

# REPORT HIGHLIGHTS



STATEWIDE SINGLE AUDIT, FISCAL YEAR ENDED JUNE 30, 2015  
FINANCIAL AUDIT

STATE OF COLORADO

## FINANCIAL STATEMENT FINDINGS

- § The State's financial statements covered \$35.7 billion in total assets and \$29.2 billion in total expenditures.
- § We have issued an unmodified opinion on the State's financial statements for the Fiscal Year Ended June 30, 2015. That means the State's financial statements presented fairly, in all material respects, the State's financial position, results of all financial operations, and cash flows in conformance with generally accepted accounting principles.
- § We identified 33 internal control weaknesses related to compliance with internal control over financial reporting and other matters.

## FEDERAL PROGRAM FINDINGS

- § The State expended approximately \$11.5 billion in federal funds in Fiscal Year 2015. The four largest federal programs were:
  - ▶ Medicaid: \$4.4 billion
  - ▶ Student Financial Assistance: \$1.4 billion
  - ▶ Highway Planning and Construction: \$837 million
  - ▶ Supplemental Nutrition Assistance Program: \$832 million
- § We identified 42 internal control issues related to the State's compliance with requirements applicable to major federal programs.
- § We identified nearly \$1.3 million in questioned costs related to federal awards granted to the State. The federal portion of the questioned costs was over \$698,000.

## OVERVIEW

This report presents our financial and compliance audit of the State of Colorado for Fiscal Year 2015.

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

However, in accordance with the federal Single Audit Act, this report includes all findings and questioned costs related to federal awards that came to our attention through our audit.

We made 63 recommendations to state agencies and higher education institutions. Recommendations may be classified as both financial and federal; therefore, the total number of recommendations given does not match the number noted in the individual sections of this summary.

## AUTHORITY, PURPOSE, AND SCOPE

This audit was conducted under the authority of Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and with Government Auditing Standards issued by the Comptroller General of the United States. We performed our audit work during the period of February 2015 through April 2016. The purpose of this audit was to:

- § Express an opinion on the State's financial statements for the Fiscal Year Ended June 30, 2015.
- § Express an opinion on the State's Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2015.
- § 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 years' audit recommendations.

# FINANCIAL STATEMENT FINDINGS

This section summarizes our report on the State’s compliance with internal controls over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.

## INTERNAL CONTROLS OVER FINANCIAL ACTIVITY AND FINANCIAL REPORTING

State agencies are responsible for having adequate internal controls in place to ensure compliance with laws and regulations and with management’s objectives. In addition, State agencies are responsible for reporting financial activity accurately, completely, and in a timely manner. As part of our audit, we reviewed State departments’ internal control processes, including policies and procedures, related to financial reporting, and tested samples of financial transactions to determine whether internal controls were adequate and that financial activity was reported properly. We identified the need for improvements in these areas at the following State agencies:

- § DEPARTMENT OF AGRICULTURE. The Department has not ensured that basic internal controls over all financial activities have been developed or updated, and put into practice. This is classified as a MATERIAL WEAKNESS.
- § OFFICE OF THE GOVERNOR. We identified three areas related to financial controls in which the Office could make improvements to its operations. Specifically, we identified the following:
  - ▶ Controls over Capital Assets. The Office does not have adequate internal controls in place over the recording of capital assets and related depreciation. This is classified as a MATERIAL WEAKNESS.
  - ▶ Internal Controls over Payroll. The Office does not have adequate controls over its payroll processing. This is classified as a MATERIAL WEAKNESS.
  - ▶ Internal Controls over Financial Reporting. The Office has not ensured that basic controls, such as effective secondary review processes over transactions entered in the State’s financial accounting system, TABOR revenue accounts, and the preparation of fiscal year-end exhibits, are in place and operating throughout the Office’s various divisions. This is classified as a SIGNIFICANT DEFICIENCY.
- § DEPARTMENT OF LABOR AND EMPLOYMENT. The Department lacks adequate internal controls to ensure that account balances are reconciled regularly and that necessary corrections to accounts are made in a timely manner. In

Professional standards define the following three levels of financial-related internal control weaknesses. Prior to each recommendation in this report, we have indicated the classification of the finding.

A MATERIAL WEAKNESS is the most serious level of internal control weakness. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis.

