

# COLORADO OFFICE OF THE STATE AUDITOR



# SA

We Set the Standard for Good Government

STATE OF COLORADO

# STATEWIDE FINANCIAL AUDIT FISCAL YEAR ENDED JUNE 30, 2020



MARCH 2021

FINANCIAL AUDIT

THE MISSION OF THE OFFICE OF THE STATE AUDITOR  
IS TO IMPROVE GOVERNMENT  
FOR THE PEOPLE OF COLORADO

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# OFFICE OF THE STATE AUDITOR



March 10, 2021

DIANNE E. RAY, CPA  
—  
STATE AUDITOR

Members of the Legislative Audit Committee:

Included herein is the Statewide Financial Audit Report of the State of Colorado for the Fiscal Year Ended June 30, 2020. The audit was conducted under the authority of Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all state departments, institutions, and agencies. The purpose of this report is to present the results of the Statewide Financial Audit for the Fiscal Year Ended June 30, 2020.

Historically, we have presented the results of our annual financial audit within the Statewide Single Audit report in a single volume. For Fiscal Year 2020, we are providing this information in two separate reports, as noted below.

Volume I - The Statewide Financial Audit Report contains financial reporting information based on our audit of the State's *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020* (Annual Report). This report includes our Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. This report also contains our financial findings, conclusions, and recommendations, and the responses of the respective state departments, institutions, and agencies. Our opinions on the State's financial statements are presented in the State's Annual Report, which is available under separate cover. We have disclaimed opinions on the Unemployment Insurance and Business-type Activities due to not being able to obtain sufficient, appropriate audit evidence for balances in these funds.

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Unmodified opinions were issued on the Governmental Activities, other major funds, and aggregate remaining fund information.

Volume II - The Statewide Single Audit Report will present our Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance, and our Report on the Schedule of Expenditures of Federal Awards Required by Uniform Guidance. In accordance with the federal Single Audit Act, this report will include additional findings and questioned costs related to federal awards that came to our attention through the Statewide Single Audit.

*Government Auditing Standards* allow for information that is considered sensitive in nature, such as detailed information related to IT system security, to be omitted if the omission is disclosed because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of certain findings, and their related responses and auditor's addenda to be sensitive in nature and not appropriate for public disclosure and have provided the details of these findings, responses, and auditor's addenda to management in a separate, confidential memorandum. Findings with omitted information include a disclosure of this omission.

This Report is intended solely for the use of management and the Legislative Audit Committee and should not be used for any other purpose. This restriction is not intended to limit distribution of the Report, which, upon release by the Legislative Audit Committee, is a matter of public record.

A handwritten signature in black ink, appearing to read "C. F. King" or similar, written in a cursive style.

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# REPORT HIGHLIGHTS



STATEWIDE FINANCIAL AUDIT, FISCAL YEAR ENDED JUNE 30, 2020  
FINANCIAL AUDIT

STATE OF COLORADO

## FINANCIAL STATEMENT FINDINGS

- The State's financial statements covered \$45.9 billion in total assets and \$39.2 billion in total expenditures for Fiscal Year 2020.
- We have issued a disclaimer of opinion on the Unemployment Insurance Fund and Business Type Activities of the State of Colorado for the fiscal year ended June 30, 2020. A disclaimer of opinion is issued when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.
  - ▶ The State of Colorado did not have an adequate methodology to substantiate the estimated amount of receivables and payables within the Unemployment Insurance Fund of \$510 million and \$872 million, respectively, as of June 30, 2020. The receivable balance includes potential overpayments and comprises 54% of total assets of the Unemployment Insurance Fund, and 3% of Business-Type Activities. The payable balance includes potential claims outstanding at year-end and comprises 92% of total liabilities of the Unemployment Insurance Fund and 7% of the Business-Type Activities.
- We have issued unmodified, or "clean" opinions on the financial statements of the State's governmental activities, each major fund except the Unemployment Insurance Fund, aggregate discretely presented component units, and aggregate remaining fund information for the Fiscal Year Ended June 30, 2020. 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.
- We identified 75 internal control weaknesses over financial reporting, including 27 material weaknesses and 48 significant deficiencies at 13 state departments and higher education institutions.

## OVERVIEW

This report presents our financial audit of the State of Colorado for Fiscal Year 2020. The Statewide Single Audit Report will be released under separate cover in June 2021 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 75 recommendations to state departments and higher education institutions resulting from our financial audit.

## 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 2020 through March 2021. The purpose of this audit was to:

- Express an opinion on the State's financial statements for the Fiscal Year Ended June 30, 2020.
- 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.

# 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 LABOR AND EMPLOYMENT.
  - ▶ Unemployment Insurance (UI) Financial Reporting. The Department had not adjudicated all claims for UI benefits that were paid during Fiscal Year 2020, and therefore could not estimate the amount of payments that had been made due to error or fraud. In addition, the Department did not have an adequate methodology for calculating and recording the estimated amount of receivables and payables for UI payments, which resulted in unverifiable adjustments of \$2.1 billion in the Unemployment Insurance Fund. Classification: MATERIAL WEAKNESS.
  - ▶ Internal Controls Over Financial Reporting. The Department posted 142 entries totaling \$944.3 million up to 44 days late and an additional three adjustments totaling \$2.1 billion, detailed in the previous bullet, in February 2021. The Department also submitted six of 10 exhibits after the OSC deadline and had errors and omissions on two of the exhibits that included a \$20.9 million understatement of cash and an approximately \$1.4 billion omission of expenditures for reporting on the State's Schedule of Federal Assistance. Classification: MATERIAL WEAKNESS.
- DEPARTMENT OF PERSONNEL & ADMINISTRATION'S OFFICE OF THE STATE CONTROLLER (OSC). Internal Controls Over Financial Reporting. The OSC had numerous errors in financial reporting, including the failure to separately report activity within the Highway Users Tax Fund and errors within 7 of 22 (32 percent) note disclosures. Classification: MATERIAL WEAKNESS.
- DEPARTMENT OF HEALTH CARE POLICY AND FINANCING. Controls Over Capital Assets. The Department did not properly capitalize software enhancements, amounting to \$64.3 million for Fiscal Years 2017 through 2020. Classification: MATERIAL WEAKNESS.
- DEPARTMENT OF EDUCATION. School Finance Administration. Over \$1 million in expenditures tested, including salaries, that were recorded to the Department's appropriation for Public School Finance Act administration did not appear to be related to the administration of the Act. Classification: SIGNIFICANT DEFICIENCY.
- DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT. Accounting Controls. The Department posted \$52.8 million in year-end adjustments after the deadlines. Classification: SIGNIFICANT DEFICIENCY.

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.

- METROPOLITAN STATE UNIVERSITY OF DENVER. Incorrect Recording of Asset and Liability Transfer. The University improperly recorded an asset transfer by approximately \$8.3 million and an interest rate swap by approximately \$11.5 million. Classification: MATERIAL WEAKNESS.
- ADAMS STATE UNIVERSITY. Accounting Reconciliation and Reporting Controls. The University's financial information was not accurate and properly reconciled, which resulted in approximately \$45.0 million in corrections after these issues were identified in our audit. Classification: SIGNIFICANT DEFICIENCY.

Our opinion on the financial statements is presented in the State's Comprehensive Annual Financial Report for Fiscal Year 2020, 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)

## 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 2020 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).
  - ▶ GenTax and Drivers' License, Record, Identification, and Vehicle Enterprise Solution (DRIVES) Policy Compliance. Classification: MATERIAL WEAKNESS.
  - ▶ GenTax and DRIVES Information Security. Classification: SIGNIFICANT DEFICIENCY.
  - ▶ GenTax Information Security. Classification: SIGNIFICANT DEFICIENCIES.
  - ▶ Pandemic Unemployment Assistance System (PUA) Change Management. Classification: SIGNIFICANT DEFICIENCY.
- DEPARTMENT OF PERSONNEL & ADMINISTRATION'S OFFICE OF THE STATE CONTROLLER (OSC). CORE Information Security. Classification: MATERIAL WEAKNESS.
- DEPARTMENT OF HEALTH CARE POLICY AND FINANCING.
  - ▶ Business Intelligence and Data Management System (BIDM) SOC Reports. Classification: MATERIAL WEAKNESS.
  - ▶ Colorado interChange SOC Reports. Classification: SIGNIFICANT DEFICIENCY.

- UNIVERSITY OF COLORADO.
  - ▶ PeopleSoft Vendor Management and Data Center Physical Security. Classification: SIGNIFICANT DEFICIENCY.
  - ▶ PeopleSoft Information Security. Classification: SIGNIFICANT DEFICIENCY.
  - ▶ PeopleSoft Change Management. Classification: SIGNIFICANT DEFICIENCY.
- DEPARTMENT OF HUMAN SERVICES. Colorado Personnel Payroll System— Information Security. Classification: SIGNIFICANT DEFICIENCY.
- DEPARTMENT OF LOCAL AFFAIRS. CORE Information Security. Classification: SIGNIFICANT DEFICIENCY.

CLASSIFICATION OF FINANCIAL FINDINGS  
STATE OF COLORADO STATEWIDE FINANCIAL AUDIT  
FISCAL YEAR ENDED JUNE 30, 2020

	MATERIAL WEAKNESS <i>(Most Serious)</i>	SIGNIFICANT DEFICIENCY <i>(Moderately Serious)</i>	GRAND TOTALS
ADAMS STATE UNIVERSITY	-	2	2
EDUCATION	-	3	3
OFFICE OF THE GOVERNOR	5	16	21
HEALTH CARE POLICY AND FINANCING	5	1	6
HUMAN SERVICES	-	4	4
LABOR AND EMPLOYMENT	6	4	10
LEGISLATIVE	-	4	4
LOCAL AFFAIRS	-	1	1
METROPOLITAN STATE UNIVERSITY OF DENVER	1	-	1
PERSONNEL & ADMINISTRATION	10	1	11
PUBLIC HEALTH AND ENVIRONMENT	-	3	3
UNIVERSITY OF COLORADO	-	7	7
WESTERN COLORADO UNIVERSITY	-	2	2
<b>GRAND TOTALS</b>	<b>27</b>	<b>48</b>	<b>75</b>

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



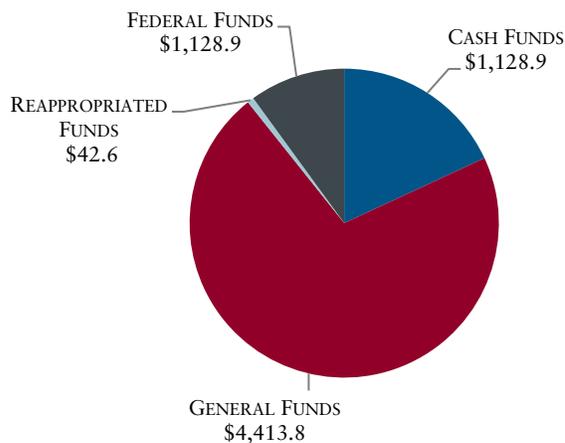
# DEPARTMENT OF EDUCATION

Article IX of the Colorado Constitution places responsibility for the general supervision of the State’s public schools with the Colorado State Board of Education (Board). The Board appoints the Commissioner of Education to oversee the Department of Education (Department), which serves as the administrative arm of the Board by providing assistance to 178 local school districts, which comprised 1,888 schools during Fiscal Year 2020. The Department also provides structural and administrative support to the Colorado School for the Deaf and Blind, as well as the Charter School Institute, which operate as independent agencies under the umbrella of the Department.

For Fiscal Year 2020, the Department was appropriated approximately \$6.7 billion and 616 full-time equivalent (FTE) staff.

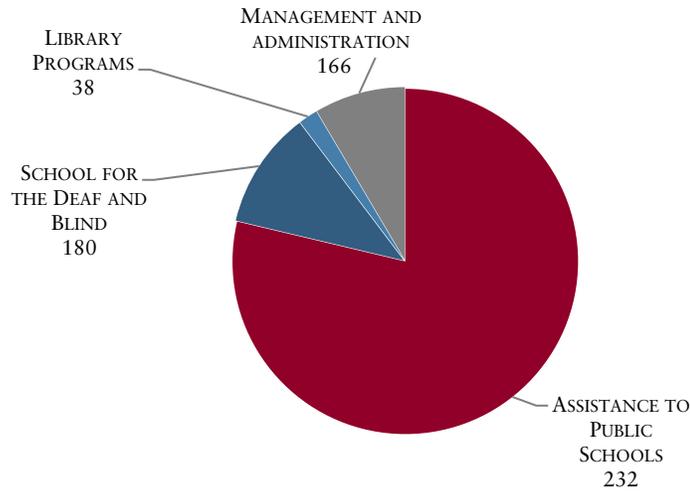
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for Fiscal Year 2020.

