



**STATE OF COLORADO
OFFICE OF THE STATE AUDITOR**

REPORT SUMMARY

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State Auditor**

**STATE OF COLORADO
STATEWIDE SINGLE AUDIT
FISCAL YEAR ENDED JUNE 30, 2004**

Authority, Purpose, and Scope

This audit was conducted under the authority of Section 2-3-103, C.R.S., which authorizes the Office of 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 the financial and compliance standards contained in the *Government Auditing Standards* issued by the U.S. Government Accountability Office. We performed our audit work during the period January through December 2004.

The purpose of this audit was to:

- Express an opinion on the State's financial statements for the fiscal year ended June 30, 2004.
- Express an opinion on the State's Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2004.
- Review internal accounting and administrative control procedures as required by generally accepted auditing standards and generally accepted government auditing standards.
- Evaluate compliance with applicable state and federal laws, rules, and regulations.
- Evaluate progress in implementing prior audit recommendations.

We expressed an unqualified opinion on the State's financial statements and an unqualified opinion on the State's Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2004. Our opinion on the financial statements is presented in the State's Comprehensive Annual Financial Report, which is available in hard copy from the State Controller's Office and electronically at www.colorado.gov/dpa/dfp/sco/cafr/cafr04/cafr04.htm. Our opinion on the Schedule of Expenditures of Federal Awards is presented under the Federal Awards Schedule section of this report.

For further information on this report, contact the Office of the State Auditor at 303.869.2800.

Current Year Findings and Recommendations

This report presents the results of the Statewide Financial and Compliance Audit for Fiscal Year 2004. The report may not include all findings and recommendations from separately issued reports on audits of state departments, institutions, and agencies. However, in accordance with the Single Audit Act, this report includes all findings and questioned costs related to federal awards that came to our attention through either the Statewide Financial and Compliance Audit or other audits.

As part of our Statewide Financial and Compliance Audit, we examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements. We considered the internal controls over financial reporting; tested compliance with certain provisions of federal and state laws, regulations, contracts, and grants; and tested account balances and transactions for proper financial reporting.

The following presents highlights of findings included in our report. Please refer to the Recommendation Locator following this summary for a complete listing of all recommendations, agency responses, and implementation dates, as well as references to the location of each recommendation in the report.

Internal Controls

Agencies are responsible for having adequate controls in place to ensure compliance with laws and regulations and with management's objectives. As part of our audit, we tested controls over the processing of transactions and accounting for financial activity and identified the need for improvements in the following areas:

- Three agencies did not have adequate controls in place over accounts receivable. Although the Department of Health Care Policy and Financing had identified differences between the balances on COFRS and its internal system, it did not determine the reason for differences or make all necessary adjustments to the Medicaid receivable to ensure the amounts recorded on its internal system and the State's accounting system (COFRS) were in agreement. The Department of Human Services' reconciliation of the Colorado Mental Health Institute at Fort Logan's patient accounts receivable did not agree to COFRS at year-end. Further, the Department of Transportation did not perform reconciliation procedures at year-end for accounts receivable accounts recorded on COFRS. This lack of control resulted in audit adjustments totaling \$2.1 million.
- The Department of Revenue did not have adequate controls in place ensuring password usage to protect confidential documentation, such as taxpayer information. We found that 71 percent of the unattended computer terminals tested did not comply with Department procedures to activate the password protection function.

- The Department of Human Services lacks adequate controls over the procurement card process to ensure purchases are coded correctly to COFRS, that cardholder statements are signed within a reasonable time frame, and that purchases are appropriate. The Department's procurement card purchases totaled about \$6.6 million for Fiscal Year 2004.

Financial Reporting

State agencies are responsible for reporting financial activity accurately and completely. The State Controller's Office (SCO) establishes standard policies and procedures that must be followed by state agencies. As part of our audit, we reviewed the policies and procedures related to financial reporting that were in place at both the SCO and agencies and tested a sample of financial transactions to ensure that financial activity was reported properly. We found:

- The Departments of Human Services and Labor and Employment did not properly record software expenditures as computer system assets prior to the end of the fiscal year. Expenditures incurred through Fiscal Year 2004 for the two computer systems equal \$118.2 and \$23.6 million, respectively. Further, we noted that the Department of Natural Resources does not have adequate controls in place to ensure disposals of assets from its internal database include proper approvals and documentation prior to asset removal. During the fiscal year, the Department removed assets totaling \$78,000 from its database without adequate supporting documentation.
- Three departments were not performing adequate reconciliations between their internal systems and COFRS to ensure that the amounts reported on the State's financial statements are correct. We found that better controls over reconciliations are needed at the Departments of Health Care Policy and Financing, Human Services, and Transportation.

Federal Grants

The State expended about \$5.5 billion in federal grants in Fiscal Year 2004. As part of our audit, we determined compliance with federal regulations and grant requirements. Among other requirements, we tested for allowable activities, allowable costs, cash management, eligibility, reporting, and subrecipient monitoring.