A SIGNIFICANT DEFICIENCY is a moderate level of internal control weakness. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A DEFICIENCY IN INTERNAL CONTROL is the least serious level of internal control weakness. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. Deficiencies in internal control generally are reported to agencies in separate management letters and, therefore, would not be included in this report.

addition, the Department also lacks controls to ensure that exhibits contain accurate information and are submitted to the Office of the State Controller in a timely manner. This is classified as a MATERIAL WEAKNESS.

§ DEPARTMENT OF PERSONNEL & ADMINISTRATION'S OFFICE OF THE STATE CONTROLLER (OSC). The OSC is responsible for managing the financial affairs of the State of Colorado, which includes management of the State's payroll system, the preparation of the State's financial statements, and compliance with specific federal reporting requirements. As part of fulfilling this responsibility, the OSC is the functional business owner of the Colorado Operations Resource Engine (CORE), the State's accounting system, which was implemented in Fiscal Year 2015. The OSC is also the business owner of the Colorado Personnel Payroll System (CPPS), the State's payroll system. As part of being the functional business owner of these systems, the OSC is responsible for providing guidance on the use of these systems, overseeing certain access and information security requirements of these systems, and ensuring that the systems are working in the way that they are intended. The following bullets describe notable examples of issues identified that are related to CORE and CPPS:

- ▶ InfoAdvantage Financial Reporting. InfoAdvantage is a software application used as the tool to report information entered into CORE. Upon CORE implementation, InfoAdvantage reports were not adequately designed, tested, and validated to ensure the contents of the reports were accurate and sufficient to satisfy the needs of Statewide agency/department staff, management, or OSC staff during Fiscal Year 2015. This is classified as a MATERIAL WEAKNESS.
- ▶ Labor Allocation. CORE initially was unable to capture timely or accurate labor allocation costs during Fiscal Year 2015. The Colorado Labor Allocation System and Payroll Accounting Management module systems initially did not work as intended, and the OSC did not sufficiently test the systems prior to the implementation of CORE. This is classified as a MATERIAL WEAKNESS.
- ▶ CORE Edit Controls. Due to difficulties with implementing CORE, the OSC did not review and configure data fields to require entry of detailed information for certain classes of transactions prior to the beginning of Fiscal Year 2015. The OSC performed a review and reconfigured required data fields for all classes of transactions 11 months subsequent to CORE implementation. This is classified as a SIGNIFICANT DEFICIENCY.
- ▶ Depreciation of Capital Assets. Capital assets were not depreciated on an appropriate basis, assets obtained prior to Fiscal Year 2015 may have inappropriate depreciation expense, and the automatic calculation of depreciation resulted in large adjusting entries and missing depreciation. This is classified as a MATERIAL WEAKNESS.
- ▶ Quarterly Reporting. We found that the OSC did not collect all required quarterly reports, not all collected quarterly reports contained the

Our opinion on the financial statements is presented in the State's Comprehensive Annual Financial Report for Fiscal Year 2015, which is available electronically from the Office of the State Controller's website at:

[HTTPS://WWW.COLORADO.GOV/PACIFIC/OSC/CAFR.](https://www.colorado.gov/pacific/osc/cafr)

requested information, and the diagnostic reports necessary for quarterly reporting were not timely and contained errors. This is classified as a SIGNIFICANT DEFICIENCY.

- ▶ Beginning Balances. The amounts posted in CORE for the beginning balances for the State's balance sheet accounts at the start of Fiscal Year 2015 were not accurate and required OSC adjustments to correct the balances as well as department adjustments to further allocate the balances. Further, the beginning balances were not fully reconciled until December 2015, or 18 months later. This is classified as a SIGNIFICANT DEFICIENCY.
- ▶ Central Payroll Reporting Staff have not ensured that effective internal controls over federal payroll withholding requirements and payment reporting are in place. We found that, while the OSC Central Payroll Unit filed all amended returns to address errors identified in our Fiscal Year 2014 audit, the Unit continued to make reporting errors and did not otherwise comply with federal payroll regulations during Fiscal Year 2015. This is classified as a MATERIAL WEAKNESS.

§ DEPARTMENT OF PUBLIC SAFETY. The Department lacks adequate internal accounting and administrative controls to reasonably ensure that transactions are properly entered into CORE and that financial and federal reporting is accurate and reliable. This is classified as a Significant Deficiency.

