resulted in an overall understatement of \$17.9 million in federal expenditures for Fiscal Year 2021. After we reported these errors to UNC, the University submitted a corrected Exhibit K1 to the OSC.

## Why did this problem occur?

UNC did not have adequate training and oversight in place for University accounting staff to ensure its Exhibit K1 was prepared in accordance with federal requirements and the Manual. The University experienced turnover in the preparer and reviewer functions for the grant tracking and

reporting process during the fiscal year, and the new preparer and reviewer were not familiar with federal requirements and the guidance for the Exhibit K1 stated in the Manual. This resulted in the omission of the CRF program expenditures and reporting of other inaccurate amounts for the SFA Cluster.

## Why does this problem matter?

By failing to properly report expenditures of federal funds on its Exhibit K1, the University was out of compliance with federal requirements. Furthermore, this type of error, if uncorrected, would cause the State's overall SEFA to be inaccurate and out of compliance with federal regulations.

Classification of Finding: **Significant Deficiency**

This finding does not apply to a prior audit recommendation.

## Recommendation 2021-018

The University of Northern Colorado should strengthen its internal controls by implementing additional training and oversight of personnel to ensure the Exhibit K1, *Schedule of Federal Assistance*, accurately reflects federal expenditures for the fiscal year.

## Response

*University of Northern Colorado*

Agree

Implementation Date: January 2022

The Controller and Grant Accountant were new to their positions and had no past experience completing Exhibit K1. The Grant Accountant spent extensive time working through initial exhibit errors with the external auditor and both the Controller and Grant Accountant have thoroughly reviewed the discrepancies that initially occurred with the original submission of the Exhibit K1 and have gained a stronger understanding of how certain federal expenditures should be accurately reported on the annual exhibit. Review and oversight shall be stronger and more effective in the future as the Controller will be more knowledgeable and prepared to provide a more thorough review of Exhibit K1. The University will explore training opportunities to enhance the skill set and knowledge base of both the Grant Accountant and the Controller as it relates to federal grant requirements.

# Western Colorado University

Founded in 1911 as Colorado State Normal School, Western Colorado University (University) is Colorado's oldest college west of the Continental Divide. Originally planned as a preparatory college for teachers, the University remained a Normal School until 1923 when it was renamed Western State College. Western State College became Western State Colorado University on August 1, 2012, and Western Colorado University on July 1, 2019. The University's statutory mission, contained in Section 23-56-101 of the Colorado Revised Statutes (C.R.S.), states that the University is a general baccalaureate institution with selective admission standards. The mission also states that the University shall offer undergraduate liberal arts and sciences and professional degree programs, basic skills courses, and a limited number of graduate programs. The University shall also serve as a regional education provider.

Through June 30, 2003, the University was a member of the State Colleges in Colorado and, as such, was governed by the Board of Trustees of the Office of State Colleges. Effective July 1, 2003, the State Colleges in Colorado were dissolved in accordance with House Bill 03-1093 and each member became an independent entity. Section 23-56-102, C.R.S., established the composition of the Board of Trustees (Trustees) of the University to serve as the University's governing board. Nine of the 11 Trustees are members outside of the University who are appointed by the Governor with the consent of the Senate. The remaining two members consist of a student, elected by the student body, and a faculty member, elected by tenure and tenure track faculty. Both of these members are nonvoting members.

Enrollment and faculty and staff information is provided below. Full-time equivalent (FTE) students reported by the University for the last 3 fiscal years are as follows:

## Western Colorado University Full-Time Equivalent (FTE) Students, Faculty, and Staff, Fiscal Years 2019 through 2021

	2019	2020	2021
Resident Students	1,524.1	1,593.4	1,610.5
Nonresident Students	646.0	599.0	547.2
<b>Total Students</b>	<b>2,170.1</b>	<b>2,192.4</b>	<b>2,157.7</b>
Faculty FTEs	160.6	155.9	157.6
Staff FTEs	211.5	217.8	228.5
<b>Total Staff and Faculty FTEs</b>	<b>372.1</b>	<b>373.7</b>	<b>386.1</b>

Source: Western Colorado University's Fiscal Year 2021 Financial Statements.

## **Finding 2021-019**

### **Internal Controls over Financial Reporting**

The University's accounting department is responsible for all of the University's financial accounting and reporting, including the accurate and timely entry and approval of financial transactions in the University's accounting system, preparation of the University's financial statements, as well as preparation, review, and submission of exhibits to the Office of the State Controller (OSC). Overall, the University must properly implement adequate internal controls over its recording of financial transactions and its submission of exhibits and financial statements, including a process to identify, track, and communicate the status of journal entries, exhibits, and financial statements. As of the end of Fiscal Year 2021, the University's assets totaled approximately \$170.8 million; during Fiscal Year 2021, University accounting staff posted 1,411 journal entries and prepared 19 exhibits. The total amount of journal entries was \$512.7 million which impacted all areas of the financial statements.

The University has been anticipating the receipt of donated capital assets since the fall of 2018 when the University announced a donor commitment to make a large donation to the University with a significant portion of the donation coming in the form of capital assets. The first donated capital asset officially transferred as a result of this commitment consisted of a newly constructed soccer field, which was received during Fiscal Year 2021.

### **What was the purpose of our audit work and what work was performed?**

The purpose of the audit work was to ensure the accuracy of financial transactions reported on the financial statements and ensure that University's exhibits submitted to the OSC were complete, accurate, and timely.

We performed testing to determine whether the University appropriately recorded the activities related to the recognition of the donated capital asset in its accounting records. For Fiscal Year 2021, the soccer field was the only donated capital asset received by the University. Specific testing we performed consisted of the following:

- Inquired of University personnel to gain an understanding of the nature of the donation.
- Obtained a confirmation from the donor of the donation of the soccer field along with the donor's confirmation of the acquisition value of the soccer field.
- Obtained and reviewed the University's transaction detail for capital asset additions for Fiscal Year 2021 to determine whether the donated soccer field was recognized by the University at the appropriate acquisition value.

We also performed testing on the University's exhibits. Specifically:

- Obtained supporting documentation to support material balances in the exhibits.
- Reconciled balances in the exhibits to the University's general ledger and financial statements.
- Inspected exhibits to determine whether they were prepared in accordance with the instructions provided by the OSC.
- Inspected documentation of communications of exhibits and financial statement submissions to the OSC by the University to determine whether the exhibits and financial statements were submitted by the due dates.

## How were the results of the audit work measured?

Governmental accounting standards contained within Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* (GASB 34), paragraph 18, as amended by GASB Statement 72, *Fair Value Measurement and Application* (GASB 72), paragraph 79.a, specifies the requirements for recording donated capital assets. Specifically, paragraph 79.a, of GASB 72 requires that donated capital assets be recorded at acquisition value at the time the donated capital asset is received.

On an annual basis, the OSC provides due dates for submission of exhibits and financial statements in order to ensure that the OSC has complete and timely information necessary to prepare the State's financial statements in accordance with state statute [Section 24-30-204(1), C.R.S.]. The OSC requires the institutions of higher education including the University to submit their financial statements to the OSC along with the Exhibit J, *Financial Statement Reconciliation*, and the Exhibit I, *Letter of Certification*, by August 25 subject to any extensions that may be granted by the State Controller. For Fiscal Year 2021, the State Controller granted an extension for both the Exhibit J and I to all institutions of higher education until September 8.

The Exhibit J, in conjunction with the Exhibit I and copies of the University's financial statements and related notes, are used to:

- Reconcile the institution's financial statements to the University's trial balance recorded within the Colorado Operations Resource Engine (CORE), the State's accounting system.
- Provide assurance to the State Controller that the University's financial statements properly accumulate CORE accounts in the same format the OSC uses for the State's Annual Comprehensive Financial Report.
- Provide assurances to the State Controller that the University has properly reviewed their accounting estimates, fiscal year-end account balances, CORE financial statements, and that informational disclosures necessary for statewide financial reporting have been made.

## **What problems did the audit work identify?**

We determined that the University did not record the donated capital asset for the soccer field received by the University during Fiscal Year 2021. This resulted in an understatement of approximately \$2.6 million in total assets, net position, and change in net position in the University's financial statements. After we identified the omission through the audit, University staff made adjustments to the accounting records and the financial statements to accurately record the donation.

We also determined that the University did not submit its Exhibit J financial statements or Exhibit I to the OSC by the due date of September 8, 2021, in accordance with state statute [Section 24-30-204(1), C.R.S] and the State Controller's extension. The University submitted the Exhibit J on October 28, 2021, which was 50 days late. The University submitted its financial statements and Exhibit I on November 2, 2021, which was 55 days late.

## **Why did these problems occur?**

These problems occurred because the University did not cross-train accounting staff to perform the fiscal year-end closing process in order to ensure that all financial transactions were properly recorded and to ensure that the University's financial statements and exhibits were prepared, reviewed, and submitted to the OSC by the applicable statutory deadlines. Specifically, the University's former controller resigned in August 2021 during the fiscal year-end close process and prior to the deadlines for submission of the University's financial statements and related Exhibits J and I to the OSC and the remaining University accounting staff did not collectively have sufficient knowledge for the preparation, review, and posting of journal entries, and the preparation, review, and submission of exhibits and financial statements. Due to oversight on the part of the former controller and a failure to compare detailed asset records to the general ledger, the journal entry to

record the donated capital asset was not made until we brought the error to the University's attention.

## Why do these problems matter?

Without adequately trained and knowledgeable accounting staff to complete the fiscal year-end closing process, including processes to ensure that all financial transactions are recorded properly and to ensure that the University's financial statements and exhibits are prepared, reviewed, and submitted to the OSC by the applicable statutory deadlines, the University cannot ensure the accuracy and completeness of its reported financial information and, ultimately, the State's financial statements.

Classification of Finding: **Significant Deficiency**

This finding does not apply to a prior audit recommendation.

## Recommendation 2021-019

Western Colorado University (University) should improve its internal controls related to the fiscal year-end closing process to ensure that all financial transactions are properly recorded in its accounting system and to ensure that the University's financial statements and exhibits are prepared, reviewed, and submitted to the Office of the State Controller by the applicable statutory deadlines by cross-training existing employees and establishing back-up responsibilities to allow for appropriate delegation when turnover occurs.

## Response

*Western Colorado University*

Agree

Implementation Date: July 2022, although training will begin in February 2022

Due to resource constraints, the University has a limited accounting staff. The University controller is responsible for ensuring that all financial transactions are properly recorded and that all required exhibits and the financial statements are submitted to the State Controller's Office on a timely basis. In order to comply with those responsibilities, the controller will ensure that all existing controls and reconciliations are performed and that all transactions, including those that may be infrequent, are properly recorded through the development and completion of a comprehensive year-end checklist. In addition, the controller and accounting staff will employ a year-end calendar that allows all staff to be clearly aware of impending deadlines. The controller will also attend trainings presented by the State Controller's Office and participate in regular meetings with other higher education institution controllers. In order to build staff knowledge for future fiscal years, the controller will continue to

provide cross-training opportunities for the accounting staff such that they better understand the university's financial statements, the year-end closing processes, and the related deadlines for both. Should the controller role be vacant during a future year-end, the remaining accounting staff and the Executive Vice President / COO would utilize the year-end calendar and checklist referenced above to delegate responsibilities and ensure year-end processes were completed timely. Additionally, the University may look to the assistance of outside consultants as needed.

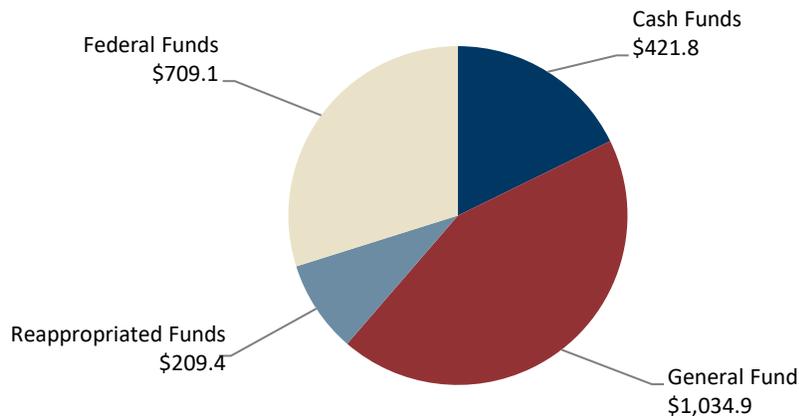
# Department of Human Services

The Department of Human Services (Department) is solely responsible, according to statute [Section 26-1-111 (1), C.R.S.], for administering, managing, and overseeing the delivery of the State’s public assistance and welfare programs throughout Colorado. Most of these programs are administered through local county departments of human/social services. The Department also manages and directly administers programs in the areas of developmental disabilities, mental health, nursing homes, and youth corrections.

For Fiscal Year 2021, the Department was appropriated approximately \$2.4 billion and 5,181 full-time equivalent (FTE) staff.

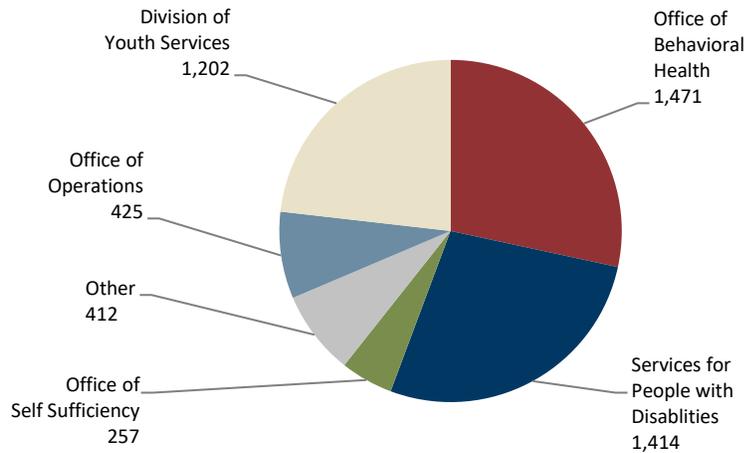
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for Fiscal Year 2021.

## Department of Human Services Fiscal Year 2021 Appropriations by Funding Source (in Millions)



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

## Department of Human Services Fiscal Year 2021 Full-Time Equivalent Staff by Major Areas



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

### Finding 2021-020

## Electronic Benefits Transfer System—SOC Review and Risk Assessment

The Electronic Benefits Transfer (EBT) System provides cash benefit payments to eligible recipients of the Department’s state and/or federally funded public assistance programs, such as the Supplemental Nutrition Assistance Program, via an EBT card. This EBT System is also responsible for generating provider payments for the Department’s federal foster care, adoption assistance, and childcare programs. The Department contracts with a third-party service organization to provide a full spectrum of IT services, including data processing, operations, and maintenance of the EBT System. This service organization, in turn, subcontracts certain services to another subservice organization.

Through contractual specifications, and as required by the federal Office of Management and Budget’s Compliance Supplement, the Department specifies that third-party service organizations contracted to perform work related to the EBT System obtain an annual *Statement on Standards for Attestation Engagements* examination that provides assurances over the internal controls that relate to financial reporting. These examinations are governed by the American Institute of Certified Public Accountants (AICPA) and the results are provided in the form of a System and Organization Controls (SOC) report. Specifically, the third-party service organization SOC report that relates to internal controls over financial reporting over a specified period is called a SOC 1, Type II (SOC 1) report.

## What was the purpose of our audit work and what audit work was performed?

Our audit work was designed to gain an understanding of the Department's processes related to reviewing the annual EBT System's SOC 1 reports and to determine the impact of the EBT System's third-party service organization's system of internal control on the Department's internal controls over financial reporting. Our audit work included reviewing the most recent SOC 1 reports provided to the Department over the EBT System's third-party service organization and subservice organization, and performing inquiries with Department EBT staff.

## How were the results of the audit work measured?

We measured the results of the audit work against the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book), which has been established by the Office of the State Controller (OSC) as the internal control framework to be used by state agencies:

- OV4.01, *Service Organizations*, indicates that management retains responsibility for the performance of processes assigned to service organizations and further indicates that management needs to understand the controls each service organization has designed, has implemented, and operates for the assigned operational process and how the service organization's internal control system impacts the entity's internal control system.
- OV4.08, *Documentation Requirements*, states that documentation is a necessary part of an effective internal control system and is required for the effective design, implementation, and operating effectiveness of an entity's internal control system.
- Paragraphs 6.08 and 6.09, *Definitions of Risk Tolerances*, state that management defines the risk tolerances for defined objectives, such as financial reporting, by ensuring that the set levels of variation for performance measures are appropriate for the design of an internal control system.
- Paragraphs 7.08 and 7.09, *Responses to Risks*, state that management designs responses to analyzed risks so that risks are within the defined risk tolerance for the defined objectives, in which management can either accept, avoid, reduce, or share risk-related actions. Once the risk response action has been selected, management designs specific actions to respond to the analyzed risks.

## What problems did the audit work identify?

The Department did not provide evidence that it reviewed the subservice SOC 1 report to determine whether certain disclosures and missing elements were significant and within

management's risk tolerance, related to Department's internal controls over financial reporting, or how it would address any potential issues related to these items. For example, the Department did not provide evidence related to how it addressed the following potential report issues:

- The subservice SOC 1 report did not cover a 12-month period; instead, it only covered a 9-month period.
- The report did not provide a description of any IT general controls over backup and recovery for the subservice organization, nor did it include the results of testing on the design, implementation, or operating effectiveness of these controls.

## Why did these problems occur?

In discussing these problems with Department staff:

- Staff stated that their EBT SOC Report Audit Remediation Process annually ensures deficiencies identified by the independent auditor are resolved. However, when we reviewed this process, we found that it did not include a risk assessment to determine whether the scope was adequate and within management's risk tolerance related to the impact to the Department's internal control objectives over financial reporting, or steps that it would take to address any potential report issues, for example, those related to certain disclosures and any missing elements.
- Staff did not seem to understand the potential report issues brought to their attention and did not indicate that they sought out any additional guidance or obtained further knowledge and understanding, from the OSC and/or the Governor's Office of Information Technology, to ensure management fulfilled its responsibility to determine how the scope and internal controls tested impacted its internal controls over financial reporting. Specifically, staff stated that they rely on their service organization to select an independent auditor to examine the controls and control objectives relevant to internal controls over financial reporting. As such, staff stated that they had reasonable confidence that backup and recovery controls were designed effectively through the service organization's Continuity Plan and certain contract amendments, even though these controls were not included in the SOC 1 report.

## Why do these problems matter?

A lack of documented departmental processes and evidence to support that departmental processes were followed, including SOC 1 report scope reviews and conclusions related to management's risk tolerances, could reduce the transparency of the uses of federal and state funds. In addition, this could cause inconsistent approaches, and the Department may not be able to obtain the level of assurance needed to meet management's expectations that key internal controls over financial reporting, including IT general controls, are designed, implemented, and operating effectively. For

example, if the service organization’s backup and recovery controls over the system are not audited for effectiveness, this could hamper the service organization’s ability to restore the system in a timely manner and impact the Department’s issuance of benefits to eligible individuals and families.

Classification of Finding: **Significant Deficiency**

This finding does not apply to a prior audit recommendation.

## Recommendation 2021-020

The Department of Human Services (Department) should improve internal controls over its Electronic Benefits Transfer (EBT) System by:

- A. Formalizing a process to review the System and Organization Controls (SOC) SOC 1, Type II reports to (1) gain an understanding and obtain appropriate assurance, based on management’s risk tolerance, over the controls its service organizations have designed, implemented, and are operating; (2) determine the impact of those service organization controls on the Department’s internal control objectives over financial reporting, and (3) remediate any issues identified, including taking steps to work with service organizations to include any controls that were omitted from SOC examination reports, but that are significant to the Department’s internal controls over financial reporting, or to formally accept the risks related to the omission of such controls.
- B. Collaborating with the Office of the State Controller and the Governor’s Office of Information Technology, as needed, to gain additional guidance, knowledge, and understanding of how the EBT System SOC examinations and the controls included in their reports impact the Department’s overall system of internal control over financial reporting. This collaboration will aid in the Department’s understanding of when negotiations may need to occur with service organizations, for example, if the scope of their SOC examinations needs to expand when significant controls have been omitted, or to formally accept any associated risks in such instances.

## Response

*Department of Human Services*

- A. Agree

Implementation Date: June 2022

The Department will expand its existing formal EBT SOC review process, to also review and remediate issues identified in the SOC reports, regarding the scope of service organizations’ controls, the impact of those control objectives over financial reporting, and the level of SOC examination of those controls.

B. Agree

Implementation Date: June 2022

The Department will update its existing formal EBT SOC review process to include meeting with the Governor's Office of Information Technology to review SOC reports upon receipt and will also consult with the Office of the State Controller as needed.

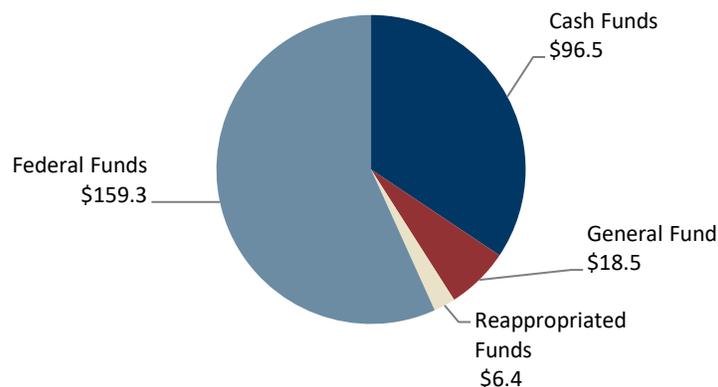
# Department of Labor and Employment

The Department of Labor and Employment's (Department) Division of Unemployment Insurance (UI) is responsible for the administration and monitoring of Colorado's unemployment insurance programs, including audits and investigations to ensure proper payment of premiums and benefits. The Department's Division of Employment and Training is responsible for the administration of the workforce development programs, state-run workforce centers, and research and analysis on Colorado's employment trends. The Department's Division of Vocational Rehabilitation and Independent Living Services is responsible for providing vocational rehabilitation services to individuals with disabilities so they can obtain employment, and also provides financial and technical support to nonprofit, independent living centers that help individuals with disabilities live and work independently in the community of their choice.

For Fiscal Year 2021, the Department was appropriated approximately \$280.7 million and 1,293 full-time equivalent (FTE) staff.

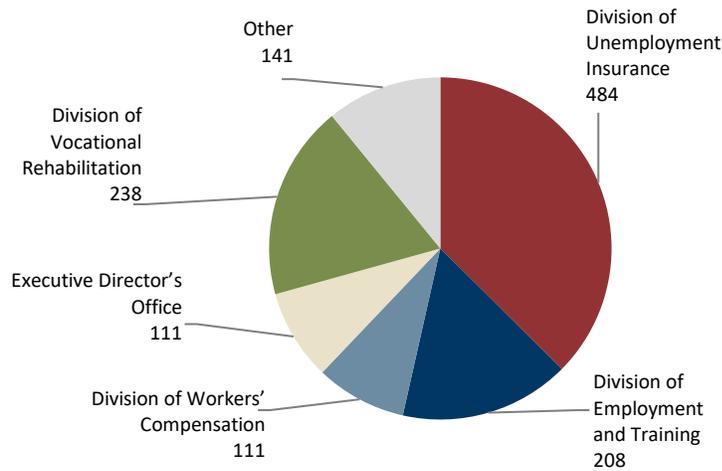
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for Fiscal Year 2021.

**Department of Labor and Employment Fiscal Year 2021 Appropriations by Funding Source (in Millions)**



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

## Department of Labor and Employment Fiscal Year 2021 Full-Time Equivalent Staff by Major Areas



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

### Finding 2021-021 Internal Controls over Financial Reporting

The Department's Accounting Section is responsible for all of the Department's financial reporting, including accurate accounting and timely data entry in the Colorado Operations Resource Engine (CORE), the State's accounting system. The Department's financial reporting must comply with generally accepted accounting principles (GAAP), as required by state statute [Section 24-30-204(1), C.R.S.]. The Governmental Accounting Standards Board (GASB) establishes GAAP for state and local government entities through the issuance of GASB statements.

The Department is responsible for the administration and monitoring of Colorado's UI programs, including the collection of UI premiums from employers and the payment of UI benefits to claimants, and for conducting audits and investigations of premiums and benefits to ensure they are properly paid. When an individual applies for unemployment benefits, they are called a claimant, and the application is called a claim. Each claimant creates an account in MyUI+, the Department's unemployment benefit system, in order to apply for unemployment benefits. The Department uses the MyUI+ system to aid in determining eligibility for UI benefits. The Department directly receives interest and penalty payments related to employer premiums and, as part of its accounting processes, should record the revenue entry in CORE quarterly.

The Department's Accounting Section is responsible for providing information through the submission of exhibits to the Office of the State Controller (OSC) to assist in the preparation of the State's financial statements and required note disclosures. Because governmental operations are diverse and constrained by numerous legal and fiscal requirements, a basic principle of governmental

GAAP is fund accounting. A fund represents part of the activities of an organization; each fund separates its activities in the accounting records and has a self-balancing set of accounts. In order to more easily demonstrate compliance with legal restrictions or limitations, governmental transactions and balances are accounted for through separate funds across several sets of financial statements.

In order for the OSC to meet its statutorily-required timeframes for the creation of the State's financial statements, the OSC establishes various periods with specified closing dates in CORE for department entries.

## **What was the purpose of our audit work and what work was performed?**

The purpose of our audit work was to determine whether the Department had adequate internal controls and complied with state requirements and OSC procedures related to financial accounting and reporting for Fiscal Year 2021.

An additional purpose of our work was to review the Department's progress in implementing our Fiscal Year 2020 audit recommendations related to its internal controls over financial reporting. During that audit, we recommended that the Department strengthen its internal controls over financial reporting to ensure the timely entry of fiscal year-end financial activity in CORE and accurate reporting of financial information by developing and implementing policies and procedures for its accounting processes and exhibit preparation and review. We also recommended that the Department perform reconciliations between its bank and CORE balances throughout the year, and at fiscal year end to identify, document, and correct reconciling items in a timely manner. Further, we recommended that the Department cross-train existing employees on additional responsibilities to allow for appropriate delegation when turnover occurs. The Department agreed with those recommendations and stated that it would implement them by March 2022.

We analyzed the Department's CORE transactional data recorded after the State's Fiscal Year 2021 statutory closing date of August 4, 2021, to identify the number and dollar amount of transactions that were processed after the OSC's statutory deadline for closing the State's accounting records. We also reviewed the Department's exhibits that were submitted to the OSC for Fiscal Year 2021 year-end reporting and the related supporting documentation to determine whether Department accounting staff prepared the exhibits in accordance with the OSC's *Fiscal Procedures Manual* (Manual).

We reviewed the Department's policies and procedures over its financial accounting and reporting processes, and the recording of accounting transactions in CORE for revenue, expenditures, and capital assets, to determine whether the Department complied with its own policies, state fiscal rules and statutes, and the OSC's Manual. In addition, we reviewed expenditure and revenue account

balances and supporting documentation in CORE to determine whether the account balances were appropriate, and whether the Department recorded the financial information correctly in CORE.

## How were the results of the audit work measured?

We measured the results of our audit against the following:

- State Fiscal Rule 1-2 (3.5), *Internal Controls*, requires that state departments “implement internal accounting and administrative controls that reasonably ensure that financial transactions are accurate, reliable, conform to the Fiscal Rules, and reflect the underlying realities of the accounting transaction (substance rather than form).” Examples of these internal controls include written policies and procedures over accounting processes to ensure that departments accurately record revenue, expenditures, and capital assets, including that they record these activities in the correct funds. Relevant controls also include adequate reviews of legislation that affects the department.
- The OSC’s Manual, Chapter 1 Section 1, *Introduction and Audit Risk Letter*, outlines that posting of Fiscal Year 2021 year-end adjustments are required to be completed by August 4, 2021. As of this date, all departments’ adjusted financial activity was required to be entered in CORE. Any Fiscal Year 2021 entries made after that date required OSC approval.
- House Bill 21-1290 appropriated \$15.0 million to the Department during Fiscal Year 2021. State statute [Section 8-83-504, C.R.S.] required the State Treasurer to transfer \$8.0 million from the General Fund to the Department’s Just Transition Cash Fund, and \$7.0 million from the General Fund to the workforce assistance program account within the Just Transition Cash Fund during 2021.
- The Department’s Desk Manual states that the Department should post employer premiums and penalty and interest revenue in CORE quarterly.
- The OSC’s Manual contains specific instructions for the completion of exhibits. Specifically, the Exhibit M, *Custodial Credit Risk Related to Cash on Hand or Deposited with Financial Institutions*, is used to report each department’s cash on hand and cash deposited in financial institutions by categories of risk, as well as the related cash balances recorded in CORE for these two types of cash. The Department is also required to reconcile its bank balances to CORE.

## What problems did the audit work identify?

Based on our audit testwork, we identified issues with the Department’s compliance with legal requirements; accounting for revenue and expenditures; and its fiscal year-end accounting procedures, including exhibit preparation. The specific issues we identified are as follows:

**Legal Noncompliance.** We identified the following issues related to the Department's legal compliance:

- The Department did not comply with the statutory close date for the State's accounting records. Specifically, the Department posted 37 entries totaling approximately \$480.5 million after the State's statutory closing deadline of August 4, 2021, with the latest transaction posted on December 9, 2021, or up to 127 days after the closing deadline. For example, two of the transactions that the Department posted on August 18 in CORE were to post \$349,000 in depreciation and \$1.7 million in payments to the Governor's Office of Information Technology (OIT) for services provided during the year.
- The Department did not ensure it received its appropriated \$15.0 million as a transfer from the State Treasurer for Fiscal Year 2021. After the OSC inquired of the Department about the missing transfer, the Department worked with the Department of Treasury to obtain the funds on December 8, 2021, or 5 months after fiscal year end.

**Inaccurate Accounting.** The Department failed to appropriately record revenue and expenditure transactions in CORE, as follows:

- Revenue—The Department incorrectly recorded and failed to record revenue totaling \$30.6 million. In one instance, the Department overstated revenue by \$19.0 million by incorrectly recording \$18.9 million in revenue to the Workers Compensation Cash Fund, instead of the correct amount of \$9.5 million. In another instance, Department staff erroneously posted \$9.6 million in revenue to the same fund to make a correction, but the correction was not needed, so the entry overstated revenue. Additionally, the Department did not post penalty and interest revenue quarterly in CORE, as required by its Desk Manual. In order to correct the omissions, the Department in July 2021 then posted approximately \$608,000 in penalties and \$1.5 million in interest in CORE for the year.
- Expenditures—The Department incorrectly recorded \$60.9 million in expenditures in CORE. First, Department staff posted \$9.1 million in capitalized expenditures for the Department's MyUI+ system to the incorrect fund. The Department corrected the error after we brought it to their attention. Second, the Department incorrectly booked an expenditure transaction in CORE and, as a result, overstated its expenditures by \$51.8 million. Department staff reversed this transaction after we notified them of the error.

**Incorrect CORE Balance Reported on the Exhibit M.** The Department's CORE balance did not reconcile to its bank balance on the Exhibit M. Specifically, the Department incorrectly submitted its Exhibit M to the OSC with a difference of \$158.1 million between its bank and CORE balances. After we notified the Department, it submitted a revised Exhibit M, with a difference of \$5.77 million. The Department provided explanations for and reconciled \$5.74 million of the difference, but could not explain the \$31,000 difference.

## Why did these problems occur?

The Department continued to lack sufficient internal controls over its financial accounting processes, including its year-end closing process for Fiscal Year 2021. While the Department reported it was not planning to implement the prior year recommendation until March 2022, the problems identified during the current year audit were significant to the State's Fiscal Year 2021 financial statements. Specifically, the Department was still working on documenting and updating its policies and procedures, including its accounting processes related to performing an adequate review of its financial accounting and reporting information; performing an adequate review of legislation to ensure it receives all transfers required by statutes; and performing routine reconciliations between its bank account balances and CORE throughout the year, and at fiscal year end to identify, investigate, and correct reconciling items in a timely manner. Finally, the Department was working on training new staff and cross-training current staff to take on the required additional responsibilities to address issues with staff turnover.

## Why do these problems matter?

Strong financial accounting internal controls, including effective review processes and procedures over financial transactions, adequate review and compliance with legislation, and routine reconciliations, are necessary to ensure that balances are reported accurately and in accordance with rules and regulations. Without sufficient internal controls, the Department cannot ensure that it is providing timely, complete, and accurate financial information to the OSC and, ultimately, that the State's financial statements are accurate.

Classification of Finding: **Material Weakness**

This finding applies to prior audit recommendations 2020-024A, 2020-024B, and 2020-024C.

## Recommendation 2021-021

The Department of Labor and Employment should strengthen its internal controls over financial reporting by:

- A. Continuing to develop, document, and implement policies and procedures for its accounting processes. These policies should require its staff to perform an adequate review of its financial accounting and reporting information; perform sufficient reviews of legislation and ensure it receives transfers from other state departments; and perform routine reconciliations between its bank account balances and balances recorded in the Colorado Operations Resource Engine (CORE) throughout the year, and at fiscal year end.

- B. Performing an adequate review of its transactions prior to posting in CORE to ensure accounting entries are accurate.
- C. Performing routine reconciliations between its bank account balances and balances recorded in CORE throughout the year, and at fiscal year end to identify, investigate, and correct reconciling items in a timely manner.
- D. Continuing to train existing and new employees on transaction posting and exhibit preparation to allow for appropriate transition when turnover occurs.

## Response

### *Department of Labor and Employment*

- A. Agree

Implementation Date: March 2023

CDLE will continue its efforts in developing, documenting, and implementing policies and procedures over our accounting practices. In addition, CDLE will work on filling the vacant positions within the Finance Office which will include a deputy controller who has a CPA or audit-related background.

- B. Agree

Implementation Date: March 2023

CDLE will remind staff the importance of proper entry and review of transactions and ensure that we document the process in our policies and procedures.

- C. Agree

Implementation Date: March 2023

Accounting staff should perform routine reconciliations between its bank account balances and balances recorded in CORE throughout the year, and at fiscal year-end to identify, investigate and correct reconciling items in a timely manner. The Finance Office continues to hire and train Accountants in order to conduct this work on a monthly basis and continues to work on drafting written procedures and desk manuals to memorialize the processes.

- D. Agree

Implementation Date: March 2023

The Finance Office continues to hire and train Accountants. They are trained on transaction posting and exhibit preparation and are also working on drafting written procedures and desk manuals to memorialize the processes.

## Finding 2021-022

### Unemployment Insurance Recording of Estimates

The Department's UI Division is responsible for the administration and monitoring of Colorado's UI programs, including the collection of unemployment premiums from employers, the payment of UI benefits to claimants, and the performance of audits and investigations of premiums and benefits to ensure they are properly paid. Employer-paid premiums are the primary source of funding for UI benefits. Due to the COVID-19 pandemic, the federal government added federal benefits to supplement states' unemployment programs.