**DEPARTMENT OF EDUCATION  
FISCAL YEAR 2020 APPROPRIATIONS  
BY FUNDING SOURCE (IN MILLIONS)**



SOURCE: Joint Budget Committee Fiscal Year 2020-21 Appropriations Report.

DEPARTMENT OF EDUCATION  
 FISCAL YEAR 2020 FULL-TIME EQUIVALENT STAFF  
 BY MAJOR AREAS



SOURCE: Joint Budget Committee Fiscal Year 2020-21 Appropriations Report.

The following comments were prepared by the public accounting firm of BDO USA, LLP, which performed the Fiscal Year 2020 audit work at the Department under contract with the Office of the State Auditor.

## SCHOOL FINANCE ADMINISTRATION

The Department is responsible for administering the Public School Finance Act (Act). The Act was established in 1994 under the authority of Article 54 of Title 22, C.R.S. Pursuant to the Act, the Department uses a specified formula to determine state and local funding amounts for Colorado’s school districts and charter schools authorized through the Department’s Charter School Institute (Institute). The Act contains a school finance formula that provides funding for every school district and Institute charter school; funding is based upon an annual pupil count as of the Pupil Enrollment Count Day, typically October 1. The formula provides base funding with additions for various factors, including cost of living and the size of the district. Additional funding

is also provided based upon the number of at-risk students, generally those who are free-lunch eligible, enrolled in districts and Institute charter schools. Once the district's Total Program funding is determined, it is divided by the funded pupil count to reach the per-pupil funding. The factors generate a different per-pupil funding allocation for each school district.

Prior to Fiscal Year 2010, the Department's administration of the Act was funded through general and cash funds. Beginning with Fiscal Year 2010, the General Assembly changed the funding mechanism for the Department's administration of the Act to the use of funds withheld from school districts' funding under the Act, as well as some cash funds. The revised statutory language specifically allows the Department to offset its direct and indirect School Finance administrative costs by reducing each school district's and each Institute-authorized charter school's funding under the Act. This funding reduction is referred to as the rescission mechanism. For Fiscal Year 2020, the Department was appropriated \$1.7 million in rescission funding for the Act, with an additional \$335,000 in centralized appropriations. The Department expended about \$2.1 million from the amounts rescinded in Fiscal Year 2020.

## WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of the audit work was to determine whether the Department had adequate internal controls over and complied with statutory requirements, Board rules, and Department procedures related to the rescission mechanism of the Act, and whether the Department ensured that amounts expended with rescission funds were appropriate and related to the administration of the Act.

We obtained the detail of expenditures recorded to the rescission funds appropriation during Fiscal Year 2020. From this detail, we selected a sample of 17 transactions for testing. In addition, for 3 months of

payroll transactions, we obtained the listing of employees who had any portion of their salaries and benefits recorded to the rescission appropriation code. For these employees, we reviewed the individual's title and the Department division in which the employee worked to determine the reasonableness of the individuals whose salaries and benefits were charged to the rescission appropriation.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of the audit procedures against the following:

- Section 22-54-114(2.3), C.R.S., states that the Act's rescission appropriation should be used "to offset the direct and indirect administrative costs incurred by the department in implementing the provisions of this article."
- The Colorado State Board of Education's *Rules for the Administration of the Public School Finance Act of 1994* [1 CCR 301-39] (Rules) establishes regulations and procedures for the Department's administration of the Act. The Rules address various Department administrative areas, including procedures for revocation or withholding of school district accreditation for Act violations; determination of district pupil membership and enrollment; as well as district at-risk funding and assignment of cost of living factors in the event of district reorganizations. In addition, rules and regulations establish audit requirements for district annual reports and Department audits of the school districts.
- Colorado Department of Education Personnel Action Form Procedures state that the Personnel Action Form requires four levels of approvals. The minimum approvals are from the Supervisor, Office or Unit Director, Executive Team Member, and Budget. In addition, the procedures state that the Human Resources Director's signature is required to ensure that information contained on the Personnel Action Form complies with Department standards.

## WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

We found that 8 of the 17 expenditures tested that were recorded to the rescission appropriation code did not appear to be related to the administration of the Act, as follows:

- The Department spent \$1,328 for the purchase of a refrigerator for the fourth floor of the Department's main building at 201 East Colfax.
- The Department spent \$32,914 for the purchase of a water line and Americans with Disabilities Act-accessible water fountain for the Department's main building.
- The Department spent \$9,553 for panic buttons and security infrastructure at the Department's main building.
- The Department charged two Preschool Special Education Team expenditures totaling \$10,044 to the rescission appropriation. The Act is in Article 54 of Title 22, while the Preschool program is statutorily authorized under Article 28 of Title 22, which may fall outside of the statutory requirements for the rescission funding. Specifically, we identified the following:
  - ▶ \$1,210 in consulting services for the Department's Preschool Office meeting planning and agenda process, along with a Preschool Team Director coaching activity were charged against the rescission funds.
  - ▶ \$8,834, or 35 percent, of the overall cost of its annual statewide meeting for the Preschool Special Education Team was charged against the rescission funds.
- The Department charged \$2,426, or 36 percent, of the cost of its contract for the Department's joint LEAN process consulting engagement. The Department indicated that the contract was entered into to improve consistency across all process steps related

to competitive grant applications, awards, programs, and fiscal years, and to improve the Department’s fiscal management. Although the Department’s fiscal management includes funding distributions to the school districts under the Act, it was unclear if this type of transaction falls within the statutory guidelines for the rescission funding.

In addition, we identified Department staff positions whose salaries and benefits were either fully or partially funded by this appropriation code, but the division within the Department to which they were assigned did not appear to relate to the administration of the Act. Specifically, we identified the following:

- Eleven employees’ salaries, totaling approximately \$963,000, and their related benefits were either fully or partially funded by the rescission appropriation, although the employees had other responsibilities for other Department programs that had separate funding sources. For example, 10 of the employees work in the P-3 Office, a division that includes Preschool (Colorado Preschool Program and Preschool Special Education); Collaborative Projects; kindergarten through third grade literacy; and data and decision sciences. Because the Preschool program, as mentioned previously, is statutorily authorized through a separate Act, it is not clear whether it was appropriate for the Department to charge the expenditures against the rescission appropriation. In addition, we found that one of the employees returned to the Department after retirement, but the employee’s Personnel Action Form after rehire did not contain the required levels of approvals.

## WHY DID THESE PROBLEMS OCCUR?

The Department has not evaluated the Act to define and document in policies and procedures the specific types of Department purchases that may be covered by the Act’s rescission funds, or trained Department staff on those policies and procedures. In addition, the Department has historically funded the positions identified to the rescission funding source, but has not evaluated whether continued funding of the

positions fits within the statutory restrictions of the rescission. Finally, the Department did not adhere to its procedures to ensure that all required approvals were obtained on the Personnel Action Form.

## WHY DO THESE PROBLEMS MATTER?

Using resources from the rescission appropriation for purposes other than administration of the Act could result in noncompliance with statutory requirements. In addition, the funds provided to the Department through the Act's rescission mechanism reduce the amount that is distributed to the school districts and the Institute's charter schools for Preschool through 12th grade education; therefore, it is especially important for the Department to ensure costs charged to the appropriation are appropriate and align with the statutory restrictions of the rescission funding.

CLASSIFICATION OF FINDING	SIGNIFICANT DEFICIENCY
THIS FINDING DOES NOT APPLY TO A PRIOR AUDIT RECOMMENDATION	

# RECOMMENDATION

## 2020-001

The Department of Education (Department) should improve its internal controls over—and ensure its statutory compliance with—the recording of expenses to the Public School Finance Act (Act) rescission funds by:

- A Evaluating the Act to define and document in policies and procedures the specific types of Department purchases that may be covered by the Act's rescission funds, then training Department employees on those policies and procedures.
- B Reviewing employee salary and benefit allocations to ensure that amounts recorded to the rescission appropriation support the administration of the Act.

- C Ensuring that Personnel Action Forms for employees contain all required levels of approvals.

# RESPONSE

## DEPARTMENT OF EDUCATION

AGREE. IMPLEMENTATION DATE: JUNE 2022.

As outlined in the Joint Budget Committee FY 2021-22 Staff Figure Setting document, in FY 2008-09, the General Assembly created a line item for Public School Finance Administration for staff related to school finance, the Colorado Preschool Program, and audit-related functions. The 2008 school finance bill (H.B. 08-1388) added funding and FTE related to the Colorado Preschool Program. The funding source for this line item was changed to rescission funds starting in FY2009-10. The following year, the School Finance Bill (S.B. 09-215) included the statutory language cited above, that the rescission funds were to offset the direct and indirect administrative costs incurred by the Department in implementing the provisions of the School Finance Act.

While the statutory language limited the use of the rescission funds to implementation of the School Finance Act, the General Assembly did not make any adjustments to this line item to move funding for the staff associated with the Colorado Preschool Program or staff implementing other funding streams or school district financial management and reporting. As such, the Department continued to charge these staff and the associated operating costs consistent with the historical practice. This was recognized by the JBC staff in the FY 2021-22 figure setting document: “...some of the positions fit within the original (JBC Staff) descriptions of the line item but do not necessarily appear to fit within the statutory description in Sec. 22-54-114 (2.3), C.R.S.” The staff document further states “...staff intends to work with the Department during the 2021 interim to assess potential statutory changes related to the use of funds appropriated to this line item.”

The Department, in collaboration with the Joint Budget Committee staff, will review the staff and associated operating costs charged to the Public School Finance Administration line item to ensure that the use of funds are appropriate and accurately reflected in statute. Additionally, the Department will review, and revise as necessary, internal policies and procedures related to purchases and staff allocations. The Department will train staff on these policies and procedures and will ensure all Personnel Action Forms contain all required levels of review.



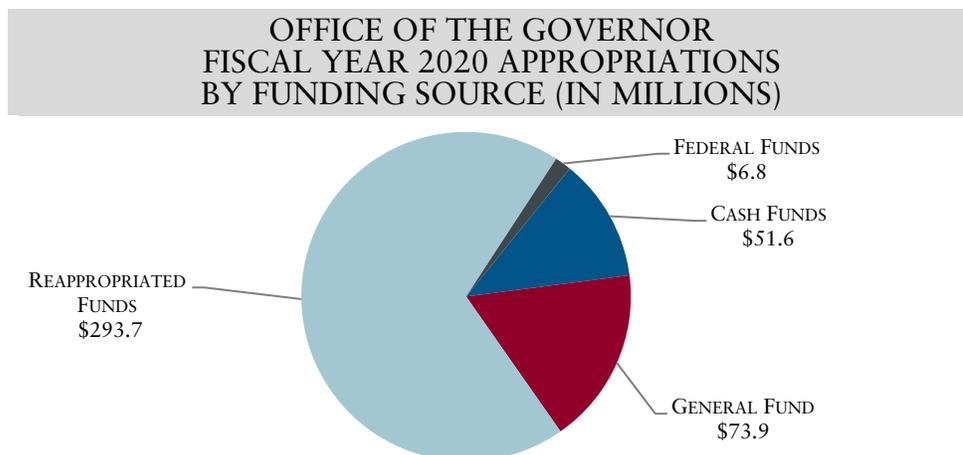
# OFFICE OF THE GOVERNOR

The Office of the Governor (Office) is responsible for carrying out the directives of the Governor of the State of Colorado. In addition to the Governor’s Office, the Office also comprises:

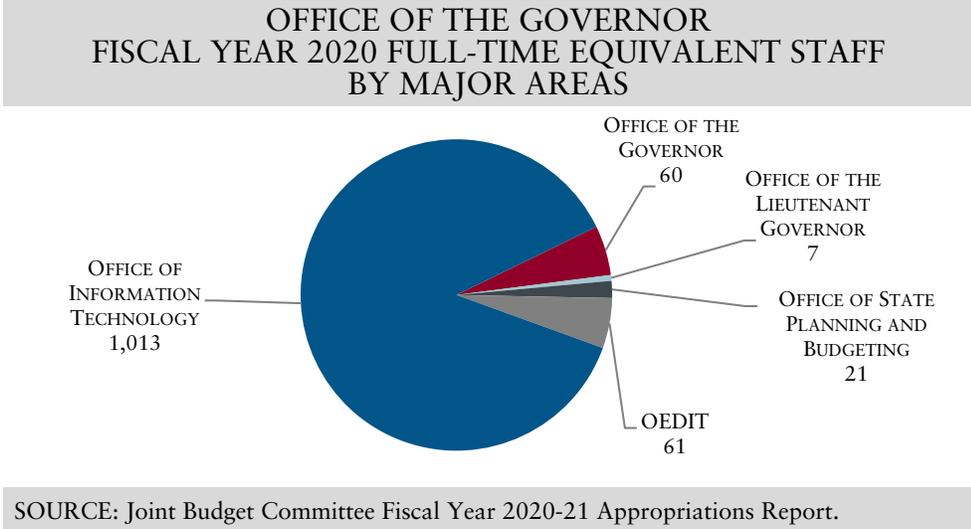
- Office of the Lieutenant Governor
- Office of State Planning and Budgeting
- Office of Economic Development and International Trade (OEDIT)
- Office of Information Technology (OIT)

For Fiscal Year 2020, the Office was appropriated approximately \$426.0 million and 1,162 full-time equivalent (FTE) staff.

