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State Departments Need to Improve Financial Reporting and Compliance with Federal Grant Program Requirements

DENVER—The Office of the State Auditor (OSA) presented additional findings and recommendations from its annual Statewide Single Audit for the Fiscal Year Ended June 30, 2023 to the Legislative Audit Committee today. These findings related to issues at the Colorado Department of Labor and Employment (CDLE) and Colorado Department of Public Safety (CDPS). Auditors identified material weaknesses at both departments.

A material weakness is the most serious level of internal control weakness. With regard to financial reporting, material weaknesses involve a deficiency, or combination of deficiencies, that create a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis. With regard to compliance with federal program requirements, a material weakness is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Auditors found errors with CDLE's financial reporting, including $266.2 million in overstated accounting estimates on a form that the Office of the State Controller uses to close the State's books at the end of the fiscal year. In addition, CDLE did not reconcile its payroll in a timely manner, and one staff person issued $30,000 in payroll checks without another staff person verifying the accuracy and appropriateness of those checks.

A significant component of the OSA's annual Statewide Single Audit involves assessing the State's compliance with federal program requirements. With respect to federal grants for vocational rehabilitation, CDLE was unable to provide documentation to support over $25 million in

expenditures it reported on four federally-required financial reports that auditors reviewed. In addition, auditors determined that CDLE did not comply with Federal Funding Accountability and Transparency Act of 2006 reporting requirements related to the Workforce Innovation and Opportunity Act grant. Specifically, CDLE incorrectly reported $8.7 million in subawards to 10 grant subrecipients, while $7.7 million was not reported timely.

At CDPS, auditors identified three material weaknesses related to the Department's monitoring of entities that received federal grant money and its financial reporting related to federal grant awards. For example, CDPS could not provide sufficient supporting documentation for $29.2 million of the $166.2 million of FEMA Disaster Grants Program expenditures that CDPS reported as funds expended by another state department, the Colorado Department of Public Health and Environment (CDPHE). Auditors attempted to verify how those funds were spent by reviewing information from both departments, but neither department could provide the required supporting documentation. As a result of these issues, the OSA issued an adverse opinion about the FEMA Disaster Grants Program, which means the State of Colorado did not comply, in all material respects, with compliance requirements that could have a direct and material effect on the program.

The full report is available @ www.colorado.gov/auditor.

About the Office of the State Auditor
Under the direction of the State Auditor, the OSA's nonpartisan, professional staff promote government accountability by conducting independent performance, financial, and IT audits and evaluations of state agencies, departments, and institutions of higher education; conducting independent evaluations of the State's tax expenditures (e.g., credits, exemptions, deductions); tracking about 4,000 Colorado local governments for compliance with the Local Government Audit Law; and operating a statewide fraud reporting hotline.

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