When an individual applies for unemployment benefits, they are called a claimant, and the application is called a claim. Each claimant creates an account in MyUI+, the Department's unemployment benefit system, in order to apply for unemployment benefits. The Department reviews, or adjudicates, claims to ensure that claimants are eligible and entitled to receive UI benefits. As part of the adjudication process, wage checks for claimants are compared to employer reported wages submitted to the Department on a quarterly basis and the Department sends a notification to all employers that the claimant worked for within the last 18 months to determine the validity and reason for the claimant leaving the workplace. In addition, on a weekly basis, the Department should review to identify potential issues with a claimant's ability and availability to work, and to determine whether the claimant is accurately reporting earned income. If information provided by an interested party relating to the reason for leaving the workforce does not agree to the claimant information, the Department follows up on the information and issues eligibility determinations, as appropriate. In Fiscal Year 2021, the Department paid \$9.6 billion in unemployment benefits.

In June 2020, the Department started implementing a number of processes and systems to detect and prevent identity theft related to UI benefits. When the Department identifies a claim with characteristics that are indicators of fraud, it places a fraud hold (also known as a program integrity hold) on the claimant's UI claim, which prevents any future benefit payments and holds them for investigation. For each fraud hold, the Department has to determine if the identity of the individual filing the claim matches the personally identifiable information used on the claim. Once that is verified, the Department then must verify that the individual did not make any false statements in order to establish program eligibility. The steps that the Department takes to resolve a fraud hold differ depending on the characteristics of the claim that caused the Department to question its legitimacy. The Department could also place a fraud hold on claims if the Department determines that someone had stolen another person's identity and used it to claim benefits, and then the person whose identity was stolen also applies for benefits. In this situation, the Department would place a fraud hold on the claims until it could conduct an investigation to determine whether one, or none, of the claims is legitimate. If the Department determines that someone has fraudulently applied for benefits, then the Department places a permanent fraud hold on that individual's claims and payments, and, if necessary, pursues civil and criminal procedures against the individual identified.

At the end of Fiscal Year 2021, the Department had fraud holds on approximately 1.4 million claims.

## What was the purpose of our audit work and what work was performed?

The purpose of the audit work was to determine whether the Department had adequate financial internal controls in place during Fiscal Year 2021 over its UI benefit claims, including controls over estimated payables and receivables related to UI benefit claims, and to determine the Department's progress in implementing our Fiscal Year 2020 audit recommendations related to its internal controls over its accounting for UI benefit payments. As a result of our Fiscal Year 2020 audit work, we recommended that the Department improve its internal controls over its accounting for UI benefit payments by developing and implementing a methodology for calculating estimated receivables and payables for UI benefit payments, and recording receivables throughout the year as overpayments are established.

As part of our audit work, we requested the Department's documented methodology for calculating estimated receivables and payables for UI benefit payments, including those claims placed on fraud holds. In addition, we reviewed the Department's estimated payable and receivable transactions that the Department posted in CORE, as well as the support for those transactions.

## How were the results of the audit work measured?

We measured the results of our audit against the following:

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, as amended, states that "Preparing financial statements requires estimating the effects of future events. Examples of items for which estimates are necessary are uncollectible receivables.... Future events and their effects cannot be perceived with certainty; estimating, therefore, requires the exercise of judgment. Therefore, accounting estimates change as new events occur, as more experience is acquired, or as additional information is obtained."
- The OSC's Manual, Section 3.1, *Preparing Accounting Estimates*, states that departments should review their current accounting estimation procedures, or accruals, to ensure they are consistent with OSC guidance. The revenue and expenditure accrual estimation methodologies must be documented, so the process and source data may be used from year to year to achieve consistency and improve the estimation methodology. An inaccurate estimate may indicate the need to research variances and use a different methodology to produce a more accurate estimate.

- GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, Paragraph 53 states that “State and local governmental entities should report an estimated loss from a claim as an expenditure/expense and as a liability if both of these conditions are met:
  - Information available before the financial statements are issued indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will also occur confirming the fact of the loss.
  - The amount of loss can be reasonably estimated.”

In addition, Paragraph 58 states “If no accrual is made for a loss contingency because one or both of the conditions in paragraph 53 are not met, or if an exposure to loss exists in excess of the amount accrued in accordance with the provisions of paragraph 53, disclosure of the contingency should be made when there is at least a reasonable possibility that a loss or an additional loss may have been incurred. The disclosure should indicate the nature of the contingency and should give an estimate of the possible loss or range of loss or state that such an estimate cannot be made. Disclosure is not required of a loss contingency involving an unreported claim or assessment if there has been no manifestation by a potential claimant of an awareness of a possible claim or assessment unless it is considered probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable.”

## What problems did the audit work identify?

We determined that the Department partially implemented our prior year audit recommendation, but did not ensure that it had sufficiently strong financial accounting and reporting controls over UI benefit payments during Fiscal Year 2021. Specifically, we found that the Department did not document the potential impact of the 1.4 million UI claims that were on fraud holds as of June 30, 2021, on its financial activity or the State’s financial statements. The Department did not calculate or record an estimated accounts payable to claimants or related accounts receivable from the federal government in CORE for any claims that were on fraud holds at year end to reflect amounts due to claimants and due from the federal government. In addition, it did not document the reasoning for not developing an estimate until we brought this to the Department’s attention. The Department then researched the issue and determined that because the likelihood of a liability being established for highly suspicious claims is remote, and because it could not confirm any of the eligibility requirements necessary to provide an estimate, claims that were on fraud hold should have been considered for disclosure purposes only in the State’s financial statements. The Department provided the disclosure information to the OSC on January 13, 2022—or 6 months after the fiscal year end—for the OSC to include in a note disclosure in the State’s financial statements.

## Why did these problems occur?

The Department did not adequately consider, research, and document its methodology for calculating and recording the estimated amount of receivables and payables for UI payments, including its reasoning for not including fraud holds in its estimates and therefore, did not have a process to ensure it provided the related note disclosure information to the OSC in a timely manner. Although the Department provided us supporting documentation, such as claim reports from its MyUI+ benefit system, for the estimates it recorded when we inquired about its documented methodology, the Department indicated that it had a methodology for its estimates but had not documented it. The Department subsequently provided its methodology document, *Methodology for Year-End Accruals/ Department of Labor and Employment*, to us in October 2021—or 4 months after fiscal year end—which provided guidance on how the Department calculated and recorded its Fiscal Year 2021 estimates. This document was specific to its Fiscal Year 2021 estimates but did not discuss claims on fraud holds, and was not a robust document that included criteria, assumptions, or its methodology for creating the MyUI+ reports used in calculating the estimates, which the Department could use in the future and adjust as new events occur, more experience is acquired, and additional information is obtained.

## Why do these problems matter?

Strong financial accounting internal controls are necessary to ensure that UI balances are accurate, free of material misstatement, supported by sufficient and appropriate evidence, and reported accurately on the State’s financial statements. Because the UI program and its related activities are material to the State’s financial statements, errors related to the program can negatively affect the auditor’s opinion on the State’s financial statements.

Classification of Finding: **Significant Deficiency**

This finding applies to prior audit recommendation 2020-023C.

## Recommendation 2021-022

The Department of Labor and Employment (Department) should improve its internal controls over its accounting for Unemployment Insurance (UI) benefit payments by:

- A. Continuing to develop, implement, and formally document its methodology, including criteria and reports used, for calculating estimated receivables and payables for UI benefit payments including its conclusions and any reasoning for not recording an estimate for claims on fraud hold at year end or any other claims. The Department should ensure that the methodology is sufficiently robust to allow its use in the future and adjust it as new events occur, more experience is acquired, and additional information is obtained.

- B. Providing disclosure information to the Office of the State Controller to include in the State’s Financial Statements in a timely manner, as applicable.

## Response

### *Department of Labor and Employment*

- A. Agree

Implementation Date: August 2022

CDLE agrees with the recommendation and will continue to develop, implement, and formally document its methodology for calculating estimated receivables and payables for UI benefit payments to include our rationale for not including fraud hold claims.

- B. Agree

Implementation Date: August 2022

CDLE agrees with the recommendation and will provide disclosure information related to fraud holds to the OSC so that it may be included in the State’s Financial Statements in a timely manner.

## Findings 2021-023 and 2021-024 CUBS, CATS, and CLEAR Information Security

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding and response have been provided to the Department and OIT in a separate, confidential memorandum.*

The Department is responsible for the administration of the State’s UI program. As of January 2021, the Department implemented the MyUI+ system to modernize and ultimately replace two of the three Department’s legacy systems: the Colorado Unemployment Benefits System (CUBS) and the Colorado Labor and Employment Accounting Resource (CLEAR) system. The Department has received funding to modernize its third existing legacy system, the Colorado Automated Tax System (CATS), beginning in Fiscal Year 2022.

During Fiscal Year 2021, the Department used all three legacy systems (CUBS, CATS, and CLEAR), along with MyUI+ beginning in January 2021, to determine eligibility and track benefits related to various unemployment benefits (MyUI+ and CUBS); track and report unemployment premium payments made by employers (CATS); and capture and report federal grant financial information

from the UI program and the Workforce Centers—satellite offices where unemployment benefits and services can be accessed by the public (CLEAR).

CUBS stores Federal Tax Information (FTI) and therefore, is subject to the IRS regulations, specifically Publication 1075, which sets forth guidelines for protecting FTI. CUBS and CATS have an automated interface with CLEAR, and on a daily basis, Department staff manually update the CORE, the State’s accounting system, with CLEAR data. CUBS and CATS share a common IT infrastructure and are co-dependent on the continuing operation of the other. Therefore, CUBS will remain operational until CATS is modernized and becomes a standalone system, at which point MyUI+ will fully replace CUBS.

The Colorado Information Security Policies (Security Policies) and OIT Cyber Policies define the minimum information security requirements for the Department’s systems. Responsibility for the reliability and availability of the CUBS, CATS, and CLEAR systems is shared between the Department, OIT, and the CLEAR vendor.

As the COVID-19 pandemic was prolonged during Fiscal Year 2021, the Department continued to deal with high numbers of both new and backlogged pandemic and regular UI claims that further delayed the UI modernization project. OIT’s focus also shifted to ensure the legacy systems remained operational to process the UI claims.

## **What was the purpose of our audit work and what work was performed?**

The purpose of our audit work was to determine the Department’s and OIT’s progress in implementing various prior audit recommendations related to improving information security controls for CUBS, CATS, and CLEAR.

We performed our audit work through inquiry of Department and OIT staff, as well as reviewing supporting documentation.

## **What problems did the audit work identify and how were the results of the audit work measured?**

During our Fiscal Year 2021 audit work, we found that both the Department and OIT had not fully implemented our prior audit recommendations and the CUBS, CATS, and CLEAR systems and related processes continued to be noncompliant with Security Policies, OIT Cyber Policies, and IRS Publication 1075—some of the noncompliance dating back to Fiscal Year 2009.

## Why did these problems occur?

The Department and OIT staff explained that they were unable to fully implement the prior audit recommendations based on staff being diverted to respond to the COVID-19 pandemic, the new system implementation, and ensuring the Department's legacy systems remained up and running to process the backlog of unemployment claims. However, neither the Department nor OIT has adequately assessed risk or defined risk tolerances related to the remediation of IT general control deficiencies that would allow management to meet IT control objectives and be in compliance with various security policy requirements. Furthermore, neither the Department nor OIT have held staff accountable for remediating IT general control deficiencies in a timely manner and in performing their internal control responsibilities.

## Why do these problems matter?

The identified information security problems increase the risks of inappropriate access and the inability to detect system performance issues and security-related incidents. Ultimately, these risks could adversely impact the confidentiality, integrity, and availability of the systems and their data, as well as the potential for misstatements to the financial statements.

### Classification of Finding: **Material Weakness**

This finding applies to prior audit recommendations 2020-011A, 2020-011B, 2020-011D, 2020-025A, 2020-025B, 2020-025C, 2020-025D, 2019-026A, 2019-026B, 2019-026C, 2019-026D, 2019-027A, 2019-027B, 2019-027C, 2019-027D, 2018-014, 2018-025, 2017-027A, 2017-027E, 2017-028A, and 2017-030.

## Recommendation 2021-023

The Department of Labor and Employment should reprioritize staff in working with the Governor's Office of Information Technology and the Colorado Labor and Employment Accounting Resource (CLEAR) vendor, as applicable, to improve information security controls over the Colorado Unemployment Benefits System, the Colorado Automated Tax System, and the CLEAR system by:

- A. Implementing the recommendation within Part A of the confidential finding.
- B. Implementing the recommendation within Part B of the confidential finding.
- C. Implementing the recommendation within Part C of the confidential finding.
- D. Implementing the recommendation within Part D of the confidential finding.
- E. Implementing the recommendation within Part E of the confidential finding.

F. Implementing the recommendation within Part F of the confidential finding.

G. Implementing the recommendation within Part G of the confidential finding.

## Response

### *Department of Labor and Employment*

A. Agree

Implementation Date: October 2023

The department agrees with this recommendation. The department plans to resolve this recommendation by October 2023.

B. Agree

Implementation Date: October 2023

The department agrees with this recommendation. The department plans to resolve this recommendation by October 2023.

C. Agree

Implementation Date: October 2023

The department agrees with this recommendation. The department plans to resolve this recommendation by October 2023.

D. Agree

Implementation Date: July 2022

The department agrees with this recommendation. The department plans to resolve this recommendation by July 2022.

E. Agree

Implementation Date: October 2023

The department agrees with this recommendation. The department plans to resolve this recommendation by October 2023.

F. Agree

Implementation Date: October 2023

The department agrees with this recommendation. The department plans to resolve this recommendation by October 2023.

G. Agree

Implementation Date: July 2022

The department agrees with this recommendation. The department plans to resolve this recommendation by July 2022.

## Recommendation 2021-024

The Governor's Office of Information Technology should reprioritize staff in working with the Department of Labor and Employment to improve information security controls over the Colorado Unemployment Benefits System, the Colorado Automated Tax System, and the Colorado Labor and Employment Accounting Resource system by:

- A. Implementing the recommendation within Part A of the confidential finding.
- B. Implementing the recommendation within Part B of the confidential finding.
- C. Implementing the recommendation within Part C of the confidential finding.
- D. Implementing the recommendation within Part D of the confidential finding.
- E. Implementing the recommendation within Part E of the confidential finding.
- F. Implementing the recommendation within Part F of the confidential finding.
- G. Implementing the recommendation within Part G of the confidential finding.

## Response

*Governor's Office of Information Technology*

A. Agree

Implementation Date: October 2023

The Governor's Office of Information Technology (OIT) agrees with this recommendation. OIT will work with the department to remediate the finding by October 2023.

B. Agree

Implementation Date: October 2023

The Governor's Office of Information Technology (OIT) agrees with this recommendation. OIT will work with the department to remediate the finding by October 2023.

C. Agree

Implementation Date: July 2021

The Governor's Office of Information Technology (OIT) agrees with this recommendation. OIT worked with the department and implemented the recommendation as of July 2021.

D. Agree

Implementation Date: August 2022

The Governor's Office of Information Technology (OIT) agrees with this recommendation. OIT will work with the department to implement the recommendation by August 2022.

E. Agree

Implementation Date: August 2022

The Governor's Office of Information Technology (OIT) agrees with this recommendation. OIT will work with the department and remediate the finding by August 2022.

F. Agree

Implementation Date: October 2023

The Governor's Office of Information Technology (OIT) agrees with this recommendation. OIT will work with the department and remediate the finding by October 2023.

G. Agree

Implementation Date: July 2022

The Governor's Office of Information Technology (OIT) agrees with this recommendation. OIT will work with the department and remediate the finding by July 2022.

## **Finding 2021-025**

### **CLEAR—Computer Operations Contingency Planning**

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate "classified or limited use" report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding and response have been provided to the Department in a separate, confidential memorandum.*

Responsible for the administration of the State’s UI program, the Department—in the role of business owner—utilizes CLEAR to track UI premium payments made by employers. CLEAR also captures and reports federal grant financial information for the UI program and the Workforce Centers, which are satellite offices where unemployment benefits and services can be accessed. The Department manually enters CLEAR data in CORE.

The Department has contracted with a vendor to act in the role of IT service provider and must ensure CLEAR and the vendor comply with Security Policies. Generally, Security Policies define the detailed requirements for the Department’s systems, including CLEAR, such as requirements over contingency planning. Contingency planning is a key business process to ensure that critical business processes, including the associated IT systems and processes, are recovered within a timely manner, in the event of a disaster.

## **What was the purpose of our audit work and what work was performed?**

The purpose of our audit work was to determine the Department’s progress in implementing our Fiscal Year 2018 recommendation related to contingency planning for the CLEAR system. The Department agreed to implement the Fiscal Year 2018 recommendation by January 2020 (Fiscal Year 2020). During our Fiscal Year 2020 audit, we determined that the Department had not fully implemented our recommendations and stated the recommendations would be implemented by September 2020 (Fiscal Year 2021).

We performed our audit work through inquiry of Department staff, as well as inspection of documentation.

## **How were the results of the audit work measured?**

We measured the results of our audit work against OTT’s Security Policies.

## **What problems did the audit work identify?**

During Fiscal Year 2021, we found that the Department had not fully implemented our Fiscal Year 2018 recommendations related to contingency plan requirements for CLEAR.

## **Why did these problems occur?**

Department staff stated that their focus was diverted to the new system’s implementation and the backlog of UI claims caused by the COVID-19 pandemic. They indicated that, as a result, staff were unable to work with the vendor to implement the recommendations.

## Why do these problems matter?

The problems we noted related to the CLEAR system's contingency plan could result in a disruption to the Department's business functions, the loss of system data, and noncompliance with Security Policies. Ultimately, these problems could adversely impact the State's ability to conduct UI and Work Force Center operations and, in turn, could adversely impact the effectiveness, efficiency, and reliability of financial reporting.

### Classification of Finding: **Significant Deficiency**

This finding applies to prior audit recommendations 2019-028B, 2019-028C, 2018-023B, and 2018-023C.

## Recommendation 2021-025

The Department of Labor and Employment should improve computer operation controls over the Colorado Labor and Employment Accounting Resource (CLEAR) system and ensure compliance with Colorado Information Security Policies by:

- A. Implementing the recommendation as noted in Part A of the confidential finding.
- B. Implementing the recommendation as noted in Part B of the confidential finding.
- C. Implementing the recommendation as noted in Part C of the confidential finding.

## Response

### *Department of Labor and Employment*

- A. Agree

Implementation Date: July 2022

CDLE agrees with the recommendation. Additionally, CDLE wants to note that the CLEAR system is due to sunset after the end of the current fiscal year (Fiscal Year 2022).

- B. Agree

Implementation Date: July 2022

CDLE agrees with the recommendation. Additionally, CDLE wants to note that the CLEAR system is due to sunset after the end of the current fiscal year (Fiscal Year 2022).

C. Agree

Implementation Date: July 2022

CDLE agrees with the recommendation. Additionally, CDLE wants to note that the CLEAR system is due to sunset after the end of the current fiscal year (Fiscal Year 2022).

## **Finding 2021-026**

### **CORE Access—Management**

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding and response have been provided to the Department in a separate, confidential memorandum.*

The Department’s financial information is recorded in CORE, which was implemented by the State at the start of Fiscal Year 2015 to function as the State’s accounting system. The OSC, within the Department of Personnel & Administration, developed procedures that apply to all state departments, outlining the requirements for CORE access management. The OSC has delegated responsibility to each department for determining and monitoring its staff’s access to CORE.

During Fiscal Year 2021 the Department had 1,594 active employees and 227 of them had access to CORE.

### **What was the purpose of our audit work and what work was performed?**

The purpose of our audit work was to determine whether the Department had adequate access management controls designed, implemented, and operating effectively during Fiscal Year 2021.

### **How were the results of the audit work measured?**

We measured the results of our audit work against the Department’s CORE procedures, the OSC’s CORE procedures, the OSC’s Internal Control System policy, which requires state agencies to use the *Standards for Internal Control in the Federal Government* (Green Book), published by the U.S. Government Accountability Office, as its framework for its system of internal controls.

## What problems did the audit work identify?

During our Fiscal Year 2021 audit work, we found problems related to the Department's CORE access management procedures.

## Why did these problems occur?

In discussing these problems with Department staff, they stated that the Department underwent massive turnover in Fiscal Year 2021 that affected its ability to address the problems we noted. In addition, Department management did not clearly define their expectations within their CORE procedures regarding CORE access to ensure the problems we identified would not occur.

## Why do these problems matter?

The Department is responsible for the information contained in CORE, and for ensuring that staff have appropriate access to CORE. By not ensuring access management controls are designed, implemented, and operating effectively, the State is at risk of unauthorized users inappropriately accessing and modifying data in the system, including data related to financial reporting. In addition, by management not establishing its expectations, the risk increases that CORE access procedures may not be performed consistently or at all.

Classification of Finding: **Significant Deficiency**

This finding does not apply to a prior audit recommendation.

## Recommendation 2021-026

The Department of Labor and Employment should improve access management controls to safeguard information contained in the Colorado Operations Resource Engine system by:

- A. Implementing the recommendation as noted in Part A of the confidential finding.
- B. Implementing the recommendation as noted in Part B of the confidential finding.

## Response

### *Department of Labor and Employment*

A. Agree

Implementation Date: September 2021

We have established written procedures over access management to ensure that controls are designed, implemented and operating effectively to address Part A of the Recommendation.

B. Agree

Implementation Date: September 2021

We have established written procedures over access management to ensure that controls are designed, implemented and operating effectively to address Part B of the Recommendation.

# Legislative Department

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The Legislative Department (Department) is comprised of six individual agencies, which include the General Assembly, Joint Budget Committee, Legislative Council, Office of the State Auditor, Office of Legislative Legal Services, and Redistricting Commissions.

## General Assembly

Colorado's State Legislature is called the General Assembly. The Colorado Constitution grants the lawmaking power, and thus the public policy-making power of the State, to the General Assembly. There are 100 elected members serving as the State Legislature—35 senators and 65 representatives. As one of the three branches of state government, the State Legislature includes the elected officials of the Senate and the House of Representatives (House) and support staff.

A candidate for the General Assembly must be at least 25 years old, a U.S. citizen, and a resident of the district they are seeking to represent for at least 12 months prior to the election. The terms of office of senators are limited to two consecutive 4-year terms, and representatives are limited to four consecutive 2-year terms, effective for terms beginning on or after January 1, 1991.

The Secretary of the Senate and the Chief Clerk of the House and their employees are responsible for the daily administration of each house, including the preparation of daily calendars and journals, the preparation of floor amendments, the engrossing and enrolling procedures, the handling of messages to and from the Governor, communications between the two houses of the Legislature, and communications to the General Assembly from other state officers and departments; custody of documents and records of the two houses; and the maintenance of pay records for all personnel employed by the House and the Senate.

## Joint Budget Committee

The Joint Budget Committee (Committee) is the fiscal and budget review agency for the State and comprises six members of the General Assembly. The Committee works year-round and has a full-time staff. The Committee studies the programs, management, operations, and fiscal needs of all state agencies; reviews budget requests; and holds hearings with state agency managers. The Committee also reviews capital construction and controlled maintenance recommendations made by the Capital Development Committee.

Each year, the Committee introduces supplemental appropriations bills and the general appropriations bill, also known as the Long Bill. The Long Bill narrative explains the recommendations that the Committee included in the Bill.

After each session, Committee staff writes the appropriations report. This report explains legislative intent and gives program guidance to state agencies related to the budget.

The committee members include the Chairmen of the House and Senate Appropriations Committees, plus one majority and one minority member from each of these committees. The Committee elects a Chairman and a Vice Chairman, one from the Senate and one from the House. The elected Chairman subsequently serves as Vice Chairman during the second session, and the elected Vice Chairman subsequently serves as Chairman during the second session.

## Legislative Council

The Legislative Council was created in 1953 to collect data, examine constitutional and statutory provisions and possible amendments, consider important issues of public policy, and prepare reports and other documents for presentation to the General Assembly.

The Legislative Council Committee is an 18-member body comprising six members of the Senate, six members of the House, and the six-member Executive Committee. The Executive Committee, which comprises the President of the Senate, the Speaker of the House, and the majority and minority leaders of both houses, is the governing body of the Department.

The information-gathering function of the Legislative Council created a need for a continuing and permanent research staff to work for the General Assembly. To fulfill this function, the Legislative Council Committee employs a Director of Research who appoints professional, technical, clerical, and other employees necessary to perform the functions assigned. The responsibilities and functions of the staff may be grouped under six broad activities:

- Staffing interim and statutory committees
- Staffing committees of reference
- Responding to requests for research
- Preparing fiscal notes
- Providing revenue projections
- Performing other centralized support services, including accounting, compensation, and information technology services

## Office of the State Auditor

The State Auditor was established in the State's Constitution and serves as the State's independent, external auditor. The State Auditor is appointed by a majority vote of both houses of the General Assembly to serve for a term of 5 years and must be a certified public accountant licensed to

practice in Colorado. The duties of the State Auditor are to conduct performance and financial audits of all State departments, institutions, and agencies of State government, and to conduct special audits of any department, institution, or agency at the request of the Governor or a member of the General Assembly, upon a majority vote of the Legislative Audit Committee. In addition, the Office of the State Auditor (OSA) examines all reports submitted by local governments under the Local Government Audit Law, administers the OSA Fraud Hotline, and conducts tax expenditure evaluations on a 5-year cycle.

The eight-member Legislative Audit Committee consists of four members from the Senate appointed by the President (two from each major political party) and four members from the House appointed by the Speaker (two from each major political party).

## **Office of Legislative Legal Services**

The Committee on Legal Services consists of 10 members of the General Assembly: the chairpersons of the Senate and House Judiciary Committees, four members from the Senate appointed by the President (two from each party), and four members from the House appointed by the Speaker (two from each party). The Committee on Legal Services appoints a Director who is an attorney-at-law. The Director appoints a professional staff, which includes attorneys-at-law and technical and clerical personnel, to assist in the operation of the Office of Legislative Legal Services (Office).

Within the Office is the Revisor of Statutes (Revisor). The Revisor and their staff prepare various legal publications.

The Office prepares the bills, resolutions, and memorials introduced in the General Assembly. Under joint rule, no bill may be introduced in either house unless first approved as to form by the Office. In addition, many amendments and all conference committee reports are prepared by the Office.

The Office, acting under the direction of the Committee on Legal Services, coordinates litigation involving the General Assembly. Staff attorneys assist retained counsel in the preparation of briefs and other legal research and writing.

The Office also reviews rules and regulations promulgated by executive agencies and all contracts for the Department.

## **Redistricting Commissions**

Colorado voters approved two amendments—Amendments Y and Z—to the Colorado Constitution in 2018, which established and required two separate independent commissions for

congressional and state legislative redistricting. Each commission comprises 12 members who are chosen by a three-judge panel from a pool of applicants. Legislative leadership is given an opportunity to provide input on eight of the members who are selected from the pool to represent the two major political parties. The three-judge panel chooses the final four commissioners from those applicants who are unaffiliated with a political party.

The commissions have nonpartisan staff who are responsible for:

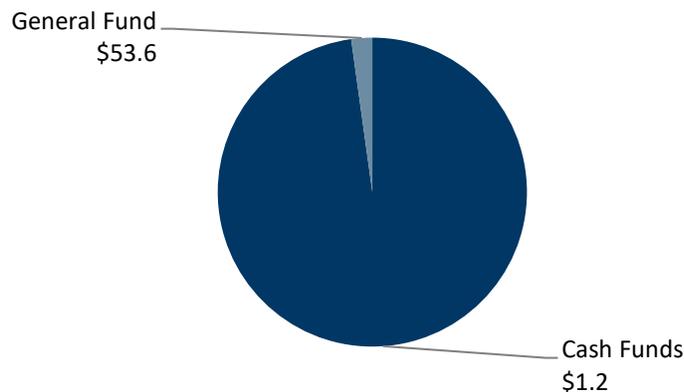
- Creating and making public the commissioner applications;
- Vetting the applicants;
- Staffing the three-judge panels and the commissions;
- Drawing and amending maps based on constitutional parameters and feedback from the commissioners and the public.

The redistricting commissions were active during Fiscal Year 2021, but not in Fiscal Year 2020.

For Fiscal Year 2021, the Department was appropriated approximately \$54.8 million and 307 full-time equivalent (FTE) staff.

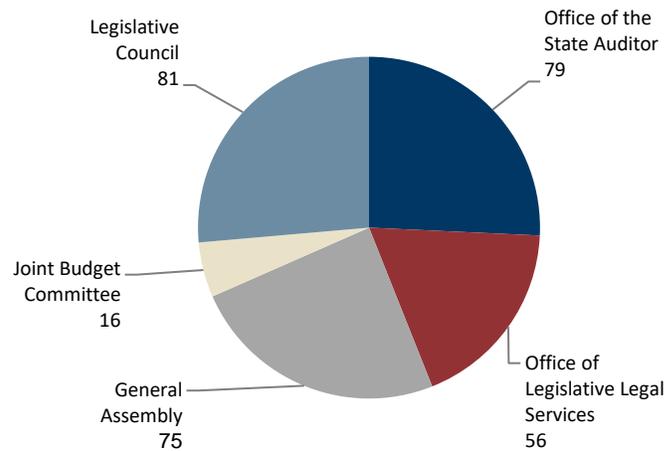
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for Fiscal Year 2021.

**Legislative Department Fiscal Year 2021 Appropriations by Funding Source (in Millions)**



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

## Legislative Department Fiscal Year 2021 Full-Time Equivalent Staff by Major Areas



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

### Finding 2021-027

## Accounting Controls—Timeliness of Quarterly Reports and Presentation of Financial Information for Audit

The Department's financial activity is managed through two separate and distinct accounting processes and personnel. Specifically, the OSA maintains accounting internal controls and records separate from accounting internal controls and records for the remaining five agencies of the Department, which are maintained by the Legislative Council Staff (LCS). For financial reporting purposes, the OSA's Controller provides accounting records to the LCS's Controller, who is responsible for preparing the Department's financial statements and reporting the quarterly and annual financial statement information for the Department as a whole to the Office of the State Controller (OSC).

The quarterly financial reports to be submitted to the OSC include financial information such as explanations for abnormal balances, out of balance funds, and over-expended accounts, as well as certifications related to the performance of payroll reconciliations and information technology access reviews. Timely and accurate financial reporting is vital for the proper functioning of state government. Such financial information must be available for decision making and planning purposes.

The financial statement information is required to be accurate, submitted on a timely basis, and representative of the Department's financial information for the fiscal year. The financial statement information is provided to the external auditors who subject it to testing in order to ensure the

Department's and the State's overall aggregate financial statement reporting is complete and accurate, and conforms to statutory requirements.

## **What was the purpose of our audit work and what work was performed?**

The purpose of the audit work was to determine whether the Department had adequate internal controls in place over, and complied with, applicable requirements related to its financial accounting and reporting processes for Fiscal Year 2021. As part of our audit, we performed testing of the Department's internal controls over various financial processes, and assessed the Department's control environment related to the timely and accurate submission of required quarterly reports, annual financial statements, and various financial information requested for audit. We specifically reviewed the submission documentation for all eight quarterly reports submitted by the Department to the OSC for Fiscal Year 2021.

During the audit, we also evaluated the Department's progress in implementing our prior audit recommendations. In our Fiscal Year 2020 audit, we recommended that the Department improve its internal controls over fiscal year-end financial reporting by (a) documenting the procedures and related supporting documentation necessary to prepare the OSC-required exhibits and the related standalone financial statements to ensure consistent, accurate, and timely reporting of the information to the OSC and the external auditors; (b) implementing a documented review of all exhibits to be submitted to the OSC by a person who is not the preparer of the exhibit; (c) ensuring that all staff involved in the preparation and review process established through part (b) of this recommendation receive adequate training to ensure the exhibits are accurate and comply with OSC submission requirements; and (d) providing sufficient cross-training of accounting personnel in regard to the key preparation and review controls related to the exhibits, so that in the event of turnover or unexpected leaves of absence, the controls will continue to operate as designed. The Department agreed to implement these recommendations between April and August 2021.

## **How were the results of the audit work measured?**

State Statute [Section 24-30-204(2), C.R.S.] requires all State departments to "submit a quarterly report of financial information to the OSC no later than 30 days after the last day of each fiscal quarter." However, the due dates established by the OSC were as follows: quarter 1 due by November 6, 2020, quarter 2 due by February 12, 2021, quarter 3 due by May 14, 2021, and quarter 4 due by September 1, 2021.

State Statute [Section 24-30-204(1), C.R.S.] requires that Department financial statements be submitted to the OSC no later than August 25, 2021, subject to any extensions that may be granted by the OSC. The OSC extended this due date to September 8, 2021.

The OSC's *Fiscal Procedures Manual* (Manual) [Chapter 1, Section 3.3, *State of Colorado Accounting Organization Objectives*, and Section 3.7a, *State of Colorado Accounting Organization Shared Responsibilities*] requires State departments to “establish internal controls for their departments” in order to “maintain an internal control environment that enhances sound business practices, clearly defines roles, responsibilities, and accountability, and provides for the prevention and detection of fraudulent activity.” This includes maintaining internal controls over the preparation of financial information for submission to the OSC per the requirements of the Manual.

## What problems did the audit work identify?

As a result of our audit work, we identified the following issues:

- None of the LCS's four quarterly financial reports were submitted by the OSC's due dates, ranging from 4 to 56 days late.
- The Department's annual financial statements were submitted to the OSC by the LCS on September 15, 2021, which was 7 days after the extended submission due date of September 8, 2021. After the Department submitted its annual financial statements to the OSC and to the auditors, the Department identified several errors in the financial statements. For example, there were adjustments of approximately \$1.2 million that affected revenues and transfers with no impact to fund balance. The financial statement errors were corrected on November 3, 2021.
- The auditor experienced difficulties in obtaining information for the audit in a timely manner. For example, the audit was originally scheduled to begin on September 13, 2021; however, it was delayed 2 weeks to September 27, 2021, as documents requested for audit had not been provided by the first day of fieldwork. An audit document request listing was provided to the Department on June 11, 2021, wherein the final fieldwork items were requested by September 13, 2021. Requested documents from the LCS were provided September 15, 2021, through October 29, 2021.

## Why did these problems occur?

Overall, we determined that the Department had not fully implemented our Fiscal Year 2020 audit recommendations to improve its internal controls over fiscal year-end financial reporting. Specifically we found that the Department had not established and documented procedures to ensure the timely and accurate completion and submission of the Department's quarterly reports and financial statements to the OSC. We also determined that the Department had not established a timely review process over its annual financial statements prior to submission to the OSC and for audit. However, we did determine that the Department participated in the training facilitated by the OSC during Fiscal Year 2021 and began cross-training its accounting personnel.