The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Office for Fiscal Year 2020.



SOURCE: Joint Budget Committee Fiscal Year 2020-21 Appropriations Report.



# ACCOUNTING CONTROLS

The Office’s accounting staff are responsible for all financial reporting, including accurate entry, review, and approval of financial transactions into the Colorado Operations Resource Engine (CORE), the State’s accounting system. This includes accounting for all of the Office’s divisions except for OIT, whose accounting function is performed by OIT employees. Office accounting staff are also responsible for reporting fiscal year-end accounting information for these same divisions through forms, or exhibits, to the Office of the State Controller (OSC) for inclusion in the State’s financial statements. The OSC collects information from state departments and institutions of higher education after each fiscal year-end through submitted exhibits to assist in its preparation of the State’s financial statements and required note disclosures.

In addition, Office accounting staff responsibilities include recording accounting transactions for the OEDIT grants. OEDIT provides grants to Colorado public and private higher education institutions and other Colorado research institutions and companies operating in advanced industries, such as manufacturing, aerospace, bioscience, and

electronics, to support job creation, innovation, and growth. OEDIT awards these grants throughout the year and the grants may last for multiple years. OEDIT advances a portion of the grant money to the grantee at the start of the grant; a grantee must return any unspent funds at the end of the grant award term. Annually, grantees must provide OEDIT staff with a report containing an update on grant expenditures, including how grantees spent the funds. OEDIT is responsible for using this report to ensure grant funds are only spent on allowable costs and to track the grant until its funds are exhausted, at which point OEDIT closes the grant. According to OEDIT staff, OEDIT had 228 open grants comprising a total of \$37.6 million in grant awards as of June 30, 2020, and had advanced \$11.3 million of that amount to grantees.

## WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to assess the adequacy and effectiveness of the Office's internal controls over the preparation of OSC exhibits and the recording of accounting information into CORE for OEDIT-provided, advanced-industry grants.

We reviewed the Office's exhibits submitted to the OSC for Fiscal Year 2020 and the related supporting documentation prepared by Office accounting staff. We determined whether Office staff prepared the exhibits in accordance with the OSC's *Fiscal Procedures Manual* (Manual) and the related instructions. As part of reviewing the Exhibit M, we reviewed the Office's fiscal year-end bank and CORE balances to determine if the balances and information recorded in CORE were accurate.

We also reviewed six of the 228 grants that OEDIT had open during Fiscal Year 2020 to determine whether Office accounting staff recorded the advances and related expenditures accurately in CORE.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our audit against the following:

- State Fiscal Rule 1-2, *Internal Controls*, Rule 3.5, requires that state departments “implement internal accounting and administrative controls that reasonably ensure that financial transactions are accurate, reliable, conform to the Fiscal Rules, and reflect the underlying realities of the accounting transaction (substance rather than form).”
- The Manual contains specific instructions for the completion of various exhibits, including the following:
  - ▶ EXHIBIT M, *Custodial Credit Risk Related to Cash on Hand or Deposited with Financial Institutions*, is used to report financial institution deposits by categories of risk.
  - ▶ EXHIBIT K1, *Schedule of Federal Assistance*, is used to report federal expenditure information to the OSC to aid the OSC in preparing the State’s *Schedule of Expenditures of Federal Awards* (SEFA).
  - ▶ EXHIBIT U3, *Tax Abatement Disclosures*, is used to report tax abatement disclosures, including the gross dollar amount of taxes abated during the period.
  - ▶ EXHIBIT O1, *Related Party Transactions*, is used to disclose related party transactions.
- Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended, requires that “cash and other assets provided in advance should be reported as advances [assets] by providers and as liabilities by recipients until allowable costs have been incurred and any other eligibility requirements have been met.” Therefore, OEDIT should report all grant money that it advances

for the advanced-industry grant program as advances until the grantee has expended the grant funds on eligible activities.

## WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

Based on our audit testwork, we identified issues with the Office's exhibits, accounting for bank account interest and fees, and accounting for OEDIT's advanced-industry grants. The following are the specific issues we identified:

**EXHIBIT ERRORS.** We identified errors and omissions related to four of 12 (33 percent) of the Office's submitted exhibits for Fiscal Year 2020. Specifically, we found the following issues:

- **EXHIBIT M, *Custodial Credit Risk Related to Cash on Hand or Deposited with Financial Institutions.*** The Office did not include all of its bank accounts on the Exhibit M. Specifically, the Office excluded two bank accounts with June 30, 2020, balances that totaled \$63,284. While reviewing the Exhibit M, we also found that the Office accounting staff failed to post interest and bank fees in CORE. Specifically, the Office's accounting staff failed to post nearly \$72,000 in interest and \$1,500 in bank fees in CORE for Fiscal Year 2020. Furthermore, we found that the Office failed to post approximately \$748,000 and \$121,000 in interest and bank fees, respectively, in CORE for Fiscal Years 2017, 2018, and 2019. Based on the accounting staff's subsequent review, they identified an additional \$70,000 in interest that was not recorded in CORE. After we notified accounting staff of the errors and omissions, they submitted a corrected Exhibit M to the OSC and made adjustments in CORE to correct these errors.
- **EXHIBIT K1, *Schedule of Federal Assistance.*** The Office incorrectly calculated and reported expenditure amounts for two federal grants on its Exhibit K1. Specifically, for the first grant, Office accounting staff reported \$2,570,674 of expenditures and should have reported

\$264,999—a difference of \$2,305,675—and reported \$274,721 of expenditures instead of the correct amount of \$270,725—a difference of \$3,996—for the second grant. After we notified Office accounting staff of the errors, they submitted a corrected Exhibit K1 to the OSC.

- **EXHIBIT U3, *Tax Abatement Disclosures*.** The Office incorrectly reported \$14,183,793 instead of \$14,244,745 for the Enterprise Zone Contribution Tax Credits on the Exhibit—an understatement of \$60,952. Additionally, the Office incorrectly reported \$11,939,853 instead of \$11,720,336 for the Rural Tourism Act—an overstatement of \$219,517. After we notified Office accounting staff of the errors, they submitted a corrected Exhibit U3 to the OSC.
- **EXHIBIT O1, *Related Party Transactions*.** Office accounting staff failed to submit an Exhibit O1 to the OSC to disclose that the Office paid \$52,000 to the Colorado Housing and Finance Authority for administrative services while serving as the fiscal agent for the Revolving Loan Fund and Loan Loss Reserve programs. After we notified the Office accounting staff of the omission, they submitted an Exhibit O1 to the OSC.

**OEDIT GRANT ACCOUNTING ERRORS.** We determined that Office accounting staff incorrectly recorded advances and expenditures in CORE for five of the six (83 percent) OEDIT advance-industry grants we reviewed. Specifically, we identified the following:

- Office accounting staff incorrectly recorded \$86,880 as expenditures in CORE for Fiscal Year 2020 for grants that had not been expended, and should have been recorded as advances in CORE. As a result of the problems we found, the Office’s accounting staff began a review for similar issues of the remaining 222 grants that we did not review as part of our audit. Based on the Office accounting staff’s review of 76 of the 222 grants, they identified an additional \$215,127 of expenditures recorded in CORE between Fiscal Years 2017 and 2020 that should have been

recorded as advances because they had not been spent by the end of Fiscal Year 2020.

- Office accounting staff incorrectly recorded \$54,096 as expenditures in CORE in previous years that should have been recorded as expenditures in CORE for Fiscal Year 2020. Based on the accounting staff's review of 76 of the 222 grants, they identified an additional \$1.0 million in advances that the staff incorrectly recorded as expenditures in previous fiscal years that should have been recorded as expenditures in Fiscal Year 2020.
- Based on follow-up inquiries, we identified an additional three grants for which Office accounting staff incorrectly recorded unspent grant funds in Fiscal Year 2020. Specifically, Office accounting staff incorrectly recorded the advance of grant funds as an expenditure in CORE in previous fiscal years, and when grantees returned the unspent funds, Office accounting staff recorded \$1,577 as revenue for Fiscal Year 2020. These three grants were not included in our original sample or in the 76 grants the Office reviewed.

As of the end of our audit, Office accounting staff had not submitted adjustments to correct the OEDIT grant accounting errors and were still reviewing the remaining OEDIT grants to determine what additional adjustments, if any, needed to be made in CORE.

## WHY DID THESE PROBLEMS OCCUR?

The Office lacked adequate internal controls over its financial accounting fiscal year-end closing process for Fiscal Year 2020. Specifically, it did not have documented procedures for preparing and reviewing OSC-required exhibits, or for performing reconciliations between its fiscal year-end bank and CORE balances to ensure that fiscal year-end balances and information recorded in CORE and reported to the OSC for financial statement reporting were accurate.

Additionally, the Office did not have adequate internal controls over the

tracking and recording of grant information in CORE for its OEDIT advanced-industry grants. Specifically, it lacked written policies and procedures to ensure grantee reporting is consistent, that grantee annual reports are appropriately reviewed, and that grantee information is recorded accurately in CORE. Furthermore, the Office lacked adequate training on GASB requirements related to advances.

### WHY DO THESE PROBLEMS MATTER?

Strong financial accounting internal controls, including effective review processes and procedures over financial transactions related to bank accounts, grant funds advanced to grantees, and exhibits, are necessary to ensure that balances are reported accurately and in accordance with generally accepted accounting principles. Without sufficient internal controls, the Office cannot ensure that it is providing complete and accurate financial information to the OSC and, ultimately, that the State’s financial statements are accurate.

CLASSIFICATION OF FINDING	SIGNIFICANT DEFICIENCY
THIS FINDING DOES NOT APPLY TO A PRIOR AUDIT RECOMMENDATION	

## RECOMMENDATION 2020-002

The Office of the Governor (Office) should improve its internal controls over financial reporting by:

- A Developing and implementing policies and procedures for preparing and reviewing fiscal year-end exhibits submitted to the Office of the State Controller to ensure the exhibits are accurate and complete.
- B Developing and implementing policies and procedures requiring the completion of a fiscal year-end reconciliation between its bank

balances and the Colorado Operations Resource Engine (CORE) to ensure they are properly recorded in CORE and reported on the Exhibit M.

- C Developing and implementing policies and procedures for Office of Economic Development and International Trade advanced-industry grants to ensure expenditures and advances are accurately recorded in CORE. These policies and procedures should include a process for reviewing the annual reports submitted by the grantees and ensuring grantees report grant advances and expenditures consistently.
- D Completing its review of the 222 advanced-industry grants that remained open as of June 30, 2020, and making any necessary adjustments in CORE.
- E Requiring Office staff to attend training on Governmental Accounting Standards Board requirements related to advances, as applicable.

