



# 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.