## Why do these problems matter?

A lack of adequate internal controls, including a lack of an adequate and timely review process, resulted in different versions of the financial statements being reviewed internally compared to the versions presented to the OSC and for audit. Furthermore, the Department was out of compliance with statutory requirements for quarterly and annual reporting. GASB Concept Statement No. 1 states that, “If financial reports are to be useful, they must be issued soon enough after the reported events to affect decisions. Timeliness alone does not make information useful, but the passage of time usually diminishes the usefulness that the information otherwise would have had.”

### Classification of Finding: **Significant Deficiency**

This finding applies to prior audit recommendations 2020-026A, 2020-026B, and 2020-026D.

## Recommendation 2021-027

The Legislative Department (Department) should improve its internal controls over quarterly and fiscal year-end financial reporting by:

- A. Documenting and implementing the procedures necessary to prepare the Office of the State Controller’s (OSC) required quarterly reports and the Department’s annual financial statements and related supporting documentation to ensure consistent, accurate, and timely reporting of the information to the OSC and external auditors.
- B. Ensuring that a documented review of all financial information by a person who is not the preparer occurs prior to submission to the OSC and the external auditors.

## Response

### *Legislative Department*

- A. Agree

Implementation Date: April 2022

We have already compiled materials via cross-training sessions for year-end processes and quarterly diagnostic reporting training with our staff accountants. These materials will be instrumental in the timely assembly of a fiscal year-end and quarterly financial reporting procedural manual. Our procedural manual will incorporate step action processes and any relevant references from the OSC’s Fiscal Procedures Manual. In addition, the Legislative Council Staff’s (LCS) Controller will utilize the OSC’s deadline calendar to make sure all deadlines are met by incorporating self-imposed deadlines at least three days prior to the OSC deadlines that will allow for thorough review, corrections, and unforeseen circumstances.

B. Agree

Implementation Date: June 2022

Our staff accountants have been trained and will take part in the yearly open/close training and review put on by the OSC, to serve as reviewers of quarterly and year-end reporting materials and calculations. Also, the Office of the State Auditor's (OSA) Controller and the LCS Controller will work closely together to use quality control measures prior to the submission of the financial statements to the OSC and external auditors. As we did with the exhibits this year, we will utilize our email system to document the review process from the LCS Controller sending the documents, the LCS staff/senior accountant and/or the OSA Controller acknowledging the review and listing any corrections or questions for the LCS Controller. The LCS Controller will also send any corrected document in question or explanation/clarification to any questions back to the reviewer for a final approval indicating it is ready for submission to the OSC or external auditors. Any physical review of documents needing to be submitted will be documented with the reviewer physically signing and dating the cover or first page of the document.



# Department of Local Affairs

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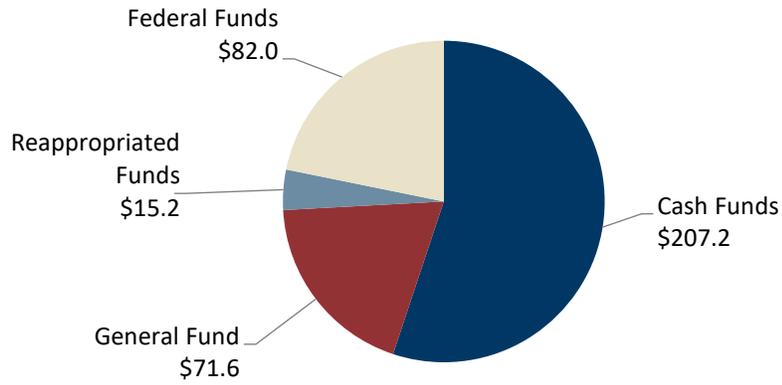
The Department of Local Affairs (Department) is responsible for strengthening local communities by providing strategic training, research, technical assistance, and funding to localities. There are five separate divisions within the Department as follows:

- **Executive Director's Office**—Provides leadership and support for the other Department divisions, including communications and media relations, legislative liaison, human resources, budgeting, and finance.
- **Board of Assessment Appeals**—Hears appeals filed by real and personal property owners regarding the valuation placed on their property.
- **Division of Housing**—Provides state and federal funding to increase the inventory of affordable housing and to offer Housing Choice Voucher rental assistance statewide. The Housing Choice Voucher program, formerly known as Section 8, funded by the U.S. Department of Housing and Urban Development (HUD) contracts with public housing authorities and nonprofit organizations to assist low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market.
- **Division of Local Governments**—Provides technical information to local governments on available federal and state programs, performs research on local government issues, and provides information to the Governor and General Assembly on local government needs and problems.
- **Division of Property Taxation**—Coordinates and administers the implementation of property tax law throughout the State.

For Fiscal Year 2021, the Department was appropriated approximately \$376.0 million and 201 full-time equivalent (FTE) staff.

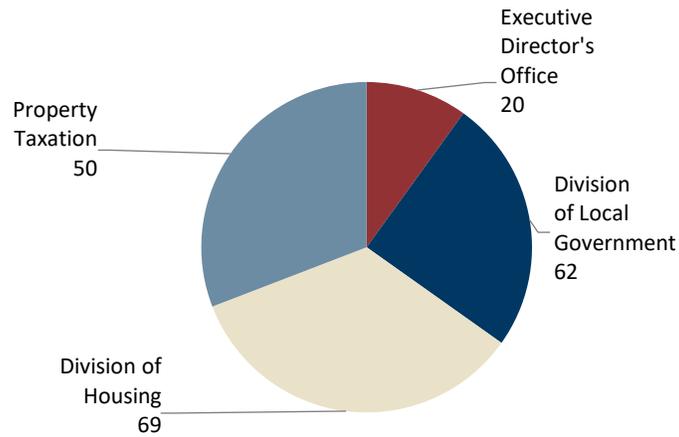
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for Fiscal Year 2021.

**Department of Local Affairs Fiscal Year 2021 Appropriations by Funding Source (in Millions)**



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

**Department of Local Affairs Fiscal Year 2021 Full-Time Equivalent Staff by Major Areas**



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

## **Finding 2021-028**

### **Internal Controls over State Fiscal Year End Expenditure Cutoff**

The Department's accounting team is responsible for all of the Department's financial reporting, including the accurate and timely entry, as well as approval, of financial transactions into the Colorado Operations Resource Engine (CORE), the State's accounting system. The Governmental Accounting Standards Board (GASB) establishes the generally accepted accounting principles (GAAP) that departments are required to follow in recording their financial transactions in CORE. For financial reporting, transactions that have occurred before June 30 are required to be recognized in the current year. The Department may receive invoices for payment after June 30 that relate to services received during the year; therefore, the Department is required to record entries in CORE to accrue those payments in the appropriate year. In order to ensure appropriate and timely financial reporting, the Department can record an estimate for payments they anticipate making for invoices received later in the next fiscal year that relate to goods or services that were received in the current fiscal year. For example, payments to reimburse a county for construction services provided in the current fiscal year but billed by the county in the subsequent fiscal year need to be recognized in the Department's financial activity in the current fiscal year.

### **What was the purpose of our audit work and what work was performed?**

The purpose of the audit work was to determine whether Department expenses were properly recorded at fiscal year end in accordance with GAAP. We performed testing over the Department's expenditure transactions to verify they were recorded in the correct fiscal year. Specifically, we tested the following:

- A sample of 20 expenditure transactions totaling approximately \$63.6 million that were recorded in CORE as paid between July 1, 2021, and October 25, 2021.
- A sample of 33 expenditure transactions totaling approximately \$68.9 million that were recorded during Fiscal Year 2021.
- Nine Fiscal Year 2021 ending account balances totaling approximately \$438.3 million. We compared the nine current year balances to Fiscal Year 2020 year-end balances and performed testing to determine if the basis for the difference was reasonable.

## How were the results of the audit work measured?

We measured the results of our audit work against the following requirements:

- GASB Statement No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as amended, paragraph 12, states “in the absence of an explicit requirement to do otherwise, a government should accrue a governmental fund liability and expenditure in the period in which the government incurs the liability.”
- State Fiscal Rule 1-2 (3.5), *Internal Controls*, requires that state departments “implement internal accounting and administrative controls that reasonably ensure that financial transactions are accurate, reliable, conform to State Fiscal Rules, and reflect the underlying realities of the accounting transaction (substance rather than form).” Examples of these internal controls are written policies and procedures, periodic reconciliations of amounts to CORE, and periodic staff training on policies and procedures.

## What problems did the audit work identify?

We found that the Department failed to record six of the expenditures we tested in the correct fiscal year. Specifically:

- We found 3 of 20 (15 percent) accounts payable transactions tested were incorrectly recorded by Department accounting staff. Two transactions totaling approximately \$2.6 million that were recorded as Fiscal Year 2022 expenditures in CORE should have been recorded as expenditures in CORE for Fiscal Year 2021. These two transactions were for grantee reimbursement requests that the Department received from the respective grantees subsequent to Fiscal Year 2021, but pertained to service periods within Fiscal Year 2021. A portion of the third transaction for approximately \$600,000 related to a grantee reimbursement request with a service period covering July 2022 that should have been recorded in Fiscal Year 2022. As a result of these errors, the Department’s Fiscal Year 2021 expenditures were understated by about \$2.0 million. After we notified the Department staff of the errors, management decided to pass on posting adjusting entries in CORE to correct the errors in Fiscal Year 2021.
- Department accounting staff incorrectly recorded 2 out of 33 (6 percent) expense transactions tested, totaling approximately \$275,000, as Fiscal Year 2021 expenditures in CORE. These transactions related to county construction reimbursement requests for services rendered from April through June 2020 that should have been recorded in Fiscal Year 2020. After we notified the Department staff of the errors, they made adjusting entries in CORE to correct the errors.
- We found one Fiscal Year 2021 transaction in our account balance testing for approximately \$631,000 for a county construction reimbursement request for services rendered from April

through June 2020 that should have been recorded in Fiscal Year 2020. As a result of the error, the Department's Fiscal Year 2021 expenditures were overstated by about \$631,000. After we notified the Department staff of the error, management decided to pass on posting an adjusting entry in CORE to correct the error in Fiscal Year 2021.

## Why did these problems occur?

The Department did not have sufficient internal control processes in place during Fiscal Year 2021 to ensure that expenditures were recorded in the proper period. Specifically, the Department did not have policies or procedures in place to require that staff record year-end adjusting journal entries for the estimated or known portion of services provided during the fiscal year for which the Department had not been billed. In addition, the Department had not ensured that accounting staff were appropriately trained on GASB requirements related to fiscal year-end accruals.

## Why do these problems matter?

Strong financial accounting internal controls are necessary to ensure the Department records and reports financial information accurately, in a timely manner, and in accordance with GAAP. Incomplete year-end financial reporting can adversely affect the State's financial information and result in the State being out of compliance with GAAP reporting requirements.

Classification of Finding: **Significant Deficiency**

This finding does not apply to a prior audit recommendation.

## Recommendation 2021-028

The Department of Local Affairs (Department) should strengthen its internal controls over its fiscal year-end accounting to ensure expenditures are recorded in the correct year. This should include:

- A. Developing and implementing policies and procedures regarding steps that accounting staff must take at fiscal year end to record estimates for services provided but not billed to the Department by fiscal year end and portions of invoices that relate to services provided in an earlier or subsequent fiscal year.
- B. Ensuring that staff are appropriately trained on the policies and procedures developed in Part A of this recommendation.

## Response

### *Department of Local Affairs*

A. Agree

Implementation Date: September 2022

Department of Local Affairs (DOLA) will develop a standard operating procedure (SOP) for requesting closing year invoices or reimbursement estimates from grantees and how to evaluate reasonable estimates that are to be recorded. This SOP will engage both accounting staff and program staff.

B. Agree

Implementation Date: September 2022

Department of Local Affairs (DOLA) will present the SFY21 audit exception examples in a training environment for accounting and program staff responsible for developing or recording year end accruals. This will be designed with the goal of building awareness of circumstances where an accounting estimate of service costs in the closing year may be missed and of recognizing the appropriate booking of portions of invoices where activity spans multiple years. Standard year end process and procedure training will be augmented with specific training on grantee estimates, including training for program managers on reasonable estimate development.

# Department of Personnel & Administration

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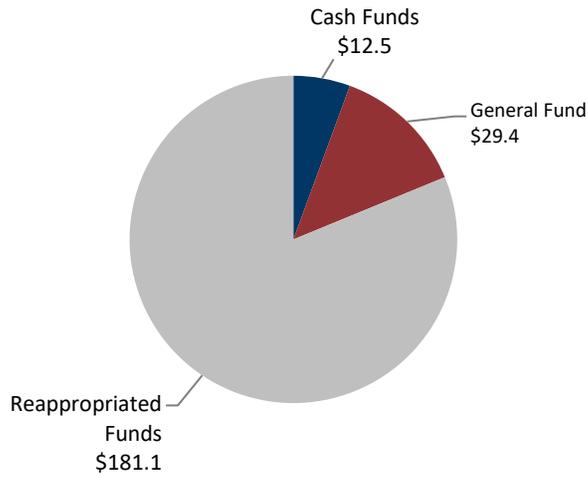
The primary function of the Department of Personnel & Administration (Department) is to support the business needs of the State's Executive Branch. The Department administers the classified personnel system, comprising 28,843 full-time equivalent (FTE) employees across the State—excluding the Department of Higher Education, which includes the State's higher education institutions—and providing general support for state departments. The Department includes the following divisions and offices:

- Executive Director's Office
  - Office of the State Architect
  - Colorado State Employees Assistance Program
- Division of Central Services
- Division of Accounts and Control
  - Office of the State Controller
- Division of Human Resources
- Office of Administrative Courts
- Constitutionally Independent Entities Division, including the State Personnel Board
- Division of Capital Assets

For Fiscal Year 2021, the Department was appropriated approximately \$223.0 million and 404 FTE staff.

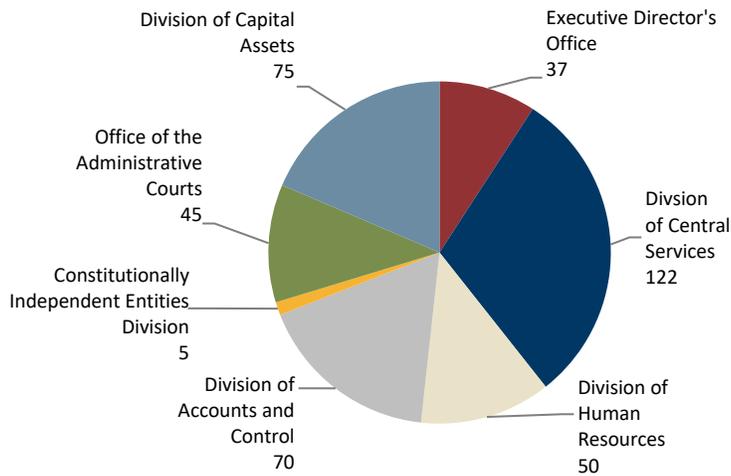
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for Fiscal Year 2021.

**Department of Personnel & Administration  
Fiscal Year 2021 Appropriations by Funding  
Source (in Millions)**



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

**Department of Personnel & Administration  
Fiscal Year 2021 Full-Time Equivalent Staff  
by Major Areas**



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

## Office of the State Controller

The Office of the State Controller (OSC) is located within the Department's Division of Accounts and Control. The OSC is responsible for managing the State of Colorado's financial affairs, which includes (1) the preparation and submission of the State's financial statements to the Governor and General Assembly by the statutorily-required September 20 due date, referred to as Financial Statements, and (2) preparation and issuance of the State's audited Annual Comprehensive Financial Report (Annual Financial Report).

The OSC is the functional business owner of the Colorado Operations Resource Engine (CORE), the State's accounting system. As such, the OSC is responsible for providing guidance to the various state departments on the use of CORE, overseeing certain access and information security requirements of the system, and ensuring that the system is working as intended.

### Finding 2021-029

## Statutory Compliance and Internal Controls over Financial Reporting

The OSC is statutorily responsible for ensuring that the State's accounting records are annually closed within 35 days of fiscal year end, and for preparing the State's Financial Statements and submitting them to the Governor and General Assembly by September 20 each year. The OSC is also responsible for issuing the State's audited Annual Financial Report each year.

Both the Financial Statements and Annual Financial Report must be prepared in accordance with generally accepted accounting principles (GAAP), as required in statute [Section 24-30-204(1), C.R.S.]. GAAP's overall objective is to create consistency in financial reporting to ensure reliable, concise, and understandable information. The Governmental Accounting Standards Board (GASB) establishes GAAP for state and local government entities through the issuance of GASB statements and authoritative accounting guidance such as GASB implementation guides. At a minimum, GAAP requires that the State's Financial Statements must include specific types of financial statements and note disclosures. GAAP requires that a complete Annual Financial Report include the information contained in the Financial Statements, as well as other sections. These other sections include, for example, a discussion prepared by management intended to discuss key issues which may not otherwise be apparent to the reader, referred to as Management's Discussion & Analysis (MD&A), and a statistical section. GASB Statement No. 4, *Elements of Financial Statements*, identifies **net position** as "the residual of all other elements presented in a statement of financial position."

In order to ensure that the OSC has complete and timely information necessary to prepare the Financial Statements and Annual Financial Report, the OSC compiles and reviews financial information from the State's departments, agencies, and higher education institutions (State entities).

The OSC reviews higher education institutions’ financial statements, reconciles the financial statements to the information uploaded to CORE, and also requires these State entities to provide certain additional financial-related information to the OSC through exhibits. To manage and prepare the Financial Statements and Annual Financial Report, the OSC creates a chart of accounts at the start of the fiscal year to be used by all State entities. This chart provides State entities with a standard set of accounting codes, such as financial statement fund categories and balance sheet, revenue, and expenditure codes, to use when recording various transactions in CORE. In April of each year, the OSC conducts trainings for all State entities and provides guidance on the State’s year-end closing process, financial reporting, new standards applicable to the fiscal year, and completion of year-end exhibits. The OSC also provides updates to the financial reporting process through memorandums, also called alerts, throughout the fiscal year. The OSC’s closing calendar contains due dates for State entities to follow related to the OSC’s closing of the fiscal year’s accounting records and issuance of the Financial Statements and other statutorily- and federally-required schedules.

Some State entities also present separately-issued Financial Statements (Standalone Financial Statements); these entities are referred to as Standalone entities. The OSC requires Standalone entities to submit an Exhibit J, *Financial Statement Reconciliation*, which reconciles each entity’s Standalone Financial Statements to the information that the institutions have uploaded to CORE from their own accounting systems, and includes descriptions for all reconciling items.

CORE and InfoAdvantage, CORE’s reporting application, segment accounting transactions into accounting periods throughout the fiscal year. Periods 1 through 12 correspond to the months of the fiscal year (July through June, respectively), and sequentially numbered subsequent periods through Period 16 are used, as necessary, to record any required adjusting entries to correct errors or reclassify information as may be necessary to create the State’s Financial Statements and Annual Financial Report. The following table shows the Fiscal Year 2021 closing periods and what each of those periods represents.

#### Office of the State Controller’s Fiscal Year 2021 Closing Periods

	Period Close Date	Explanation of Closing Period
Period 13	August 13, 2021	Statutory close date and department close
Period 14	August 18, 2021	OSC’s closing period for processing year-end recurring entries and adjustments (i.e. entries can only be made with OSC’s approval)
Period 15	September 20, 2021	OSC’s closing period for fiscal year-end Financial Statement presentation entries
Period 16	January 31, 2022	OSC’s final closing period occurring on the audit opinion date

Source: Office of the State Auditor analysis of Fiscal Year 2021 *Fiscal Procedures Manual* closing periods.

## What was the purpose of our audit work and what work was performed?

The purpose of the audit work was to review the OSC's internal controls over, and compliance with, its financial reporting responsibilities during Fiscal Year 2021. This included determining whether the State's Fiscal Year 2021 Financial Statements and Annual Financial Report were accurate, complete, and prepared in accordance with GAAP, including GASB requirements, within required timeframes defined in statute, as applicable.

As part of our audit testwork, we reviewed the OSC's progress in implementing two prior audit recommendations issued in Fiscal Years 2019 and 2020 related to the OSC's financial reporting responsibilities, as follows:

In Fiscal Year 2019, we found that the OSC did not close the State's books by the statutorily-required deadline, and did not prepare accurate and complete Financial Statements, in accordance with GAAP. We recommended that the OSC analyze and review historical transactions posted after the statutory close-date and to define, document, and communicate to State entities the specific types of transactions that must be made within 35 days of fiscal year end. In addition, we recommended the OSC formalize and expand its existing policies and procedures over Exhibit Js for inclusion in the Financial Statements and to strengthen the OSC's existing policies and procedures for preparing and reviewing the State's Financial Statements and Annual Financial Report.

In Fiscal Year 2020, we found that the OSC did not detect and correct material misstatements of the State's Financial Statements and Annual Financial Report. We recommended the OSC evaluate its internal controls over preparing and reviewing the Financial Statements and Annual Financial Report to ensure their effectiveness in identifying and correcting significant issues.

As part of our Fiscal Year 2021 testing, we reviewed the OSC's compliance with statutory requirements regarding financial reporting timeframes, communications, and the accounting guidance it provided during Fiscal Year 2021, including in the OSC's *Fiscal Procedures Manual* (Manual). We analyzed CORE transactional data recorded after the State's Fiscal Year 2021 statutory close and department close (Period 13) to identify the number and dollar amount of transactions processed by State entities and the OSC after the deadline for closing the State's books, excluding certain fiscal year-end recurring entries that are needed to prepare GAAP-based financial statements.

In addition, we tested the effectiveness of the OSC's internal controls over the preparation and review of the financial statements and Annual Financial Report, which included the following:

- Reviewing the Financial Statements and Annual Financial Report for accuracy, completeness, and compliance with GAAP.

- Analyzing the differences between the Financial Statements submitted to the Governor and General Assembly by the OSC on September 20, 2021, and the final audited Annual Financial Report dated January 31, 2022.
- Reviewing the OSC’s Exhibit J review processes and related policies and procedures to determine whether the OSC performed the review and analysis of the Exhibit Js in a timely manner, and whether the OSC timely recorded any adjustments identified on the Exhibit Js to the State’s financial statements or to CORE, as appropriate.
- Reviewing the OSC’s tracking, analysis, and implementation of new GASB statements and the impact on the Financial Statements and Annual Financial Report.

## How were the results of the audit work measured?

State statutes and OSC instructions outline various annual deadlines and requirements after fiscal year end for the State Controller related to each fiscal year’s financial activity. Specifically:

- Section 24-30-204(3), C.R.S. requires “The official books of the state shall be closed no later than thirty-five days after the end of the fiscal year. As of this date, all adjusted revenue, expenditures, and expense accounts shall be closed into the state accounting system in order to divide the financial details of the state into comparable periods.”
- Section 24-30-204(1), C.R.S. requires the State Controller to prepare financial statements in accordance with GAAP, which includes following existing GASB standards and appropriately implementing new GASB standards. The purpose of GAAP is to provide complete and accurate financial statements. Section 24-30-204(1), C.R.S., also requires that Standalone entities submit their draft Standalone Financial Statements to the State Controller by August 25 each year but allows the OSC to grant an extension of up to 20 days (to September 14). The OSC requires Standalone entities to submit their Exhibit Js on the same date as their Standalone Financial Statements. The statutory due date for the Standalone Financial Statement submission to the OSC provides approximately 1 to 3 weeks for the OSC to review Exhibit Js and make necessary adjustments before the required September 20 submission to the Governor and General Assembly. According to the OSC’s communication, Exhibit J and Standalone Financial Statements were both due on August 25, 2021. Upon requests from State entities, the OSC extended the deadline twice—first to August 31, 2021, and then to September 8, 2021.
- GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes. A fiduciary activity is an activity performed by a government when taking care of money that belongs to individuals or others outside of the government. GASB Statement No. 84 was effective for reporting periods beginning after December 15, 2019; therefore, the OSC was responsible for implementing it for Fiscal Year 2021. GASB Statement No. 84 specifically changes the classification of various

revenue, expenditure, and expense accounts in order for the related activity to be reported accurately in the entity's financial statements. Therefore, GASB Statement No. 84 implementation required a change to the CORE Chart of Accounts, which is a listing of accounts used by State entities to record financial transactions in CORE, to reflect the changes in the accounting for funds related to fiduciary activities.

- GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis*—defines major funds as those funds having significant assets, liabilities, revenues, and expenditures in comparison to other funds included in the Financial Statements and Annual Financial Report. The OSC reports three types of major funds for governmental activities for the State: General Fund, including the Emergency Reserve Fund, Highway User Tax Fund, and the Federal Special Revenue Fund.
- GASB Codification Section 2200.118 states “The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes... Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position...” In addition, Section 2200.124 states “The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.”
- The OSC's Exhibit J is used to reconcile the institution's financial statements to the institution's trial balance recorded within CORE and provide assurance to the State Controller that the institution's financial statements properly accumulate CORE accounts in the same format the OSC uses for the State's Annual Financial Report. As it has historically done, the OSC initially established the same due date for the Fiscal Year 2021 Exhibit Js as the statutorily-required due date for the Standalone Financial Statements—August 25, 2021, with an extended due date of August 31 and September 8, 2021—in order to ensure Standalone entities' financial results are reflected in the State's Financial Statements issued by September 20.
- According to the OSC's policy *Internal Control System*, State entities shall use the *Standards for Internal Control in the Federal Government* (Green Book), published by the U.S. Government Accountability Office's, as the framework for their system of internal control. Green Book Paragraph OV2.14, *Roles in an Internal Control System*, states that management is responsible for designing an internal control system. This should include controls over the preparation of external financial reporting in accordance with professional standards and applicable laws and regulations.

- Section 24-30-201(1)(f), C.R.S. requires the State Controller to “coordinate all the procedures for financial administration and financial control so as to integrate them into an adequate and unified system, including the devising, prescribing, and installing of accounting forms, records, and procedures for all state agencies.”

## What problems did the audit work identify?

We determined that the OSC did not fully implement our prior audit recommendations related to financial reporting. Specifically, the OSC completed its analysis and review of historical transactions posted after the statutory close date and defined, documented, and communicated to State entities the specific types of transactions that need to be made within 35 days of fiscal year end and those that are allowable after this date. However, State entities continued to enter and the OSC continued to approve a significant number of transactions subsequent to Fiscal Year 2021 year-end close. Therefore, the OSC was unable to ensure accurate and timely financial reporting, and did not ensure compliance with the statutorily-required departmental financial reporting timeframes for Fiscal Year 2021.

### **Statutorily-Required Closing of the State’s “Official Books”**

The OSC did not close the State’s “official books” by August 4, 2021, as required by statute. Instead, the OSC extended the deadline for the closing of the State’s “official books” to August 13, 2021, or 9 days after the required date. The OSC also extended the CORE Period 14 close date from August 9 to August 18, 2021, 9 days after the originally scheduled date. The OSC and State entities recorded a total of 2,089 transactions, totaling \$16.9 billion, between August 4, 2021, and August 13, 2021. In addition, the OSC approved and recorded an additional 415 transactions, totaling \$19.0 billion, between August 13, 2021, and January 31, 2022, as shown in the following table. These transactions related to revenue, expense, capital asset, and adjustments to the financial statements. By the end of the audit, the OSC had not performed an analysis of the activity posted after August 13, 2021, to identify which transactions were appropriately recorded after the statutory close deadline. For example, moving or combining accounts, such as reclassifications and recurring transactions needed solely for financial statement presentation, is appropriate to record after the official books close. However, given the magnitude of transactions recorded after August 4, 2021, and the lack of any prescribed analysis of these transactions to determine whether they reflected presentation entries for finalizing the Financial Statements, the OSC ultimately did not meet the statutory requirement for closing the accounting records on time.

## Fiscal Year 2021 CORE Transactions Recorded After Statutory Close

	Period Close Date	Period Open for Number of Calendar Days	State Entity-Initiated Transactions		OSC-Initiated Transactions		OSC and State Entities Total Transactions	
			Count	Total Amount	Count	Total Amount	Total Count	Total Amount
Period 14	08-18-21	5 Days	172	\$1.0 billion	-	-	172	\$1.0 billion
Period 15	09-20-21	33 Days	164	\$14.1 billion	-	-	164	\$14.1 billion
Period 16	01-31-22	133 Days	77	\$3.6 billion	2	\$0.3 billion	79	\$3.9 billion
<b>TOTAL</b>			<b>413</b>	<b>\$18.7 billion</b>	<b>2</b>	<b>\$0.3 billion</b>	<b>415</b>	<b>\$19.0 billion</b>

Source: Office of the State Auditor analysis of CORE Periods 14, 15, and 16 accounting transactions.

### Statutorily-required Issuance of Financial Statements

While the OSC met its September 20 deadline for the submission of the State's Financial Statements to the Governor and the General Assembly, the Financial Statements were not in accordance with GAAP for Fiscal Year 2021, as required by statute. Specifically, the Annual Financial Report issued by the OSC on January 31, 2022, materially differed from the Financial Statements the OSC submitted to the Governor and the General Assembly on September 20. The OSC and State entities made \$3.9 billion in adjustments, excluding certain fiscal year-end recurring entries that are needed to prepare GAAP-based financial statements, after the financial reporting deadline of September 20, 2021, and prior to the final issuance of the Annual Financial Report of January 31, 2022. Approximately \$206.2 million of the \$3.9 billion in adjustments related to corrections that were not identified by the OSC through their reviews of Standalone Financial Statements and Exhibit Js until December 2021. As a result, this activity was not reflected in the Financial Statements provided to the Governor and the General Assembly on September 20, 2021.

### Financial Statements and Annual Financial Report Review

During our testing of the OSC's Fiscal Year 2021 Financial Statements and Annual Financial Report, we discovered several errors that the OSC did not identify and correct through its preparation and review processes, as follows:

- We identified 55 exceptions that impacted the MD&A, statistical section, and financial reporting section of the Annual Financial Report or the related supporting documentation. These exceptions also impacted 9 of the 22 note disclosures. We specifically identified errors in 4 note disclosures related to the OSC's review and incorrect compilation of information from State entities-prepared exhibits. The errors included notes that did not match the information in the related exhibit, notes containing information from an original exhibit rather than the corrected exhibit, and notes that were inaccurate because the OSC used inaccurate information contained on State entities-prepared exhibits. Other examples of issues we identified in which portions of

the draft Annual Financial Report either did not comply with GASB requirements or failed to include accurate information are as follows:

- The OSC did not identify a misclassification of net position to the State’s financial statements until 17 days after the final issuance of the Annual Financial Report containing our audit opinion on January 31, 2022. Specifically, the OSC did not ensure that the classification of an investment in capital asset balance of a Standalone Financial Statement agreed to the classification in CORE. This misclassification resulted in an understatement of *Net Investment in Capital Assets* and overstatement of *Unrestricted Net Position* by \$2.1 billion. The OSC subsequently corrected the financial statements and we performed procedures over these revisions.
- The OSC omitted information about two major funds in Note 1D, *Basic of Presentation – Fund Financial Statement*, and the MD&A. Specifically, the OSC did not list the Highway User Tax Fund among the major governmental funds and did not disclose the new Emergency Reserve Fund, established as a part of the General Fund in Fiscal Year 2021.
- The OSC did not include two required transfers totaling \$29.6 million as part of Note 2B, *Tax, Spending, and Debt Limitations*.
- In eight instances, information reported in the MD&A and statistical section of the draft Annual Financial Report was calculated incorrectly, was not consistent with information reported in other sections of the Annual Financial Report, and/or did not match the supporting documentation.

**Timely Implementation of GASB Statement No. 84.** The OSC did not ensure State entities had required elements for implementing GASB Statement No. 84 during Fiscal Year 2021 and therefore, did not complete a significant portion of its GASB Statement No. 84 implementation by the official books close date of August 4, 2021. The OSC requested information from State entities regarding GASB Statement No. 84 in March 2020 but did not conduct the majority of its GASB Statement No. 84 analysis until after the close of the State’s official books and before September 20, 2021; the OSC did not finalize the analysis until December 2021, i.e., 6 months after the end of the fiscal year and halfway through Fiscal Year 2022. The OSC recorded \$247 million in adjustments for GASB Statement No. 84 as a result of its final GASB review.

Furthermore, in order to ensure State entities’ revenue and expense activity was accurately reflected in CORE and ultimately, the State’s financial statements, pursuant to GASB Statement No. 84, the OSC created new categories of funds, such as Private –purpose Trust Funds and Custodial Funds – GASB Statement No. 84, in its Chart of Accounts for State entities to use when entering transactions in CORE; however, the OSC did not complete the changes prior to the official books close when State entities are required to finalize their accounting activity in CORE and, instead, did not change the Chart of Accounts until August 20, 2021, 16 days after the official books close date.

As a result, we found that the OSC posted 61 accounting adjustments totaling over \$3.3 billion related to the implementation of GASB Statement No. 84 after August 4, 2021, and re-categorized 73 funds representing \$12.59 billion in assets.

## Why did these problems occur?

The OSC did not have sufficient processes in place to ensure it complied with statutory requirements related to financial reporting during Fiscal Year 2021, and that it provided accurate financial information in a timely manner, as detailed in the following sections.

### Statutorily-required Closing of the State’s “Official Books”

According to the OSC, it did not close the state’s official books within the statutory year-end close deadline due to delays caused by issues with the OSC’s processing of fiscal year-end payroll adjustments and labor allocations. The payroll processing issues, in turn, delayed State entities’ correcting entries and, ultimately, the OSC’s closing of CORE activity for Fiscal Year 2021.

### Internal Controls over Financial Reporting

**Financial Statement and Annual Financial Report Review.** The OSC did not effectively evaluate its internal control processes over preparing and reviewing the Financial Statements and Annual Financial Report to ensure it identified and corrected significant issues prior to the final issuance of the Annual Financial Report on January 31, 2022, such as those identified as a result of our audit and subsequent revisions to the Annual Financial Report on March 8, 2022. Specifically, the OSC indicated that a formula error within the net investment in capital asset spreadsheet resulted in the misclassification error which caused the revisions to the State’s financial statements in February 2022, resulting in the performance of additional audit procedures in February 2022 after the original date of the auditor’s opinion on January 31, 2022.

Additionally, the OSC does not have an adequate process, including policies and procedures, in place to timely review Exhibit Js to ensure information in CORE is accurate. Specifically, the OSC did not update its existing policy to require review of Exhibit Js prior to its statutorily-required submission to the Governor and General Assembly on September 20 and did not ensure it had a process to require that OSC staff follow up with State entities on Exhibit Js and Standalone Financial Statements that were not provided by the deadlines of August 31, 2021, and September 8, 2021, respectively, to ensure that the Exhibit Js and Standalone Financial Statements were received and that any necessary adjustments are identified and made in a timely manner.

**Implementation of new GASB Standards.** The OSC lacked sufficient processes and internal controls to timely implement GASB Statement No. 84 for Fiscal Year 2021. First, the OSC did not follow-up in a timely manner with the State entities to obtain all necessary GASB information and assess the impact to the State’s financial statements. Second, the OSC did not finalize the Chart of

Accounts by the beginning of the fiscal year, when the standard was effective, to allow the State entities to record GASB transactions accurately throughout the fiscal year. Finally, according to the OSC, the GASB Statement No. 84 implementation was delayed due to impacts of the COVID-19 pandemic.