## RESPONSE

### OFFICE OF THE GOVERNOR

- A AGREE. IMPLEMENTATION DATE: OCTOBER 2021.

Processes and procedures for preparing and reviewing fiscal year-end exhibits submitted to the Office of the State Controller will be drafted and approved by June 30, 2021 to be used and implemented for the Fiscal Year 2021 Exhibits, typically due after Period 13 close in mid-August.

- B AGREE. IMPLEMENTATION DATE: OCTOBER 2021.

Processes and procedures for completion of fiscal year-end reconciliation between bank balances and CORE will be drafted and

approved by June 30, 2021 and implemented for the Fiscal Year 2021 Exhibit M, typically due to the OSC in mid-July.

C AGREE. IMPLEMENTATION DATE: JUNE 2021.

Policies and procedures for the Office of Economic Development and International Trade (OEDIT)'s advanced industries process or reviewing annual report for all grants shall be drafted, approved, and implemented no later than 6/30/2021. These policies and procedures shall include a process for the program review of the annual reports submitted by the grantees, ensuring grantees report grant advances and expenditures of the advanced payments consistently. These processes and procedures will also include instructions on how these will be recorded by accounting and how accounting will work with the program to ensure all advanced payments are recorded properly in CORE.

D AGREE. IMPLEMENTATION DATE: JUNE 2021.

OEDIT and the Advanced Industries program will complete their review of all open grants as of 06/30/2020 no later than 06/30/2021. All research, including the amount of the advanced payments expended and remaining and the potential CORE adjustments made shall be reported to the Office of the Governor's Controller no later than this date for review.

E AGREE. IMPLEMENTATION DATE: JUNE 2021.

All accounting staff within the Office of the Governor and all of its Departments will be required to attend a mandatory training on GASB 33 and on the recording of advances no later than June 30, 2021. The Office will work with OSC to identify potential trainings.

# OFFICE OF INFORMATION TECHNOLOGY

The *IT Consolidation Bill*, codified under state statutes [Sections 24-37.5-102 through 24-37.5-112, C.R.S.], was enacted during the 2008 Legislative Session. This bill consolidated IT operations under OIT for most of the Executive Branch, but excluded the Departments of Law, State, and Treasury, state-supported institutions of higher education, as well as the Judicial and Legislative branches. OIT provides IT services and infrastructure to the consolidated agencies, which includes data centers, servers, mainframe operations, data storage, operating systems, voice and data networks, and the public safety network. OIT also oversees information security, projects, and recommends strategies to maximize IT service delivery.

## GENTAX AND DRIVES POLICY COMPLIANCE

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding and response have been provided to OIT in a separate, confidential memorandum.*

The Department of Revenue is the business owner of the GenTax and the Drivers’ License, Record, Identification, and Vehicle Enterprise Solution (DRIVES) systems. Each system fulfills the following functions:

- GenTax is the State’s primary information system for processing taxes collected by the State, including estate, sales, severance, business, and individual and corporate income taxes. During Fiscal Year 2020, the system was responsible for collecting nearly \$15.8 billion in revenue and paying out approximately \$1.4 billion in refunds. Most users in the system work for the Department of Revenue’s Division of Taxation, but other divisions within the Department of Revenue have a variety of access that allows for and addresses reporting, accounting, monitoring, or other data sharing needs.
- DRIVES provides an integrated solution for drivers and vehicle services, as well as business licensing and revenue accounting. State and County Divisions of Motor Vehicles’ employees use DRIVES. Most users in the system work for the State Division of Motor Vehicles, but other divisions within the Department of Revenue have a variety of access that allows for and addresses reporting, accounting, monitoring, or other data sharing needs.

GenTax and DRIVES must comply with the Colorado Information Security Policies (Security Policies) that are developed and published by OIT. In addition, GenTax contains Federal Tax Information (FTI) and must adhere to the Internal Revenue Service (IRS) requirements and guidelines, contained within Publication 1075 (Pub 1075), *Tax Information Security Guidelines for Federal, State, and Local Agencies and Entities*, to ensure the adequate protection of the FTI data it receives, processes, stores, or transmits.

## WHAT WAS THE PURPOSE OF THE AUDIT WORK AND WHAT WORK WAS PERFORMED?

Our audit work was designed to determine whether the Department of Revenue and OIT have a process in place to apply the appropriate security policies to GenTax and DRIVES. We performed our work through inquiry of Department of Revenue and OIT staff.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our audit work against IRS Pub 1075 and Security Policies.

## WHAT PROBLEM DID THE AUDIT WORK IDENTIFY?

We identified problems with GenTax and DRIVES select configuration settings variance between IRS Pub 1075 and Security Policies.

## WHY DID THIS PROBLEM OCCUR?

OIT staff indicated that the configuration variance occurred due to the way the network architecture is designed and because neither OIT nor the Department of Revenue performed an analysis to determine the proper policy requirement to apply.

## WHY DOES THIS PROBLEM MATTER?

This problem increases the risk that the GenTax and DRIVES systems containing FTI data may not be protected with adequate security controls, as intended by management, which could threaten the confidentiality, integrity, and availability of the system and its data.

CLASSIFICATION OF FINDING	MATERIAL WEAKNESS
THIS FINDING DOES NOT APPLY TO A PRIOR AUDIT RECOMMENDATION	

# RECOMMENDATION

## 2020-003

The Governor's Office of Information Technology (OIT) should work with the Department of Revenue to improve GenTax and the Drivers' License, Record, Identification, and Vehicle Enterprise Solution

(DRIVES) IT controls and further protect Federal Tax Information data by:

- A Mitigating the problems identified in PART A of the confidential finding.
- B Mitigating the problems identified in PART B of the confidential finding.

## RESPONSE

### GOVERNOR’S OFFICE OF INFORMATION TECHNOLOGY

- A AGREE. IMPLEMENTATION DATE: JUNE 2021.

The Governor’s Office of Information Technology (OIT) agrees to this finding. Please see the confidential response for more information.

- B AGREE. IMPLEMENTATION DATE: AUGUST 2020.

The Governor’s Office of Information Technology (OIT) agrees to this finding. Please see the confidential response for more information.

## SYSTEM SECURITY PLAN

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response and auditor's addendum, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding,*

*response, and auditor's addendum have been provided to OIT in a separate, confidential memorandum.*

The overall objective of system security planning is to enhance the level of protection over information systems and resources. The purpose of a System Security Plan (Security Plan) is to document the security requirements for an information system and the security controls in place or planned for meeting those requirements. A Security Plan outlines the system description, environment, and architecture, as well as the roles, responsibilities, and the expected behavior of all individuals who access the system. The development of a Security Plan is a joint effort between OIT and the business owners. A business owner is the agency that owns the data, has the authority to authorize or deny access to the data, and is responsible for the accuracy, integrity, and timeliness of the data.

## WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to determine whether OIT implemented our Fiscal Year 2019 System Security Plan recommendations to work with the business owner's vendor to develop a process to ensure that the Security Plans for two critical systems are reviewed and updated when system material and/or architectural configuration changes occur and whether both Security Plans were updated accordingly. We performed our audit work through inquiry of OIT staff, as well as inspection of supporting documentation.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our audit work against the following:

- Section 9.5.2 [CISP - 017 SP – Security Planning] requires that an IT service provider shall review and update the security plan for the

information system prior to implementation and when system material or architectural configuration changes occur, problems are identified, and during security control assessments for those systems with a moderate data security categorization.

- According to the OSC’s policy, *Internal Control System*, state agencies must use the Green Book, published by the Government Accountability Office, as its framework for its system of internal control. The Green Book, Paragraph 16.01, *Perform Monitoring Activities*, states that management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

## WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

During our Fiscal Year 2020 audit work, we found that OIT and the business owner’s vendor’s personnel revised one of the critical systems’ Security Plans by updating specific information in it. However, OIT did not provide information or documentation of a process to ensure that the Security Plans for the two critical systems are reviewed and updated when system material and/or architectural configuration changes occur. Additionally, OIT and the business owner’s vendor did not review and update the second critical system’s Security Plan.

## WHY DID THESE PROBLEMS OCCUR?

OIT did not provide a cause as to why a process with the business owner’s vendor was not developed, nor did staff state why the second critical system’s Security Plan had not been updated during Fiscal Year 2020.

## WHY DO THESE PROBLEMS MATTER?

Without proper controls in place to ensure a Security Plan is documented in accordance with the Security Policies, there is a risk that required or appropriate IT security controls, including those related to

financial reporting, may not be in place and operating effectively. Without a process in place for developing, reviewing, and updating a Security Plan, there is a risk of a reduced level of protection and assurance underlying the confidentiality, integrity, and availability of the information systems.

CLASSIFICATION OF FINDING	MATERIAL WEAKNESS
THIS FINDING APPLIES TO PRIOR AUDIT RECOMMENDATION 2019-004C	

## RECOMMENDATION 2020-004

The Governor's Office of Information Technology (OIT) should strengthen information security controls over the State's information systems and resources by:

- A Mitigating the information security problem noted in confidential finding PART A.
- B Mitigating the information security problem noted in confidential finding PART B.

## RESPONSE

### GOVERNOR'S OFFICE OF INFORMATION TECHNOLOGY

- A PARTIALLY AGREE. IMPLEMENTATION DATE: JUNE 2021.

The Governor's Office of Information Technology partially agrees with this recommendation. Please see the detailed response for more information.

*AUDITOR'S ADDENDUM*

*OIT remains out of compliance with Section 9.5.2 [CISP - 017 SP – Security Planning].*

B AGREE. IMPLEMENTATION DATE: AUGUST 2020.

The Governor's Office of Information Technology agrees with this recommendation. The implementation of this item took place on August 27, 2020. Please see the detailed response for more information.

## GENTAX AND DRIVES— INFORMATION SECURITY

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response and auditor's addendum, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding, response, and auditor's addendum have been provided to OIT in a separate, confidential memorandum.*

Responsibility for the reliability and availability of the GenTax and DRIVES systems is shared between the Department of Revenue and OIT. The Department of Revenue and its Division of Motor Vehicles also work with a third-party contractor, FAST Enterprises (FAST), to provide DRIVES support.

The Department of Revenue is responsible for the information security of the GenTax and DRIVES systems and ensuring FAST is compliant with Security Policies.

OIT's Identity and Access Management team provides information security support for the GenTax and DRIVES network and applications.

## WHAT WAS THE PURPOSE OF THE AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to determine whether the Department of Revenue, with OIT's support, had adequate information security controls in place and operated effectively over GenTax and DRIVES. We performed inquiries of and reviewed documentation provided by the Department of Revenue and OIT.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our audit work against Security Policy requirements and supplemental guidance.

## WHAT PROBLEM DID THE AUDIT WORK IDENTIFY?

We found that OIT staff did not follow certain Security Policy requirements and supplemental guidance related to information security controls for GenTax and DRIVES.

## WHY DID THIS PROBLEM OCCUR?

OIT staff stated that the practice currently in place is reliable and practical for GenTax and DRIVES.

## WHY DOES THIS PROBLEM MATTER?

The identified problem elevates the risk of system compromise and can affect the confidentiality, integrity, and availability of the GenTax and DRIVES systems. In turn, if GenTax and DRIVES information security processes and controls are not appropriately implemented and managed, this can adversely impact the reliability of data that is processed, stored, and generated by the systems, as well as the automated application controls that are built into them.

CLASSIFICATION OF FINDING	SIGNIFICANT DEFICIENCY
THIS FINDING DOES NOT APPLY TO A PRIOR AUDIT RECOMMENDATION	

## RECOMMENDATION 2020-005

The Governor’s Office of Information Technology (OIT) should strengthen information security controls over the GenTax and the Drivers’ License, Record, Identification, and Vehicle Enterprise Solution (DRIVES) systems by discontinuing the current practice to ensure compliance with Colorado Information Security Policies.

## RESPONSE

### GOVERNOR’S OFFICE OF INFORMATION TECHNOLOGY

DISAGREE. IMPLEMENTATION DATE: NOT APPLICABLE.

The Governor’s Office of Information Technology disagrees with this finding. Please see the confidential response for more information.