## INTERNAL CONTROLS OVER INFORMATION TECHNOLOGY SYSTEMS

State agencies, often in cooperation with the Governor's Office of Information Technology (OIT), are responsible for implementing, maintaining, and adequately securing the State's computer systems. During our Fiscal Year 2015 audit, we determined that some State agencies' internal controls did not comply with information technology and information security related standards and/or the Colorado Information Security Policies. The following bullets describe notable examples of these issues:

- § GenTax Information Security. We identified issues at the Department of Revenue and OIT with the State's taxation system, GenTax, related to new user access, an inadequate access reconciliation process for the GenTax application and supporting systems, inadequate audit log procedures, and a lack of controls over accounts with access to Federal Taxpayer Information data. This is classified as a SIGNIFICANT DEFICIENCY.
- § GenTax Change Management. OIT did not implement all necessary controls to properly oversee the process to manage changes made within the GenTax system. This is classified as a SIGNIFICANT DEFICIENCY.
- § CORE Application Implementation. The OIT project manager reports indicated that up until May 2014, or 2 months prior to go live, the CORE

implementation schedule was “at risk and there was no approved mitigation plan to address the problems.” In total, the project manager reports indicated that the project had been in an “at risk” state since November 2013, or for 7 months prior to the system implementation. This is classified as a MATERIAL WEAKNESS.

- § CORE Application Implementation – Statutory Compliance. We found that OIT did not follow all required procedures, or did not produce documentation during project planning to meet statutory requirements. This is classified as a SIGNIFICANT DEFICIENCY.
- § CORE Interface Server Configurations: We identified issues at OIT related to information security and change management within the interface server. This is classified as a SIGNIFICANT DEFICIENCY.
- § CORE Interface Server Logical Access Controls. OIT failed to implement required account management access controls over the CORE interface server. This is classified as a SIGNIFICANT DEFICIENCY.
- § Colorado Personnel Payroll System (CPPS). We identified problems at the Department of Personnel & Administration and OIT related to configuration and account management of the mainframe system. This is classified as a MATERIAL WEAKNESS.
- § CPPS Audit log Reports. OIT failed to implement required IT controls over the CPPS application audit logs. This is classified as a SIGNIFICANT DEFICIENCY.
- § CPPS Change Management. OIT staff did not follow all required Colorado Information Security Policies for ensuring that provisioned access was appropriate and access reviews to the change management environments were completed during Fiscal Year 2015. This is classified as a SIGNIFICANT DEFICIENCY.

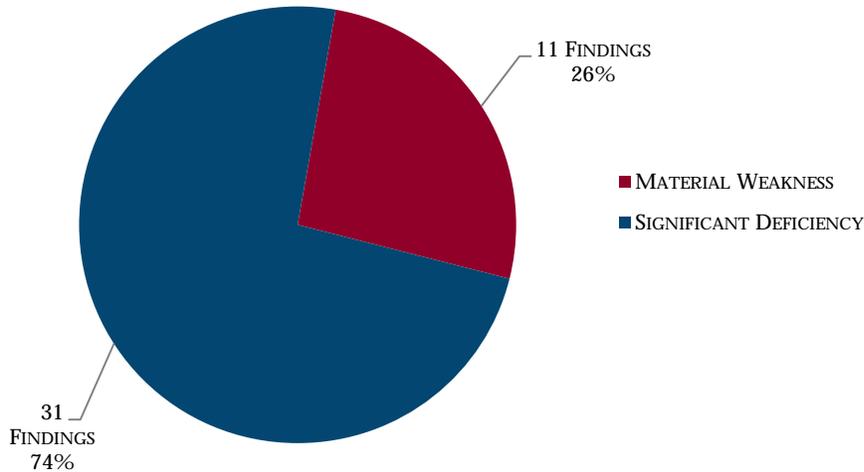
## FEDERAL PROGRAM FINDINGS

This section summarizes our report on the State’s compliance with requirements applicable to major federal programs and internal controls over compliance in accordance with the federal Office of Management and Budget’s *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. We planned and performed the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements that could have a direct and material effect on a major federal program had occurred. As part of our audit, we determined the State’s compliance with federal regulations and grant requirements, such as activities allowed or unallowed, allowable costs, cash management, eligibility, reporting, and subrecipient monitoring.

# INTERNAL CONTROLS OVER FEDERAL PROGRAMS

The following table shows the breakout of types of internal control weaknesses over compliance with federal requirements that we identified during our Fiscal Year 2015 audit. Prior to each recommendation in this report, we have indicated the classification of the finding.