**Training.** The OSC's current training and guidance to State entities on exhibits are not sufficient to prevent reporting errors. For example, during Fiscal Year 2021, we noted that 20 out of 42 State entities (48 percent) submitted revised exhibits to the OSC, and 10 of 21 Standalone entities' Exhibit Js and Standalone Financial Statements were submitted late—between September 10 and October 28, 2021—which was after their due dates of August 31 and September 8, 2021. The OSC's annual training in April 2021 with State entities did not include detailed information on how to complete the OSC's exhibits, such as the Exhibit J. In addition, the OSC did not analyze errors in exhibit reporting from the prior year, in order to include information within the annual training targeted at addressing common, recurring problems with exhibits. Although the OSC provided State entities the exhibit templates and instructions for the Fiscal Year 2021, through an OSC alert, the significant percentage of required exhibit revisions and late submissions indicates that the OSC did not have a mechanism to analyze and evaluate errors from the prior year, and more specific direction and training to staff is needed on exhibit preparation and required deadlines. This is especially important during periods of significant turnover within accounting positions, such as the turnover the State experienced during Fiscal Year 2021 and has continued to experience during the first half of Fiscal Year 2022.

## Why do these problems matter?

If robust internal controls over financial reporting and the related exhibit preparation are not in place and operating effectively within the OSC, it can result in the Financial Statements and/or Annual Financial Report being delayed and materially misstated, which could lead users of these statements to make decisions based on inaccurate information. The OSC is required to close the State's financial accounting records and prepare Financial Statements within the statutorily-required deadlines each year in order to provide accurate and timely information to stakeholders, including the Governor and General Assembly, for decision-making; without strong internal controls such as the establishment and communication of appropriate parameters to ensure that the financial records are essentially closed to post-statutory close activity, the OSC risks non-compliance with the statutory requirement. In addition, by not receiving, reviewing, and analyzing Exhibit Js in a timely manner, the OSC staff may not detect errors and omissions and ensure that Standalone entities correct any identified issues and submit revised exhibits in order to minimize the OSC's delays in preparation of the Financial Statements. Further, significant turnover in accounting positions increases the risk for errors in the State's Annual Financial Statements and the need for more detailed OSC training and guidance.

GASB Statement No. 1 states, “If financial reports are to be useful, they must be issued soon enough after the reported events to affect decisions. Timeliness alone does not make information useful, but the passage of time usually diminishes the usefulness that the information otherwise would have had.”

Classification of Finding: **Material Weakness**

This finding applies to prior audit recommendations 2020-028A, 2020-030A, 2020-030B, and 2020-030D.

## Recommendation 2021-029

The Department of Personnel & Administration’s Office of the State Controller (OSC) should strengthen its internal controls over financial reporting to ensure that the OSC’s fiscal year-end accounting processes result in compliance with statutes and that the State’s Financial Statements and Annual Comprehensive Financial Report (Annual Financial Report) provided to decision-makers are accurate, complete, and prepared in accordance with generally accepted accounting principles (GAAP). This should include the following:

- A. Strengthening the OSC’s existing processes for preparing and reviewing the State’s Financial Statements and Annual Financial Report. These processes should include requiring detailed reviews prior to the issuance of the Financial Statements and Annual Financial Report, respectively, to allow for significant issues, such as those identified in the audit, to be detected and corrected prior to issuance.
- B. Posting annual fiscal year-end payroll adjustments and labor allocation entries in the Colorado Operations Resource Engine in a timely manner and in compliance with statutory close.
- C. Improving the OSC’s existing policies and procedures over its review of Standalone Financial Statements and the Exhibit J. These policies and procedures should include sufficient details and requirements on the OSC’s processes related to timely obtaining and reviewing the Exhibit Js and Standalone Financial Statements, including any that were not provided by the applicable deadline, prior to its statutorily-required submission to the Governor and General Assembly on September 20.
- D. Ensuring that new Governmental Accounting Standards Board (GASB) statements are implemented in a timely manner, including that any related changes to the financial accounting system, such as updates to the Chart of Accounts, are made at the beginning of the fiscal year when the applicable statement goes into effect.

- E. Providing expanded, detailed training to the State’s departments, agencies, and higher education institutions on the completion and submission of exhibits in order to reduce exhibit errors and delays to the completion of the financial statements. This should include a mechanism to evaluate errors found in prior years’ exhibits, and provide training with instructions on steps for departments to take to prevent those errors and exhibit revisions in the current year.

## Response

### *Department of Personnel & Administration’s Office of the State Controller*

- A. Agree

Implementation Date: December 2022

The Office of the State Controller agrees with this recommendation. The OSC will re-evaluate and update its existing policies and procedures for Fiscal Year 2022 to require a more in-depth review of the elements of the basic financial statements and Annual Comprehensive Financial Report prior to issuance.

- B. Agree

Implementation Date: August 2022

The Office of the State Controller agrees with this recommendation. As noted in the finding, the State experienced issues with the processing of fiscal year-end adjustments and labor allocations in CORE, and caused the OSC to delay the department’s Fiscal Year 2021 statutory closing date. The OSC worked with the vendor to correct the payroll processing errors during Fiscal Year 2021 year-end closing, and will further collaborate with the vendor to ensure any payroll processing errors are prevented in Fiscal Year 2022 and in future years.

- C. Agree

Implementation Date: December 2023

The Office of the State Controller agrees with this recommendation. In Fiscal Year 2021, the OSC designed policies and procedures around stand-alone financial statement and Exhibit J reviews based on the timing and availability of the Exhibit J submissions from departments, agencies, and institutions of higher education. Despite state statute granting the authority of the State Controller to extend financial statement reporting deadlines for state agencies up to 20 days, it is extremely difficult for agencies and institutions to provide complete and accurate financial information to the OSC within a reasonable time frame prior to the issuance of the Basic Financial Statements on September 20, even with an extension. The OSC will continue to collaborate with state departments, agencies, and institutions of higher education to obtain financial statement information in a timely manner, and will update its existing review procedures accordingly. The OSC will continue to collaborate with state departments, agencies,

and institutions of higher education to obtain financial statement information in a timely manner, and will update its existing review procedures accordingly. The OSC will work with all stakeholders to develop a more effective and efficient process to provide timely and accurate financial information.

D. Agree

Implementation Date: June 2023

The Office of the State Controller agrees with this recommendation. The State began the implementation of GASB Statement No. 84 in Fiscal Year 2019, and performed a significant amount of work to successfully implement the standard prior to the issuance of the Fiscal Year 2021 Basic Financial Statements on September 20. Subsequent to the issuance of GASB 84, the Governmental Accounting Standards Board issued GASB Statement No. 95, which delayed the effective date of GASB 84 from Fiscal Year 2020 to Fiscal Year 2021. This delay was the result of the impact of COVID-19, which resulted in the re-arrangement of the workplace, the loss of productivity due to staff sick leave and turnover, and the shift to focus on the immediate distribution and oversight of federal aid. Accounting staff throughout the State were assigned additional tasks and responsibilities beyond their normal accounting duties due to the impact of the pandemic during the latter part of Fiscal Year 2020, and throughout Fiscal Year 2021.

E. Agree

Implementation Date: June 2022

The Office of the State Controller agrees with this recommendation. To address the exhibit issues noted in the finding, the OSC is migrating the collection of exhibit data from state entities to a new automated reporting tool for the Fiscal Year 2022 year-end closing cycle, which should reduce/eliminate exhibit errors. As part of this migration, the OSC will prepare detailed training materials specific to the preparation of each individual exhibit, and make these materials available to all state departments, agencies, and institutions of higher education prior to the end of Fiscal Year 2022. The OSC will evaluate the effectiveness of this new approach after the completion of the Fiscal Year 2022 closing cycle.

## **Finding 2021-030**

### **System and Organization Control Reports**

The OSC uses financial information in CORE to prepare the State's financial statements in compliance with GAAP. Some departments and the higher education institutions do not use CORE as their primary accounting system and they use other IT systems for program management. Therefore, these departments and higher education institutions upload financial information to CORE from their IT systems.

In some cases, the departments and higher education institutions contract with third-party vendors (service organizations) to provide various services for some of the State's IT systems. For example, the OSC contracts with CGI as its service organization to maintain and house the CORE system infrastructure components remotely at CGI's hosting facilities. Service organizations contract with independent auditors (service auditors) to audit the service organizations' internal controls for these IT systems. The service auditors follow the guidance issued by the American Institute of Certified Public Accountants (AICPA), *Statement on Standards for Attestation Engagements* (SSAE), within AT-C Section 320, and issue System and Organization Controls (SOC) reports at the conclusion of the audit. One type of SOC report, a SOC 1 Type II (SOC 1) report, provides the service auditors' opinion on the service organization's internal controls specifically as to whether the internal controls are suitably designed and operating effectively for a specified period.

When the OSC, departments, and higher education institutions receive SOC 1 reports, they can use these reports to determine whether they can rely on service organization internal controls for financial reporting. In addition, when service auditors provide a SOC 1 report with a modified opinion, the OSC, departments, and higher education institutions should determine if actions to mitigate the increased risk to financial reporting are necessary.

## **What was the purpose of our audit work and what work was performed?**

The purpose of our audit work was to determine whether the OSC had implemented our Fiscal Year 2019 audit recommendation relating to IT service provider SOC 1 reports. During that audit, we recommended that the OSC improve controls related to SOC 1 reports by creating and implementing policies and procedures to perform risk assessments to determine the IT systems that are critical to the State's financial reporting, identify which of those systems require SOC 1 reports, track the SOC 1 report opinions, and include SOC 1 report guidance in the OSC's Manual. In addition, we also recommended that the OSC provide contract template information on SOC 1 reports and review contracts requiring SOC 1 reports to determine how to proceed with those contracts. The OSC agreed with our recommendations and agreed to implement them during Fiscal Year 2021.

As part of the Fiscal Year 2021 audit, we requested the OSC's policies and procedures, the OSC's IT systems listing containing systems that are critical to the State's financial reporting, and other information regarding the OSC's implementation of this audit recommendation, including the related supporting documentation.

## **How were the results of the audit work measured?**

Statute [Section 24-30-201(1)(f), C.R.S.] requires the OSC to "coordinate all the procedures for financial administration and financial control so as to integrate them into an adequate and unified

system, including the devising, prescribing, and installing of accounting forms, records, and procedures for all state agencies.”

AICPA’s SSAE [AT-C Sections 320.40(l)(ii) and (iii)] require service auditors to issue an opinion within a SOC 1 report. When service auditors provide an unmodified opinion in a SOC 1 report, it provides reasonable assurance that a service organization has suitably designed internal controls and those internal controls were operating effectively for a specified period. Conversely, AT-C Sections 320.42 (b) and (c) state that when service auditors provide a modified opinion in a SOC 1 report, it could indicate that a service organization did not suitably design internal controls or these internal controls were not operating effectively for a specified period.

According to the OSC’s Manual, Chapter 3 Section 3.41, *Statewide System and Organizational Controls Reviews*, when the OSC and departments receive SOC 1 reports, they can use these reports to determine whether they can rely on service organization internal controls for financial reporting. In addition, when service auditors provide a SOC 1 report with a modified opinion, the OSC and departments should determine if actions to mitigate the increased risk to financial reporting are necessary.

According to the OSC’s policy, *Internal Control System*, the OSC and state departments must use the Green Book as their framework for their systems of internal control. Green Book Paragraph OV4.01, *Service Organizations*, states that management retains responsibility for the performance of processes assigned to service organizations. Furthermore, the Green Book specifies that management needs to understand the internal controls that each service organization has designed, implemented, and operates, as well as how each service organization’s internal control system impacts the OSC’s and relevant departments’ internal control systems.

## **What problems did the audit work identify?**

We found that the OSC did not fully implement the prior audit recommendation related to SOC 1 reports during Fiscal Year 2021. Specifically, the OSC did not conduct a full risk assessment on the State’s IT systems that are significant to the State’s financial statements during Fiscal Year 2021 and ensure that it had reviewed all relevant SOC 1 reports for the State’s significant IT systems. In December 2020, the OSC provided guidance on SOC 1 reports in its Manual and requested from all departments and higher education institutions a listing of their IT systems that contain financial information used to create the State’s Financial Statements, including whether those departments and higher education institutions receive a SOC 1 report for those systems. However, as of June 30, 2021, the OSC had not ensured that it received responses from all departments and higher education institutions and had not followed up with the non-responsive entities in order to obtain the information. For example, in January 2021, the Department of Labor and Employment launched the new unemployment benefits system called MyUI+, to modernize its previous system and assist with increased number of claimants. We noted that MyUI+, a system that does contain financial information significant to the State’s financial statements, was not listed on the OSC’s IT systems

listing for Fiscal Year 2021; as a result, the OSC did not take steps to determine if the system required a SOC 1 report or received a related opinion on its internal controls, and whether they can rely on the service organization’s internal controls for financial reporting.

The OSC did not ensure that it had a complete list of the State’s financially-significant IT systems. Additionally, the OSC did not review contracts that may require SOC 1 reports for financial reporting. In December 2020, the OSC revised its IT contract template to include a provision requiring that the contractor provide a SOC 1 report to the OSC on an annual basis when the IT system is significant to the State’s financial statements. In addition, during the fiscal year, the OSC published the revised IT contract template on its website and communicated updates to all controllers and procurement officials through its monthly meetings. However, since the OSC had neither updated its listing of the State’s IT systems that contain financial information nor tracked SOC 1 reports and their opinions for all of these systems, it had no assurance that it had obtained and reviewed all relevant contracts.

## Why did these problems occur?

The OSC did not establish or implement policies and procedures, including timelines, requiring staff to perform and document an annual risk assessment analysis of the State’s IT systems to determine which systems were significant to the State’s financial statements—and required SOC 1 reports—or had modified opinions. Furthermore, the OSC did not establish a process to review contracts that may require SOC 1 reports and to ensure their IT systems listing is updated throughout the fiscal year.

## Why do these problems matter?

The OSC relies on information obtained from IT systems throughout the State to prepare the State’s financial statements. When the OSC fails to consider how these IT systems, and the related SOC 1 reports, impact the State’s financial statements, it exposes the OSC to potential material misstatements in its financial statements.

Classification of Finding: **Material Weakness**

This finding applies to prior audit recommendations 2020-031A, 2020-031B, 2019-032A, and 2019-032B.

## Recommendation 2021-030

The Department of Personnel & Administration’s Office of the State Controller (OSC) should continue to improve internal controls related to the American Institute of Certified Public Accountants’ Statement on Standards for Attestation Engagements—System and Organization Controls (SOC) 1, Type II (SOC 1) reports by:

- A. Establishing and implementing policies and procedures, including timelines, for performing and documenting annual risk assessments related to the State's IT systems to determine which systems are significant to the State's financial statements, which systems require SOC 1 reports, and tracking SOC 1 report opinions.
- B. Establishing and implementing a process to annually update the OSC's listing of IT systems that contain financial information significant to the State's financial statements to ensure the list contains all systems. This should include a process to follow up with entities that do not respond to the OSC's request for updates.
- C. Establishing and implementing a process to review contracts that may require SOC 1 reports.

## Response

### *Department of Personnel & Administration's Office of the State Controller*

- A. Agree

Implementation Date: June 2022

The Office of the State Controller agrees with this recommendation. The OSC will implement policies and procedures, including timelines, for performing and documenting annual risk assessments related to the State's information technology (IT) systems to determine which systems are significant to the State's Financial Statements, which systems require SOC Reports, and track SOC Report opinions.

- B. Agree

Implementation Date: June 2022

The Office of the State Controller agrees with this recommendation. The OSC will establish and implement an annual process to update the OSC's listing of IT systems that contain financial information significant to the State's Financial Statements to ensure the list contains all systems. The OSC will ensure this includes following up with entities that do not respond to requests for updates.

- C. Agree

Implementation Date: June 2022

The Office of the State Controller agrees with this recommendation. The OSC will establish and implement a process to review contracts that may require SOC reports.

## **Findings 2021-031 and 2021-032**

### **CORE Information Security**

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding and response have been provided to the Department and Office of Information Technology in a separate, confidential memorandum.*

The OSC has overall responsibility for the State’s financial information recorded in CORE. The OSC works closely with CORE’s third-party service organization. The Governor’s Office of Information Technology (OIT) is responsible for developing, publishing, and communicating the Colorado Information Security Policies (Security Policies) and technical standards to outline security requirements that protect data obtained, processed, stored, and reported by state agencies.

Together, the OSC and OIT ensure CORE complies with Security Policies.

### **What was the purpose of our audit work and what work was performed?**

The purpose of our audit work was to determine whether the OSC and OIT have information security procedures designed, in place, and operating effectively over the CORE system. In performing our audit work, we inquired of OSC and OIT staff and obtained and inspected relevant documentation.

### **What problems did the audit work identify and how were the results measured?**

As a result of our Fiscal Year 2021 audit procedures, we found information security problems with CORE and we measured the results of our audit work against Security Policies and the Green Book.

### **Why did these problems occur?**

#### **Office of the State Controller:**

OSC staff misinterpreted a specific security policy requirement, and therefore, did not apply it as stated. In addition, OSC staff stated that they did not have a process in place to proactively ensure that the information security problems identified would be prevented.

## Office of Information Technology:

- OIT staff stated that the OSC and CORE’s third-party service organization were not able to make the recommended changes to CORE due to current technical limitations within the system.
- OIT did not provide a reason why certain other security policy requirements were not applied appropriately.
- OIT staff did not communicate its standard operating procedures and related changes to the agencies it serves, including the OSC, who have responsibilities for certain requirements within the procedures.

## Why do these problems matter?

A lack of security policy compliance for CORE increases the risk of data in the system being compromised or becoming unreliable, which could lead to manipulation of the State’s financial data and, ultimately, misstatements in the State’s financial statements. In addition, without effective communication procedures and controls in place, management may not be able to meet its organizational objectives and reduce risks to an acceptable level.

Classification of Finding: **Significant Deficiency**

This finding does not apply to a prior audit recommendation.

## Recommendation 2021-031

The Department of Personnel & Administration’s Office of the State Controller (OSC) should improve information security controls for the Colorado Operations Resource Engine (CORE) system by:

- A. Implementing recommendation Part A as noted in the confidential finding.
- B. Implementing recommendation Part B as noted in the confidential finding.

## Response

*Department of Personnel & Administration's Office of the State Controller*

A. Agree

Implementation Date: June 2022

The Office of the State Controller will implement recommendation Part A as noted in the confidential finding.

B. Agree

Implementation Date: August 2021

The Office of the State Controller has implemented recommendation Part B as noted in the confidential finding.

## Recommendation 2021-032

The Governor's Office of Information Technology should improve information security controls for the Colorado Operations Resource Engine (CORE) system on a statewide basis by:

A. Implementing recommendation Part A as noted in the confidential finding.

B. Implementing recommendation Part B as noted in the confidential finding.

## Response

*Governor's Office of Information Technology*

A. Agree

Implementation Date: June 2022

The Governor's Office of Information Technology has implemented recommendation Part A as noted in the confidential finding.

B. Agree

Implementation Date: October 2021

The Governor's Office of Information Technology has implemented recommendation Part B as noted in the confidential finding.

## **Findings 2021-033 and 2021-034**

### **CPPS Information Security**

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding and response have been provided to the Department and OIT in a separate, confidential memorandum.*

The Colorado Personnel Payroll System (CPPS) is the State’s integrated human resources and payroll management application that was developed to run on the mainframe and resides at the State’s data center. In addition to being used by all Executive Branch departments, CPPS is used by the Colorado State University System, the Judicial Branch, and the Legislative Branch to process employee payroll. CPPS has been in production since 1984 and is an online processing system that allows for real-time changes to employees’ job statuses and payroll benefits information. CPPS contains sensitive, personally identifiable information.

The OSC, with support from its Central Payroll Unit (Payroll Unit), has overall responsibility for the system and its data in the role of business owner, and should develop procedures to ensure management’s identified risks and expectations are adequately addressed, including those related to information security.

OIT, as CPPS’ IT service provider, is responsible for developing, publishing, and communicating information security policies and technical standards that outline IT security requirements that protect data obtained, processed, stored, and reported by state agencies. Together, the OSC and OIT have responsibility for ensuring that CPPS complies with Security Policies and OIT Cyber Policies.

In July 2018, OIT initiated a project, which has not yet been completed, to decommission the mainframe that CPPS resides on.

## **What was the purpose of our audit work and what work was performed?**

The purpose of our audit work was to determine whether the OSC’s Payroll Unit and OIT have designed and implemented appropriate information security controls and ensured that they were operating effectively over CPPS during Fiscal Year 2021. In performing our audit work, we inquired of the Payroll Unit and OIT staff and obtained and inspected relevant documentation.

## What problems did the audit work identify and how were the results measured?

As a result of our Fiscal Year 2021 audit procedures, we found certain information security governance and internal control problems with CPPS. We measured the results against the Green Book, which the OSC has established as the internal control framework to be used by state agencies, and Security Policies.

## Why did these problems occur?

Although Payroll Unit staff stated that they had performed a specific internal control related to the problems we found, they did not have a formalized process in place that established the internal control requirements, as outlined by the Green Book, nor were they aware of the Green Book requirements to do so.

Additionally, conflicting language exists between OIT's internal procedure and specific language it communicates to the business owners.

## Why do these problems matter?

Without formalized and non-conflicting procedures in place, management may not be able to meet its organizational objectives and reduce risks to an acceptable level. In addition, a lack of security policy compliance for CPPS increases the risk of data in the system being compromised, which could lead to unreliable financial information and ultimately misstatements in the State's financial statements.

Classification of Finding: **Significant Deficiency**

This finding does not apply to a prior audit recommendation.

## Recommendation 2021-033

The Department of Personnel & Administration's Office of the State Controller (OSC) should improve information security controls for the Colorado Personnel Payroll System (CPPS) by:

- A. Implementing the recommendation noted in Part A of the confidential finding.
- B. Implementing the recommendation noted in Part B of the confidential finding.

## Response

### *Department of Personnel & Administration's Office of the State Controller*

A. Agree

Implementation Date: May 2022

The OSC and Central Payroll agree with the OSA's recommendation and will implement the confidential finding.

B. Agree

Implementation Date: May 2022

The OSC and Central Payroll agree with the OSA's recommendation and will implement the confidential finding.

## Recommendation 2021-034

The Governor's Office of Information Technology should improve information security controls for the Colorado Personnel Payroll System (CPPS) by:

A. Implementing the recommendation noted in Part A of the confidential finding.

B. Implementing the recommendation noted in Part B of the confidential finding.

## Response

### *Governor's Office of Information Technology*

A. Agree

Implementation Date: June 2022

OIT has agreed with this finding and will implement the recommendations noted in Part A of the confidential finding.

B. Agree

Implementation Date: June 2022

OIT has agreed with this finding and will implement the recommendations noted in Part B of the confidential finding.

## Department of Personnel & Administration’s Office of the State Controller

The following recommendation relating to an internal control deficiency classified as a **Material Weakness** was communicated to the Department of Personnel & Administration’s Office of the State Controller (Department) in the previous year and has not been remediated as of June 30, 2021, because the original implementation date provided by the Department is in a subsequent fiscal year. This recommendation can be found in the original report and Section III: Prior Financial Recommendations of this report.

Statutory Compliance and Internal Controls over Financing Reporting					
Current Rec. No.	2021-035				
Prior Rec. No.	2020-030				
Classification	Material Weakness				
Implementation Date	A. [1]	B. [1]	C. December 2022	D. [1]	E. [1]

[1] This part of the recommendation has been implemented, partially implemented, not implemented, or is no longer applicable. See Section III: Prior Financial Recommendations of this report for information regarding this part of the recommendation.

# Department of Public Health and Environment

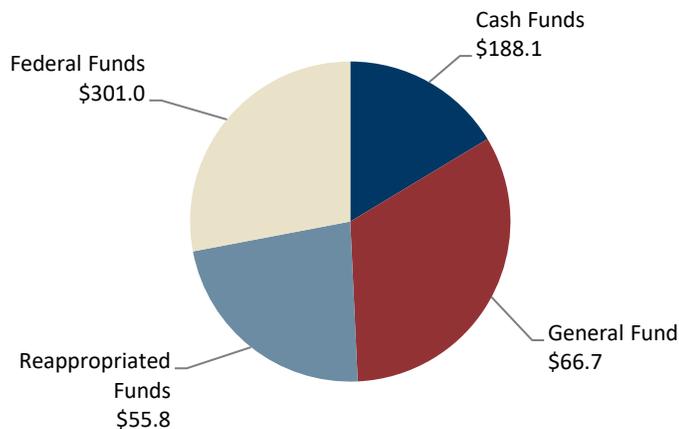
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The Department of Public Health and Environment (Department) is solely responsible, according to statute [Section 25-1-101, C.R.S.], for protecting and improving the health of the people of Colorado, as well as protecting the quality of Colorado’s environment.

For Fiscal Year 2021, the Department was appropriated approximately \$611.6 million and 1,397 full-time equivalent (FTE) staff.

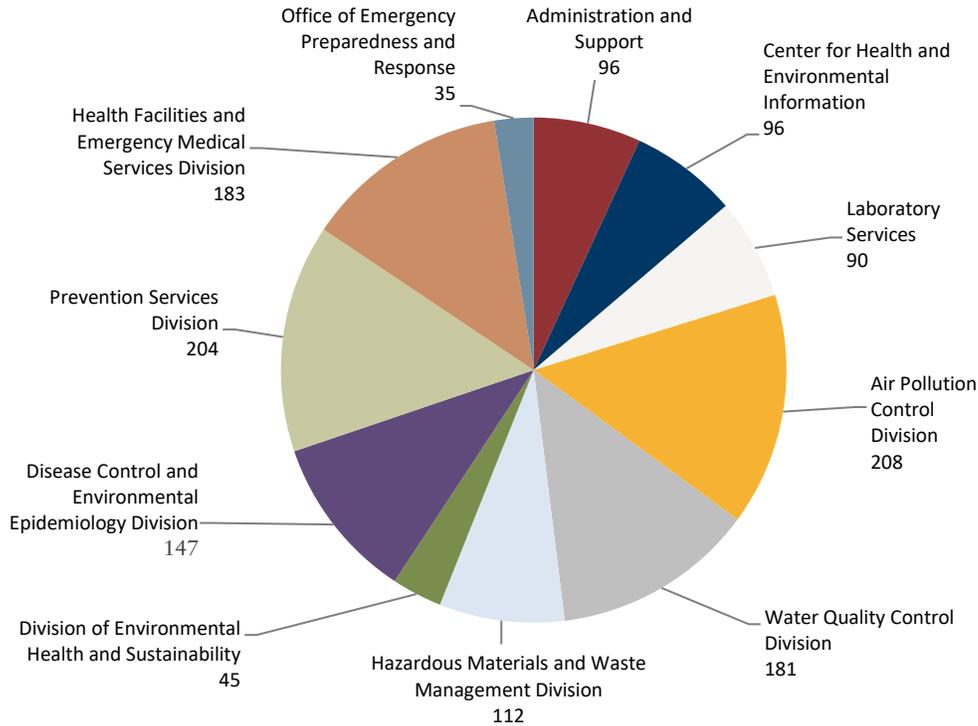
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for Fiscal Year 2021.

**Department of Public Health and Environment Fiscal Year 2021 Appropriations by Funding Source (in Millions)**



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

**Department of Public Health and Environment Fiscal Year 2021  
Full-Time Equivalent Staff by Major Areas**



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

**Finding 2021-036  
Internal Controls over Inventory Adjustments and Valuation**

At the end of Fiscal Year 2020 and during Fiscal Year 2021, the Department became responsible for administering and organizing testing and vaccination sites as part of its COVID-19 public health emergency response. The Department began purchasing supplies and maintaining inventory for these sites and also began receiving a large amount of inventory of testing kits, vaccines, and other supplies directly from the federal government—referred to as contributed inventory. As a result, the Department experienced a significant increase in its inventory by the end of Fiscal Year 2021.

As of June 30, 2021, the Department had approximately \$63.1 million in inventory, with approximately \$58.7 million in COVID-19-related inventory received directly from the federal government and \$4.4 million in COVID-19 and non-COVID-19-related supplies purchased by the Department.

The Department stores the inventory in its laboratories and warehouses. The laboratories contain the inventory needed for immediate use, the laboratory warehouse contains inventory to replenish laboratory needs, and the off-site warehouse is primarily excess or overflow that then replenishes the

laboratory warehouse or is distributed to local public health agencies. The Department has a policy requiring that staff count and reconcile against Department records the portions of inventory at the Department's laboratory on a daily basis. On an annual basis, Department staff count all warehouse and laboratory inventory, which is tracked in both an inventory management system and in spreadsheets. The Department's annual count of inventory includes using inventory system printouts and other spreadsheets which are to represent the full inventory listing when combined. The Department uses this annual count as the basis for an annual adjustment to the inventory account balance within the Colorado Operations Resource Engine (CORE), the State's accounting system. The Department performed the annual count on June 25, 2021, for the year ended June 30, 2021. The Department determines its valuation of contributed inventory using estimates of the fair value of inventory.

## **What was the purpose of our audit work and what work was performed?**

The purpose of the audit work was to determine whether the Department had adequate internal controls in place over inventory and to determine whether inventory accounts were properly stated for Fiscal Year 2021.

We reviewed the Department's internal controls over inventory, which included reviewing a sample of 144 items from its inventory tracking sheets after the inventory count was performed, reviewing the Department's determination of its fiscal year-end inventory valuation, and reviewing the inventory reconciliation information to determine if inventory accounts were properly stated as of June 30, 2021.

## **How were the results of the audit work measured?**

We measured our results against the following criteria:

- The Office of the State Controller's (OSC) *Fiscal Procedures Manual* (Manual), Chapter 3, Section 3.13, *Prepaid Expenses and Consumable Inventories*, requires that consumable inventories totaling \$100,000 or more per location are required to be inventoried annually and recorded on the Department's balance sheet as of the last business day of June.
- The OSC's Manual, Chapter 1, Section 1.4, *Opening and Closing Calendar*, outlines that posting of Fiscal Year 2021 year-end adjustments, including inventory, are required to be completed by August 13, 2021.
- Section 24-30-204(3), C.R.S., states that the official books of the State shall be closed no later than 35 days after the end of the fiscal year.

## What problems did the audit work identify?

The Department neither ensured that it appropriately tracked and safeguarded its inventory during the fiscal year nor did it accurately record its inventory in its financial records at fiscal year end. Furthermore, the Department failed to comply with the OSC's requirements for inventory recording and posting adjustments before the statutory close deadline. Specifically, we found the following issues:

- During our testing of a sample of Department staff inventory counts performed on June 29, 2021, and June 30, 2021, we noted that the quantity in the Department's inventory system and tracking spreadsheets did not agree to the inventory on-hand for 99 of the 144 inventory items we sampled (69 percent). The inventory value noted in the system and on the tracking spreadsheets exceeded the inventory on-hand noted in the sample counts by approximately \$542,000.
- The Department's inventory sheets contained numerous errors and inconsistencies. For example, in some cases, the inventory counts were made inconsistently, such as inventory that was counted as boxes of 1,000 items versus similar inventory in a different location counted as individual items.
- Based on our comparison of the initial inventory tracking sheets as of June 30, 2021, with the Department's revised inventory tracking sheets that contained inventory valuations used to support the final amounts included in CORE on September 22, 2021, we estimated that the initial inventory tracking sheets contained errors in the quantities of inventory totaling approximately \$7.3 million compared to the final inventory tracking sheets.
- The Department did not make an adjustment to correct the inventory valuation and count discrepancies until September 22, 2021, which was 40 days after the State's required close on August 13, 2021, and almost 3 months after Department staff identified the discrepancies through its inventory count. The total adjustment to inventory on September 22, 2021, was an increase to the financial records of approximately \$21.3 million.
- We noted that the Department did not have valuations of inventory completed as of the date of our inventory observation, which contributed to the lateness of the Department's inventory adjustments. Timely valuation of inventory would allow the Department to adjust inventory balances to the proper ending balance within the required timeframe.

## Why did these problems occur?

The Department did not have adequate processes in place to track and value its inventory during Fiscal Year 2021, including the significant volume of COVID-19-related supplies it purchased and received from the federal government. Specifically, the Department lacked a procedure to require that staff perform monthly inventory counts to identify and correct discrepancies timely, and perform valuations of inventory on a regular basis. The Department also lacked a policy establishing a consistent methodology for the unit of measurement to be used in counting inventory. Furthermore, the Department did not have sufficient processes in place to ensure that all inventory was recorded appropriately in CORE—or that identified inventory adjustments were made in CORE—prior to the OSC’s deadline for closing entries. Because these processes were not in place, the Department was delayed in identifying the inventory issues; determining the cause, amount, and value of the discrepancies; and correcting the errors.

## Why do these problems matter?

Without strong internal controls over inventory, the Department cannot ensure that its inventory records are accurate and that its inventory is safeguarded. This is especially important in cases such as the COVID-19 pandemic when the Department is charged with safeguarding a significant influx of supplies and ensuring that the inventory is appropriately valued on its books. Internal control weaknesses, such as infrequent reconciliation of inventory and a lack of timely valuation of inventory, increase the risk of accounting misstatements and inventory losses.

Classification of Finding: **Significant Deficiency**

This finding does not apply to a prior audit recommendation.

## Recommendation 2021-036

The Department of Public Health and Environment should strengthen its internal controls to ensure that its inventory is properly tracked and safeguarded. This should include implementing written policies and procedures over inventory that address the following areas:

- A. Implementing a process requiring that its inventory is valued on a regular basis during the fiscal year and timely after fiscal year end.
- B. Establishing a consistent unit of measurement for inventory counts and requiring that monthly inventory counts are performed and reconciled timely to the inventory records and that any discrepancies are researched, resolved, and corrected as appropriate.
- C. Ensuring that all inventory adjustments are recorded in the Colorado Operations Resource Engine timely and prior to the Office of the State Controller’s deadline for closing entries.

## Response

### *Department of Public Health and Environment*

A. Agree

Implementation Date: July 2023

The department has initiated an RFP to procure a consultant to help with inventory process improvements that includes regular valuation of inventory, and will document all final processes in department policy or procedures. CDPHE purchased an inventory system in FY21 to mitigate the challenges of our sudden influx of inventory. However, to facilitate inventory valuation improvements, we have made the decision to use the Colorado Operations Resource Engine (CORE) inventory module to assist with the tracking and valuation of our inventory moving forward. Central accounting will provide training regarding the functionality of the CORE inventory module to lab fiscal staff.

B. Agree

Implementation Date: June 2023

CDPHE is transitioning from the current tracking mechanisms to a more sophisticated valuation system, the CORE inventory module, which will better enable us to track inventory timely, accurately and will provide a mechanism for consistent units of measure. In addition, monthly inventory counts will be conducted by lab warehouse and fiscal staff, which will then be reconciled monthly to CORE. The central accounting unit will modify existing procedures to incorporate these changes, provide oversight and verification of reconciliations, and will conduct training related to utilization of the CORE inventory module.