*AUDITOR'S ADDENDUM*

*To reduce the risk of system compromise and the related impact to the confidentiality, integrity, and availability of systems and data, OIT should follow Security Policy requirements and supplemental guidance related to information security controls over GenTax and DRIVES.*

## GENTAX—INFORMATION SECURITY

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding and response have been provided to OIT in a separate, confidential memorandum.*

Responsibility for the reliability and availability of the GenTax system is shared between OIT and the Department of Revenue.

OIT provides primarily logical access and system security support for the GenTax operating system and application. As part of providing this support, OIT's Identity and Access Management team is responsible for user access management, which includes ensuring that unauthorized employees do not retain access to the operating system and that inactive accounts are disabled within the documented requirements.

## WHAT WAS THE PURPOSE OF THE AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to determine whether OIT implemented our Fiscal Year 2019 recommendations. Specifically, we recommended that OIT should improve GenTax information security controls by prioritizing and successfully implementing the enterprise-wide access management system to ensure account management controls are in place and operating effectively, including that user accounts are automatically disabled after 90 days of inactivity. These recommendations were originally made, in part, in Fiscal Year 2014. We performed our audit work through inquiry of OIT management and staff, as well as inspection of supporting documentation.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our audit work against IRS Pub 1075, specific to system account management requirements.

Additionally, we measured the results of our audit work against OIT Cyber Policies [POL 102, Section 8.1.10], which requires that the information system automatically disables inactive accounts after 90 days of inactivity where technically feasible.

## WHAT PROBLEM DID THE AUDIT WORK IDENTIFY?

During our Fiscal Year 2020 audit work, we found that OIT partially implemented our prior audit recommendations. OIT did deploy an enterprise-wide access management system to address the specific account management control issues we noted and to disable GenTax accounts that have been inactive for 90 days. However, the system was not effectively performing these actions.

## WHY DID THIS PROBLEM OCCUR?

OIT staff stated that the enterprise-wide access management system had issues during the deployment and that there was an error with the 90-day inactive coding that caused issues and prevented the account disabling process.

## WHY DOES THIS PROBLEM MATTER?

The deficiencies noted in our confidential finding increase the risk of unauthorized access and could, therefore, threaten the confidentiality, integrity, and availability of the GenTax system and its data. Ultimately, if key GenTax information security processes and controls, including those related to automatic disabling of system user accounts, are not in place and operating effectively, the State's ability to conduct tax processing operations in a secure manner could be adversely impacted, as well as the reliability of the data related to the State's financial reporting.

CLASSIFICATION OF FINDING	SIGNIFICANT DEFICIENCY
THIS FINDING APPLIES TO PRIOR AUDIT RECOMMENDATIONS 2019-005A AND 2019-006	

# RECOMMENDATION

## 2020-006

The Governor's Office of Information Technology (OIT) should comply with Internal Revenue Service Publication 1075 and OIT Cyber Policies by resolving the issues encountered during the deployment and coding issues in its enterprise wide access management system to ensure appropriate account management controls are in place and operating effectively, including the operating system automatically disabling user accounts after 90 days of inactivity.

# RESPONSE

## GOVERNOR’S OFFICE OF INFORMATION TECHNOLOGY

AGREE. IMPLEMENTATION DATE: SEPTEMBER 2020.

The Governor’s Office of Information Technology (OIT) agrees to this finding. The recommendation has been implemented at this time. Please see the confidential response for more information.

## GENTAX—INFORMATION SECURITY

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding and response have been provided to OIT in a separate, confidential memorandum.*

OIT primarily provides GenTax system infrastructure services to the Department of Revenue.

### WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to determine whether OIT implemented our Fiscal Year 2019 GenTax information security related

recommendation. We recommended that OIT should implement security controls over GenTax to ensure compliance with applicable laws, regulations, and policies. We performed our work through inquiry of OIT management and staff, as well as inspection of supporting documentation.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our audit against the IRS Pub 1075 and OIT Cyber Policies.

## WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

During our Fiscal Year 2020 audit work, we found that OIT partially implemented our prior audit recommendation.

## WHY DID THESE PROBLEMS OCCUR?

OIT explained that the responsibilities for implementing the controls noted in our recommendation were not clear and needed additional time to clarify with those responsible for them, including OIT's internal team and the technical leads from the Department of Revenue's GenTax vendor. Also, OIT indicated that the Department of Revenue is currently weighing two options, one of which is a new version of the GenTax application and the other being OIT's current solution. With the Department of Revenue currently considering the options, OIT has placed any further actions on hold.

## WHY DO THESE PROBLEMS MATTER?

If key GenTax information security processes and controls are not in place and operating effectively, the State may not be able to detect or correct issues related to the accuracy, completeness, and timeliness of the data processed or stored within the system. These issues, in turn,

could adversely impact the overall data reliability of the State’s financial reporting.

CLASSIFICATION OF FINDING	SIGNIFICANT DEFICIENCY
THIS FINDING APPLIES TO PRIOR AUDIT RECOMMENDATIONS 2019-007B AND 2019-007C	

# RECOMMENDATION 2020-007

The Governor’s Office of Information Technology (OIT) should implement information security controls over GenTax to ensure compliance with applicable laws, regulations, and policies by working with the Department of Revenue by:

- A Implementing recommendation PART A as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding.
- B Implementing recommendation PART B as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding.
- C Implementing recommendation PART C as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding.

# RESPONSE

## GOVERNOR'S OFFICE OF INFORMATION TECHNOLOGY

### A AGREE. IMPLEMENTATION DATE: JANUARY 2021.

The Governor's Office of Information Technology agrees with this recommendation. Please see the detailed response for more information.

### B AGREE. IMPLEMENTATION DATE: MAY 2021.

The Governor's Office of Information Technology agrees with this recommendation. Please see the detailed response for more information.

### C AGREE. IMPLEMENTATION DATE: JUNE 2021.

The Governor's Office of Information Technology agrees with this recommendation. Please see the detailed response for more information.

## STATE DATA CENTER PHYSICAL ACCESS

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate "classified or limited use" report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response and auditor's addendum, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding, response, and auditor's addendum have been provided to OIT in a separate, confidential memorandum.*

OIT maintains two data centers throughout the State. The purpose of these data centers is to centrally manage the servers and computers that store critical information for various state agency systems.

## WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to determine whether OIT implemented our Fiscal Year 2017 Physical Security recommendation. Specifically, we recommended that OIT should ensure physical access management processes are effective and comply with policies and procedures. We performed our audit work through inquiry of data center management and inspection of supporting documentation.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our work against Security Policies, which were updated in October 2019, and OIT Cyber Policies, which are composed of policies developed by OIT for those IT services it provides to the state agencies.

## WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

During our Fiscal Year 2020 audit work, we identified certain parts of the prior audit recommendation that were not fully implemented. As a result, problems related to physical security and access management at the State's main data center still exist.

## WHY DID THESE PROBLEMS OCCUR?

OIT data center management stated that personnel turnover created difficulties in finalizing a Standard Operating Procedure and

establishing an agreement with the party involved with remediating the problems over physical access. In addition, management stated that an agreement is on hold until OIT is able to develop policies and procedures. Additionally, management cited unexpected complications which arose from COVID-19, protests, and subsequent rioting that limited their ability to fully implement the recommendations.

## WHY DO THESE PROBLEMS MATTER?

In combination, these deficiencies increase the risk of inappropriate or unauthorized physical access to systems and data, which could result in a risk to the confidentiality, availability, and integrity of state systems and data housed at the data center. Ultimately, if physical access to the data center is not managed appropriately, it could adversely impact the accuracy and completeness of information relevant to the State’s financial reporting activities.

CLASSIFICATION OF FINDING	SIGNIFICANT DEFICIENCY
THIS FINDING APPLIES TO PRIOR AUDIT RECOMMENDATIONS 2019-013C, 2019-013D, 2018-012C, 2018-012D, 2017-009C, AND 2017-009D	

# RECOMMENDATION

## 2020-008

The Governor’s Office of Information Technology (OIT) should ensure physical access management processes are effective and comply with Colorado Information Security Policies and OIT Cyber Policies by:

- A Prioritizing staff to finalize the draft Standard Operating Procedure over physical access to mitigate the specific related problems noted in the confidential finding.
- B Developing final procedures and entering into a written agreement over physical access to mitigate the specific related problems noted in the confidential finding.

# RESPONSE

## GOVERNOR'S OFFICE OF INFORMATION TECHNOLOGY

### A PARTIALLY AGREE. IMPLEMENTATION DATE: JUNE 2021.

The OIT Data Center Manager agrees that the internal formal procedure needs to be drafted in the approved OIT SOP format and finalized. The management team will make every effort to finalize this SOP before Dec 31, 2020.

The OIT Data Center Management team does not agree with the classification of "Significant Deficiency" as this is an administrative finding to record actions already being taken.

### *AUDITOR'S ADDENDUM*

*Colorado Information Security Policies and OIT Cyber Policies require OIT to oversee and manage the problems identified in the confidential finding. The audit finding classification is solely determined by the auditor.*

### B PARTIALLY AGREE. IMPLEMENTATION DATE: JUNE 2021.

This particular recommendation is dependent on the willingness of external agencies to agree to an agreement for the management of physical security primarily under the responsibility of OIT. OIT management will make every effort to put recommended agreements in place, or find a suitable alternative to the recommendation. This agreement, as there is no similar agreement between OIT and another agency, will take time to draft, route, and obtain approval from the appropriate management level, therefore the anticipated implementation date is June 30, 2021.

The OIT Data Center Management team does not agree with the classification of "Significant Deficiency" as this is an administrative

finding that does not have any direct effect on the multiple layers of security in place at the data center.

#### *AUDITOR'S ADDENDUM*

*Colorado Information Security Policies and OIT Cyber Policies require OIT to oversee and manage the problems identified in the confidential finding. The audit finding classification is solely determined by the auditor.*

## PANDEMIC UNEMPLOYMENT ASSISTANCE SYSTEM— CHANGE MANAGEMENT

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding and response have been provided to OIT in a separate, confidential memorandum.*

The Department of Labor and Employment (Department) is responsible for the administration of the State’s Unemployment Insurance (UI) program. As part of the administration of this program, the Department uses the Colorado Unemployment Benefits System (CUBS) to aid in determining eligibility for UI benefits. The Department and OIT has been working with an outside vendor since June 2018 on the UI modernization project to update the current benefits system, CUBS.

In March 2020, the Federal government implemented the Pandemic Unemployment Assistance (PUA) program to provide UI assistance to individuals not eligible for regular UI, which included, as an example, self-employed individuals. Due to the age of CUBS, the Department and OIT were unable to update CUBS' coding to implement the PUA program requirements; therefore, a fourth UI system, the PUA system, was implemented during April 2020 to handle these claims.

The Department and OIT, in coordination with the outside vendor, provides primary change management support services for the PUA system.

## WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to determine whether the Department and OIT had sufficient IT internal controls in place relating to change management with the PUA system.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our audit work against the Security Policies and OIT Cyber Policy.

## WHAT PROBLEM DID THE AUDIT WORK IDENTIFY?

Through our inquiries with Department, OIT, and vendor staff, we noted a problem with change management controls over the PUA system.

## WHY DID THIS PROBLEM OCCUR?

The Department, OIT, and vendor staff indicated that the problem

occurred due to the urgency in the need to implement the PUA system and limited resources.

## WHY DOES THIS PROBLEM MATTER?

The lack of properly implemented change management controls over the PUA system increases the risk of unauthorized changes being made to the PUA system, which could adversely impact data reliability of financial reporting.

CLASSIFICATION OF FINDING	SIGNIFICANT DEFICIENCY
THIS FINDING DOES NOT APPLY TO A PRIOR AUDIT RECOMMENDATION	

# RECOMMENDATION

## 2020-009

The Governor's Office of Information Technology should work with the Pandemic Unemployment Assistance vendor, as applicable, to mitigate the problem noted in the confidential finding.

# RESPONSE

## GOVERNOR'S OFFICE OF INFORMATION TECHNOLOGY

AGREE. IMPLEMENTATION DATE: FEBRUARY 2021.

The Governor's Office of Information Technology (OIT) agrees with this finding. OIT remediated this finding as of February 2021.