FEDERAL COMPLIANCE  
INTERNAL CONTROL WEAKNESSES  
FISCAL YEAR 2015



## COMPLIANCE WITH FEDERAL PROGRAM REQUIREMENTS AND FEDERAL REPORTING

Various State departments administer federal programs in Colorado and are required to comply with federal program requirements. We identified problems with several departments' compliance with those requirements. In the following bullets, we first discuss federal compliance issues at two departments—the Department of Human Services and the Department of Health Care Policy and Financing—that administer the State's largest federal programs that provide health care and human services benefits. We also describe federal compliance problems at two other state agencies that administer federal programs.

§ DEPARTMENT OF HUMAN SERVICES. We identified the following examples of federal compliance issues with the Department's administration of its federal programs:

- ▶ Cash Management. The Department did not request federal reimbursement for expenditures in a timely manner during Fiscal Year 2015. This is classified as a MATERIAL WEAKNESS.
- ▶ Supplemental Nutrition Assistance Program (SNAP). The Department has not fully implemented its SNAP corrective action plan as demonstrated by reducing the SNAP payment error rate to a level at or below the national average for eligible and ineligible cases and requiring county caseworkers to attend SNAP training on at least an annual basis. This is classified as a MATERIAL WEAKNESS.
- ▶ Vocational Rehabilitation Program (Program). We found that staff training and supervisory reviews have not been effective in ensuring that Program counselors comply with Program requirements. In addition, the Department's monitoring process over the Program does not appear to be effective in identifying and addressing the types of errors identified through our audits. This is classified as a SIGNIFICANT DEFICIENCY.
- ▶ Temporary Assistance for Needy Families Program. Based on our review of the Department's Work Participation Rates (WPRs) for Federal Fiscal Years 2010 through 2013, and its related communication from HHS, we found that the Department missed its required WPRs for 2 of the 4 Fiscal Years. In addition, we noted that the Department's calculated WPRs have declined over the past 4 Fiscal Years. Further, the Department did not provide adequate guidance and training to counties over the documentation of work activity hours in CBMS; case file documentation; and addressing Income, Eligibility, and Verification System hits. This is classified as a SIGNIFICANT DEFICIENCY.
- ▶ Colorado Child Care Assistance Program. The Department did not properly monitor the counties or provide adequate training to county caseworkers regarding eligibility and case management procedures. This is classified as a SIGNIFICANT DEFICIENCY.

§ DEPARTMENT OF HEALTH CARE POLICY AND FINANCING. We identified SIGNIFICANT DEFICIENCIES in the Department's federal reporting and certification of personnel costs for both the Medicaid and the Children's Basic Health Plan (CBHP) programs. SIGNIFICANT DEFICIENCIES for the Medicaid program were also identified due to lack of case file documentation, inadequate tracking of survey and certification requirements, and claims processing.

§ DEPARTMENT OF EDUCATION. The Department was not in compliance with the required draw pattern approved under the federal Treasury-State Cash Management Improvement Act agreement for the Child Nutrition Grants, Special Education (IDEA) grants, and Title I Grants to Local Educational Agencies. This is classified as a SIGNIFICANT DEFICIENCY.

§ DEPARTMENT OF TRANSPORTATION. We identified federal compliance issues with the Department's administration of its federal programs, as follows:

- ▶ Subrecipient Monitoring. The Department does not have a fully developed

subrecipient monitoring plan in place which clearly defines the frequency and the nature of subrecipient monitoring activities that will be performed. This is classified as a MATERIAL WEAKNESS.

- ▶ Cash Management. The Department was not in compliance with the required draw pattern approved under the Treasury-State agreement for the Highway Planning and Construction grant. This is classified as a SIGNIFICANT DEFICIENCY.

## SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR RECOMMENDATIONS

This report includes an assessment of our disposition of audit recommendations reported in previous Statewide Single Audit Reports. Prior years' recommendations that were fully implemented in Fiscal Year 2014 or earlier are not included.

OUTSTANDING STATEWIDE SINGLE AUDIT REPORT RECOMMENDATIONS BY FISCAL YEAR								
	TOTAL	2014	2013	2012	2011	2010	2009	2008
IMPLEMENTED	48	38	5	3	0	1	0	1
PARTIALLY IMPLEMENTED	41	29	8	4	0	0	0	0
NOT IMPLEMENTED	8	8	0	0	0	0	0	0
DEFERRED	2	1	1	0	0	0	0	0
NOT APPLICABLE	0	0	0	0	0	0	0	0
TOTAL	99	76	14	7	0	1	0	1