C. Agree

Implementation Date: July 2023

With the implementation of the updated processes and procedures, training of impacted staff, and the use of the CORE inventory module, which will track inventory from procurement through distribution via CORE entries, the department will be able to efficiently and continuously reconcile inventory throughout the fiscal year. Process improvements that include consistent inventory counts along with the annual true-up at fiscal year end will help ensure timely adjustment in accordance with the Office of the State Controller's closing entry deadlines.

# Department of Public Safety

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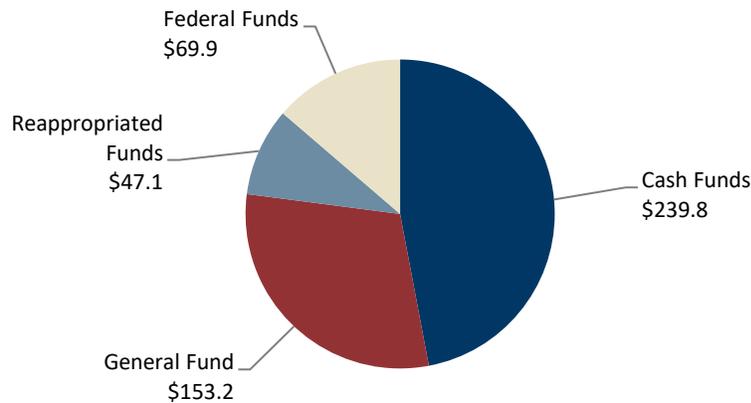
The Department of Public Safety (Department) is responsible for providing a safe environment for the citizens of Colorado. The Department operates according to statute [Section 24-1-128.6, C.R.S.] and comprises an Executive Director's Office and the following five divisions:

- Colorado State Patrol
- Division of Fire Prevention and Control
- Division of Criminal Justice
- Colorado Bureau of Investigation
- Division of Homeland Security and Emergency Management

For Fiscal Year 2021, the Department was appropriated approximately \$510.0 million and 1,922 full-time equivalent (FTE) staff.

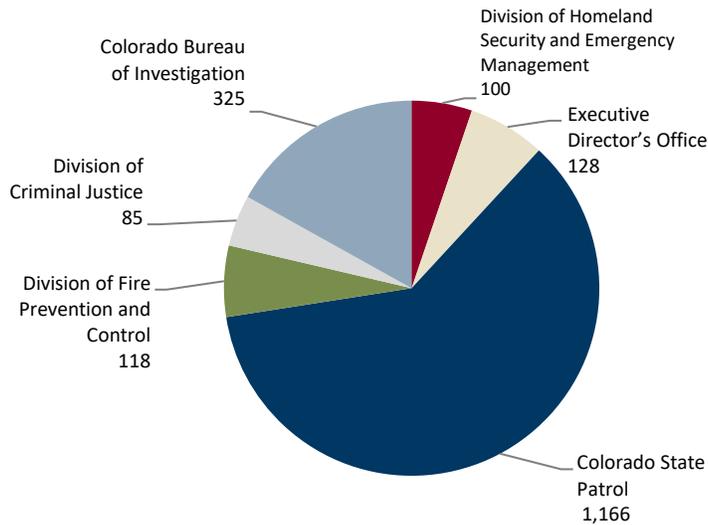
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for Fiscal Year 2021.

**Department of Public Safety Fiscal Year 2021 Appropriations by Funding Source (in Millions)**



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

## Department of Public Safety Fiscal Year 2021 Full-Time Equivalent Staff by Major Areas



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

## Colorado Automobile Theft Prevention Cash Fund

The Colorado Automobile Theft Prevention Cash Fund (Fund) was created in Fiscal Year 2003 by Section 42-5-112(4)(a), C.R.S., within the Department to provide grants to law enforcement agencies or other qualified applicants to support automobile theft prevention and related programs. From the Fund's inception in Fiscal Year 2004 through Fiscal Year 2008, the Fund was authorized to receive insurance company donations. Legislation passed during the 2008 legislative session [Section 10-4-617, C.R.S.] assessed a fee on Colorado automobile insurers to fund the program. Specifically, each auto insurer that issues a Colorado automobile insurance policy is required to pay a biannual fee to the Fund for each vehicle insured. The fee is calculated as \$1 multiplied by the total number of specified motor vehicles insured by the insurers as of July 1 of each year, divided by two. The fee does not apply to all insured vehicles, but rather to those specified under Section 10-4-617, C.R.S. The fee must be paid in two installments due on January 1 and July 1 each year. From Fiscal Years 2017 through 2021, the Fund received approximately \$26.1 million in revenue.

Section 42-5-113, C.R.S., requires the Office of the State Auditor to perform an audit of the Fund's grant distributions and expenditures to determine whether the distributions and expenditures complied with program requirements and guidelines. This audit is required to be conducted and the results reported to the General Assembly every 5 years. The following discussion provides background on the Department's administration of the Fund, the Department's grant and expenditure processes for the Fund, and our testing results of the Fund's Fiscal Year 2021 grant distributions and expenditures.

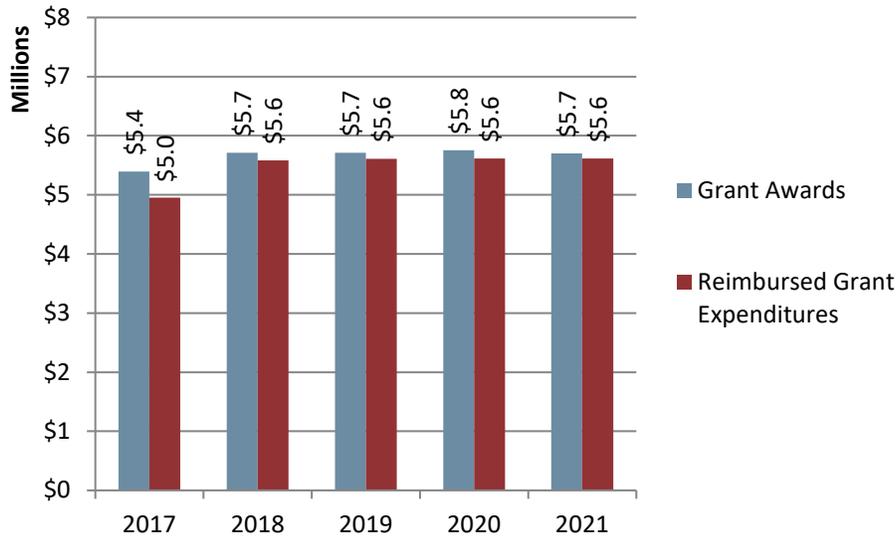
## Grant Application and Award Process

The Fund is governed by the Automobile Theft Prevention Board (Board), which is comprised of the Department and the Department of Revenue's executive directors, or their designees, along with nine other members appointed by the Governor. The Department is given the authority to employ staff members to assist the Board. These staff members compose the Colorado Automobile Theft Prevention Authority (CATPA). CATPA is an office contained within the Department's Division of Colorado State Patrol and is responsible for administering the Fund. The CATPA office is tasked with the revenue collection and all aspects of grant monitoring, including the application process, award notification, reimbursement request reviews, and payments. CATPA office staff present the activity with the grantees and Fund during regularly scheduled Board meetings.

The CATPA office staff and the Board solicit and review applications for grants and may award grants to qualified applicants for 1 to 3 years, subject to the monies available in the Fund. The CATPA office has developed procedures requiring that a qualified applicant is a Colorado law enforcement agency, state agency, local unit of government, independent school district, nonprofit organization, or for-profit organization that can demonstrate its proposed program addresses some aspect of motor vehicle theft prevention. The Board annually announces the availability of grant funds and the start of the application process. Each qualified applicant shall, at a minimum, specifically describe the proposed program (e.g., motor vehicle theft prevention, enforcement, prosecution, training, or offender rehabilitation program) in its application. All applications also require a program budget that covers the entire project duration.

The following table presents the Fund's grant awards for Fiscal Years 2017 through 2021, and the reimbursed grant expenditures. Reimbursed expenditures do not typically match grant awards as most grants are awarded based on the estimated budgets submitted with the grant application and actual expenditures are often lower than budgeted. All CATPA grants are awarded on a cost-reimbursement basis, meaning that only the actual costs incurred are reimbursed. Any unspent funds remain in the Fund and are used by the Board to allocate awards for the upcoming funding cycle of grant projects.

**Colorado Automobile Theft Prevention Cash Fund  
Grant Awards and Reimbursed Grant Expenditures  
Fiscal Years 2017-2021 (in Millions)**



Source: CATPA Office.

The Board reviews each application based upon its established guidelines that include the following:

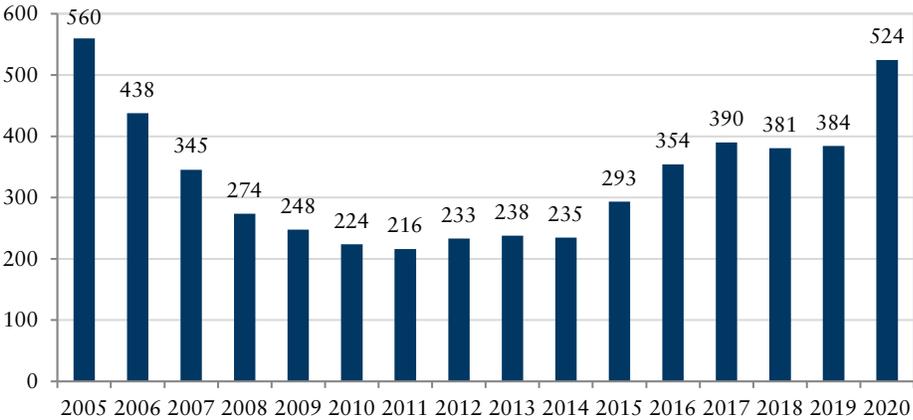
- Whether the application addresses an auto theft problem that is clearly identified, measurable, and supported by relevant statistical evidence.
- Whether the application minimizes duplicative or overlapping existing programs.
- Whether the application demonstrates a realistic cost structure when compared to the program's goals.
- Whether the application includes a proposed evaluation design that provides relevant data to measure project effectiveness and a plan for performing such an evaluation.

The Board scores each application based on the above guidelines, giving priority to applications that represent multijurisdictional programs, and approves or denies the application. For each approved application, the Board determines the grant award amount based on criteria including the amount of funds available for the current grant cycle; the applicant's experience, qualifications, and past performance; and the applicant's plan for auto theft crime prevention, education, and training.

# Program Results

From Calendar Years 2005 to 2014, Colorado saw a marked decrease in automobile theft. However, since 2014, Colorado has seen a steady rise in automobile theft. In 2014, according to the Federal Bureau of Investigation, Colorado was ranked 18th highest in the nation for vehicle thefts. In 2020, Colorado ranked the highest. The following chart shows automobile thefts per 100,000 residents in Colorado during 2005 through 2020, as reported by the Federal Bureau of Investigation.

**State of Colorado Automobile Thefts per 100,000 Residents  
Calendar Years 2005-2020**



Source: Federal Bureau of Investigation, Uniform Crime Reports.

Prior to 2015, CATPA office staff indicated that the Board primarily funded individual, localized projects that worked independently from each other. From 2015 on, CATPA put additional emphasis on coordinated work between funded projects to increase auto theft mitigation. Further, during 2020, the Board revised CATPA’s rules and regulations [8 CCR 1507-50] to strengthen the evaluation and award criteria of applicants to focus on proposed countermeasures. These countermeasures include enforcement strategies addressing prolific vehicle theft offenders, pattern crimes, and the use of intelligence-led policing efforts. Two CATPA-funded task forces, Beating Auto Theft Through Law Enforcement (BATTLE) and Colorado Auto Theft Prevention Authority’s Metropolitan Auto Theft Task Force (C-MATT), work in tandem with multijurisdictional law enforcement and prosecutors to prosecute major cases involving criminal associations in violation of the Colorado Organized Crime Act. These efforts are not typically enforced by local law enforcement without the aid of CATPA funding. CATPA reported that in 2021, both task forces undertook 234 investigative operations that resulted in recovering \$25.8 million in stolen vehicles while being funded with a total of \$3.6 million for an investment return of \$7.22 per dollar of funding. CATPA reports that it has also funded additional countermeasures such as enforcement strategies focused on information technology, the establishment of a statewide vehicle theft database, and the procurement and deployment of automated license plate reader

systems. CATPA also reported that it funds quality, innovative training to local law enforcement through the Colorado Auto Theft Investigators (CATI) grant. With these countermeasures, the Board has placed added emphasis on evaluating the investment value return on grant dollars awarded with underlying program performance.

## Grant Expenditure Process

Grant funds are provided to grantees on a reimbursement basis. Grantees must submit a reimbursement request either monthly or quarterly to the CATPA office for the incurred and allowable project expenditures. The CATPA office requires support for each grantee's first two reimbursement requests, based on Board-approved guidelines. For subsequent requests, the CATPA office requires the grantee to keep all detailed support, but the grantee is only required to submit this support upon request. At the end of each quarter, grant recipients must submit a progress report to the Board demonstrating how the activities for that reporting period align with the program's goals and objectives. At the end of the grant period, grant recipients must submit a final report that summarizes the overall project accomplishments. In addition, the CATPA office performs a grant closeout, comparing the final expenditures—as reported on the final grantee report—to the initial grant award.

The Board has established a process for CATPA office staff to use for monitoring grant recipients. This process includes procedures for reviewing reimbursement requests for appropriate documentation and adherence to the program's budget; reviewing grantees' required reports to monitor grant compliance, achievement of objectives, and requirements to hold quarterly project director meetings; and reimbursement procedure trainings. Due to the COVID-19 pandemic, CATPA office staff began performing some remote grantee monitoring in addition to on-site monitoring. The monitoring includes reviews of financial records, payroll documents, and equipment purchases. In addition to on-site or remote grantee monitoring, CATPA office staff perform invoice monitoring, which includes the review of invoice submissions or reimbursement requests made by grantees to ensure that all documentation is correct and agrees to the approved budget.

Based on our testing, we determined that the Department administered Fund expenditures and grant distributions in compliance with statutory requirements and Board-approved guidelines during Fiscal Year 2021.

## **What was the purpose of our audit work and what work was performed?**

The purpose of our audit work was to determine whether the Department complied with the statutory requirements for the Fund's grant distributions, expenditures, and overall compliance with Generally Accepted Accounting Principles during Fiscal Year 2021.

We tested a sample of 24 reimbursements totaling \$3.6 million made to two of the Fund's six grantees during Fiscal Year 2021 and verified that the grantees selected used the funds for allowable programs per Section 42-5-112, C.R.S. The six grantee expenditures totaled \$5.6 million during the fiscal year. As part of our testing of the grantee expenditures, we reviewed the associated grant agreements and verified that the grantees selected used the funds for allowable programs per Section 42-5-113, C.R.S. As part of our testwork, we compared the grantee's Board-approved budget to the submitted reimbursement requests.

We also tested a sample of 10 administrative expenditures totaling approximately \$7,000 that were made from the Fund during Fiscal Year 2021. Administrative expenditures incurred by the Board and CATPA office staff totaled approximately \$455,000 for Fiscal Year 2021. Our testing included reviewing invoices to determine whether the expenditures supported the Fund's purpose; were appropriately coded as administrative costs of the Fund; and were properly approved. We also performed testwork to determine whether Fiscal Year 2021 administrative expenditures totaled less than 8 percent of the total Fund expenditures, in compliance with Section 42-5-112(5)(d), C.R.S.

In addition, we reviewed the Department's processes for recognizing and recording Fund revenue from Fiscal Years 2017 through 2021, and the amounts assessed and collected each fiscal year. Assessed revenues represent the number of CATPA fee-applicable motor vehicle policies that are statutorily self-reported by Colorado auto insurance companies to CATPA. Collected revenues represent cash collections during the period.

## **How were the results of the audit work measured?**

The CATPA grant invoice instructions, which were created by the CATPA office and approved by the Board, detail the process that grantees must follow in order to be reimbursed. CATPA office guidelines state that incomplete reimbursement requests will not be approved and grantee expenses will be reimbursed by the CATPA office in a timely manner. While statute does not address a specific timeframe for reimbursing grantees, the CATPA office has established guidelines to ensure that complete and accurate reimbursement requests are approved within 45 days. Based on these guidelines, we tested the samples selected using a 45-day threshold.

Section 42-5-112(5)(d), C.R.S., states that the CATPA office cannot use more than 8 percent of the monies in the Fund for operational or administration expenses.

Section 10-4-617(1)(b), C.R.S., requires Colorado automobile insurers to pay the CATPA office the assessed biannual fee on or before January 1 and July 1 each year. Each automobile insurer must notify the CATPA office in August of each fiscal year of the number of motor vehicles insured as of July of that year. The Department then uses this information to calculate the assessed fee. An enforceable legal claim to the assessed fee asset exists at the time of the insurers' self-assessment date in August of each fiscal year.

**No recommendation is made in this area.**

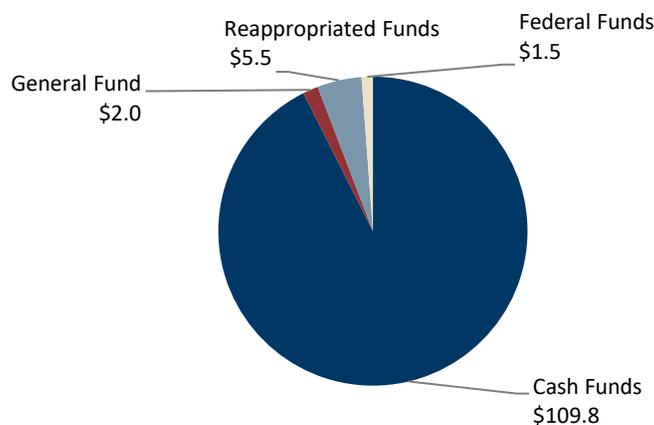
# Department of Regulatory Agencies

The Department of Regulatory Agencies (Department) is responsible for managing licensing and registration of multiple professions and businesses, implementing regulation for Colorado industries, and protecting consumers. The Department is responsible for more than 40 boards, commissions, and advisory committees, which are charged with administering more than 50 regulatory programs comprising more than 886,000 individual licensees and approximately 65,000 businesses and institutions.

For Fiscal Year 2021, the Department was appropriated approximately \$118.8 million and 601 full-time equivalent (FTE) staff.

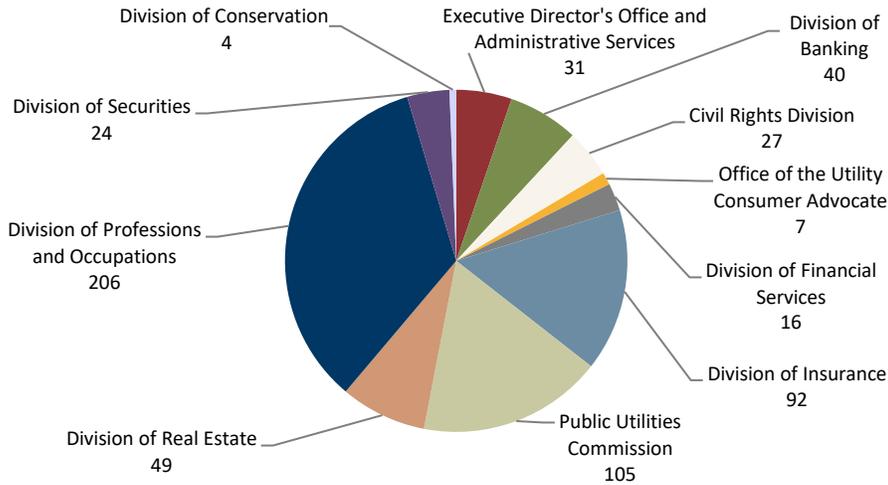
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for Fiscal Year 2021.

## Department of Regulatory Agencies Fiscal Year 2021 Appropriations by Funding Source (in Millions)



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

**Department of Regulatory Agencies Fiscal Year 2021  
Full-Time Equivalent Staff by Major Areas**



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

**Finding 2021-037  
Internal Controls over Financial Reporting**

The Department’s accounting staff are responsible for all of the Department’s financial reporting, including the accurate entry, review, and approval of financial transactions in Colorado Operations Resource Engine (CORE), the State’s accounting system. Department accounting staff are also responsible for reporting fiscal year-end accounting information through forms, or exhibits, to the Office of the State Controller (OSC) for inclusion in the State’s financial statements. The OSC collects information from state departments and institutions of higher education after each fiscal year end through submitted exhibits to assist in its preparation of the State’s financial statements, required note disclosures, and the *Schedule of Expenditures of Federal Awards* (SEFA). In order for the OSC to meet its statutorily-required timeframes for the creation of the State’s financial statements and SEFA, the OSC establishes various periods with specified closing dates in CORE for department entries. For example, for Fiscal Year 2021, Period 13, which closed on August 13, 2021, was available for departmental entry of adjustments and represented the OSC’s closing of the State’s official accounting records.

Beginning Calendar Year 2020, the Department’s accounting staff responsibilities included recording accounting transactions for the Colorado Reinsurance Program (Program) within the Department’s Division of Insurance (Division). The Program was established by House Bill 19-1168 to provide reinsurance payments to health insurers to aid in paying high-cost insurance claims. Reinsurance payments are payments made to cover a portion of high-cost claims, allowing insurance companies to lower premiums for individual health insurance plans. As a result of lower premiums, the amount

of money the federal government spends on the federal Patient Protection and Affordable Care Act (ACA) tax credits also goes down and these savings are passed through to the state to fund the Program and maintain lower premiums and market stability. The Program operates through a State Innovation Waiver (Waiver), Assistance Listing Number 93.423, under Section 1332 of the ACA. Expenditures for the Program are funded through federal funds received through the Waiver and state taxes and fees collected from insurance carriers through the Health Insurance Affordability Act [Senate Bill 20-215]. The Program operates on a calendar year. Department staff and the federal government calculate reinsurance payment amounts at the end of the calendar year for each carrier based on all claims submitted by insurance carriers for the preceding calendar year. In August 2021, the Department made payments for the first time under the Program to insurance carriers for claims made during Calendar Year 2020. The Division is required to notify carriers of their reinsurance payment amount by June 30 of the year following the applicable calendar year (e.g., June 30, 2021, for the 2020 year) and disburses payments by August 15 of that year.

## **What was the purpose of our audit work and what work was performed?**

The purpose of our audit work was to determine whether the Department had adequate internal controls in place and complied with policies and procedures related to financial accounting and reporting processes and requirements for Fiscal Year 2021.

As part of our audit testing, we analyzed the Department's CORE transactional data recorded after the State's Fiscal Year 2021 closing date of August 13, 2021, to identify the number and dollar amount of transactions that the Department processed after this date. We also reviewed the Department's exhibits submitted to the OSC for Fiscal Year 2021 and determined whether the Department's accounting staff prepared the exhibits in accordance with the OSC's *Fiscal Procedures Manual* (Manual) and the related instructions. As part of reviewing the Department's exhibits, we also reviewed the Department's timeliness and accuracy of the exhibits.

## **How were the results of the audit work measured?**

We measured the results of our audit against the following:

- The OSC's Manual, Chapter 1, Section 1.4, *Opening and Closing Calendar*, outlines that posting of Fiscal Year 2021 year-end adjustments are required to be completed by August 13, 2021. As of this date, all departments' adjusted financial activity was required to be entered into CORE. Any Fiscal Year 2021 entries made after that date required OSC approval.
- State Fiscal Rule 1-2 (3.5), *Internal Controls*, requires that state departments "implement internal accounting and administrative controls that reasonably ensure that financial transactions are accurate, reliable, conform to the Fiscal Rules, and reflect the underlying realities of the accounting transaction (substance rather than form)." For example, internal accounting and

administrative controls include policies and procedures related to fiscal year end accounting procedures and exhibit reporting.

- The Manual, Chapter 3, Section 3.1, *Preparing Accounting Estimates*, and Section 3.1.1, *Estimation of Accrued Expenditures*, states that departments should review their current accounting estimation procedures to ensure they are consistent with OSC guidance. All known liabilities and related expenditures must be accrued for fiscal year end, and year-end estimates should be based on situations, circumstances, and documented evidence known before issuance of the financial statements.
- The Manual contains specific instructions for the completion of various exhibits, including the following:
  - Exhibit P, *Major Accounting Estimates*, provides information to the OSC regarding major accounting estimates used in closing and aids in completing the close of the State financial books of record as early as possible.
  - Exhibit K1, *Schedule of Federal Assistance*, is used to report federal expenditure information to the OSC to aid the OSC in preparing the State's SEFA, which reports the total federal awards expended by the State during the fiscal year.
- The OSC has adopted the *Standards for Internal Control in the Federal Government* (Green Book), published by the Government Accountability Office, as the State's standard for internal controls, which all state agencies must follow. Green Book, Paragraph OV2.14, *Roles in an Internal Control System*, states that management is responsible for designing an internal control system. This should include controls over the preparation of external financial reporting in accordance with professional standards and applicable laws and regulations.

## What problem did the audit work identify?

Overall, we identified an issue with the Department's fiscal year-end accounting procedures. Specifically, the Department posted three entries totaling \$229.1 million on January 12, 2022, more than 150 days after the OSC's closing deadline of August 13, 2021. These entries should have been made at fiscal year end to accrue Calendar Year 2020 reinsurance payments that were assessed in June 2021, but are due for payment in Fiscal Year 2022. In addition, the post-closing entries required the Department to make corrections to 2 of the 7 exhibits (29 percent) submitted to the OSC for Fiscal Year 2021. Specifically, the Department revised the following exhibits:

- **Exhibit P.** The Department revised its Exhibit P to include an estimated \$227.4 million in Program payment accruals due to insurance carriers. The Department's accounting staff submitted the corrected Exhibit P to the OSC on January 13, 2022.

- **Exhibit K1.** The Department initially only reported \$8,000 in federal Program expenditures on its Exhibit K1, but submitted a revised Exhibit K1 to the OSC on January 13, 2022, more than 3 months after the due date. The revision reported \$169.4 million in federal Program expenditures. This increase in federal Program expenditures was necessary to record the federal funds the Department used to pay for a portion of the Calendar Year 2020 reinsurance payments.

## Why did this problem occur?

The Department did not consider and review the impact of the Program’s reinsurance payments to the accounting records as of the fiscal year end. Specifically, the Department did not have documented policies and procedures in place to ensure the reinsurance payments were properly accrued at fiscal year end and the Program’s transactions were recorded in CORE by the OSC’s closing deadline.

## Why does this problem matter?

Strong financial accounting internal controls, including documented policies and procedures over financial accounting fiscal year-end closing processes, are necessary to ensure that expenditures are reported accurately, in a timely manner, and in accordance with generally accepted accounting principles. Without sufficient internal controls, the Department cannot ensure that it is providing timely, accurate, and complete financial information to the OSC and, ultimately, that the State’s SEFA and financial statements are accurate.

Classification of Finding: **Material Weakness**

This finding does not apply to a prior audit recommendation.

## Recommendation 2021-037

The Department of Regulatory Agencies should improve its internal controls over financial reporting to ensure the timely entry of fiscal year-end financial activity into the Colorado Operations Resource Engine and accurate reporting of financial information by developing and implementing policies and procedures for reinsurance payments made through the Colorado Reinsurance Program.

## Response

### *Department of Regulatory Agencies*

Agree

Implementation Date: December 2022

The Department agrees that improvements are warranted to ensure timely entry of fiscal year-end financial activity into the Colorado Operations Resource Engine (CORE) and accurate reporting of financial information by developing and implementing policies and procedures for reinsurance payments made through the Colorado Reinsurance Program in the Division of Insurance. The Executive Director's Office is directing the Division of Insurance to evaluate the Division's current fiscal operations. Solutions may include, but are not limited to, hiring dedicated fiscal staff to manage the Division's related fiscal operations. Once the approved solutions are implemented, the Executive Director's Office will assist the Division of Insurance in implementing policies and/or procedures that (1) comply with Department-wide policies and/or procedures, (2) support strong financial internal controls, and (3) will reasonably ensure that financial transactions are timely, accurate, and reliable.

# Department of Transportation

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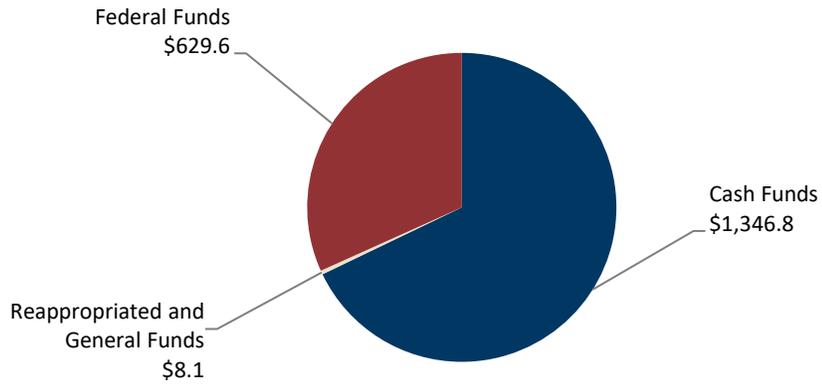
The Department of Transportation (Department) is primarily responsible for the construction, maintenance, and operation of Colorado’s state highway system, along with additional responsibilities relating to aviation, interregional bus service, transit, multimodal transportation, and other state transportation systems. Most policy and budget authority for the Department rests with the Transportation Commission (Commission), which is composed of 11 governor-appointed members who represent specific districts around the state. Department staff provides support to the Commission as it adopts budgets, establishes policies, and implements Commission decisions. The Department’s responsibilities include managing highway construction projects; implementing the State’s Highway Safety Plan; operating and maintaining Colorado’s 9,100-mile state highway system; providing technical support to local airports regarding aviation safety; distributing aviation fuel tax revenues and discretionary grants to local airports; and distributing grants for multimodal transportation projects. The Department includes the following divisions and offices:

- Administration
- Construction, Maintenance, and Operations
- Statewide Bridge and Tunnel Enterprise (BTE)
- High Performance Transportation Enterprise (HPTE)
- Southwest Chief and Front Range Passenger Rail Commission
- Special Purpose
- Multimodal Transportation Projects

For Fiscal Year 2021, the Department was appropriated approximately \$2.0 billion and 3,326 full-time equivalent (FTE) staff.

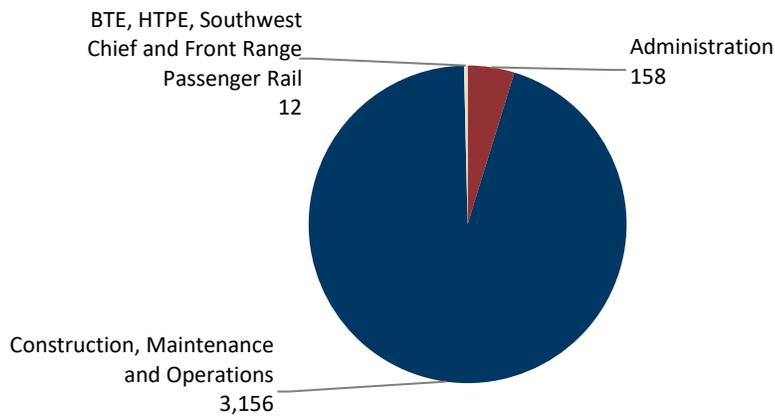
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for Fiscal Year 2021.

**Department of Transportation Fiscal Year 2021 Appropriations by Funding Source (in Millions)**



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

**Department of Transportation Fiscal Year 2021 Full-Time Equivalent Staff by Major Areas**



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

## **Finding 2021-038**

### **Timely Performance of Financial Reporting and Internal Controls**

The Department's accounting staff are responsible for all financial reporting, including the accurate, complete, and timely entry and approval of financial transactions in the Colorado Operations and Resource Engine (CORE), the State's accounting system. In addition, accounting staff are responsible for reporting fiscal year-end accounting information through exhibits to the Office of the State Controller (OSC) for inclusion in the State's financial statements.

Within CORE, accounting transactions are segmented into accounting periods throughout the fiscal year. Periods 1 through 12 correspond to the months of the fiscal year (July through June, respectively), and subsequent Periods 13 and 14 are used by departments as necessary to record any required adjusting entries to correct errors or reclassify information as may be necessary to create the State's financial statements. Specifically, for state departmental purposes, for Fiscal Year 2021, Period 13 represented the departmental financial accounting closing period and Period 14 represented the final period for adjustments, after the State's statutory close on August 13, 2021.

### **What was the purpose of our audit work and what work was performed?**

The purpose of the audit work was to determine whether the Department had adequate internal controls in place over, and complied with, its policies and procedures related to its financial accounting and reporting processes during Fiscal Year 2021.

Our Fiscal Year 2021 audit testwork included a review of the Department's exhibits and related supporting documentation prepared and submitted to the OSC for Fiscal Year 2021 to determine whether the Department's accounting staff prepared this information in accordance with the OSC's *Fiscal Procedures Manual* (Manual). We also analyzed CORE transactional data recorded after Period 13 (Periods 14 through 16) to identify the number and dollar amount of transactions processed by the Department after the OSC's statutory deadline for closing the State's books. Journal entries posted in Periods 15 and 16 must first be approved by the OSC.

For the Department's Fiscal Year 2021 exhibits, we compared the dates the exhibits were submitted to the OSC's exhibit due dates. In addition, we determined whether the information shown on the exhibits was accurate. Specifically, we agreed amounts shown on the exhibits to specific supporting documentation, including the general ledger, and reviewed exhibit instructions to ensure exhibits were completed within guidelines.

## How were the results of the audit work measured?

We measured the results of our audit work against the following:

- State Fiscal Rule 1-2 (3.5), *Internal Controls*, requires that state departments “implement internal accounting and administrative controls that reasonably ensure that financial transactions are accurate, reliable, conform to the Fiscal Rules, and reflect the underlying realities of the accounting transaction (substance rather than form).”
- State statute [Section 24-30-204(3), C.R.S.] requires the State’s official accounting records to be closed no later than 35 days after the end of the fiscal year. Specifically, for Fiscal Year 2021, the State’s accounting records were required to be closed by August 13, 2021.
- The OSC’s Exhibits Instructions outline specific requirements for departments’ completion of exhibits and the OSC’s year-end closing schedule includes due dates for such exhibits. For example, Exhibit I, *Letter of Instruction*, provides the OSC with the Department’s chief financial officer’s certification that the CORE balances are materially correct. Exhibit K1, *Schedule of Federal Assistance*, is used to report federal expenditure information to the OSC for statewide compilation and reporting. Exhibit R, *Application/Letter of Certification for Petty Cash and Change Funds*, is used to report petty cash as well as the applicable delegation status. Exhibit W1, *Changes in Capital Assets – Governmental and Internal Service Funds* is used to report changes in capital assets owned or used by governmental funds and internal service funds. The OSC uses information from the exhibits to support the notes to the financial statements.