## OFFICE OF THE GOVERNOR

The following recommendations relating to internal control deficiencies each classified as a MATERIAL WEAKNESS or SIGNIFICANT DEFICIENCY were communicated to the Office of the Governor (Office) in the previous year, and have not been remediated as of June 30, 2020, because the original implementation date provided by the Office is in a subsequent fiscal year. These recommendations can be found in the original report and SECTION III: PRIOR FINANCIAL RECOMMENDATIONS of this report.

SYSTEM SECURITY PLAN AND DATA SECURITY CATEGORIZATION					
CURRENT REC. NO.	2020-010	PRIOR REC. NO.	2019-004	IMPLEMENTATION DATE	A [1] B JUNE 2021 C [1] D [1]
CLASSIFICATION	MATERIAL WEAKNESS				

CUBS, CATS, AND CLEAR—INFORMATION SECURITY					
CURRENT REC. NO.	2020-011	PRIOR REC. NO.	2019-027	IMPLEMENTATION DATE	A AUGUST 2020 B SEPTEMBER 2020 C [1] D JUNE 2021
CLASSIFICATION	SIGNIFICANT DEFICIENCY				

[1] This part of the recommendation has been implemented, partially implemented, not implemented, or is no longer applicable. SEE SECTION III: PRIOR FINANCIAL RECOMMENDATIONS of this report for information regarding this part of the recommendation.

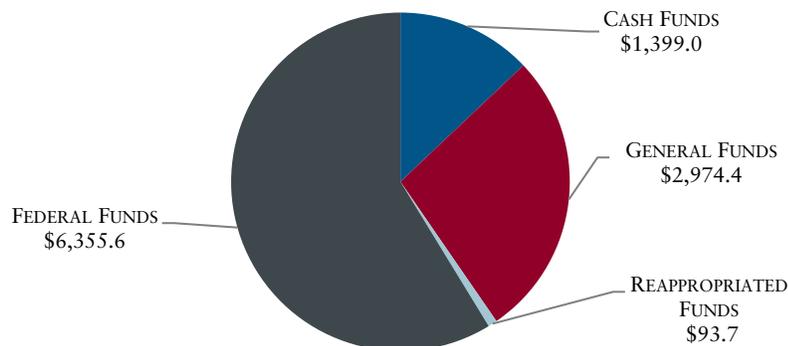
# DEPARTMENT OF HEALTH CARE POLICY AND FINANCING

The Department of Health Care Policy and Financing (Department) is responsible for developing financing plans and policy for publicly funded health care programs. The principal programs the Department administers are (1) Health First Colorado, Colorado's Medicaid program (Medicaid) which provides health services to eligible needy persons, and (2) the federal Children's Health Insurance Program, which is known in Colorado as the Children's Basic Health Plan (CBHP). CBHP furnishes subsidized health insurance for low-income children aged 18 years or younger and pregnant women 19 and older who are not eligible for Medicaid.

For Fiscal Year 2020, the Department was appropriated approximately \$10.8 billion and 545 full-time equivalent (FTE) staff.

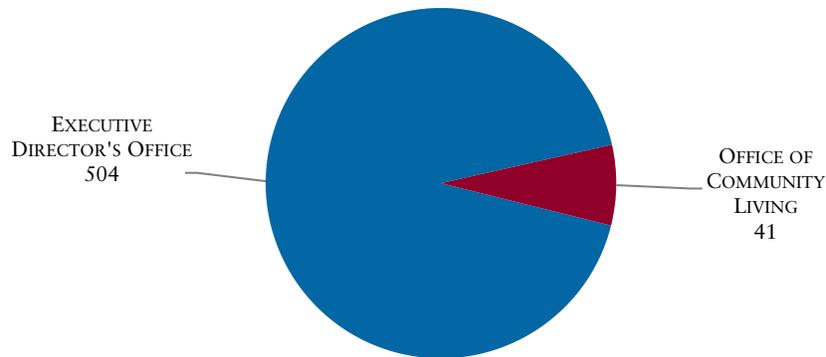
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for Fiscal Year 2020.

## DEPARTMENT OF HEALTH CARE POLICY AND FINANCING FISCAL YEAR 2020 APPROPRIATIONS BY FUNDING SOURCE (IN MILLIONS)



SOURCE: Joint Budget Committee Fiscal Year 2020-21 Appropriations Report.

DEPARTMENT OF HEALTH CARE POLICY AND FINANCING  
FISCAL YEAR 2020 FULL-TIME EQUIVALENT STAFF  
BY MAJOR AREAS



SOURCE: Joint Budget Committee Fiscal Year 2020-21 Appropriations Report.

## CONTROLS OVER CAPITAL ASSETS

The Department's Controller Division staff are responsible for all of the Department's financial reporting, including the accurate accounting and reporting of the Department's capital assets. As of June 30, 2020, the Department had capital assets, such as software and equipment, totaling approximately \$187.8 million.

Costs related to capital assets can be either expensed or capitalized based on the nature of the costs and relevant rules and regulations. If expensed, a capital asset-related expenditure is recorded immediately and included as an expense for the current fiscal year. In contrast, costs meeting specified criteria for capitalization should be recorded as an asset and expensed over time as either depreciation or amortization, depending on the type of asset. Depreciation and amortization are methods used to allocate the cost of a specific type of asset over the asset's useful life. Depreciation is generally used for tangible assets while amortization is used for intangible assets that lack physical substance, such as software. Criteria for capitalization include whether the purchase, upgrade, or enhancement is over an established dollar threshold, is expected to benefit future years, or meets other accounting

requirements. For Fiscal Year 2020, the Department recorded \$23.2 million in software amortization expense in the Colorado Operations Resource Engine (CORE), the State's accounting system.

During Fiscal Year 2017, the Department implemented a new information system called Colorado interChange, as a replacement for its previous Medicaid Management Information System (MMIS). Colorado interChange was substantially complete and went live on March 1, 2017. The Department entered into a contract with a vendor, or fiscal agent, to develop and install Colorado interChange and to provide ongoing services related to the system.

In April 2019, the Department updated its contract with the fiscal agent to add the development and installation of the Claims Editing Solution, a tool that increases speed and accuracy of processing claims, and updated requirements for the fiscal agent to provide ongoing system support.

## WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of the audit work was to determine whether the Department had adequate internal controls in place over the accounting and reporting of capital assets and whether the Department was in compliance with the Office of the State Controller's (OSC) *Fiscal Procedures Manual* (Manual), Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51), and State Fiscal Rules.

During our audit, we reviewed the Department's capital assets costs related to Colorado interChange that were expensed during Fiscal Year 2020. Specifically, we reviewed contracts, contract amendments, accounting transactions, and supporting documentation related to the capitalization and amortization of Colorado interChange. We reviewed

the contracts and transactions to determine whether capital asset expenses were appropriately capitalized and amortized, as applicable.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our audit work against the following:

- GASB 51 was issued to aid governments in the recognition of, and accounting for, intangible assets, such as government-developed software. The guidance in GASB 51 outlines phases during the design and configuration of intangible assets in which costs should be expensed or when they should be capitalized as part of the asset. Specifically, GASB 51 provides that costs at the post-implementation or operation stage should be capitalized if they are related to the continuing design and configuration of software, and they increase the software’s functionality or efficiency, or extend its estimated useful life. Therefore, any costs incurred for enhancements or modifications of computer software that increase the capacity or efficiency of the assets should be capitalized.
- The Manual (Chapter 4, Section 2.12) provides guidance on accounting and reporting of intangible assets of the State. The Manual states that costs for updates and enhancements that are material in relation to total project costs should be capitalized during the post-implementation or operation stage.
- The Manual (Chapter 4, Section 2.4.1) provides various dollar thresholds for the capitalization of state assets. For example, the capitalization threshold for intangible assets is \$50,000. In addition, the Manual states, “For expenditures related to repair, remodeling, or expansion of an existing capital asset, the department must determine if the [cost] increased the capacity, operating efficiency or extended the useful life of the asset. If so, such [costs] are capitalized as part of the cost of the asset.”

- State Fiscal Rule 1-2(3.5), *Internal Controls*, requires that departments implement internal accounting and administrative controls that reasonably ensure that financial transactions are accurate, reliable, and conform to State Fiscal Rules.

## WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

Overall, we identified problems with the Department's capitalization of expenditures for Colorado interChange system modifications for Fiscal Years 2017 through 2020. Specifically, we found the following:

- **FAILURE TO CAPITALIZE COLORADO INTERCHANGE ENHANCEMENT COSTS.** The Department incorrectly expensed, rather than capitalized, payments made during Fiscal Year 2020 for the Colorado interChange upgrade and enhancement that increased the efficiency of the system and met the State's capitalization requirements. We also reviewed the Department's contract with the fiscal agent and found that the Department expensed, rather than capitalized, similar payments made during Fiscal Years 2017 through 2019, including expenses for the Claims Editing Solution. These errors resulted in correcting adjustments to Fiscal Year 2020 activity, totaling approximately \$33.3 million for Fiscal Years 2017 through 2019, and \$31 million for Fiscal Year 2020.
- **ERRORS IN AUDIT ADJUSTMENT CALCULATION.** When initially calculating the appropriate correcting adjustment for Colorado interChange capital asset omissions that we identified through our audit, Department staff made several errors, totaling approximately \$811,000, on its spreadsheet used as a supporting document for the audit adjustment. Specifically, the Department failed to include the Fiscal Year 2017 upgrade and enhancement payments reported by the Controller Division, and had a formula error within the spreadsheet.

- **FAILURE TO RECORD AMORTIZATION IN CORE.** The Department made adjusting entries to record Colorado interChange capital assets that we identified through our audit, but failed to record the related amortization. After we brought the error to the Department’s attention, Department staff recorded amortization totaling \$11.1 million for Fiscal Years 2017 through 2020.

## WHY DID THESE PROBLEMS OCCUR?

Overall, we found that the Department does not have adequate internal controls in place over the recording of capital assets, specifically:

**LACK OF A COMPREHENSIVE PROCESS OVER CAPITALIZATION OF COSTS, AND CORRESPONDING REVIEW.** The Department did not have a comprehensive process in place to analyze software payments to identify those costs related to system modifications that increase the efficiency of its computer software projects, such as Colorado interChange. Specifically, the Controller Division did not sufficiently analyze the nature of the expenditures and follow up with Department staff, as applicable, to determine the appropriate accounting treatment for the payments. Additionally, the Department did not have a process in place to ensure amortization was calculated and recorded for prior and current year capitalized cost adjustments recorded by the Department. Further, the Controller Division lacked an effective review process over the capitalization of costs recorded in CORE.

## WHY DO THESE PROBLEMS MATTER?

Without strong internal controls over capital assets, the Department risks significantly misstating its assets in CORE and, ultimately, in the State’s financial statements.

CLASSIFICATION OF FINDING	MATERIAL WEAKNESS
THIS FINDING DOES NOT APPLY TO A PRIOR AUDIT RECOMMENDATION	

# RECOMMENDATION

## 2020-012

The Department of Health Care Policy and Financing should improve its internal controls over the accounting and reporting of capital assets by:

- A Ensuring a comprehensive process is in place to analyze future information system costs to identify costs related to system enhancements and modifications that increase the efficiency of its computer software projects that should be capitalized. This process should include steps to calculate any amortization of capitalized assets that should be recorded in the State's accounting system.
- B Implementing an effective review process over the expenditure or capitalization and amortization of software-related assets to ensure entries made to the State's accounting system are complete and accurate, and are in accordance with Governmental Accounting Standards Board Statement No. 51, the Office of the State Controller's *Fiscal Procedures Manual*, and State Fiscal Rules.

## RESPONSE

### DEPARTMENT OF HEALTH CARE POLICY AND FINANCING

- A AGREE. IMPLEMENTATION DATE: JUNE 2021.

The Department will update its current Capital Asset process to ensure that any costs associated with post-implementation system enhancements are capitalized and amortized under the Governmental Accounting Standards Board Statement Number 51. A process to coordinate with the Health Information Office, who monitors and tracks system changes and related expenditures, will be documented and implemented to assist the Controller Division

with identifying any expenditures for system projects qualified for capitalization under the Government Accounting Standards Board Statement Number 51 that meet the materiality threshold in the Office of the State Controller’s Fiscal Procedures Manual.