Medicaid: The Medicaid program, administered by the Department of Health Care Policy and Financing (HCPF), is the State's largest federal program. During Fiscal Year 2004, Medicaid expenditures at HCPF totaled about \$2.9 billion (state and federal funds). Some of the more significant problems noted with the management of the Medicaid program were as follows:

- We continued to identify issues with the Department's oversight of Medicaid eligibility determinations for individuals and Medicaid provider licensing. Specifically, we noted that eligibility testing under a federally-approved pilot project begun in June 2002 was not

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completed at the end of Fiscal Year 2004. Further, 77 percent of provider files reviewed did not contain one or more documents required to ensure the provider was eligible under the program.

- We identified almost 19,000 claims totaling nearly \$2.1 million that were paid for service dates after eligible recipients' date of death for Fiscal Year 2003. Of these claims, 1,909 claims totaling approximately \$882,000 were paid to Health Maintenance Organizations contracted with by the Department of Health Care Policy and Financing to care for Medicaid-eligible recipients.
- Adequate controls are not in place to ensure that payments for prescription drugs are made only for covered drugs. We identified that an estimated \$500,000 in questionable payments were made for drugs which appear to be ineligible for federal reimbursement.

Student Financial Aid: State higher education institutions paid out about \$426 million in student loans and grants in Fiscal Year 2004. We found the following problems at various state schools:

- At four institutions, including one community college, controls over draws of federal funds were either not adequate to ensure proper segregation of duties or to ensure draws were sufficient to cover federally-reimbursable expenditures.
- At nine institutions, including six community colleges, adequate controls were not in place to prevent overpayments to students receiving financial aid and to ensure the return of federal funds in cases where students withdrew from school, declined awards, or the institution's automated process caused an overpayment.

Donated Foods Program, Temporary Assistance for Needy Families (TANF), Housing and Urban Development (HUD) Section 8 Housing Choice Vouchers Program, Older Americans Act Programs: We found problems at the Department of Human Services with the administration of federal programs. These four program areas represent over \$172.5 million, or 21.3 percent, of the \$808.4 million in federal funds expended by the Department in Fiscal Year 2004. We noted the following areas where improvements are needed:

- We identified weaknesses in the Department's internal controls over donated commodity programs, including problems with the Department's inventory reconciliation process, a lack of adequate monitoring of donated food distributors, and insufficient tracking of outdated commodities. The Department expended a total of \$16.3 million in commodity inventory issuance and federal administrative funds under the various programs for which it distributes commodities. We noted similar problems during our Fiscal Year 2001 audit.
- Two primary problems were found in relation to TANF, for which the Department expended over \$230 million (state and federal funds) in Fiscal Year 2004. First, we identified

problems with 8 of 33 (24 percent) administrative expenditures tested. Specifically, we noted instances of improper coding and one instance in which an unallowable expenditure under the program was made. Second, we noted one instance in which a TANF program sanction against a recipient for a violation of state and federal regulations was not enforced by a county caseworker. As a result, the TANF participant received an overpayment of more than \$400.

- We determined that, in the sample of 54 cases tested, the Department overpaid in 8 cases for a total of \$11,175 in housing assistance payments under the HUD Section 8 Housing Choice Vouchers Program. These payments were made to one local service provider who was also acting as a landlord.
- We found problems with the quality of care, management and general program administration for the Older Americans grant programs. For example, we found that 11 of 15 providers in our sample received \$262,000 in payments for services that do not appear to have been delivered.

Communication of Audit-Related Matters

There were no unusual or significant matters reported in connection with the audit of the State of Colorado for the year ended June 30, 2004. Uncorrected misstatements identified during the Fiscal Year 2004 audit were determined by management and the Office of the State Auditor to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The net effect of the uncorrected misstatements would have been to decrease the net assets by about \$226,000, increase assets by about \$173,000, increase liabilities by almost \$1.9 million, decrease revenue by about \$2.2 million, and decrease expenditures by nearly \$725,000. Appendix B shows the net and gross passed audit adjustments by agency and the net and gross posted audit adjustments by agency. A full disclosure of communications required under generally accepted auditing standards can be found in the Other Required Reports section.

Recommendation Locator

The Recommendation Locator following this summary is arranged by department. In addition, Appendix A contains a separate Locator with additional columns to provide the information necessary to meet Single Audit reporting requirements. The CFDA No./Compliance Requirement/Federal Entity column indicates the federal program, category of compliance requirement, and applicable federal agency. The contact for the Corrective Action Plan designates the state agency contact person. For those findings not subject to the Single Audit Act, the CFDA No./Compliance Requirement/Federal Entity column is marked “not applicable.”

SUMMARY**Summary of Progress in Implementing Prior Recommendations**

This report includes an assessment of the disposition of prior audit recommendations reported in both the Statewide Single Audit Reports and the Statewide Financial and Compliance Audit Reports for Fiscal Years 1997 through 2003. If a recommendation was reported in both, it has only been included once in the following table. Additionally, prior years' recommendations that were implemented in Fiscal Year 2003 or earlier are not included.

Statewide Single and Financial Audit Reports by Fiscal Year								
	Total	2003	2002	2001	2000	1999	1998	1997
Implemented	56	42	14	0	0	0	0	0
Partially Implemented	44	20	14	9	0	0	0	1
Not Implemented	8	6	1	1	0	0	0	0
Deferred	7	4	2	1	0	0	0	0
Ongoing	4	3	1	0	0	0	0	0
No Longer Applicable	5	1	1	3	0	0	0	0
Total	124	76	33	14	0	0	0	1