## What problems did the audit work identify?

We determined that the Department did not comply with statutory close requirements and did not ensure exhibits were submitted to the OSC by the established due dates. Specifically:

- The Department posted a transaction to correct errors totaling \$14.2 million on October 13, 2021, which was 61 days past the due date of August 13, 2021. This transaction reclassified \$14.2 million out of accounts payables and into unearned revenue.
- Department staff submitted the Exhibit I on August 31, 2021, which was 6 days later than the August 25 due date.
- Department staff submitted the Exhibit K1 on October 12, 2021, which was 10 days later than the October 1 due date.
- Department staff submitted the Exhibit R on November 3, 2021, which was 71 days later than the August 24 due date.

- The Department incorrectly reported a transfer of \$82.8 million in capital assets from the HPTE on its Exhibit W1. The transfer should have been reported in the adjustments/deductions column and instead was reported as a construction in progress (CIP) transfer. Once we notified the Department of this error, the Department revised this exhibit and submitted it to the OSC.

## Why did these problems occur?

The Department lacked adequate internal controls over its fiscal year-end reconciliations and exhibit preparation and review processes to ensure that it met OSC financial reporting deadlines for Fiscal Year 2021. The Department did not follow the year-end closing schedule which, therefore, did not allow for reconciliations to be prepared and reviewed in a timely manner. In addition, the Department experienced turnover and vacancy in positions during Fiscal Year 2021 but had not adequately assigned and trained backup staff on year-end reconciliations, exhibit preparation, and financial reporting reviews; therefore, the Department had limited staff with the requisite background and training to prepare and review year-end reconciliations and exhibits. This caused many of the responsibilities for completing required year-end tasks to fall to personnel who were new to their position within the last two years. Furthermore, adequate supervisory review was not available in many cases due to the vacancy of positions pulling already scarce resources from the fiscal year-end processes.

## Why do these problems matter?

Strong financial accounting internal controls, including effective supervisory review processes and procedures over financial transactions and exhibits, are necessary to ensure that the Department is reporting financial information appropriately and accurately, in accordance with rules and regulations. Further, timeliness of accounting information is important to protect the users of accounting information from basing their decisions on outdated information.

Classification of Finding: **Significant Deficiency**

This finding does not apply to a prior audit recommendation.

## Recommendation 2021-038

The Department of Transportation's Accounting Division should strengthen its internal controls over fiscal year-end reconciliations and exhibit preparations, including supervisory reviews, to ensure it meets the Office of the State Controller's (OSC) financial reporting deadlines by:

- A. Following the OSC's year-end closing schedule to ensure timely year-end reconciliations and supervisory reviews prior to deadlines.

- B. Assigning backup responsibilities for exhibit preparation and reviews to staff to allow for appropriate segregation of duties and reviews and appropriate delegation when turnover occurs.
- C. Training employees on exhibit preparation and due dates for each exhibit.
- D. Ensuring exhibits are reviewed prior to submission to the OSC.

## Response

### *Colorado Department of Transportation*

- A. Agree

Implementation Date: October 2022

The Colorado Department of Transportation will enhance internal controls by ensuring the OSC's year-end closing schedule is used to establish deadlines to ensure timely year end reconciliations and supervisory reviews prior to established deadlines. This will be defined in necessary procedures. Additional accounting staff are also being brought on board to support increased volume and complexity, and provide greater opportunity for back up, segregation of duties, and additional review.

- B. Agree

Implementation Date: October 2022

The Colorado Department of Transportation will enhance internal controls by ensuring there are proper backups identified for exhibit preparation. This will be defined in necessary procedures. Additional accounting staff are also being brought on board to support increased volume and complexity, and provide greater opportunity for back up, segregation of duties, and additional review.

- C. Agree

Implementation Date: October 2022

The Colorado Department of Transportation will enhance internal controls by establishing additional training on exhibit preparation. This will be defined in necessary procedures. Additional accounting staff are also being brought on board to support increased volume and complexity, and provide greater opportunity for back up, segregation of duties, and additional review.

D. Agree

Implementation Date: October 2022

The Colorado Department of Transportation will enhance internal controls by identifying additional review steps prior to submission to the Office of the State Controller. This will be defined in necessary procedures. Additional accounting staff are also being brought on board to support increased volume and complexity, and provide greater opportunity for back up, segregation of duties, and additional review.

## **Finding 2021-039**

### **Accounting Controls—Statewide Bridge and Tunnel Enterprise**

The Statewide Bridge and Tunnel Enterprise (BTE) operates within the Department and is responsible for financing, repairing, reconstructing, and replacing the State’s bridges and tunnels. The Department and BTE accounting staff (Department staff) are responsible for BTE’s financial reporting, including the accurate, complete, and timely entry and approval of financial transactions into CORE. In addition, Department staff are responsible for reporting fiscal year-end accounting information through “exhibits” to the OSC for inclusion in the State’s financial statements.

Each fiscal year, BTE is required to prepare an exhibit containing its federal expenditures and related reimbursements to aid the OSC in the preparation of the State’s Schedule of Expenditures of Federal Awards (SEFA). This exhibit is referred to as the Exhibit K1, *Schedule of Federal Assistance*, and should include expenditures for grants received directly from the federal government and expended by BTE (direct expenditures), as well as expenditures for federal grants payments made by BTE to other state and/or non-state agencies (subrecipient expenditures). For Fiscal Year 2021, BTE’s Exhibit K1 reported \$11.2 million in federal expenditures for one grant program, Highway Planning and Construction.

BTE previously issued taxable Build America Bonds (BAB) as authorized by the federal American Recovery and Reinvestment Act (Recovery Act). Pursuant to the Recovery Act, BTE expects to receive annual federal direct payments (subsidies) from the U.S. Treasury. This subsidy is recognized annually in the financial statements as non-operating revenue. As BAB is considered a subsidy and not a reimbursable federal grant, the annual BAB subsidy should not be recorded as an expenditure of federal funds on the BTE’s Exhibit K1. During Fiscal Year 2021, BTE received \$5.2 million in BAB subsidies.

Exhibit D2, *Schedule of Debt Service Requirements to Maturity*, is used to identify the maturity schedule of long-term debt obligations. For Fiscal Year 2021, the BTE’s Exhibit D2 reported approximately \$301.0 million in long-term debt obligations.

## What was the purpose of our audit work and what work was performed?

The purpose of the audit work was to determine whether BTE had adequate internal controls in place over, and complied with, its policies and procedures related to its financial accounting and reporting processes during Fiscal Year 2021.

Our Fiscal Year 2021 audit testwork included a review of the BTE's exhibits and related supporting documentation prepared and submitted to the OSC for Fiscal Year 2021 to determine whether Department staff prepared this information in accordance with the OSC's Manual.

## How were the results of the audit work measured?

We measured the results of our audit work against the following:

- The OSC's Exhibits Instructions outline specific requirements for departments' completion of exhibits. For example, Exhibit K1, *Schedule of Federal Assistance*, reports federal expenditure information to the OSC for statewide compilation and reporting. Exhibit D2, *Schedule of Debt Service Requirements to Maturity*, reports information on future debt service obligations. The OSC uses information from the Exhibit K1, Exhibit D2, and other exhibits to support the State of Colorado's *Schedule of Expenditures of Federal Awards* and notes to the financial statements.
- State Fiscal Rule 1-2 (3.5), *Internal Controls*, requires that state departments "implement internal accounting and administrative controls that reasonably ensure that financial transactions are accurate, reliable, conform to the Fiscal Rules, and reflect the underlying realities of the accounting transaction (substance rather than form)."

## What problems did the audit work identify?

We identified errors in BTE's exhibits submitted to the OSC. Specifically, BTE's Exhibit K1 incorrectly reported \$10.3 million in BAB subsidies as federal expenditures.

In addition, BTE's Exhibit D2 excluded the total amount of the original obligation for the amount for revenue bonds of \$295,920,000. Once we notified the Department staff of the errors we found, they corrected the exhibits and resubmitted them to the OSC.

## Why did these problems occur?

BTE lacked adequate internal controls over its exhibit preparation and review processes to ensure that it met OSC financial reporting deadlines for Fiscal Year 2021. Specifically, Department staff experienced turnover and vacancy in positions during Fiscal Year 2021, but had not adequately assigned and trained backup staff on exhibit preparation and financial reporting reviews; therefore, there was limited staff with the requisite background and training to prepare and review exhibits. This caused many of the responsibilities to complete required year-end tasks to fall to personnel who were new to their position within the last 2 years. Furthermore, adequate supervisory review was not available in many cases due to the vacancy of positions pulling already scarce resources from the fiscal year-end processes.

## Why do these problems matter?

Strong financial accounting internal controls, including effective review processes and procedures over financial transactions and exhibits, are necessary to ensure that the Department staff are reporting financial information appropriately and accurately, in accordance with rules and regulations. Furthermore, timeliness of accounting information is important to protect the users of accounting information from basing their decisions on outdated information. Inaccurate information in the exhibits could affect the preparation and accuracy of the State's Annual Comprehensive Financial Report (ACFR) and Schedule of Expenditure of Federal Awards.

Classification of Finding: **Significant Deficiency**

This finding does not apply to a prior audit recommendation.

## Recommendation 2021-039

The Department of Transportation's Colorado Bridge and Tunnel Enterprise should strengthen its internal controls over exhibit preparation and review by:

- A. Assigning back-up responsibilities for exhibit preparation and review to staff to allow for appropriate segregation of duties and review and appropriate delegation when turnover occurs.
- B. Appropriately training employees on exhibit preparation and reviews.
- C. Ensuring exhibits are reviewed prior to submission to the Office of the State Controller.

## Response

### *Statewide Bridge and Tunnel Enterprise Response*

A. Agree

Implementation Date: October 2022

The Department of Transportation's Statewide Bridge and Tunnel Enterprise will enhance internal controls by ensuring there are proper backups identified for exhibit preparation. This will be defined in necessary procedures. Additional accounting staff are also being brought on board to support increased volume and complexity, and provide greater opportunity for back up, segregation of duties, and additional review.

B. Agree

Implementation Date: October 2022

The Department of Transportation's Statewide Bridge and Tunnel Enterprise will enhance internal controls by establishing additional training on exhibit preparation. This will be defined in necessary procedures. Additional accounting staff are also being brought on board to support increased volume and complexity, and provide greater opportunity for back up, segregation of duties, and additional review.

C. Agree

Implementation Date: October 2022

The Department of Transportation's Statewide Bridge and Tunnel Enterprise will enhance internal controls by identifying additional review steps prior to submission to the Office of the State Controller. This will be defined in necessary procedures. Additional accounting staff are also being brought on board to support increased volume and complexity, and provide greater opportunity for back up, segregation of duties, and additional review.

## Finding 2021-040

### Accounting Controls—High Performance Transportation Enterprise

The High Performance Transportation Enterprise (HPTE) is an enterprise which operates within the Department. It pursues innovative means of financing and operating surface transportation infrastructure projects, including public-private partnerships, operating concession agreements, user fees, and design-build contracting. The Department and HPTE staff (Department staff) are responsible for HPTE's financial reporting, including the accurate, complete, and timely entry and approval of financial transactions in CORE. In addition, the Department staff are responsible for

reporting fiscal year-end accounting information through “exhibits” to the OSC for inclusion in the State’s financial statements.

Each year, HPTE is required to prepare an exhibit containing its federal expenditures and related reimbursements to aid the OSC in the preparation of the State’s Schedule of Expenditures of Federal Awards (SEFA). This exhibit is referred to as the Exhibit K1, *Schedule of Federal Assistance*, and should include expenditures for grants received directly from the federal government and expended by HPTE (direct expenditures), as well as expenditures for federal grants payments made by the HPTE to other state and/or non-state agencies (subrecipient expenditures). For Fiscal Year 2021, HPTE’s Exhibit K1 reported \$41.8 million in federal expenditures for one grant program, the Transportation Infrastructure Finance and Innovation Act (TIFIA).

HPTE received credit assistance in the amount of \$106 million in June 2017 for the C-470: I-25 to Wadsworth Boulevard project in the form of a Transportation Infrastructure Finance and Innovation Act (TIFIA) program loan. This loan was provided by the Build America Bureau and represents federal assistance that is required to be reported in HPTE’s Exhibit K1 sent to the OSC.

Exhibit C, *Changes in Long-Term Liabilities*, is used to identify changes in long-term debt obligations during the fiscal year. For Fiscal Year 2021, HPTE’s Exhibit C reported \$363.8 million in long-term debt obligations as of June 30, 2021.

## **What was the purpose of our audit work and what work was performed?**

The purpose of the audit work was to determine whether HPTE had adequate internal controls in place over, and complied with, its policies and procedures related to its financial accounting and reporting processes during Fiscal Year 2021.

Our Fiscal Year 2021 audit testwork included a review of the HPTE’s exhibits and related supporting documentation prepared and submitted to the OSC for Fiscal Year 2021 to determine whether Department staff prepared this information in accordance with the OSC’s Manual.

## **How were the results of the audit work measured?**

We measured the results of our audit work against the following:

- The OSC’s Exhibits Instructions outline specific requirements for departments’ completion of exhibits. For example, Exhibit K1, *Schedule of Federal Assistance*, reports federal expenditure information to the OSC for statewide compilation and reporting. Exhibit C, *Changes in Long-Term Liabilities* reports increases and decreases in long-term liabilities. The OSC uses information from

the Exhibits to support the State of Colorado’s Schedule of Expenditures of Federal Awards and notes to the financial statements.

- Federal regulations at 2 CFR 200.510(b) Schedule of expenditures of Federal awards states in subparagraph (5) “For loan or loan guarantee programs described in 2 CFR 200.502(b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.” 2 CFR 200.502(b) Loan and loan guarantees (loans) states “Since the Federal Government is at risk for loans until the debt is repaid, the following guidelines must be used to calculate the value of Federal awards expended under loan programs, except as noted in paragraphs (c) and (d) of this section:
  - (1) Value of new loans made or received during the audit period; plus
  - (2) Beginning of the audit period balance of loans from previous years for which the Federal Government imposes continuing compliance requirements; plus
  - (3) Any interest subsidy, cash, or administrative cost allowance received.”
- State Fiscal Rule 1-2 (3.5), *Internal Controls*, requires that state departments “implement internal accounting and administrative controls that reasonably ensure that financial transactions are accurate, reliable, conform to the Fiscal Rules, and reflect the underlying realities of the accounting transaction (substance rather than form).”

## What problems did the audit work identify?

We identified errors in HPTE’s exhibits submitted to the OSC. Specifically, HPTE’s Exhibit K1 did not include the TIFIA loan. HPTE drew approximately \$41.8 million from the TIFIA loan during Fiscal Year 2021. In accordance with federal regulations the draw down activity is to be reported on the Exhibit K1 in the year of the draw down. Once we identified this, HPTE corrected the exhibit and resubmitted it to the OSC.

The Exhibit C also did not include a payoff of a \$25 million note payable from one financial institution and the related borrowing of a similar amount under a note payable from another financial institution. This exhibit was also corrected and resubmitted to the OSC.

## Why did these problems occur?

HPTE lacked adequate internal controls over its exhibit preparation and review processes to ensure that it met OSC financial reporting deadlines for Fiscal Year 2021. Specifically, Department staff experienced turnover and vacancy in positions during Fiscal Year 2021 and had not adequately assigned and trained backup staff on exhibit preparation and financial reporting reviews; therefore,

there was limited staff with the requisite background and training to prepare and review exhibits. This caused many of the responsibilities to complete required year-end tasks fell to personnel who were new to their position within the last two years. Furthermore, adequate supervisory review was not available in many cases due to the vacancy of positions pulling already scarce resources from the fiscal year-end processes.

## Why do these problems matter?

Strong financial accounting internal controls, including effective review processes and procedures over financial transactions and exhibits, are necessary to ensure that the Department staff are reporting financial information appropriately and accurately, in accordance with rules and regulations. Furthermore, timeliness of accounting information is important to protect the users of accounting information from basing their decisions on outdated information. Inaccurate information in the exhibits could affect the preparation and accuracy of the State's Annual Comprehensive Financial Report (ACFR) and Schedule of Expenditure of Federal Awards.

Classification of Finding: **Significant Deficiency**

This finding does not apply to a prior audit recommendation.

## Recommendation 2021-040

The Department of Transportation's Colorado High Performance Transportation Enterprise should strengthen its internal controls over exhibit preparation and review by:

- A. Assigning back-up responsibilities for exhibit preparation and review to staff to allow for appropriate segregation of duties and review and appropriate delegation when turnover occurs.
- B. Appropriately training employees on exhibit preparation and reviews
- C. Ensuring exhibits are reviewed prior to the submission to the Office of the State Controller.

## Response

### *High Performance Transportation Enterprise Response*

- A. Agree

Implementation Date: October 2022

The Department of Transportation's Colorado High Performance Transportation Enterprise will enhance internal controls by ensuring there are proper backups identified for exhibit preparation. This will be defined in necessary procedures. Additional accounting staff are also being brought

on board to support increased volume and complexity, and provide greater opportunity for back up, segregation of duties, and additional review.

B. Agree

Implementation Date: October 2022

The Department of Transportation's Colorado High Performance Transportation Enterprise will enhance internal controls by establishing additional training on exhibit preparation. This will be defined in necessary procedures. Additional accounting staff are also being brought on board to support increased volume and complexity, and provide greater opportunity for back up, segregation of duties, and additional review.

C. Agree

Implementation Date: October 2022

The Department of Transportation's Colorado High Performance Transportation Enterprise will enhance internal controls by establishing additional training on exhibit preparation. This will be defined in necessary procedures. Additional accounting staff are also being brought on board to support increased volume and complexity, and provide greater opportunity for back up, segregation of duties, and additional review.

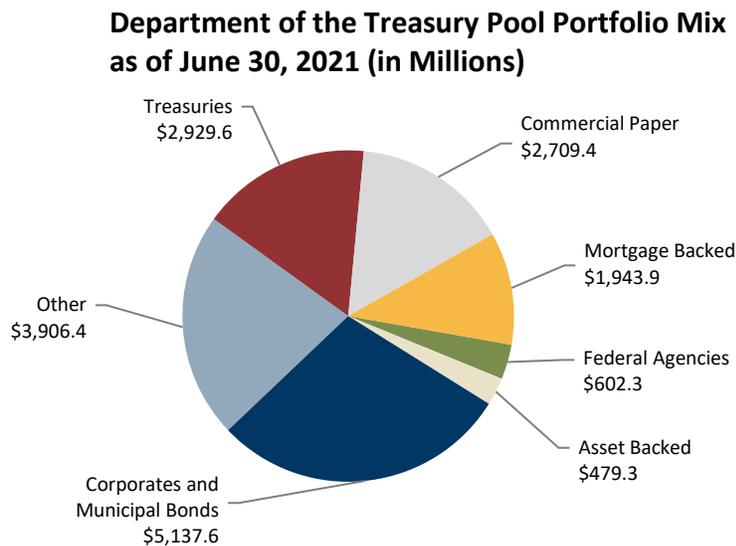
# Department of the Treasury

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The Department of the Treasury (Treasury) is established by the Colorado Constitution. The State Treasurer is an elected official who serves a 4-year term. The Treasury's primary functions are to manage the State's pooled investments and to implement and monitor the State's cash management procedures. Other duties and responsibilities of the Treasury include:

- Receiving, managing, and disbursing the State's cash.
- Acting as the State's banker and investment officer.
- Managing the State's Unclaimed Property Program, the Interest-Free School Loan Program, the Property Tax Deferral Program for Seniors and Veterans, and the Colorado Housing and Finance Authority Loan Program.
- Managing certain state public funding transactions.

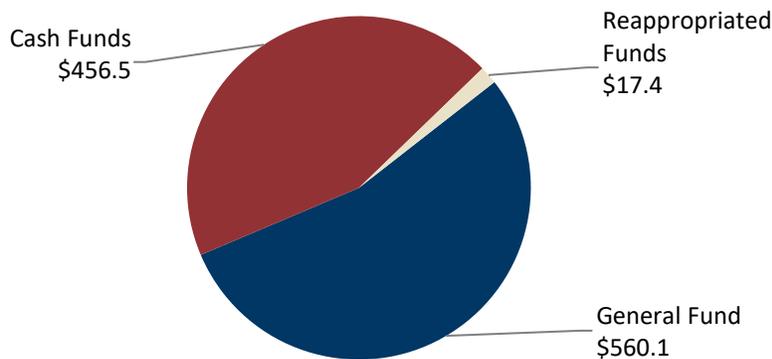
The State's \$17.7 billion of pooled investments are made up of a variety of securities, as shown in the following chart:



Source: Department of the Treasury records.

For Fiscal Year 2021, the Treasury was appropriated approximately \$1.0 billion and 38 full-time equivalent (FTE) staff, with 22 FTE allocated to administration and 16 FTE allocated to the Unclaimed Property program. The majority of the Treasury’s funding, approximately 99 percent, was for special purpose programs and the remaining 1 percent was for Treasury administration and the Unclaimed Property program. The following chart shows Treasury’s appropriations by funding source for Fiscal Year 2021.

**Department of the Treasury Fiscal Year 2021 Appropriations by Funding Source (in Millions)**



Source: Joint Budget Committee Fiscal Year 2021-22 Appropriations Report.

**Statutorily-Required Testing of Nicotine and Tobacco Tax Revenues—2020 Tax Holding Fund and Preschool Programs Cash Fund**

The General Assembly approved House Bill 20-1427 during the 2020 session. This bill proposed increasing the existing taxes on cigarettes and tobacco products, and established a tax on nicotine liquids used in e-cigarettes, and other vaping products, in order to expand and enhance the Colorado Preschool Program. In order for the provisions of this bill to take effect, Colorado voters’ approval was required. In the 2020 general election, Colorado voters approved Proposition EE and the requirements took effect January 1, 2021. House Bill 20-1427 made several revisions to state statutes, including the creation of two new funds in Treasury in Fiscal Year 2021: the 2020 Tax Holding Fund (Holding Fund) for the new taxes and the Preschool Programs Cash Fund (Preschool Fund) for the expanded preschool program funds. The provisions identified in House Bill 20-1427 and approved by voters in Proposition EE require the Department of Revenue to collect these taxes and deposit them into Treasury’s Holding Fund. Treasury is required to distribute the revenues to other statutorily designated funds, including the Preschool Fund. The transfers from the Holding Fund to the Preschool Fund will begin in Fiscal Year 2024; in Fiscal Year 2021, the Preschool Fund received other general fund transfers from Treasury. Each of these funds, including the revenues

and distributions from the funds, are recorded in the Colorado Operations Resource Engine (CORE), the State’s accounting system.

House Bill 20-1427 also added Section 24-22-118(4), C.R.S., requiring the Office of the State Auditor (OSA) to annually, beginning with Fiscal Year 2021, perform a financial audit of the use of the money allocated and appropriated for the Holding Fund and the Preschool Fund. In Fiscal Year 2021, these two funds received revenues of approximately \$49.0 million and \$235,000, respectively. The following discussions provide background on the uses of the funds and the results of our testing for Fiscal Year 2021.

## 2020 Tax Holding Fund Financial Activity

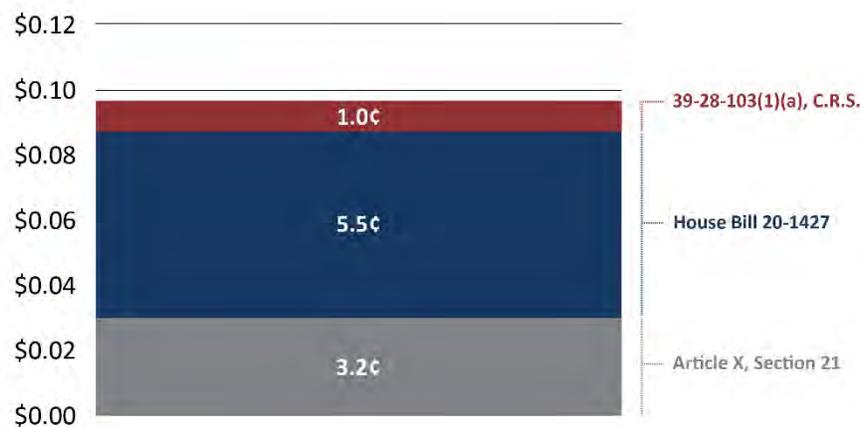
### Types of Taxes Collected

House Bill 20-1427 increased or established a tax on three products that must be transferred to the Holding Fund: cigarettes, nicotine products, and tobacco products.

### Cigarettes

Cigarettes are currently taxed on an individual cigarette basis and are paid to the Department of Revenue monthly. Prior to Proposition EE and House Bill 20-1427, the tax on a single cigarette was 4.2 cents. This tax consisted of an amount set in the Colorado Constitution and an amount set in statute. After Proposition EE was approved, House Bill 20-1427 through Section 39-28-103, C.R.S., increased the statutory tax rate to 9.7 cents per single cigarette starting on January 1, 2021. See the following graph which shows the individual tax amounts by basis on a single cigarette.

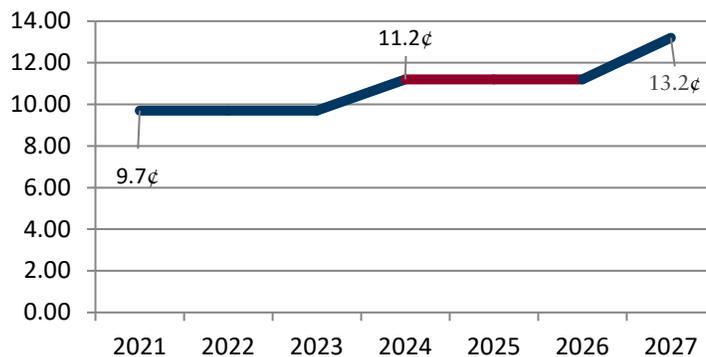
**Tax on a Cigarette by Basis as of January 2021 (in Cents)**



Source: Colorado Constitution Article X, Section 21 and House Bill 20-1427.

House Bill 20-1427 and Proposition EE also set an increase on the statutory tax of cigarettes. The following graph shows the total tax on a cigarette and the increases noted in statute. According to Section 39-28.5-101(3.3), C.R.S., modified tobacco products are “any tobacco product for which the secretary of the United States Department of Health and Human Services has issued an order authorizing the product to be commercially marketed as a modified risk tobacco product.” Federal regulations [21 USC 387k] indicate that a modified tobacco product is a product that reduces “harm or the risk of tobacco-related disease.” An example of this is the Phillip Morris heated tobacco system, which heats tobacco enough to release a vapor without burning the tobacco.

**Tax Rates on a Cigarette by Fiscal Year (in Cents)**



Source: Colorado Constitution Article X, Section 21 and House Bill 20-1427. These prices apply to wholesale cigarettes and not cigarettes that are modified tobacco products.

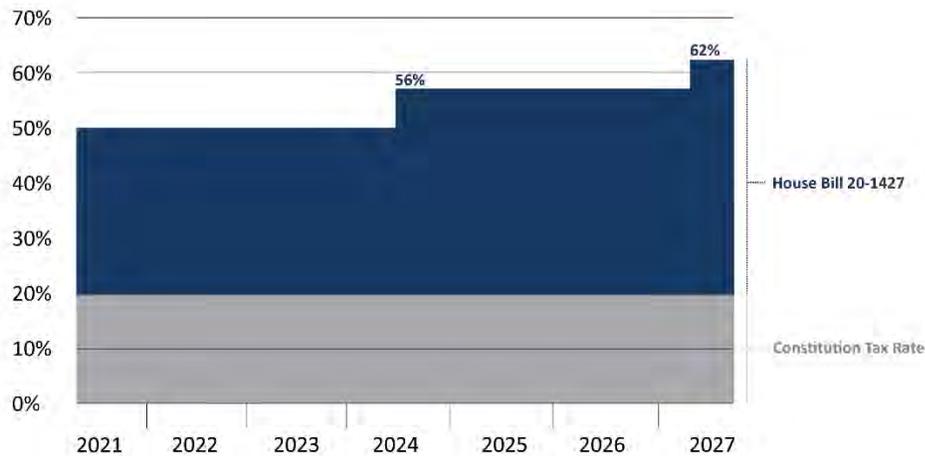
In addition, House Bill 20-1427 and Proposition EE also set a minimum price of \$7 for every package of 20 cigarettes. This price is set to increase to \$7.50 starting in Fiscal Year 2025. Per Section 39-28-116(6), C.R.S., Legislative Council in its June forecast each year will calculate the additional sales tax revenue from this minimum price and shall provide this to Treasury, which will transfer 73 percent of the Legislative Council’s estimate of the additional sales tax revenues from the General Fund to the Preschool Fund on June 30 each fiscal year.

## Tobacco Products

Tobacco products are taxed at a percentage of the manufacturer’s list price and are due to the Department of Revenue quarterly. Taxed tobacco products include items such as cigars, chewing tobacco, snuff, and other tobacco products that are intended for smoking or chewing, but do not include cigarettes. Prior to Proposition EE and House Bill 20-1427, the tax on tobacco products was 40 percent of the manufacturer’s list price. This tax consisted of a 20 percent tax set in the constitution and a 20 percent tax set in statute. House Bill 20-1427 and Proposition EE increased the tax rate from 20 percent to 30 percent starting January 1, 2021, which resulted in a total tax on tobacco products of 50 percent of the manufacturer’s list price.

The changes to Section 39-28.5-102, C.R.S., will further increase the statutory tax of tobacco products starting July 1, 2024, and again starting July 1, 2027. The following graph shows the total tax on tobacco products and the increases noted in statute.

### Tax Rates on Tobacco products by Calendar Year (Percent)



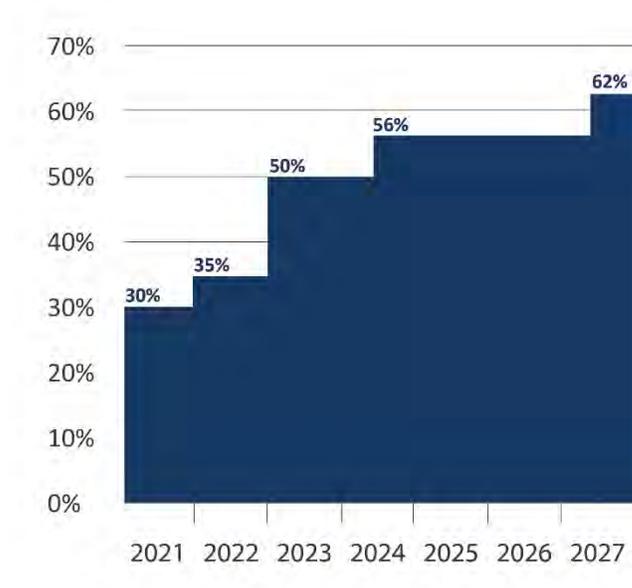
Source: Colorado Constitution Article X, Section 21, and House Bill 20-1427.  
 These tax rates do Not apply to modified tobacco products.

### Nicotine Products

Nicotine products are also taxed at a percentage of the manufacturer’s list price and are due to the Department of Revenue quarterly. Nicotine products are products that include nicotine that are not tobacco products or cigarettes. These include items that are consumed in a liquid, vaporized, smoked, or chewed form. Prior to passage of Proposition EE and House Bill 20-1427, there was no state tax being applied to these nicotine products. House Bill 20-1427, through Section 39-28.6-103, C.R.S., imposed a tax of 30 percent in Fiscal Year 2021 starting on January 1, 2021.

Section 39-28.6-103, C.R.S., further increased the tax of nicotine products in future fiscal years. The following graph shows the total tax on nicotine products and the increases noted in Section 39-28.6-103, C.R.S., which will take effect in Fiscal Years 2022 through 2025, and 2028.

## Tax Rates on Nicotine Products by Calendar Year (Percent)



Source: House Bill 20-1427.

### Holding Fund Distributions

As established in House Bill 20-1427, Section 24-22-118(2), C.R.S., requires Treasury to distribute the revenues received in the Holding Fund. The statute specifies the distributions that will be made starting in Fiscal Year 2021 in which these distributions were required to go to six other funds: (1) \$5,475,000 to the Tobacco Tax Cash Fund; (2) \$2,025,000 to the General Fund; (3) \$11,166,000 to the Housing Development Grant Fund; (4) \$500,000 to the Eviction Legal Defense Fund; (5) \$25,000,000 to the Rural Schools Cash Fund; and (6) the remainder to the State Education Fund. Section 24-22-118(2)(g), C.R.S., specifies that these transfers will be made on an ongoing basis and that if there are insufficient revenues in the Holding Fund to make the transfers, Treasury shall proportionally reduce each transfer. Beginning in Fiscal Year 2024, the transfers will include amounts to the Preschool Cash Fund.

## What was the purpose of our audit work and what work was performed?

The purpose of our audit work was to determine whether Treasury complied with the statutory requirements for the Holding Fund's grant distributions and expenditures, and complied with generally accepted accounting principles (GAAP) when recording into and reporting information related to the Holding Fund.

We reviewed the Department of Revenue's processes for recognizing and recording cigarette, tobacco, and nicotine tax revenue into the Holding Fund and reviewed the amount of tax revenue

collected in the Holding Fund during Fiscal Year 2021. We also reviewed Treasury’s process for distributing these revenues from the Holding Fund to the funds designated in Section 24-22-118(2), C.R.S. We reviewed all distributions from the Holding Fund to determine whether Treasury had correctly distributed all the tax money received to the correct funds and that all distribution requirements had been met.

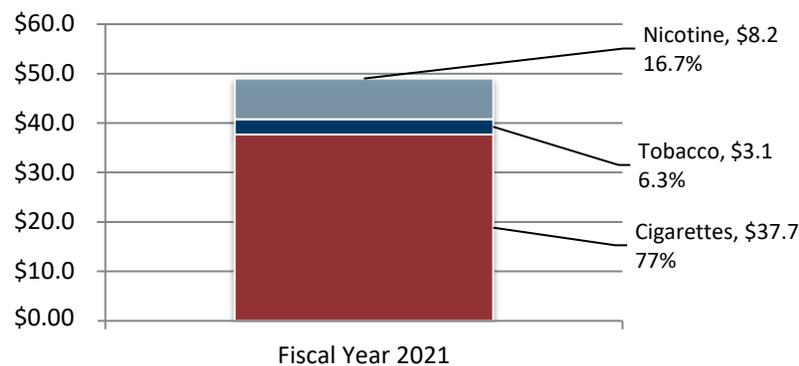
## How were the results of the audit work measured?

### Taxes Received During Fiscal Year 2021 for the Holding Fund

Section 24-22-118(1), C.R.S., creates the Holding Fund and requires that the Department of Revenue record into the Holding Fund the increased tax amounts for cigarettes, nicotine products, and tobacco products established in Sections 39-28-103, 39-28.5-102, and 39-28.6-103, C.R.S., starting on January 1, 2021.