**B AGREE. IMPLEMENTATION DATE: JUNE 2021.**

The Department will develop, document and implement a more robust and thorough review process for expenditures to be capitalized and amortized in accordance with the Governmental Accounting Standards Board Statement Number 51, the Office of State Controller's Fiscal Procedures Manual and State Fiscal Rules.

## SOC REPORTS

The Department has three systems referred to as the COMMIT Project, comprised of: (1) Pharmacy Benefit Management System (PBMS), which provides processing of pharmacy and drug rebates; (2) Colorado interChange, which processes provider enrollment and payments; and (3) the Business Intelligence and Data Management System (BIDM), which provides data analytics and reporting functions. These systems all have unique functions, and the Department uses them to administer and manage federal programs, such as Medicaid and CBHP.

The Department contracts with several third-party service organizations for the processing of Medicaid data, claims, and the overall maintenance and operations of the systems. The following table outlines each service organization and the corresponding system it services:

Service Organization	System
Magellan Health	PBMS
DXC Technology Services	Colorado interChange
IBM Watson Health	BIDM

The Department's contractual agreements with these three service organizations require each to have an examination performed by an independent service auditor. Examinations of this type are governed by the American Institute of Certified Public Accountants (AICPA) and result in one of various types of System and Organization Controls (SOC) reports. For example, a SOC 1, Type II report provides the service auditors' opinion as to whether management has fairly presented its description of the service organization's system and that internal controls over financial reporting have been suitably designed, and are operating effectively to achieve the related control objectives over a specified period of time. Service organizations will also state that there are certain internal controls that must be designed, in place, and operating effectively at the user entity, in this case at the Department, for the controls listed in the report that are supported by the service organization to be fully relied upon by the Department.

## WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to determine whether the Complementary User Entity Controls (User Controls) identified by IBM Watson Health for BIDM were in place and operating effectively over the period of review. We obtained the most recent reports provided to the Department by IBM Watson Health, including three SOC 1 reports that covered the components that comprise BIDM. We reviewed the SOC reports and inquired of Department staff in order to understand their key IT user controls.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our audit work against the following:

- BIDM Contract Amendment No. 7 Exhibit C requirements, sections 37.2-37.2.1, effective February 2019, states that the Contractor shall pay and arrange for a SOC 1, Type II audit annually, to be conducted by an independent auditor, covering work performed by the Contractor at the Contractor's facility and data center sites and provide the report to the Department.
- BIDM Contract Exhibit A, Transmittals, Section 6.5 states that transmittals may not be used in place of an amendment, and may not, under any circumstances, be used to modify the terms of the contract.

## WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

We identified the following problems related to the Department's oversight of its SOC reporting requirements:

- The Department received and accepted a SOC 1, Type I report and did not ensure that a SOC 1, Type II audit was conducted over work performed by IBM Watson Health, its service organization for BIDM, at its facility and data center sites, as required by its contract with IBM Watson Health. A SOC 1, Type I report only provides the service auditors' opinion that internal controls over financial reporting have been suitably designed to achieve the related control objectives as of the specified date, not over a period of time, which is part of a SOC 1, Type II report.
- The Department executed a contract change to the IBM Watson Health contract through a transmittal to accept the results of a SOC 1, Type I audit, instead of the required SOC 1, Type II.

## WHY DID THESE PROBLEMS OCCUR?

These problems occurred because of the following:

- The Department has not ensured that staff are trained related to contractually-specified SOC reporting requirements and the controls its service organizations have designed, implemented, and operate over relevant operational processes, as identified in the SOC 1, Type II reports. This will better inform the need for the SOC 1, Type II reports and how the Department's service organizations' internal control systems impact the Department's internal control system.
- The Department continues to have problems with SOC 1, Type II reports. Specifically, between Fiscal Years 2017 and 2019, we identified problems with:
  - ▶ The legacy MMIS—In Fiscal Year 2017, the Department did not obtain an annual SOC 1, Type II report over MMIS, for the period of July 1, 2016, through February 28, 2017, as required by the contract. This recommendation was implemented in Fiscal Year 2019.
  - ▶ The Colorado interChange system—In Fiscal Year 2017, the Colorado interChange SOC 1, Type II report lacked coverage of database controls. In Fiscal Year 2019, the Department did not ensure that relevant IT general controls over financial reporting were identified and included for testing in the scope of its service organization's SOC 1, Type II reports. These have yet to be fully implemented.
- IBM Watson Health and the service auditor informed the Department that the service auditor would not be able to conduct a SOC 1, Type II audit. Therefore, the Department documented contract changes to accept a SOC 1, Type I audit, however, this was through a transmittal versus a contract amendment.

## WHY DO THESE PROBLEMS MATTER?

By not holding service organizations accountable to contract requirements for performing respective SOC 1, Type II annual examinations, there is a risk that the respective service organizations' internal controls over financial reporting may not be implemented and operating effectively during the audit period, or over a specified period of time. Additionally, when contract requirements are not followed or amended as required, this may put the State in a position that is not legally enforceable with the contractor. Furthermore, if the Department does not ensure that responsible staff are properly trained, knowledgeable, and understand the purpose and scope of its service organizations' contracts and SOC reports, there is a risk that the Department may not be able to identify problems that could impact its internal controls over financial reporting and reporting to the federal government for the Medicaid and CBHP programs.

CLASSIFICATION OF FINDING	MATERIAL WEAKNESS
THIS FINDING DOES NOT APPLY TO A PRIOR AUDIT RECOMMENDATION	

## RECOMMENDATION 2020-013

The Department of Health Care Policy and Financing (Department) should strengthen internal controls over financial reporting by:

- A Ensuring that the service organization for the Business Intelligence and Data Management System (BIDM) complies with contract requirements to perform and provide an annual System and Organization Control (SOC) 1, Type II audit.
- B Developing, documenting, and implementing Department policies and procedures that outline the acceptable methods for making contract changes and when to use contract amendments or the transmittal process.

- C Ensuring that staff are properly trained on their responsibilities related to the SOC audit reporting requirements, and ensuring that they understand the controls their service organizations have designed, implemented, and operate over relevant operational processes and how they impact the Department's own internal control system.

## RESPONSE

### DEPARTMENT OF HEALTH CARE POLICY AND FINANCING

- A PARTIALLY AGREE. IMPLEMENTATION DATE: SEPTEMBER 2020.

The Department made a one-time decision to allow a SOC 1, Type I audit to be conducted for the Department's Data Warehouse for FY18-19 after numerous discussions with the contractor about extenuating circumstances. Under contract law, any party to a contract has the right to waive the failure of the other party to meet a requirement. This concept is enshrined in the contract in section 19.N, which specifies that a waiver of any failure to perform doesn't imply a waiver of any other failure.

In this case, the contractor informed the Department that it would not be able to comply with the requirement to complete a Type II audit for one year. The Department had three options: 1) hold the contractor in breach and seek damages - based on the circumstances, termination of the contract was determined to be infeasible; 2) provide an unconditional waiver authorizing the failure to perform; or 3) provide a conditional waiver authorizing the failure if the contractor does something to mitigate it. Based on the circumstances, the Department chose to provide a conditional waiver of the contractor's failure to complete the Type II audit so long as the contractor instead completed a Type I audit to mitigate the failure within the recommended audit report delivery timeline provided by the OSA.

The Department agrees a SOC 1, Type II audit is required by service organizations under their contract unless prevented by circumstances beyond the control of the Department and service organization.

#### *AUDITOR'S ADDENDUM*

*The Department's contract requires that the service organization conduct and provide a SOC 1, Type II audit and report, on an annual basis. The Department did not ensure that this provision was executed.*

#### B DISAGREE. IMPLEMENTATION DATE: NOT APPLICABLE.

The Department does not agree that this one-time decision to issue a transmittal rather than a contract change justifies this recommendation.

Specifically related to BIDM and as of September 2018, IBM Watson Health completed the business transfer of Truven Health Analytics – the Department's original BIDM service organization - after acquiring it in 2016. In this transfer, IBM Watson inherited the contract requirements to pay and arrange for a SOC 1, Type II audit on an annual basis. Around this same time period of September 2018, Truven Health Analytic's service auditor determined there was a conflict of interest with IBM Watson Health and would not be able to conduct the SOC 1, Type II audit for Fiscal Year 2019. IBM Watson contracted with another service auditor and planning for the audit began in the fourth quarter of Calendar Year 2018.

The Department issued a transmittal to waive the contract requirement on a one-time basis, and this was the appropriate action to take in this instance. The Department agrees that it is a best practice to document guidelines for staff to use to determine whether contract changes should be communicated via a transmittal or a contract amendment, and will develop, implement, and communicate such guidelines.

*AUDITOR'S ADDENDUM*

*Exhibit A, Transmittals, Section 6.5 of the Department's BIDM Contract, states that transmittals may not be used in place of an amendment, and may not, under any circumstances be used to modify the terms of the Contract.*

**C PARTIALLY AGREE. IMPLEMENTATION DATE: IMPLEMENTED.**

The Department does not agree that the finding in this report justifies this recommendation.

The Department does agree that properly trained staff is important and to strengthen its internal controls, the Department hired a Contract Manager to fill a vacancy. In addition to currently trained staff, a Security and Compliance Program Manager was also hired to ensure the Department has a qualified and experienced resource available to assist in data security and service organization audit needs across the Department. Both of these roles were hired prior to this recommendation being issued.

However, the Department does not agree that the problems and recommendations identified by the OSA in this current audit occurred as a result of training insufficiency.

*AUDITOR'S ADDENDUM*

*The problems identified in this and prior year findings, as mentioned in this finding, point to a lack of trained Department staff in the area of contractually specified SOC reporting requirements.*

# INTERCHANGE SERVICE ORGANIZATION CONTROL REPORTS

In 2017, the Health First Colorado program implemented Colorado interChange to replace the legacy MMIS. The Health First Colorado program, which is partially funded through the federal Medicaid grant, provides public health insurance to eligible low-income citizens. The Health First Colorado program and the Colorado interChange system are the responsibility of the Department. The fiscal agent responsible for performing internal controls and processing claims and payments, significant to the Department’s administration of the federal Medicaid program, is DXC Technology Services, LLC (DXC).

DXC hosts the Colorado interChange system for the Department and manages IT services related to the maintenance and support of the system infrastructure and software. The Department’s contractual agreement with DXC requires that it, as a service organization for the Department, have an annual SOC examination performed by an independent service auditor. Examinations of this type are governed by the AICPA and result in one of various types of SOC reports. For the Department, DXC provides a SOC 1, Type II report, which provides an independent auditors’ opinion on whether the service organization’s internal controls over financial reporting, including those over the system, have been suitably designed and operated effectively over a specified period of time.

## WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to determine whether the Department implemented our Fiscal Year 2019 Colorado interChange

SOC Report recommendation, in which the original recommendations were made in Fiscal Year 2017. Specifically, we recommended that the Department should improve controls over its financial reporting by (a) working with its service organization to ensure the Colorado interChange SOC 1, Type II reports clearly state the system components and controls that are in scope, such as database change management and database backup and recovery controls; and (b) developing, documenting, implementing, and communicating a process for conducting reviews of the SOC 1, Type II reports to ensure that all appropriate database internal controls impacting financial reporting are identified by the service organization, tested for effectiveness, and opined upon by the service auditor in its SOC 1, Type II report.

We performed our audit work through inquiry of Department staff, as well as inspection of supporting documentation.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

The OSC's Manual Section 3.41, *Statewide System and Organizational Controls Reviews*, includes agency responsibilities related to the receipt of SOC reports. Specifically, agencies are required to annually review such reports and determine whether any actions are necessary to remediate issues noted.

The OSC's policy, *Internal Control System*, requires state agencies to use the *Standards for Internal Control in the Federal Government* (Green Book), published by the U.S. Government Accountability Office, as its framework for its system of internal control. Specifically, Green Book Paragraph OV4.08, *Documentation Requirements*, states that documentation is a necessary part of an effective internal control system and is required for the effective design, implementation, and operating effectiveness of an entity's internal control system.

