

REPORT HIGHLIGHTS



STATEWIDE SINGLE AUDIT, FISCAL YEAR ENDED JUNE 30, 2018
FINANCIAL AUDIT

STATE OF COLORADO

FINANCIAL STATEMENT FINDINGS

- The State’s financial statements covered \$39.8 billion in total assets and \$37.3 billion in total expenditures for Fiscal Year 2018.
- We have issued an unmodified opinion on the State’s financial statements for the Fiscal Year Ended June 30, 2018. This means that the State’s financial statements presented fairly, in all material respects, and that the State’s financial position, results of all financial operations, and cash flows were in conformance with generally accepted accounting principles.
- We identified 37 internal control weaknesses related to compliance with internal control over financial reporting and one issue that is not related to internal controls and is therefore not classified.

FEDERAL PROGRAM FINDINGS

- The State expended approximately \$12.7 billion in federal funds in Fiscal Year 2018. The four largest federal programs were:
 - ▶ Medicaid: \$5.5 billion
 - ▶ Student Financial Assistance: \$1.4 billion
 - ▶ Research and Development Cluster: \$891 million
 - ▶ Highway Planning and Construction: \$751 million
- We identified 29 internal control issues related to the State’s compliance with requirements applicable to major federal programs.
- We identified over \$1.2 million in known questioned costs related to federal awards granted to the State. The federal portion of the questioned costs was over \$628,000.

OVERVIEW

This report presents our financial and compliance audit of the State of Colorado for Fiscal Year 2018.

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, including separately issued reports on audits of state departments, institutions, and agencies.

We made 67 recommendations to state departments 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 March 2018 through December 2018. The purpose of this audit was to:

- Express an opinion on the State’s financial statements for the Fiscal Year Ended June 30, 2018.
- Express an opinion on the State’s Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2018.
- 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.

FOR FURTHER INFORMATION ABOUT THIS REPORT, CONTACT THE OFFICE OF THE STATE AUDITOR 303.869.2800 - WWW.COLORADO.GOV/AUDITOR

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 departments are responsible for having adequate internal controls in place to ensure compliance with laws and regulations and with management’s objectives. In addition, state departments 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 departments:

- DEPARTMENT OF PERSONNEL & ADMINISTRATION’S OFFICE OF THE STATE CONTROLLER (OSC). We identified the following issues at the OSC:
 - ▶ Financial Reporting Controls. The OSC lacks internal controls over financial statement reporting to ensure conformance with Generally Accepted Accounting Principles (GAAP) and state statute. The OSA identified a \$663.4 million misstatement on the Cash Flows Statement. Classification: MATERIAL WEAKNESS.
 - ▶ Pay Date Shift at Higher Education Institutions. The State Controller could not demonstrate that the State complied with pay-date shift statutes for Fiscal Year 2018, specifically relating to higher education institutions. Classification: NOT CLASSIFIED–NOT AN INTERNAL CONTROL ISSUE.
 - ▶ Prior Period Adjustments. The OSC did not identify and disclose all material prior period adjustments in the financial statements and Comprehensive Annual Financial Report in accordance with GAAP during Fiscal Year 2018, which resulted in a \$21.1 million overstatement to Net Income. Classification: MATERIAL WEAKNESS.
 - ▶ Colorado Operations Resource Engine (CORE) Information Security. The OSC did not require the CORE vendor to include certain testing and reporting thereon. Classification: MATERIAL WEAKNESS.
 - ▶ OSC Year-End Adjustments to financial statements. The OSC did not have formal written procedures regarding the required fiscal year-end adjustments to the financial statements. Classification: SIGNIFICANT DEFICIENCY.

- DEPARTMENT OF CORRECTIONS. The Department lacked sufficient accounting controls over capital assets, which resulted in an \$11.5 million overstatement to capital asset-related accounts. Classification: SIGNIFICANT DEFICIENCY.

- DEPARTMENT OF HEALTH CARE POLICY AND FINANCING. The Department did not have adequate internal controls over certain accounting processes:

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.

recording of cash receipt transactions and the reconciliation of payment information. Both resulted in \$6.9 million misstatements. Classification: SIGNIFICANT DEFICIENCY.

- DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT. The Department did not have sufficient accounting and financial reporting controls, which resulted in \$84.9 million in errors. Classification: SIGNIFICANT DEFICIENCY.

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 2018 audit, we determined that some state departments' 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. The following are the notable examples:

- GOVERNOR'S OFFICE OF INFORMATION TECHNOLOGY.
 - ▶ Change Management. OIT did not have adequate change management controls in place for the Colorado Unemployment Benefits System (CUBS) and the Colorado Automated Tax System (CATS). Classification: MATERIAL WEAKNESS.
 - ▶ Colorado Personnel Payroll System (CPPS) Information Security. OIT continued to lack controls over information security and did not comply with some Security Policies and OIT Cyber Policies related to mainframe access controls for CPPS. Classification: MATERIAL WEAKNESS.
 - ▶ CPPS Computer Operations. OIT failed to perform certain internal control activities for CPPS. Classification: SIGNIFICANT DEFICIENCY.
 - ▶ GenTax Information Security. OIT failed to implement key changes to internal controls over the management of GenTax user access, and did not update security configurations in compliance with OIT Cyber Policy. OIT failed to comply with Security Policies, OIT Cyber Policies, and Internal Revenue Service (IRS) Publication 1075 related to GenTax services provided by the GenTax third-party vendor. Classification: SIGNIFICANT DEFICIENCY.
 - ▶ CORE Information Security. OIT failed to create and implement procedures and settings related to the CORE interface server in accordance with Security Policies. Classification: SIGNIFICANT DEFICIENCY.
- CUBS, CATS, AND COLORADO LABOR AND EMPLOYMENT APPLICANT RESOURCE (CLEAR).
 - ▶ Information Security Policies. The Department of Labor and Employment (Department) and OIT did not have adequate processes in place to ensure that the CUBS, CATS, and CLEAR systems are in compliance with Security Policies, OIT Cyber Policies, and IRS Publication 1075. Classification: SIGNIFICANT DEFICIENCIES.

Our opinion on the financial statements is presented in the State's Comprehensive Annual Financial Report for Fiscal Year 2018, which is available electronically from the Office of the State Controller's website at:

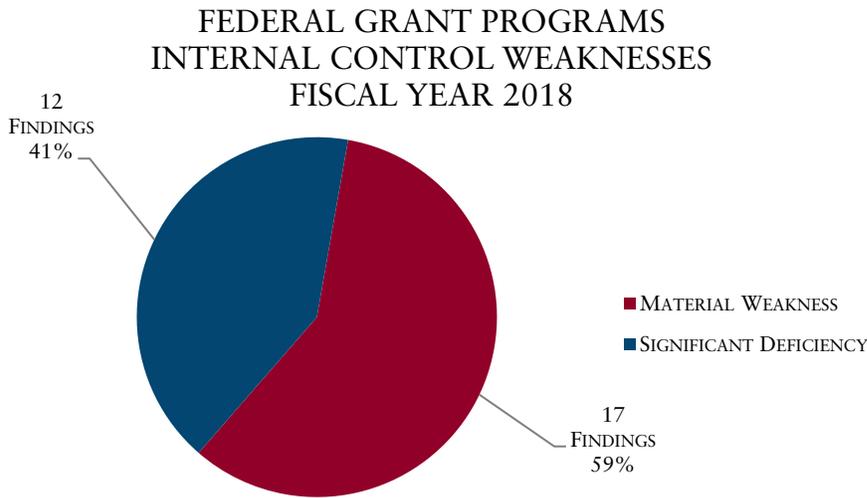
[HTTPS://WWW.COLORADO.GOV/
PACIFIC/OSC/CAFR](https://www.colorado.gov/pacific/osc/cafr)

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 with federal Uniform Guidance. 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 chart shows the breakdown of levels of internal control weaknesses over compliance with federal requirements that we identified during our Fiscal Year 2018 audit. Prior to each recommendation in this report, we have indicated the classification of the finding.