Cigarette, nicotine, and tobacco distributors file tax returns and remit these taxes to the Department of Revenue through its GenTax system, the State’s primary information system for processing collected taxes. GenTax interfaces with CORE daily and records the amount of each tax collected directly to the Holding Fund. Based on our review, we determined that the Holding Fund received a total of approximately \$49.0 million during the fiscal year. The following graph shows the amount of taxes, by type, that were recorded in the Holding Fund during the fiscal year.

**Holding Fund Taxes in Fiscal Year 2021 (in Millions)**



Source: Office of the State Auditor Analysis of tax amounts recorded in the Holding Fund during Fiscal Year 2021 as shown in CORE.

### Fiscal Year 2021 Distributions from the Holding Fund

Section 24-22-118(2)(a), C.R.S., requires Treasury to distribute the revenues received in the Holding Fund during Fiscal Year 2021 to six funds: (1) \$5,475,000 to the Tobacco Tax Cash Fund; (2) \$2,025,000 to the General Fund; (3) \$11,166,000 to the Housing Development Grant Fund; (4) \$500,000 to the Eviction Legal Defense Fund; (5) \$25,000,000 to the Rural Schools Cash Fund; and

(6) the remainder to the State Education Fund. Further, if there are insufficient revenues in the Holding Fund to make the transfers, Treasury shall proportionally reduce each transfer.

## Results of Audit Work

Based on our review of the distributions from the Holding Fund in Fiscal Year 2021, Treasury correctly distributed all of the collected revenues. The following table outlines each fund, the required statutory distributions, and the total distributed during Fiscal Year 2021.

### Holding Fund Distributions in Fiscal Year 2021

Fund Name	Section 24-22-118(2)(a), C.R.S. Required Distributions for Fiscal Year 2021	Distributions from the Holding Fund in Fiscal Year 2021
Rural Schools Cash Fund	\$25,000,000	\$25,000,000
Housing Development Grant Fund	\$11,166,000	\$11,166,000
State Education Fund	\$4,857,478*	\$4,857,478
Tobacco Tax Cash Fund	\$5,475,000	\$5,475,000
General Fund	\$2,025,000	\$2,025,000
Eviction Legal Defense Fund	\$500,000	\$500,000
<b>Total Distributions</b>	<b>\$49,023,478</b>	<b>\$49,023,478</b>

Source: Office of the State Auditor Analysis of Holding Fund Distributions in CORE

\*The amount is calculated each year after all of the other five required transfers.

The following table summarizes the total financial activity in the Holding Fund for Fiscal Year 2021.

**Holding Fund Financial Activity for Fiscal Year 2021**

<b>Revenue</b>	
Collected Revenue	\$49,023,478
Accrued Revenue	\$19,007,326
<b>Distributions</b>	
Rural Schools Cash Fund	\$25,000,000
Housing Development Grant Fund	\$11,166,000
Tobacco Tax Cash Fund	\$5,475,000
State Education Fund	\$4,857,478
General Fund	\$2,025,000
Eviction Legal Defense Fund	\$500,000
<b>Total Distributions</b>	<b>\$49,023,478</b>
<b>Remaining Revenue Undistributed</b>	<b>\$0</b>
<b>Assets</b>	
Taxes Receivable	\$19,025,742
Allowance for Bad Debt - Delinquent Taxes	-\$13,824
<b>Total Assets</b>	<b>\$19,011,918</b>
Liabilities – Deferred Inflows	-\$4,592
<b>Fund Balance</b>	<b>\$19,007,326</b>

Source: Office of the State Auditor Analysis of Fiscal Year 2021 Holding Fund Financial Activity in CORE.

The Department of Revenue recorded approximately \$19.0 million in taxes receivable in the Holding Fund as of the end of the fiscal year, June 30, 2021. These receivables include approximately \$13.0 million in cigarette taxes and \$6.0 million in tobacco product taxes earned in Fiscal Year 2021 that will not be collected until Fiscal Year 2022. According to the Department of Revenue, since the nicotine taxes were new in Fiscal Year 2021, the Department of Revenue did not have any historical data to calculate the estimated taxes receivable for nicotine products and, therefore, did not include an estimate for nicotine taxes. The Department of Revenue receives the taxes for cigarettes monthly and the taxes for tobacco and nicotine products quarterly.

Treasury will distribute these accrued taxes once the taxes are collected.

Based on the testing previously described, we determined that the Department of Revenue and the Treasury administered the Holding Fund in compliance with statutory requirements.

**No recommendation is made in this area.**

## Preschool Programs Cash Fund Financial Activity

House Bill 20-1427, through Section 24-22-118(3)(a), C.R.S., created the Preschool Fund in Fiscal Year 2021 within Treasury. Section 24-22-118(3)(b), C.R.S., states that “(I) A designated department shall prioritize its use of money from the preschool programs cash fund to expand and enhance the Colorado preschool program or any successor program in order to offer at least ten hours per week of voluntary preschool free of charge to every child in Colorado during the last year of preschool before his or her entry to kindergarten. (II) The designated department shall use the money remaining in the preschool programs cash fund after the use identified in subsection (3)(b)(I) of this section to provide additional preschool programming for low-income families and children at risk of entering kindergarten without being school ready.”

House Bill 21-1304 established the state Department of Early Childhood (DEC). The DEC is scheduled to become operational at the beginning of Fiscal Year 2023, in July 2022. In November 2021, the Governor’s Office released the DEC Transition Plan (Transition Plan) which indicated that the DEC will be the designated department in charge of implementing early childhood programs. As stated in Section 24-22-118(3)(f), C.R.S., the General Assembly will designate a department that is best qualified to administer the preschool program and will use the funds provided in the Preschool Fund to implement the preschool program. The designated department must use any remaining funds to provide additional preschool programming for low-income families and for children at risk of not being school-ready before starting kindergarten. Although the General Assembly did not specify which department would be the designated department for the funds and therefore administer the preschool program, it seems likely that the General Assembly’s determination will align with the Governor’s Office’s Transition Plan designation of the DEC beginning in Fiscal Year 2023.

As noted previously, Section 39-28-116(6), C.R.S., requires Treasury to transfer from the General Fund into the Preschool Fund 73 percent of the Legislative Council’s estimate of the increase in sales tax revenue due to the new minimum price for cigarette packages established in that statute. Section 24-22-118(3)(a), C.R.S., also requires Treasury to transfer all interest earned from the deposit and investment of the money in the Preschool Fund during the fiscal year. As discussed previously, Section 24-22-118, C.R.S., requires Treasury to transfer revenues from the Holding Fund to the Preschool Fund starting in Fiscal Year 2024.

## What was the purpose of our audit work and what work was performed?

The purpose of our audit work was to determine whether Treasury complied with the statutory requirements for the Preschool Fund’s grant distributions and expenditures, and with GAAP when recording into and reporting information related to the Preschool Fund.

We reviewed Treasury's processes for determining the amount required to be transferred to the Preschool Fund from the General Fund for Fiscal Year 2021. We also reviewed the revenue transactions recorded in the Preschool Fund to ensure they were correct and in compliance with statutory guidance. We also reviewed the Preschool Fund's expenditure transaction detail in CORE and noted there were no distributions from the Preschool Fund in Fiscal Year 2021.

## **How were the results of the audit work measured?**

### **Required Transfers to the Preschool Fund**

Along with increasing taxes, House Bill 20-1427 set a minimum price for a package of cigarettes. The minimum price for a package of 20 cigarettes is \$7 and the minimum price per package of 200 cigarettes is \$70. Section 39-28-116(6), C.R.S., requires Legislative Council to report to Treasury an estimate of the additional sales tax revenue collected by establishing this minimum sales price on a package of cigarettes. Treasury is required to transfer 73 percent of the Legislative Council's estimate from the General Fund to the Preschool Fund.

### **Interest Due to the Preschool Fund**

Section 24-22-118(3)(a), C.R.S., requires Treasury to deposit all interest earned from the investment of the revenues in the Preschool Fund to the Preschool Fund.

### **Distributions from the Preschool Fund**

Section 24-22-118(3)(b), C.R.S., states that the funds within the Preschool Fund will be used to expand and enhance the Preschool Program or any successor program, and to provide additional preschool programs for low-income families and children at risk of entering kindergarten without being school-ready.

## **Results of Audit Work**

We reviewed the amount reported by Legislative Council and reviewed the calculation used to determine the amount required to be transferred. Treasury was required to distribute \$234,670 from the General Fund to the Preschool Fund for Fiscal Year 2021. We then reviewed Treasury's distribution of these funds to ensure they correctly distributed this amount to the Preschool Fund. We found no concerns with this distribution during our testing.

We reviewed Treasury's deposit of interest earned and ensured it was correctly transferred to the Preschool Fund. The amount of interest deposited for Fiscal Year 2021 was \$6. We found no concerns with this transfer during our testing.

The following table shows the amounts Treasury transferred into the Preschool Fund from the General Fund in Fiscal Year 2021, as well as the current balance as of the end of Fiscal Year 2021.

**Preschool Fund Financial Activity for Fiscal Year 2021.**

<b>Sales Tax Revenue</b>	
73% of Estimated Sales Tax Revenue for the Minimum Cigarette Package Price	\$234,670
Interest Earned	\$6
<b>Income</b>	<b>\$234,676</b>
<b>Assets</b>	
Cash	\$234,676
Liabilities	\$0
<b>Fund Balance</b>	<b>\$234,676</b>

Source: Office of the State Auditor Analysis of Fiscal Year 2021 Preschool Fund financial activity in CORE.

Based on the testing previously described, we determined that Treasury administered the Preschool Fund in compliance with statutory requirements during Fiscal Year 2021.

**No recommendation is made in this area.**

## **Compliance with Colorado Funds Management Act and the Tax Anticipation Note Act**

The Colorado Funds Management Act (Funds Management Act) under Section 24-75-902, C.R.S., asserts that, because the State “currently experiences and may hereafter experience fluctuations in revenue and expenditures,” as well as temporary cash flow deficits, this section of the statute is necessary, outlining the authority and mechanisms the State can use to fund shortfalls. Under Section 24-75-905(1), C.R.S., the State Treasurer is specifically authorized to sell Tax and Revenue Anticipation Notes (TRANS)—short-term notes payable from anticipated pledged revenue—to meet these shortfalls. These TRANS are referred to as General Fund Tax and Revenue Anticipation Notes (General Fund Notes).

Under Section 29-15-112(1), C.R.S., the Tax Anticipation Note Act also specifically authorizes the State Treasurer to issue TRANS for school districts. The purpose of these TRANS is to alleviate temporary cash flow deficits of school districts by making interest-free loans to those districts. These TRANS are referred to as Education Loan Program Tax and Revenue Anticipation Notes (ELP Notes).

Section 24-75-914, C.R.S., requires the OSA to review information relating to the General Fund Notes and annually report this information to the General Assembly. We have also included information about the ELP Notes. The following table and discussion provide information about the Treasurer’s issuance of these notes during Fiscal Year 2021.

**State of Colorado Details of Tax and Revenue  
Anticipation Note Issuances for Fiscal Year Ended  
June 30, 2021**

	General Fund Notes Series 2020	Education Loan Program Notes		
		Education Loan Program Notes Series 2020A	Education Loan Program Notes Series 2020B	Total Education Loan Program
Date of Issuance	August 6, 2020	August 4, 2020	January 28, 2021	-
Maturity Date	June 25, 2021	June 29, 2021	June 29, 2021	-
Issue Amount	\$600,000,000	\$410,000,000	\$390,000,000	\$800,000,000
Interest	\$21,266,667	\$13,000,000	\$5,001,875	\$18,001,875
Denominations	\$5,000	\$5,000	\$5,000	-
Face Interest Rate	4.00%	3.51%	3.06%	-
Premium on Sale	\$20,294,250	\$12,263,400	\$4,878,000	\$17,141,400
Net Interest Cost to the State	0.19%	0.21%	0.08%	-
Total Due at Maturity	\$621,266,667	\$423,000,000	\$395,001,875	\$818,001,875

Source: Department of the Treasury records.

Note: For comparative purposes, in Fiscal Year 2020, the Treasurer also issued \$600 million in General Fund Notes and \$800 million in Education Loan Program Notes.

## Terms and Price

Section 24-75-907(1), C.R.S., states that the General Fund Notes are required to mature no later than 3 days prior to the end of the fiscal year. Section 29-15-112(5)(b), C.R.S., states that the ELP Notes are required to mature on or before August 31 of the fiscal year immediately following the fiscal year in which the notes were issued. In addition, if the notes have a maturity date after the end of the fiscal year, then on or before the final day of the fiscal year in which the ELP Notes are issued, there shall be deposited, in one or more special segregated and restricted accounts and pledged irrevocably to the payment of the ELP Notes, an amount sufficient to pay the principal, premium, if any, and interest related to the ELP Notes on their stated maturity date.

Notes in each series are issued at different face interest rates. These are the rates at which interest will be paid on the notes. The average net interest cost to the State differs from the face interest rates because the notes are sold at a premium, which reduces the net interest cost incurred.

The maturity dates of the General Fund Notes and the ELP Notes issued during Fiscal Year 2021 comply with statutory requirements. Specifically, as shown in the previous table, the General Fund

Notes had a maturity date of June 25, 2021, and both of the ELP Notes had a maturity date of June 29, 2021. Neither were subject to redemption prior to maturity.

## Security and Source of Payment

In accordance with the Funds Management Act, principal and interest on the General Fund Notes are payable solely from any cash income or other cash receipts recorded in the General Fund for Fiscal Year 2021. The General Fund's cash receipts include those that are subject to appropriation in Fiscal Year 2021 and any pledged revenue, including the following:

- Revenue not yet recorded in the General Fund at the date the notes were issued.
- Any unexpended note proceeds.
- Proceeds of internal borrowing from other state funds recorded in the General Fund.

The State Treasurer records monies reserved to pay the principal and interest of the General Fund Notes in the Note Payment Account (General Fund Account) in CORE. The General Fund Notes are secured by an exclusive first lien on assets in the General Fund Account. The State Treasurer holds custody of the assets in this account.

According to Section 29-15-112(2)(e)(II), C.R.S., interest on the ELP Notes is payable from the General Fund. In accordance with the TRANS issuance documents, principal on the ELP Notes was required to be paid solely from the receipt of property taxes received by the participating school districts during March through June 2021, which were to be deposited into the General Fund of each school district. Section 29-15-112(4)(a)(I)(A), C.R.S., requires the school districts to make payments for the entire principal on the ELP Notes to the State Treasury. Per the TRANS issuance documents, these payments were to be made by June 25, 2021. We confirmed that the school districts made all payments by June 25, 2021, and the State Treasurer used these funds to repay the principal on the ELP Notes.

In accordance with the TRANS issuance documents, if the balance in the ELP Notes Repayment Account (ELP Account) had been less than the principal of the ELP Notes at maturity on June 29, 2021, the State Treasurer would have been required to deposit an amount sufficient to fully fund the ELP Account from any funds on hand that were eligible for investment. The State Treasurer's ability to use the General Fund's current revenues or borrowable resources to fund a deficiency in the ELP Account is subordinate to the use of such funds for payment of any outstanding General Fund Notes.

In accordance with the TRANS issuance documents, if the balance in the General Fund Account on June 15, 2021, had been less than the principal and interest of the General Fund Notes due at

maturity, the State Treasurer would have been required to deposit all of the General Fund's revenue available at that time into the General Fund Account and borrow from other state funds until the balance met the required level. In addition, the State Treasurer would be required to give notice of such deficiency to the note's securities depository and the Municipal Securities Rulemaking Board.

To ensure the payment of the General Fund Notes and ELP Notes, the Treasurer agreed to deposit pledged revenue into both the General Fund Account and the ELP Account, so that the balance on June 15, 2021, and June 25, 2021, respectively, would be no less than the amounts to be repaid. The note agreements also provide remedies for holders of the notes in the event of default. The amounts to be repaid on the maturity date are detailed in the previous table.

We determined that, on June 15, 2021, and June 25, 2021, the account balance plus accrued interest earned on investments was sufficient to pay the principal and interest on the General Fund and ELP Notes, respectively, without borrowing from other state funds.

## Legal Opinion

Sherman & Howard, LLC, and Kutak Rock LLP, bond counsels, have stated that in their opinion:

- The State has the power to issue the notes and carry out the provisions of the note agreements.
- The General Fund Notes and ELP Notes are legal, binding, secured obligations of the State.
- Interest on the notes is exempt from taxation by the U.S. government and by the State of Colorado.

## Investments

The Funds Management Act, the Tax Anticipation Note Act, and the General Fund and ELP Notes' agreements allow the Treasurer to invest the General Fund Account and ELP Account funds in eligible investments until they are needed for note repayment. Interest amounts earned on the investments are credited back to the General Fund since the General Fund pays interest at closing. The State Treasurer is authorized to invest the funds in a variety of long- and short-term securities according to Section 24-36-113(1)(a), C.R.S. Furthermore, Section 24-75-910, C.R.S., of the Funds Management Act and Section 29-15-112(3)(b), C.R.S., of the Tax Anticipation Note Act state that the Treasurer may:

- Invest the proceeds of the notes in any securities that are legal investments for the fund from which the notes are payable.
- Deposit the proceeds in any eligible public depository.

## Purpose of the Issuance and Use of Proceeds

The General Fund Note proceeds were used to alleviate temporary cash flow shortfalls and to finance the State's daily operations in anticipation of taxes and other revenue to be received later in Fiscal Year 2021. The State Treasurer deposited the proceeds of the sale of the General Fund Notes in the State's General Fund.

The ELP Notes were issued to fund a portion of the anticipated cash flow shortfalls of the school districts during Fiscal Year 2021. The net proceeds of the sale of the notes were specifically used to make interest-free loans to the school districts in anticipation of the receipt of property tax revenue by the individual districts on and after March 1, 2021, and up to and including June 25, 2021.

## Additional Information

The General Fund Notes and ELP Notes were issued through competitive sales. A competitive sale involves a bid process in which notes are sold to bidders offering the lowest interest rate.

The issuance of both types of notes is subject to the IRS arbitrage requirements. In general, arbitrage is defined as the difference between the interest earned by investing the note proceeds and the interest paid on the borrowing. In addition, if the State meets the IRS safe harbor rules, the State is allowed to earn and keep this arbitrage amount. The IRS safe harbor rules require the State to meet certain spending thresholds related to the note proceeds. For Fiscal Year 2021, Treasury reported that the State met the IRS safe harbor rules. Treasury further indicated that, although these requirements were met, interest earned by investing note proceeds was less than the interest paid on the borrowing, thus no arbitrage was earned or kept. The Treasury is responsible for monitoring compliance with the arbitrage requirements to ensure that the State will not be liable for an arbitrage rebate.

## State Expenses

The State incurred expenses as a result of the issuance and redemption of the General Fund Notes and ELP Notes. These expenses in Fiscal Year 2021 totaled approximately \$741,000. The expenses included the following:

- Bond legal counsel fees and reimbursement of related expenses incurred by the bond counsel.
- Disclosure counsel fees and expenses.
- Fees paid to rating agencies for services.
- Costs of printing and distributing preliminary and final offering statements and the actual notes.

- Fees paid to financial advisors.
- Redemption costs, consisting of fees and costs paid to agents to destroy the redeemed securities.

## Subsequent Events

On July 20, 2021, the State issued \$370 million in ELP Notes, Series 2021A, with a maturity date of June 29, 2022. The notes carry an average coupon rate of 3.70 percent and were issued with a premium of \$12.6 million. The total due at maturity includes \$370 million in principal and \$12.9 million in interest. Additionally, on January 19, 2022, the State issued \$400 million in ELP Notes, Series 2021B, with a maturity date of June 29, 2022. The notes carry an average coupon rate of 1.19 percent and were issued with a premium of \$1.8 million. The total due at maturity includes \$400 million in principal and \$2.1 million in interest.

**No recommendation is made in this area.**

## Public School Fund

The Public School Fund (Fund), created under Section 22-41-101, C.R.S., is used for the deposit and investment of proceeds from the sale of land granted to the State by the federal government for educational purposes, as well as for other monies as provided by law. Interest and income earned on the Fund are to be distributed to and expended by the State's school districts for school maintenance. In accordance with Section 22-41-104(2), C.R.S., the State Treasurer has the authority to "effect exchanges or sales" of investments in the Fund whenever the exchanges or sales will not result in the loss of the Fund's principal. An aggregate loss of principal to the Fund occurs only when an exchange or sale that resulted in an initial loss of principal is not offset by a gain on an exchange or sale in the Fund within 12 months.

Section 2-3-103(5), C.R.S., requires the OSA to annually evaluate the Fund's investments and to report any loss of the Fund's principal to the Legislative Audit Committee. During our Fiscal Year 2021 audit, we obtained confirmations from Wells Fargo Bank on the fair value of all investments held in the Fund. We compared the total fair value of the Fund's investments to the book value of the investments as recorded in CORE, and noted that the fair value exceeded the book value of the investments at June 30, 2021, by approximately \$108.3 million. We did not identify any recognized loss of principal to the Fund.

**No recommendation is made in this area.**



# Disposition of Prior Financial Audit Recommendations

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The following financial audit recommendations are summarized from the Statewide Audit for Fiscal Years 2017 through 2020 and include only the financial recommendations not fully implemented as of our Fiscal Year 2020 Statewide Audit. The disposition is the implementation status as of June 30, 2021.

The classification of findings described in Section I: Report Summary has been included throughout the dispositions, as needed. If the disposition is implemented, the classification is not applicable; if the disposition references a current financial audit recommendation, the classification will be included with the current audit finding. All findings classified as significant deficiencies or material weaknesses with a disposition of deferred will be listed in Section II: Financial Statement Findings following each department's current findings and will include a new recommendation number for Fiscal Year 2021.

## DEPARTMENT OF AGRICULTURE

### Recommendation 2017-001

Status	Recommendation Text
Implemented	The Colorado State Fair Authority should continue the implementation of the Strategic Business Plan for long-term financial stability. This may also include continuing to work with the Colorado Department of Agriculture and the Joint Budget Committee to obtain additional appropriations in the State Long Bill, seeking new sources and increased contributions to ensure continued operations.

## DEPARTMENT OF EDUCATION

### Recommendation 2020-001

Status	Recommendation Text
	The Department of Education (Department) should improve its internal controls over—and ensure its statutory compliance with—the recording of expenses to the Public School Finance Act (Act) rescission funds by:
A. Deferred	Evaluating the Act to define and document in policies and procedures the specific types of Department purchases that may be covered by the Act’s rescission funds, then training Department employees on those policies and procedures. Status Note: The Department plans to fully implement this recommendation by the June 2022 implementation date.
B. Implemented	Reviewing employee salary and benefit allocations to ensure that amounts recorded to the rescission appropriation support the administration of the Act.
C. Implemented	Ensuring that Personnel Action Forms for employees contain all required levels of approvals.
Classification: Significant Deficiency	

## OFFICE OF THE GOVERNOR

### Recommendation 2020-002

Status	Recommendation Text
	The Office of the Governor (Office) should improve its internal controls over financial reporting by:
A. Implemented	Developing and implementing policies and procedures for preparing and reviewing fiscal year-end exhibits submitted to the Office of the State Controller to ensure the exhibits are accurate and complete.
B. Implemented	Developing and implementing policies and procedures requiring the completion of a fiscal year-end reconciliation between its bank balances and the Colorado Operations Resource Engine (CORE) to ensure they are properly recorded in CORE and reported on the Exhibit M.
C. Implemented	Developing and implementing policies and procedures for Office of Economic Development and International Trade advanced-industry grants to ensure expenditures and advances are accurately recorded in CORE. These policies and procedures should include a process for reviewing the annual reports submitted by the grantees and ensuring grantees report grant advances and expenditures consistently.
D. Implemented	Completing its review of the 222 advanced-industry grants that remained open as of June 30, 2020, and making any necessary adjustments in CORE.
E. Implemented	Requiring Office staff to attend training on Governmental Accounting Standards Board requirements related to advances, as applicable.

Recommendation 2020-003	
Status	Recommendation Text
	The Governor’s Office of Information Technology (OIT) should work with the Department of Revenue to improve GenTax and the Drivers’ License, Record, Identification, and Vehicle Enterprise Solution (DRIVES) IT controls and further protect Federal Tax Information data by:
A.	Partially Implemented
	Mitigating the problems identified in Part A of the confidential finding.
	Status Note: See Current Audit Recommendation 2021-006.
B.	Implemented
	Mitigating the problems identified in Part B of the confidential finding.

Recommendation 2020-004	
Status	Recommendation Text
	The Governor’s Office of Information Technology (OIT) should strengthen information security controls over the State’s information systems and resources by:
A.	Partially Implemented
	Mitigating the information security problem noted in confidential finding Part A.
	Status Note: See Current Audit Recommendation 2021-002.
B.	Partially Implemented
	Mitigating the information security problem noted in confidential finding Part B.
	Status Note: See Current Audit Recommendation 2021-002.

Recommendation 2020-005	
Status	Recommendation Text
No Longer Applicable	The Governor’s Office of Information Technology (OIT) should strengthen information security controls over the GenTax and the Drivers’ License, Record, Identification, and Vehicle Enterprise Solution (DRIVES) systems by discontinuing the current practice to ensure compliance with Colorado Information Security Policies.
	Status Note: The Governor’s Office of Information Technology disagreed with this recommendation and did not implement it.

Recommendation 2020-006	
Status	Recommendation Text
Partially Implemented	The Governor’s Office of Information Technology (OIT) should comply with Internal Revenue Service Publication 1075 and OIT Cyber Policies by resolving the issues encountered during the deployment and coding issues in its enterprise wide access management system to ensure appropriate account management controls are in place and operating effectively, including the operating system automatically disabling user accounts after 90 days of inactivity
	Status Note: See Current Audit Recommendation 2021-007.

Recommendation 2020-007	
Status	Recommendation Text
	The Governor's Office of Information Technology (OIT) should implement information security controls over GenTax to ensure compliance with applicable laws, regulations, and policies by working with the Department of Revenue by:
A.	No Longer Applicable Implementing recommendation Part A as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding. Status Note: Based on changes to the GenTax system, the Governor's Office of Information Technology is no longer responsible for implementing this recommendation.
B.	No Longer Applicable Implementing recommendation Part B as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding. Status Note: Based on changes to the GenTax system, the Governor's Office of Information Technology is no longer responsible for implementing this recommendation.
C.	No Longer Applicable Implementing recommendation Part C as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding. Status Note: Based on changes to the GenTax system, the Governor's Office of Information Technology is no longer responsible for implementing this recommendation.

Recommendation 2020-008	
Status	Recommendation Text
	The Governor's Office of Information Technology (OIT) should ensure physical access management processes are effective and comply with Colorado Information Security Policies and OIT Cyber Policies by:
A.	Partially Implemented Prioritizing staff to finalize the draft Standard Operating Procedure over physical access to mitigate the specific related problems noted in the confidential finding. Status Note: See Current Audit Recommendation 2021-008.
B.	Not Implemented Developing final procedures and entering into a written agreement over physical access to mitigate the specific related problems noted in the confidential finding. Status Note: See Current Audit Recommendation 2021-008.

Recommendation 2020-009	
Status	Recommendation Text
Implemented	The Governor's Office of Information Technology should work with the Pandemic Unemployment Assistance vendor, as applicable, to mitigate the problem noted in the confidential finding.

## Recommendations 2020-010 and 2019-004

Status	Recommendation Text
	The Governor's Office of Information Technology should strengthen information security controls by:
A. Implemented	Implementing recommendation Part A as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding. Status Note: Implemented in Fiscal Year 2020.
B. Partially Implemented	Implementing recommendation Part B as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding. Status Note: See Current Audit Recommendation 2021-002.
C. No Longer Applicable	Implementing recommendation Part C as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding. Status Note: Included as part of Fiscal Year 2020 recommendation 2020-004.
D. No Longer Applicable	Implementing recommendation Part D as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding. Status Note: The Governor's Office of Information Technology disagreed with this recommendation and did not implement it.

## Recommendations 2020-011 and 2019-027

Status	Recommendation Text
	The Governor's Office of Information Technology (OIT) should work with the Department of Labor and Employment to improve information security controls over the Colorado Unemployment Benefits System (CUBS), the Colorado Automated Tax System (CATS), and the Colorado Labor and Employment Accounting Resource (CLEAR), and to comply with Colorado Information Security Policies, OIT Cyber Policies, and IRS Publication 1075, as applicable, by:
A. Partially Implemented	Mitigating the information security problem noted in the confidential finding Part A. Status Note: See Current Audit Recommendation 2021-024.
B. Not Implemented	Mitigating the information security problem noted in the confidential finding Part B. Status Note: See Current Audit Recommendation 2021-024.
C. Partially Implemented	Mitigating the information security problem noted in the confidential finding Part C. Status Note: See Current Audit Recommendation 2021-024.
D. Not Implemented	Mitigating the information security problem noted in the confidential finding Part D. Status Note: See Current Audit Recommendation 2021-024.

Recommendations 2018-014 and 2017-030	
Status	Recommendation Text
Not Implemented	Once the Unemployment Insurance Modernization project is implemented and operational, the Governor's Office of Information Technology (OIT) should ensure that logging, monitoring, and reporting capabilities are in place; logs are reviewed and analyzed for inappropriate activity; and audit records are retained in accordance with applicable security requirements as agreed upon with the Department of Labor and Employment and in compliance with Colorado Information Security and OIT Cyber Policies.  Status Note: See Current Audit Recommendation 2021-024.

Recommendation 2017-028	
Status	Recommendation Text
	The Governor's Office of Information Technology (OIT) should work with the Department of Labor and Employment to improve internal controls over the Colorado Unemployment Benefits System (CUBS), Colorado Automated Tax System (CATS), and the Colorado Labor and Employment Applicant Resource (CLEAR) by:
A. Partially Implemented	Developing and establishing adequate processes to comply with Security and OIT Cyber Policies, and IRS Publication 1075.  Status Note: See Current Audit Recommendation 2021-024.
B. No Longer Applicable	Reconfiguring system settings and refining practices to mitigate the specific problems noted in the confidential finding related to account management.  Status Note: Included as part of Fiscal Year 2019 Recommendation 2019-027.

## DEPARTMENT OF HEALTH CARE POLICY AND FINANCING

Recommendation 2020-012	
Status	Recommendation Text
	The Department of Health Care Policy and Financing should improve its internal controls over the accounting and reporting of capital assets by:
A. Implemented	Ensuring a comprehensive process is in place to analyze future information system costs to identify costs related to system enhancements and modifications that increase the efficiency of its computer software projects that should be capitalized. This process should include steps to calculate any amortization of capitalized assets that should be recorded in the State's accounting system.
B. Implemented	Implementing an effective review process over the expenditure or capitalization and amortization of software-related assets to ensure entries made to the State's accounting system are complete and accurate, and are in accordance with Governmental Accounting Standards Board Statement No. 51, the Office of the State Controller's <i>Fiscal Procedures Manual</i> , and State Fiscal Rules.

Recommendation 2020-013	
Status	Recommendation Text
	The Department of Health Care Policy and Financing (Department) should strengthen internal controls over financial reporting by:
A. Implemented	Ensuring that the service organization for the Business Intelligence and Data Management System (BIDM) complies with contract requirements to perform and provide an annual System and Organization Control (SOC) 1, Type II audit.
B. No Longer Applicable	Developing, documenting, and implementing Department policies and procedures that outline the acceptable methods for making contract changes and when to use contract amendments or the transmittal process. Status Note: The Department of Health Care Policy and Financing disagreed with this recommendation and did not implement it.
C. Implemented	Ensuring that staff are properly trained on their responsibilities related to the SOC audit reporting requirements, and ensuring that they understand the controls their service organizations have designed, implemented, and operate over relevant operational processes and how they impact the Department’s own internal control system.

Recommendation 2020-014	
Status	Recommendation Text
Partially Implemented	The Department of Health Care Policy and Financing should improve internal controls over its financial reporting by developing, documenting, implementing, and communicating a process for conducting annual reviews of the Colorado interChange’s System and Organization Controls (SOC) 1, Type II reports to determine if any issues have been noted and whether actions are necessary to remediate these issues. Status Note: See Current Audit Recommendation 2021-010.

## DEPARTMENT OF HIGHER EDUCATION – ADAMS STATE UNIVERSITY

Recommendation 2020-015	
Status	Recommendation Text
	Adams State University should continue to improve its internal controls over financial activities by:
A. Partially Implemented	Enhancing its fiscal year-end reconciliation and exhibit preparation procedures to ensure the accurate preparation of financial statements and exhibits in accordance with the Office of the State Controller’s <i>Fiscal Procedures Manual</i> . Status Note: See Current Audit Recommendation 2021-012.
B. Partially Implemented	Ensuring effective overall supervisory reviews and approvals are in place for fiscal year-end accounting and reporting processes to identify and correct any errors in the financial statements. Status Note: See Current Audit Recommendation 2021-012.

**DEPARTMENT OF HIGHER EDUCATION – METROPOLITAN STATE UNIVERSITY OF DENVER**

**Recommendation 2020-016**

Status	Recommendation Text
Implemented	Metropolitan State University of Denver should improve its internal controls over unusual and significant accounting transactions by fully executing its existing policies and procedures, including allocating the appropriate level of resources to research and implement required accounting procedures, while ensuring that all related transactions are correctly recorded and reported.

**Recommendation 2019-018**

Status	Recommendation Text
	Metropolitan State University of Denver should improve its information security controls over Banner by:
A. Partially Implemented	Mitigating the information security problem noted in the confidential finding Part A. Status Note: See Current Audit Recommendation 2021-015.
B. Implemented	Mitigating the information security problem noted in the confidential finding Part B. Status Note: Implemented in Fiscal Year 2020.

**Recommendation 2018-019**

Status	Recommendation Text
	Metropolitan State University of Denver should improve internal controls over computer operations by ensuring that it has the necessary staff to:
A. Implemented	Prioritize the mitigation of the specific problem noted in the confidential finding Part A. Status Note: Implemented in Fiscal Year 2019.
B. Implemented	Mitigate the specific problem noted in the confidential finding Part B.

**DEPARTMENT OF HIGHER EDUCATION – UNIVERSITY OF COLORADO**

**Recommendation 2020-017**

Status	Recommendation Text
	The University of Colorado should improve vendor management and data center physical security controls by:
A. Implemented	Mitigating the problems identified in Part A of the confidential finding.
B. Implemented	Mitigating the problems identified in Part B of the confidential finding.
C. Implemented	Mitigating the problems identified in Part C of the confidential finding.

Recommendation 2020-018		
Status	Recommendation Text	
	The University of Colorado’s University Information Services unit should improve PeopleSoft access management controls and ensure compliance with University IT procedures and standards by:	
A.	Implemented	Mitigating the problems identified in Part A of the confidential finding.
B.	Partially Implemented	Mitigating the problems identified in Part B of the confidential finding.
Status Note: See Current Audit Recommendation 2021-016		

Recommendation 2020-019		
Status	Recommendation Text	
	The University of Colorado should improve PeopleSoft change management controls by:	
A.	Implemented	Mitigating the problems identified in Part A of the confidential finding.
B.	Implemented	Mitigating the problems identified in Part B of the confidential finding.