COMPLIANCE WITH FEDERAL PROGRAM REQUIREMENTS AND FEDERAL REPORTING

Various state departments receive federal grant awards and administer federal programs and are, therefore, required to comply with federal program requirements. We identified problems with several departments’ compliance with those requirements, as follows:

- DEPARTMENT OF CORRECTIONS. The following four items relate to the Criminal Justice Systems Program:
 - ▶ Activities Allowed/Allowable Costs. The Department did not compare actual costs to authorized per diem rates in the Federal Travel Regulations, which resulted in known questioned costs of \$2,630. Classification: MATERIAL WEAKNESS.

Professional standards define the following three levels of internal control weaknesses over compliance related to federal programs. 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, 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.

A SIGNIFICANT DEFICIENCY is a moderate level of internal control weakness. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, 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 an entity’s internal control over compliance 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, noncompliance with a compliance requirement of a federal program on a timely basis.

- ▶ Cash Management. The Department did not have controls in place to determine whether it should have remitted any interest in excess of \$500 to the federal government, as required by federal regulations. Classification: MATERIAL WEAKNESS.
 - ▶ Reporting. The Department filed inaccurate and untimely reports with the federal government, and did not document supervisory reviews of these reports. Classification: MATERIAL WEAKNESS.
 - ▶ Allowable Activities. The Department did not obtain the required approvals from the federal Department of State’s Bureau of International Narcotics and Law Enforcement Affairs for trainings it provided. Classification: MATERIAL WEAKNESS.
- DEPARTMENT OF HEALTH CARE POLICY AND FINANCING. We identified the following issues at the Department:
 - ▶ Medicaid Eligibility. In 56 of the 200 case files tested (28 percent), we identified at least one issue and found known questioned costs of \$56,900. Classification: MATERIAL WEAKNESS.
 - ▶ Medicaid System Issues. The Department did not ensure that information in Colorado interChange agreed to information in the Colorado Benefits Management System and found known questioned costs of \$742. Classification: MATERIAL WEAKNESS.
 - ▶ Provider Eligibility. The Department did not ensure that its fiscal agent complied with federal and state regulations for provider eligibility and enrollment. In 40 of the 40 provider applications tested (100 percent), we identified at least one error. Classification: MATERIAL WEAKNESS.
 - ▶ Health and Safety Surveys and Certifications. The Department did not ensure that facilities obtained their provider health and safety surveys and certifications in accordance with required Medicaid timeframes. Classification: MATERIAL WEAKNESS.
 - ▶ Inpatient Hospital and Long-Term Care Facilities. The Department did not properly monitor its contractor’s compliance with inpatient hospital and long-term care facility audit requirements. Classification: SIGNIFICANT DEFICIENCY.
 - ▶ Subrecipient Monitoring. The Department did not conduct risk assessments of its subrecipients as required by federal Medicaid regulations. Classification: SIGNIFICANT DEFICIENCY.
- DEPARTMENT OF HUMAN SERVICES. We identified the following federal compliance issues at the Department:
 - ▶ Child Care Automated Tracking System (CHATS)–Account Management. We found problems with the Department’s account management internal controls. Classification: MATERIAL WEAKNESS.
 - ▶ Colorado Child Care Assistance Program (CCCAP)–Eligibility. We identified at least one error in 13 of the 39 case files tested (33 percent) and found known questioned costs of \$410. Classification: MATERIAL WEAKNESS.
 - ▶ Colorado Child Care Assistance Program (CCCAP)–Health and Safety Requirements. We identified at least one error in 15 of the 40 inspection cases tested (38 percent). Classification: SIGNIFICANT DEFICIENCY.

- OFFICE OF THE TREASURY. We identified the following issues related to the Treasury’s administration of the federal Minerals Leasing Act program:
 - ▶ Subrecipient Monitoring. The Treasury did not ensure that required subaward information was communicated to subrecipients. Classification: MATERIAL WEAKNESS.

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 2017 or earlier are not included.

OUTSTANDING STATEWIDE SINGLE AUDIT REPORT RECOMMENDATIONS BY FISCAL YEAR							
	TOTAL	2017	2016	2015	2014	2013	2012
IMPLEMENTED	33	18	10	5	0	0	0
PARTIALLY IMPLEMENTED	39	19	13	5	0	1	1
NOT IMPLEMENTED	4	4	0	0	0	0	0
DEFERRED	8	8	0	0	0	0	0
NO LONGER APPLICABLE	4	3	1	0	0	0	0
TOTAL	88	52	24	10	0	1	1

SUMMARY

OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor’s report issued: UNMODIFIED.

INTERNAL CONTROL OVER FINANCIAL REPORTING		
Material Weaknesses Identified?	YES	
Significant deficiencies identified that are not considered to be material weaknesses?	YES	
Noncompliance material to financial statements noted?	YES	

FEDERAL AWARDS

INTERNAL CONTROL OVER MAJOR PROGRAMS		
Material Weaknesses Identified?	YES	
Significant deficiencies identified that are not considered to be material weaknesses?	YES	

Type of auditor’s report issued on compliance for major programs:

Unmodified for all major programs except for the following major programs which were qualified:

- Child Care and Development Fund Cluster
- Children’s Health Insurance Program
- Medicaid Cluster
- Minerals Leasing Act

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) (Audit Findings) of Uniform Guidance	YES	
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Dollar threshold used to distinguish between type A and B programs:
\$30 MILLION.

Auditee qualified as low-risk auditee?		NO
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IDENTIFICATION OF MAJOR PROGRAMS	
CFDA NUMBER	NAME OF FEDERAL PROGRAM OR CLUSTER
12.632	Legacy Resource Management Program
15.437	Minerals Leasing Act
17.207	Employment Service/Wagner-Peyser Funded
17.804	Activities, Local Veterans' Employment
17.801	Representative Program, Disabled Veterans'
	Outreach Program (Employment Service
	Cluster)
19.703	Criminal Justice Systems
64.015	Veterans State Nursing Home Care
66.605	Performance Partnership Grants
84.287	Twenty-First Century Community Learning
	Centers
93.575	Child Care and Development Block Grant,
93.596	Child Care Mandatory and Matching Funds of
	the Child Care and Development Fund (Child
	Care and Development Fund Cluster)
93.767	Children's Health Insurance Program
93.775	State Medicaid Fraud Control Units, State
93.777	Survey and Certification of Health Care
93.778	Providers and Suppliers (Title XVIII) Medicare,
	State Medicaid Fraud Control Units, Medical
	Assistance Program (Medicaid Cluster)
93.959	Block Grants for Prevention and Treatment of
	Substance Abuse
93.667	Social Services Block Grant
Various	Student Financial Assistance Programs Cluster

CLASSIFICATION OF FINDINGS
STATE OF COLORADO STATEWIDE SINGLE AUDIT
FISCAL YEAR ENDED JUNE 30, 2018

	MATERIAL WEAKNESS <i>(Most Serious)</i>		SIGNIFICANT DEFICIENCY <i>(Moderately Serious)</i>		OTHER	GRAND TOTALS
	FINANCIAL REPORTING	FEDERAL PROGRAM COMPLIANCE	FINANCIAL REPORTING	FEDERAL PROGRAM COMPLIANCE		
ADAMS STATE UNIVERSITY	1	-	-	1	-	2
COLORADO COMMUNITY COLLEGE SYSTEM	-	-	-	1	-	1
CORRECTIONS	-	4	2	1	-	7
OFFICE OF THE GOVERNOR	2	-	12	-	-	14
HEALTH CARE POLICY AND FINANCING	1	10	1	5	-	17 *
HUMAN SERVICES	1	2	-	2	-	5 *
LABOR AND EMPLOYMENT	-	-	3	-	-	3
METROPOLITAN STATE UNIVERSITY OF DENVER	-	-	3	-	-	3
PERSONNEL & ADMINISTRATION	6	-	3	1	1	11
PUBLIC HEALTH AND ENVIRONMENT	-	-	2	-	-	2
REVENUE	-	-	1	-	-	1
TREASURY	-	1	-	-	-	1
UNIVERSITY OF COLORADO	-	-	1	1	-	2
GRAND TOTALS	11	17	28	12	1	69

Note: *Some findings are classified as both financial reporting and federal program compliance internal control weaknesses. Therefore, the total number of findings reported in this table does not equal the total number of recommendations in the report.

There were no findings classified as a DEFICIENCY IN INTERNAL CONTROL, the least serious deficiency level, included in this report.