## DEPARTMENT OF HIGHER EDUCATION – WESTERN COLORADO UNIVERSITY

Recommendation 2020-020		
Status	Recommendation Text	
	Western Colorado University should improve its internal controls over cash accounts by:	
A.	Implemented	Establishing a procedure that specifies a required timeframe for preparation and supervisory review of bank account reconciliations.
B.	Implemented	Assigning back-up responsibility for preparation of bank account reconciliations in the event of staffing vacancies.

## DEPARTMENT OF HUMAN SERVICES

Recommendation 2020-021		
Status	Recommendation Text	
Implemented	The Department of Human Services should improve IT controls and safeguard information contained in the Colorado Personnel Payroll System by mitigating the information security problem identified in the confidential recommendation.	

Recommendations 2020-022 and 2019-023		
Status	Recommendation Text	
	The Department of Human Services should improve its internal controls over payroll by:	
A.	Implemented	Enforcing the Department’s policy requiring that employees certify and supervisors approve timesheets within the timeframes specified in the <i>Certified Timesheet Guidelines</i> .
B.	Implemented	Implementing a process for tracking employees’ and supervisors’ completion of payroll-related training and for following up to ensure training completion, as applicable.
C.	Implemented	Creating and implementing a periodic review process to ensure that unit timekeepers maintain all signed and certified timesheets according to the guidelines.

Recommendation 2019-022	
Status	Recommendation Text
	The Department of Human Services should improve IT controls over the Electronic Benefits Transfer System by:
A.	Implemented
	Mitigating the information security problems noted in Part A of the confidential finding. Status Note: Implemented in Fiscal Year 2020.
B.	Implemented
	Mitigating the information security problems noted in Part B of the confidential finding. Status Note: Implemented in Fiscal Year 2020.
C.	Implemented
	Mitigating the information security problems noted in Part C of the confidential finding.

## DEPARTMENT OF LABOR AND EMPLOYMENT

Recommendation 2020-023	
Status	Recommendation Text
	The Department of Labor and Employment (Department) should improve its internal controls over its accounting for Unemployment Insurance (UI) benefit payments by:
A.	Implemented
	Establishing a timeframe for adjudicating the backlog of outstanding claims, and establishing overpayments for any benefits that were paid in error and/or fraud.
B.	Partially Implemented
	Developing and implementing an adequate communication process between its UI Program staff and accounting staff to consider the impact of program staff decisions on the Department's accounting records and State's financial statements, and to ensure that transactions are properly recorded in the Colorado Operations and Resource Engine. Status Note: The Department contracted with a vendor to assist with process improvements during Fiscal Year 2021, including improvements for communication between its UI Program staff and accounting staff. The Department is in the process of developing and documenting these processes, and plans to fully implement this recommendation by the September 2022 implementation date.
C.	Partially Implemented
	Developing and implementing a methodology for calculating estimated receivables and payables for UI benefit payments, and recording receivables throughout the year as overpayments are established. Status Note: See Current Audit Recommendation 2021-022.
Classification: Deficiency in Internal Control	

Recommendation 2020-024	
Status	Recommendation Text
	The Department of Labor and Employment should strengthen its internal controls over financial reporting to ensure the timely entry of fiscal year-end financial activity into the Colorado Operations Resource Engine (CORE) and accurate reporting of financial information by:
A.	Not Implemented Developing and implementing policies and procedures for its accounting processes and exhibit preparation and review. Status Note: See Current Audit Recommendation 2021-021.
B.	Not Implemented Performing reconciliations between its bank and CORE balances throughout the year and at fiscal year end to identify, document, and correct reconciling items in a timely manner. Status Note: See Current Audit Recommendation 2021-021.
C.	Not Implemented Cross-training existing employees on additional responsibilities to allow for appropriate delegation when turnover occurs. Status Note: See Current Audit Recommendation 2021-021.

Recommendations 2020-025 and 2019-026	
Status	Recommendation Text
	The Department of Labor and Employment should work with the Governor’s Office of Information Technology (OIT) and the Colorado Labor and Employment Applicant Resource (CLEAR) vendor, as applicable, to improve information security controls over the Colorado Unemployment Benefits System, the Colorado Automated Tax System, and the CLEAR systems, and to comply with Colorado Information Security Policies, OIT Cyber Policies, and IRS Publication 1075, as applicable, by:
A.	Partially Implemented Mitigating the information security problems noted in Part A of the confidential finding. Status Note: See Current Audit Recommendation 2021-023.
B.	Not Implemented Mitigating the information security problems noted in Part B of the confidential finding. Status Note: See Current Audit Recommendation 2021-023.
C.	Not Implemented Mitigating the information security problems noted in Part C of the confidential finding. Status Note: See Current Audit Recommendation 2021-023.
D.	Not Implemented Mitigating the information security problems noted in Part D of the confidential finding. Status Note: See Current Audit Recommendation 2021-023.

Recommendations 2019-028 and 2018-023	
Status	Recommendation Text
	The Department of Labor and Employment should work with the Governor's Office of Information Technology and the Colorado Labor and Employment Applicant Resource (CLEAR) vendor, as applicable, to:
A. Implemented	Implement appropriate procedures to mitigate the specific problems noted in the confidential finding Part A. Status Note: Implemented in Fiscal Year 2019.
B. Partially Implemented	Implement appropriate procedures to mitigate the specific problems noted in the confidential finding Part B. Status Note: See Current Audit Recommendation 2021-025.
C. Not Implemented	Hold the CLEAR vendor accountable for contract provisions to ensure they are complying with Colorado Information Security Policies. Status Note: See Current Audit Recommendation 2021-025.

Recommendation 2018-025	
Status	Recommendation Text
Partially Implemented	The Colorado Department of Labor and Employment should work with the Governor's Office of Information Technology to ensure compliance with Colorado Information Security Policies and improve information technology general controls over the Colorado Unemployment Benefits System and Colorado Automated Tax System by: Ensuring that audit logging is designed, built, implemented, and operational as part of the Unemployment Insurance Modernization project. Status Note: See Current Audit Recommendation 2021-023.

Recommendation 2017-027	
Status	Recommendation Text
	The Department of Labor and Employment (Department) should work with the Governor's Office of Information Technology (OIT), and the CLEAR vendor, as applicable, to improve internal controls over the Colorado Unemployment Benefits System (CUBS), Colorado Automated Tax System (CATS), and the Colorado Labor and Employment Applicant Resource (CLEAR) by:
A.	Partially Implemented Developing and establishing adequate processes to comply with Security and OIT Cyber Policies and IRS Publication 1075, as applicable. Status Note: See Current Audit Recommendation 2021-023.
B.	Implemented Implementing appropriate procedures to mitigate the specific problems noted in the confidential finding related to safeguarding data backups. Status Note: Implemented in Fiscal Year 2018.
C.	No Longer Applicable Reconfiguring system settings and refining practices to mitigate the specific problems noted in the confidential finding related to account management. Status Note: Included as part of Fiscal Year 2019 Recommendation 2019-027.
D.	No Longer Applicable Implementing appropriate procedures to mitigate the specific problems noted in the confidential finding relating to CLEAR system event logs. Status Note: Included as part of Fiscal Year 2019 Recommendation 2019-026.
E.	Partially Implemented Ensuring that these issues are addressed in the Unemployment Insurance systems modernization project. Status Note: See Current Audit Recommendation 2021-023.

## LEGISLATIVE DEPARTMENT

Recommendation 2020-026	
Status	Recommendation Text
	The Legislative Department should improve its internal controls over fiscal year-end financial reporting by:
A.	Partially Implemented Documenting the procedures and related supporting documentation necessary to prepare the Office of the State Controller's (OSC) required exhibits and the related standalone financial statements to ensure consistent, accurate, and timely reporting of the information to the OSC and the external auditors. Status Note: See Current Audit Recommendation 2021-027.
B.	Partially Implemented Implementing a documented review of all exhibits to be submitted to the OSC by a person who is not the exhibit preparer. Status Note: See Current Audit Recommendation 2021-027.
C.	Implemented Ensuring that all staff involved in the preparation and review processes established through Part B of this recommendation receive adequate training to ensure the exhibits are accurate and comply with the OSC submission requirements.
D.	Partially Implemented Providing sufficient cross-training of accounting personnel in regard to the key preparation and review controls related to the exhibits, so that in the event of turnover or unexpected leaves of absence, the controls will continue to operate as designed. Status Note: See Current Audit Recommendation 2021-027.

## DEPARTMENT OF LOCAL AFFAIRS

### Recommendation 2020-027

Status	Recommendation Text
Implemented	The Department of Local Affairs should improve information security controls over the Colorado Operations Resource Engine by mitigating the information security problems noted in the confidential finding.

## DEPARTMENT OF PERSONNEL & ADMINISTRATION

### Recommendation 2020-028

Status	Recommendation Text
	The Department of Personnel & Administration's Office of the State Controller (OSC) should strengthen internal controls over financial and federal reporting to ensure that the OSC's preparation of the State's Financial Statements, Comprehensive Annual Financial Report (Annual Report), and <i>Schedule of Expenditures of Federal Awards</i> (SEFA), detect and correct material misstatements. This should include the following:
A. Partially Implemented	Evaluating the OSC's internal controls over preparing and reviewing the Financial Statements and Annual Report to ensure their effectiveness in identifying and correcting significant issues, such as those identified in the audit. This should include ensuring that OSC staff implement and perform an analysis of major funds when significant changes are made to the underlying accounting records.  Status Note: See Current Audit Recommendation 2021-029.
B. Implemented	Ensuring that information contained in the Financial Statements, Annual Reports, and SEFA is supported by information provided by departments, agencies and higher education institutions, by either requiring them to complete and/or update exhibits submitted to the OSC, as applicable, or implementing an alternative process to ensure that changes made by the OSC are communicated and reconciled with source documentation.

### Recommendation 2020-029

Status	Recommendation Text
Implemented	The Office of the State Controller should strengthen information technology controls over the Colorado Operations Resource Engine (CORE) system by continuing to work with CGI to ensure that the System and Organization Controls (SOC) 1, Type II report for Fiscal Year 2021 covers appropriate database controls relevant to financial reporting.

Recommendations 2020-030 and 2019-030

Status	Recommendation Text
	<p>The Department of Personnel &amp; Administration’s Office of the State Controller (OSC) should strengthen its internal controls over financial reporting to ensure that the OSC’s fiscal year-end accounting processes result in compliance with statutes and that the State’s Financial Statements provided to decision makers are accurate, complete, and prepared in accordance with generally accepted accounting principles (GAAP). This should include the following:</p>
<p>A. Not Implemented</p>	<p>Analyzing and reviewing historical transactions posted after the statutory close-date in detail to gain an understanding of whether the transactions should be posted by the statutory close and department close to be compliant with statutory requirements.</p> <p>Status Note: See Current Audit Recommendation 2021-029.</p>
<p>B. Partially Implemented</p>	<p>Applying the analysis from Part A to define, document, and communicate to departments and institutions of higher education the specific types of transactions that must be made within 35 days of fiscal year-end in order for the OSC to comply with the statutory close and department close, and holding departments and institutions of higher education accountable for meeting related deadlines.</p> <p>Status Note: See Current Audit Recommendation 2021-029.</p>
<p>C. Deferred</p>	<p>Reevaluating the accounting deadlines and adjusting them as necessary in order to meet the GAAP requirements for the Financial Statements. This should include resolving delays caused by the labor allocation process and/or implementing a plan to change or address the issues with the current labor allocation process.</p> <p>Status Note: The Department plans to fully implement this recommendation by the December 2022 implementation date.</p>
<p>D. Not Implemented</p>	<p>Formalizing and expanding the OSC’s existing policies and procedures over Exhibit Js for inclusion in the Financial Statements. The policies and procedures should include sufficient details on the OSC’s processes related to:</p> <ul style="list-style-type: none"> <li>i. Specific review procedures that should be performed to ensure that the exhibits are reasonable and completed in accordance with the OSC’s <i>Instructions for Exhibits</i>.</li> <li>ii. Making timely adjustments identified through the reviews to the Financial Statements prior to submitting them to the Governor and General Assembly.</li> <li>iii. Obtaining revised exhibits.</li> </ul> <p>Status Note: See Current Audit Recommendation 2021-029.</p>
<p>E. No Longer Applicable</p>	<p>Strengthening the OSC’s existing policies and procedures for preparing and reviewing the State’s Financial Statements and Annual Report. The changes should include procedures for reviews to be sufficiently detailed to allow for significant issues, such as those identified in the audit, to be detected and corrected.</p> <p>Status Note: Included as part of Fiscal Year 2020 Recommendation 2020-028.</p>

Classification: Material Weakness

Recommendations 2020-031 and 2019-032	
Status	Recommendation Text
	The Department of Personnel & Administration's Office of the State Controller (OSC) should continue to improve internal controls related to the American Institute of Certified Public Accountants' <i>Statement on Standards for Attestation Engagements 18 – System and Organization Controls 1</i> , Type II reports (SOC Reports) by:
A.	Not Implemented
	Creating and implementing policies and procedures around performing risk assessment and planning related to the State's IT systems to determine which systems are critical to the State's <i>Comprehensive Annual Financial Report</i> , which systems require SOC Reports, and tracking SOC Report opinions.
	Status Note: See Current Audit Recommendation 2021-030.
B.	Partially Implemented
	Providing contract template information for SOC Reports related to financial reporting. The OSC should review contracts that may require SOC Reports and determine how to proceed with the contract.
	Status Note: See Current Audit Recommendation 2021-030.
C.	Implemented
	Ensuring that the OSC's <i>Fiscal Procedures Manual</i> contains sufficient guidance and clear responsibilities on SOC Reports related to financial reporting, specifically including department responsibilities related to SOC Reports, and department responsibilities to review and implement complementary user entity controls.

Recommendations 2020-032 and 2019-033	
Status	Recommendation Text
	Partially Implemented
	The Department of Personnel & Administration's Office of the State Controller (OSC) should improve its processes and review related to the implementation of Government Accounting Standards Board (GASB) statements and implementation guides by ensuring that its analyses include specific anticipated impacts and approaches to the OSC's financial reporting processes for implementing each GASB statement and implementation guide.
	Status Note: See Current Audit Recommendation 2021-029.

Recommendation 2019-031	
Status	Recommendation Text
	The Department of Personnel & Administration's Office of the State Controller (OSC) should strengthen its internal controls and reporting of prior period adjustments by:
A.	Implemented
	Requiring departments and institutions of higher education to track all prior period adjustments made during the fiscal year and to report them to the OSC at fiscal year-end. This should include revising the <i>Fiscal Procedures Manual</i> and the Exhibit PPA, <i>Prior Period Adjustments</i> , to eliminate the allowance for a qualification.
B.	Implemented
	Revising the Exhibit A1, <i>Changes in TABOR Revenue and Base Fiscal Year Spending</i> , and related instructions to eliminate the inconsistent guidance regarding corrections to prior year recorded Taxpayer's Bill of Rights (TABOR) revenue to require reporting of all prior period adjustments affecting TABOR revenue, regardless of dollar amount.
	Status Note: Implemented in Fiscal Year 2020.

### Recommendation 2018-027

Status		Recommendation Text
		The Department of Personnel & Administration's Office of the State Controller (OSC) should strengthen its internal controls over pension and other postemployment benefit reporting by:
A.	Implemented	Updating and implementing its documented policies and procedures related to financial statement reporting and note disclosures required by GASB Statement No. 68, <i>Accounting and Financial Reporting for Pensions</i> (GASB 68), and GASB Statement No. 75, <i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</i> (GASB 75), to include sufficient details related to the preparation and supervisory review of the note disclosures and supporting documentation to ensure that all elements agree to the underlying accounting records and that financial reporting meets statutory and generally accepted accounting principles requirements.
B.	Implemented	Establishing and implementing a process to obtain information from the State's higher education institutions on all types of pension and other postemployment benefit plans offered by the institutions. The OSC should compile this information, document its analysis, and include the appropriate disclosures for GASBs 68 and 75 in its financial statements.
Status Note: Implemented in Fiscal Year 2019.		

## DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT

### Recommendation 2020-033

Status		Recommendation Text
		The Department of Public Health and Environment (Department) should strengthen its internal controls over fiscal year-end financial activities by:
A.	Implemented	Creating and implementing a staffing plan that clearly assigns roles and responsibilities to its Accounting Division staff, including the distribution of secondary assignments in the case of staff turnover.
B.	Implemented	Cross-training existing employees to allow for appropriate segregation of duties and review, and to allow for appropriate delegation when turnover occurs.
C.	Implemented	Continuing to improve upon and follow a fiscal year-end close checklist, which outlines internal deadlines, includes all divisions, and allows sufficient time for internal review of Office of the State Controller (OSC)-required reports, including the Taxpayer's Bill of Rights (TABOR) variance analyses and the Cash Funds Uncommitted Reserves report, in order to ensure all Department and OSC deadlines are met.



# **Required Report & Communications**





OFFICE OF THE STATE AUDITOR  
KERRI L. HUNTER, CPA • STATE AUDITOR

**Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Members of the Legislative Audit Committee:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Colorado (State), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the State's basic financial statements and have issued our reports thereon dated January 31, 2022, and, as discussed in Note 1 to the financial statements, on the Statement of Net Position Government-Wide Financial Statements, and Statement of Net Position Proprietary Statements, dated March 8, 2022. We have also audited the State's budgetary comparison schedule-general fund component and the related note for the year ended June 30, 2021, and have issued our reports thereon dated January 31, 2022.

Our report includes a reference to other auditors who audited the financial statements of the discretely presented component units and a blended component unit, as described in our report on the State of Colorado's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. The financial statements of the University of Colorado Foundation, the Statewide Internet Portal Authority, and the Denver Metropolitan Major League Stadium District, which are discretely presented component units, were audited in accordance with auditing standards generally accepted in the United States, but were not audited in accordance with *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's

internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. A material weakness is a deficiency, or a combination of deficiencies, in internal control 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. We consider the deficiencies described in the accompanying Schedule of Findings as Recommendations 2021-002, 012, 021, 023 through 024, 029 through 030, 035, and 037 to be Material Weaknesses.

A significant deficiency is a deficiency, or a 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. We consider the deficiencies described in the accompanying Schedule of Findings as Recommendations 2021-001, 003 through 011, 013 through 020, 022, 025 through 028, 031 through 034, 036, 038 through 040 to be Significant Deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as Recommendation 2021-029.

### **State of Colorado's Response to Findings**

The State's response to the findings identified in our audit engagement is included in the accompanying Schedule of Findings. The State's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an engagement to

perform an audit in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Kerri L. Hunter". The signature is written in a cursive style with a large initial "K".

Denver, Colorado

January 31, 2022, except for Note 1, Statement of Net Position Government-Wide Financial Statements, and Statement of Net Position Proprietary Statements, as to which the date is March 8, 2022.





OFFICE OF THE STATE AUDITOR  
KERRI L. HUNTER, CPA • STATE AUDITOR

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March 8, 2022

**Independent Auditor's Communication with Those Charged with Governance**

Members of the Legislative Audit Committee:

We were engaged to audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Colorado (State), as of and for the year ended June 30, 2021, and the related notes to the financial statements. We have also audited the State's budgetary comparison schedule—general fund component and the related note for the Fiscal Year Ended June 30, 2021.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 13, 2021.

Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Matters**

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the State are described in Note 1 to the financial statements contained in the State's Fiscal Year 2021 *Annual Comprehensive Financial Report* issued under separate cover. As described in Note 1.A. of the financial statements, in Fiscal Year 2021, the State implemented Statement of Governmental Accounting Standards (GASB Statement) No. 84, *Fiduciary Activities*. The objective of this Statement is to improve the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Additionally, the Colorado School of Mines and Colorado State University early-implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This GASB Statement was not implemented at a statewide level. This

Statement seeks to enhance the relevance and comparability of information about capital assets and the costs of borrowing for a reporting period and to simplify accounting for interest costs incurred before the end of a construction period. Accordingly, the cumulative effect of these accounting changes as of the beginning of the fiscal year is reported in Note 15.B. of the financial statements. We noted no transactions entered into by the State during the year for which there is a lack of authoritative guidance or consensus. Except for the prior period adjustments reported in Note 15.A. of the financial statements, all significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the State's financial statements were taxes receivable, allowance for doubtful accounts, depreciation of capital assets, net pension liabilities and other post-employment benefits (OPEB) related liabilities, and fair value of investments, along with student accounts and students loans receivable allowance for uncollectible accounts. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were cash and investments, capital assets and their related depreciation, pension obligations, other postemployment benefits, prior period adjustments, over-expenditures, contingencies, and subsequent events.

The financial statement disclosures are neutral, consistent, and clear.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant audit difficulties in dealing with management in performing and completing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Section V –Appendix summarizes uncorrected misstatements of the financial statements. Management has determined, and we agree, that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Section V – Appendix also summarizes misstatements corrected by management that were detected as a result of audit procedures.

### **Disagreements with Management**

For the purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of our audit.

## **Management Representations**

We have requested and received certain representations from management that are included in the management representation letters dated January 31, 2022, and March 8, 2022.

## **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a second opinion on certain situations. If a consultation involves application of an accounting principle to the State's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year as the State's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We identified a change in the State's reporting entity. Specifically, as discussed in Note 15 of the financial statements, HLC@Metro no longer meets the basis for inclusion as a discretely presented component unit and it has been removed from the State's reporting entity in the Fiscal Year 2021 Annual Report. This change was based on a reevaluation of financial significance, and is in accordance with other guidance. Our opinion was not modified with respect to this matter.

As discussed in Note 1 to the financial statements, subsequent to our audit report dated January 31, 2022, on which we expressed an unmodified opinion, the State revised the Statement of Net Position Government-Wide Financial Statements and the Statement of Net Position Proprietary Statements. We performed procedures over these revisions, and our opinion is not modified with respect to this matter.

## **Other Matters**

We have applied certain limited procedures to the management's discussion and analysis, budgetary comparison schedules, and notes to the required supplementary information that include the defined benefit pension plan and other postemployment benefit information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures on the RSI do not provide us with sufficient evidence to express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual nonmajor fund financial statements and the schedule of TABOR revenue and computations, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and

evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section, the budget and actual schedules-budgetary basis non-appropriated, and statistical section, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

### **Group Audit Communication**

The group engagement team should communicate the following matters with those charged with governance of the group:

- Instances in which the group engagement team's evaluation of the work of a component audit gave rise to a concern about the quality of that auditor's work. No such instances were noted.
- Any limitations on the group audit (for example, when the group engagement team's access to information may have been restricted). We encountered no limitations while performing our audit.
- Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls, or others in which a material misstatement of the group financial statements has or may have resulted from fraud. No such matters were noted.

### **Restriction on Use**

This information is intended solely for the use of the Legislative Audit Committee and management of the State and is not intended to be, and should not be, used by anyone other than these specified parties. However, upon release by the Legislative Audit Committee, this report is a public document.

Very truly yours,



Denver, CO  
March 8, 2022

# Appendix



**Net Uncorrected Audit Misstatements by Agency  
for Fiscal Year Ended June 30, 2021  
Increase (Decrease)**

Agency	Assets	Deferred Outflows of Resources	Liabilities	Deferred Inflows of Resources	Net Position	Revenues	Expenditures
Agriculture	\$ 41,550	\$ -	\$ (41,550)	\$ -	\$ -	\$ -	\$ -
Corrections	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Education	\$ 75,587,000	\$ -	\$ -	\$ -	\$ -	\$ 75,587,000	\$ -
Office of the Governor	\$ (99,516)	\$ -	\$ 3,257,395	\$ -	\$ -	\$ (100,000)	\$ 3,256,911
Health Care Policy and Financing	\$ (346,535)	\$ -	\$ (483,884)	\$ -	\$ -	\$ (558,395)	\$ (695,744)
Higher Education	\$ 5,594,491	\$ -	\$ 100,199	\$ -	\$ 2,008,539	\$ (2,116,915)	\$ (5,605,507)
Human Services	\$ -	\$ -	\$ 51,553	\$ -	\$ -	\$ (66,865)	\$ (15,313)
Judicial	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Labor and Employment	\$ 2,092,743	\$ -	\$ -	\$ -	\$ -	\$ (2,092,743)	\$ -
Law	\$ -	\$ -	\$ 80,697	\$ -	\$ -	\$ (77,454)	\$ 3,243
Legislative	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Local Affairs	\$ (1,423)	\$ -	\$ 275,301	\$ -	\$ -	\$ (1,423)	\$ 275,301
Military and Veterans Affairs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Natural Resources	\$ (34,286)	\$ -	\$ (6,520)	\$ -	\$ -	\$ 15,818	\$ 43,584
Personnel & Administration	\$ 10,160,000	\$ (1,526)	\$ 67,153	\$ 5,868	\$ (10,160,000)	\$ -	\$ (71,495)
Public Health and Environment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public Safety	\$ 28,702,406	\$ -	\$ -	\$ -	\$ -	\$ 28,725,779	\$ 23,374
Regulatory Agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue	\$ (75,730,231)	\$ -	\$ (6,283,002)	\$ -	\$ 136,511	\$ (69,316,861)	\$ (6,143)
State	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transportation	\$ 7,500,000	\$ -	\$ (1,164,550)	\$ -	\$ -	\$ -	\$ (6,335,450)
Treasury	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Net Increase (Decrease)</b>	<b>\$ 53,466,199</b>	<b>\$ (1,526)</b>	<b>\$ (4,147,208)</b>	<b>\$ 5,868</b>	<b>\$ (8,014,950)</b>	<b>\$ 29,997,941</b>	<b>\$ (9,127,239)</b>

**Gross Uncorrected Audit Misstatements by Agency  
for Fiscal Year Ended June 30, 2021**

Agency	Assets	Deferred Outflows of Resources	Liabilities	Deferred Inflows of Resources	Net Position	Revenues	Expenditures
Agriculture	\$ 41,550	\$ -	\$ 41,550	\$ -	\$ -	\$ -	\$ -
Corrections	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Education	\$ 75,587,000	\$ -	\$ -	\$ -	\$ -	\$ 75,587,000	\$ -
Office of the Governor	\$ 353,883	\$ -	\$ 3,257,995	\$ -	\$ -	\$ 100,000	\$ 3,519,533
Health Care Policy and Financing	\$ 2,926,380	\$ -	\$ 4,473,477	\$ -	\$ -	\$ 932,190	\$ 695,744
Higher Education	\$ 20,988,466	\$ -	\$ 962,615	\$ -	\$ 29,541,623	\$ 28,565,457	\$ 14,832,100
Human Services	\$ -	\$ -	\$ 51,553	\$ -	\$ -	\$ 66,865	\$ 15,313
Judicial	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Labor and Employment	\$ 2,092,743	\$ -	\$ -	\$ -	\$ -	\$ 2,092,743	\$ 34,437,126
Law	\$ -	\$ -	\$ 80,697	\$ -	\$ -	\$ 77,454	\$ 6,393
Legislative	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Local Affairs	\$ 25,795	\$ -	\$ 275,301	\$ -	\$ -	\$ 1,423	\$ 7,830,909
Military and Veterans Affairs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Natural Resources	\$ 2,040,690	\$ -	\$ 6,520	\$ -	\$ -	\$ 689,397	\$ 1,311,009
Personnel & Administration	\$ 10,160,000	\$ 34,368	\$ 67,153	\$ 30,027	\$ 10,160,000	\$ 9,618,765	\$ 71,495
Public Health and Environment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public Safety	\$ 28,874,243	\$ -	\$ 342,930	\$ -	\$ -	\$ 28,784,480	\$ 293,750
Regulatory Agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue	\$ 104,224,950	\$ -	\$ 6,314,204	\$ -	\$ 136,511	\$ 81,914,067	\$ 141,017
State	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transportation	\$ 7,500,000	\$ -	\$ 46,069,878	\$ -	\$ -	\$ 2,836,884	\$ 7,754,658
Treasury	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTAL</b>	<b>\$ 254,815,700</b>	<b>\$ 34,368</b>	<b>\$ 61,943,873</b>	<b>\$ 30,027</b>	<b>\$ 39,838,134</b>	<b>\$ 231,266,725</b>	<b>\$ 70,909,047</b>

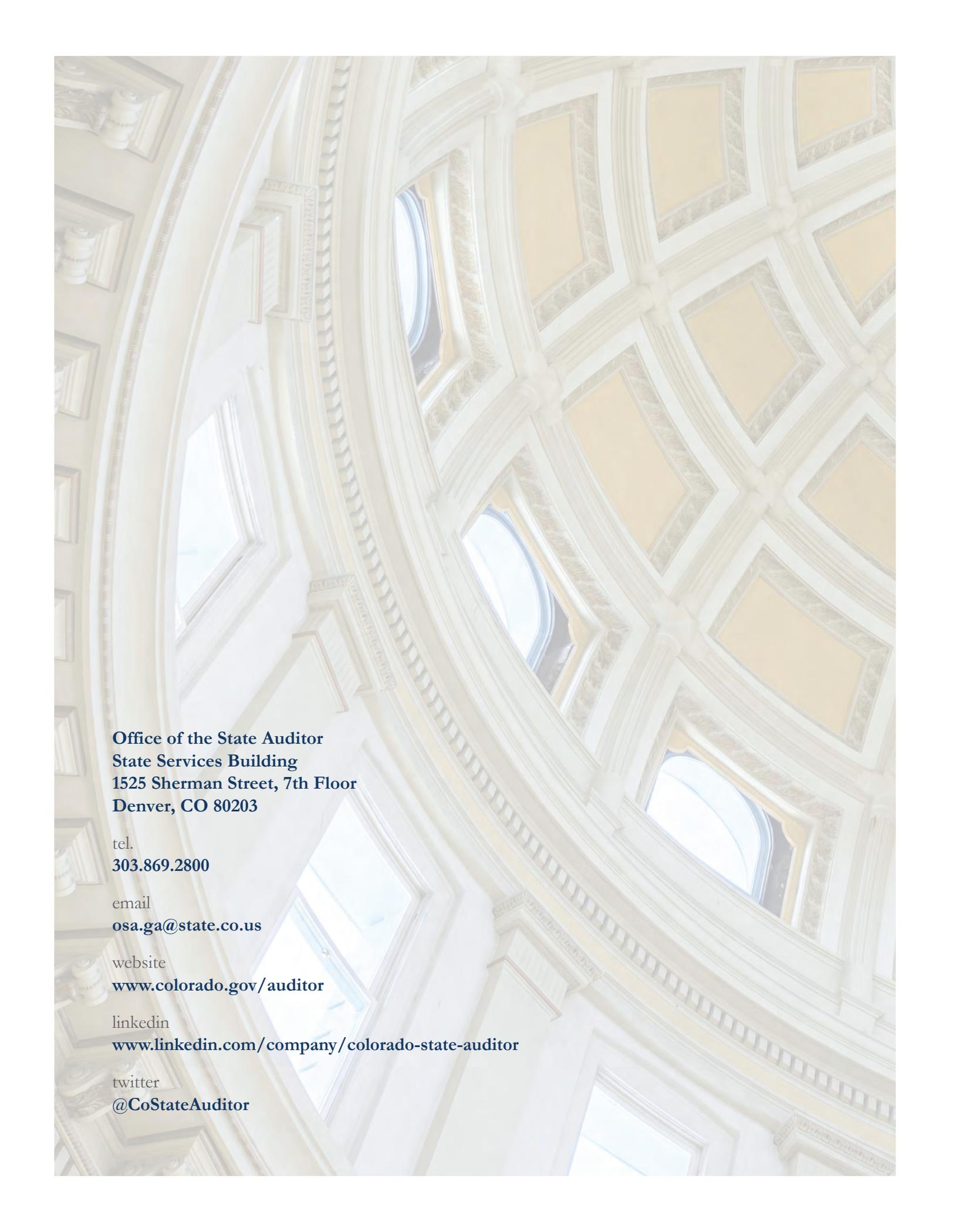
**Net Corrected Audit Misstatements by Agency  
for Fiscal Year Ended June 30, 2021  
Increase (Decrease)**

Agency	Assets	Deferred Outflows of Resources	Liabilities	Deferred Inflows of Resources	Net Position	Revenues	Expenditures
Agriculture	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corrections	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Education	\$ (75,587,000)	\$ -	\$ -	\$ -	\$ -	\$ 75,587,000	\$ -
Office of the Governor	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Health Care Policy and Financing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Higher Education	\$ 3,921,543	\$ -	\$ (2,058,000)	\$ -	\$ 1,684,484	\$ (3,548,027)	\$ -
Human Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Judicial	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Labor and Employment	\$ 69,888,870	\$ -	\$ -	\$ -	\$ -	\$ (30,175,044)	\$ (39,713,826)
Law	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Legislative	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Local Affairs	\$ -	\$ -	\$ 275,301	\$ -	\$ -	\$ -	\$ (275,301)
Military and Veterans Affairs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Natural Resources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Personnel & Administration	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public Health and Environment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public Safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Regulatory Agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue	\$ 75,587,000	\$ -	\$ -	\$ -	\$ -	\$ (75,587,000)	\$ -
State	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transportation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Treasury	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Net Increase (Decrease)</b>	<b>\$ 73,810,413</b>	<b>\$ -</b>	<b>\$ (1,782,699)</b>	<b>\$ -</b>	<b>\$ 1,684,484</b>	<b>\$ (33,723,071)</b>	<b>\$ (39,989,127)</b>

**Gross Corrected Audit Misstatements by Agency  
for Fiscal Year Ended June 30, 2021**

Agency	Assets	Deferred Outflows of Resources	Liabilities	Deferred Inflows of Resources	Net Position	Revenues	Expenditures
Agriculture	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Corrections	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Education	\$ 75,587,000	\$ -	\$ -	\$ -	\$ -	\$ 75,587,000	\$ -
Office of the Governor	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Health Care Policy and Financing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Higher Education	\$ 19,862,905	\$ -	\$ 2,058,000	\$ -	\$ 1,684,484	\$ 5,354,027	\$ -
Human Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Judicial	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Labor and Employment	\$ 412,450,410	\$ -	\$ -	\$ -	\$ -	\$ 68,040,343	\$ 143,471,028
Law	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Legislative	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Local Affairs	\$ -	\$ -	\$ 275,301	\$ -	\$ -	\$ -	\$ 275,301
Military and Veterans Affairs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Natural Resources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Personnel & Administration	\$ -	\$ -	\$ -	\$ -	\$ 4,148,748,000	\$ -	\$ -
Public Health and Environment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public Safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Regulatory Agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,030,508	\$ -
Revenue	\$ 75,587,000	\$ -	\$ -	\$ -	\$ -	\$ 75,587,000	\$ -
State	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transportation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Treasury	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTAL</b>	<b>\$ 583,487,315</b>	<b>\$ -</b>	<b>\$ 2,333,301</b>	<b>\$ -</b>	<b>\$ 4,150,432,484</b>	<b>\$ 225,598,878</b>	<b>\$ 143,746,329</b>





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