## WHAT PROBLEM DID THE AUDIT WORK IDENTIFY?

During our Fiscal Year 2020 audit work, we found that the Department worked with DXC to ensure that the appropriate system components and controls, such as database change management and database backup and recovery controls, were clearly identified in the SOC 1, Type II report. However, the Department did not develop, document, implement, or communicate a process to review the SOC 1, Type II reports annually.

## WHY DID THIS PROBLEM OCCUR?

Department staff stated that SOC reports are reviewed when the Department receives them, but an annual review process has not yet been formally documented or implemented. The Department stated that it plans to document and implement the process by July 2021.

## WHY DOES THIS PROBLEM MATTER?

Without a formalized SOC 1, Type II review process in place, the Department may not be aware of issues identified in the report relating to the controls its service organizations have designed, implemented, and operate over contracted services as they relate to financial reporting and compliance with federal regulations.

CLASSIFICATION OF FINDING	SIGNIFICANT DEFICIENCY
THIS FINDING APPLIES TO PRIOR AUDIT RECOMMENDATION 2019-052B	

# RECOMMENDATION 2020-014

The Department of Health Care Policy and Financing should improve internal controls over financial reporting by developing, documenting, implementing, and communicating a process for conducting annual reviews of the Colorado interChange's System and Organization Controls (SOC) 1, Type II reports to determine if any issues have been noted and whether actions are necessary to remediate these issues.

## RESPONSE

### DEPARTMENT OF HEALTH CARE POLICY AND FINANCING

AGREE. IMPLEMENTATION DATE: JULY 2021.

The Department is currently documenting all processes and reports. Implementation of a process for conducting reviews of the SOC 1, Type II reports will be completed by the July 2021 due date.



# DEPARTMENT OF HIGHER EDUCATION

The Department of Higher Education was established under state statute [Section 24-1-114, C.R.S.] and includes all public higher education institutions in the state. It also includes the Auraria Higher Education Center; the Colorado Commission on Higher Education; the Colorado Student Loan Program, dba College Assist; CollegeInvest; History Colorado; and the Division of Private Occupational Schools.

State public institutions of higher education are governed by 10 different boards. The governing boards and the schools they oversee are as follows:

- BOARD OF REGENTS OF THE UNIVERSITY OF COLORADO
  - University of Colorado Boulder
  - University of Colorado Denver
  - University of Colorado Denver | Anschutz Medical Campus
  - University of Colorado Colorado Springs
  
- BOARD OF GOVERNORS OF THE COLORADO STATE UNIVERSITY SYSTEM
  - Colorado State University–Fort Collins
  - Colorado State University–Pueblo
  - Colorado State University–Global Campus
  
- BOARD OF TRUSTEES FOR THE UNIVERSITY OF NORTHERN COLORADO
  - University of Northern Colorado
  
- BOARD OF TRUSTEES OF THE COLORADO SCHOOL OF MINES
  - Colorado School of Mines
  
- STATE BOARD FOR COMMUNITY COLLEGES AND OCCUPATIONAL EDUCATION
  - Arapahoe Community College
  - Colorado Northwestern Community College

Community College of Aurora  
Community College of Denver  
Front Range Community College  
Lamar Community College  
Morgan Community College  
Northeastern Junior College  
Otero Junior College  
Pikes Peak Community College  
Pueblo Community College  
Red Rocks Community College  
Trinidad State Junior College

- BOARD OF TRUSTEES FOR ADAMS STATE UNIVERSITY  
Adams State University
- BOARD OF TRUSTEES FOR COLORADO MESA UNIVERSITY  
Colorado Mesa University
- BOARD OF TRUSTEES FOR METROPOLITAN STATE UNIVERSITY OF  
DENVER  
Metropolitan State University of Denver
- BOARD OF TRUSTEES FOR WESTERN COLORADO UNIVERSITY  
Western Colorado University
- BOARD OF TRUSTEES FOR FORT LEWIS COLLEGE  
Fort Lewis College

# ADAMS STATE UNIVERSITY

The Board of Trustees of Adams State University is the governing board for Adams State University (University). The Board of Trustees has oversight and responsibility in the areas of finance, resources, academic programs, admissions, role and mission, and personnel policies.

The board consists of nine members appointed by the Governor to serve 4-year terms. Additionally, an elected member of the faculty of the University serves for a 2-year term and an elected member of the student body of the University serves for a 1-year term. The President of the University is responsible for providing leadership and administering the policies and procedures of the Board of Trustees. The board conducts its business at regular monthly meetings, all of which are open to the public.

The University is a liberal arts university with graduate programs in teacher education, business, counseling, and art. Section 23-51-101, C.R.S., states that the University shall be a general baccalaureate institution with moderately selective admission standards. The University is a regional educational provider approved to offer limited professional programs, Hispanic programs, undergraduate education degrees, masters level programs, Ph.D. level programs, and 2-year transfer programs with a community college role and mission, except for vocational education programs.

Full-time equivalent (FTE) students, faculty, and staff reported by the University for the last 3 fiscal years were as follows:

ADAMS STATE UNIVERSITY FULL-TIME EQUIVALENT STUDENTS, FACULTY, AND STAFF FISCAL YEARS 2018 THROUGH 2020			
	2018	2019	2020
Resident Students	1,647.6	1,553.9	1,482.0
Nonresident Students	757.1	715.0	778.8
<b>TOTAL STUDENTS</b>	<b>2,404.7</b>	<b>2,268.9</b>	<b>2,260.8</b>
Faculty FTE	181.7	168.8	174.1
Staff FTE	146.8	142.5	140.1
<b>TOTAL FACULTY AND STAFF FTE</b>	<b>328.5</b>	<b>311.3</b>	<b>314.2</b>

SOURCE: Adams State University's financial statements for June 30, 2020.

The following comment was prepared by the public accounting firm of Wall, Smith, Bateman Inc., which performed the Fiscal Year 2020 audit work at the University under contract with the Office of the State Auditor.

## ACCOUNTING RECONCILIATION AND REPORTING CONTROLS

Adams State University's accounting department is responsible for all of the University's financial accounting and reporting, including the accurate and timely entry, reconciliation, and approval of financial transactions in the University's accounting system and preparation of its financial statements. The University's accounting department is also responsible for submitting additional fiscal year-end accounting information through exhibits to the Office of the State Controller (OSC) for inclusion in the State's financial statements.

### WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of the audit work was to assess the adequacy and effectiveness of the University's internal controls over financial and

reporting activities, and to determine whether the University complied with applicable accounting standards during Fiscal Year 2020. In addition, we reviewed the University's progress in implementing our Fiscal Year 2019 audit recommendation related to improving accounting controls. At that time, we specifically recommended that the University continue to improve its internal controls over financial activities by ensuring it has effective supervisory review and approval procedures in place as well as enhancing fiscal year-end training to staff over the implementation and performance of internal control procedures.

As part of our audit testing, we reviewed the University's *Financial Management Manual* (Guide) and inquired of accounting department staff as to the existence of internal controls related to fiscal year-end financial close activities. Additionally, we reviewed the University's exhibits and related supporting documentation that were prepared and submitted to the OSC for Fiscal Year 2020 in order to determine whether the University staff prepared this information accurately and in accordance with the OSC's *Fiscal Procedures Manual* (Manual).

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured our audit work against the following criteria:

- The University's Financial Management Guide, which specifies procedures for administering financial processes to be designed so that the duties of one employee provide a crosscheck on the work of one or more other employees. Examples of these internal controls would be updated policies and procedures, including requirements for secondary reviews, proper segregation of duties, the maintenance of supporting documentation, and requirements for reconciliations of financial activity. In addition, the Guide aligns with the OSC State Fiscal Rule 1-8 (*Pre-audit Responsibility for Accounting Documents and Financial Transactions*). According to OSC's State Fiscal Rule 1-8, the State's institutions of higher education "shall implement

internal accounting and administrative controls that reasonably ensure that financial transactions are accurate, reliable, and conform to state fiscal rules.”

- The OSC’s Manual contains specific instructions for completing exhibits. Specifically:
  - ▶ Exhibit D, *Schedule of Debt Service Requirements to Maturity*, is used to report the institution’s principal and interest payments by year throughout the term of the debt. In addition, the total amount of the original obligation for each type of debt must be reported in order “to provide a frame of reference for the financial statement reader so that they can determine the State’s process in paying down its borrowing obligations.”
  - ▶ Exhibit J, *Financial Statement Reconciliation*, is used to:
    - Reconcile the institution’s financial statements to the institution’s trial balance recorded within the State of Colorado’s accounting system (CORE).
    - Provide assurance to the State Controller that the institution’s financial statements properly accumulate CORE accounts in the same format the OSC uses for the State’s Comprehensive Annual Financial Report.
  - ▶ Exhibit V1, *Higher Education Cash Flow Statement – Supplemental Information*, is used to report information needed for the conversion of the statement of cash flows from the indirect method to the direct method and to disclose noncash transactions.

## WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

Overall, we identified internal control issues related to the University’s fiscal year-end accounting reconciliation and reporting and determined

that the University had not fully implemented our Fiscal Year 2019 audit recommendation. Specifically, while our Fiscal Year 2020 audit work determined that the University made progress in the implementation of supervisory review controls and approval procedures related to year-end financial activity during Fiscal Year 2020, we determined that the additional controls were ineffective in preventing and/or identifying and correcting year-end reconciliation errors. Further, the additional internal controls did not ensure the accurate submission of OSC exhibits.

As a result of our audit testwork, we identified the following issues:

- The University’s Exhibit D, *Schedule of Debt Service Requirements to Maturity*, overstated the total amount of the original obligation for each type of debt by \$22,080,000, because it incorrectly included debt issues refinanced in Fiscal Year 2019.
- The University’s Exhibit J, *Financial Statement Reconciliation*, understated the University’s “net position – restricted for other purposes” and overstated the “net position – unrestricted” line items, by \$1,200,000; the University’s financial statements contained the same errors.
- The University’s Exhibit V1, *Higher Education Cash Flow Statement – Supplemental Information*, incorrectly excluded \$20,700,000 of agency fund receipts and corresponding disbursements.
- The University’s capital asset depreciation expense and accumulated depreciation reported on its financial statements were understated, and the “net investment in capital assets” was overstated by approximately \$858,000.
- The general ledger balance for the University’s student tuition receivable inaccurately exceeded the detailed student ledger balance by approximately \$123,000, and, as a result, the student tuition receivable and related revenue account were both overstated at fiscal year-end.

After we brought the errors to University staff’s attention, University staff corrected the University’s financial statements and submitted corrected exhibits to the OSC.

## WHY DID THESE PROBLEMS OCCUR?

The University did not have adequate internal controls in place to ensure that fiscal year-end accounting and financial reporting errors were prevented or identified and corrected. Specifically, the University’s reconciliation of fiscal year-end accounts receivable, capital asset, and net position-related accounts along with its processes for the preparation, review, and approval of the fiscal year-end financial statements and exhibits did not prevent or identify the errors found during the audit.

While the University made progress in implementing the delegation of reconciliation processes to allow for supervisory review and contracted with an independent, experienced accountant to review the exhibits during Fiscal Year 2020, it lacked a complete and effective overall review and comparison of its accounting reconciliations and exhibits to the financial statements presented for audit.

## WHY DO THESE PROBLEMS MATTER?

Without adequate controls in place over financial activities, the University cannot ensure the accuracy and completeness of its reported financial information and, ultimately, the State’s financial statements. Performing an adequate reconciliation of accounting transactions and implementing an effective review of fiscal year-end reports will aid in reducing errors and omissions, as well as detecting and correcting errors.

CLASSIFICATION OF FINDING	SIGNIFICANT DEFICIENCY
THIS FINDING APPLIES TO PRIOR AUDIT RECOMMENDATIONS 2019-014A AND 2019-014B	

# RECOMMENDATION

## 2020-015

Adams State University should continue to improve its internal controls over financial activities by:

- A Enhancing its fiscal year-end reconciliation and exhibit preparation procedures to ensure the accurate preparation of financial statements and exhibits in accordance with the Office of the State Controller's *Fiscal Procedures Manual*.
- B Ensuring effective overall supervisory reviews and approvals are in place for fiscal year-end accounting and reporting processes to identify and correct any errors in the financial statements.

# RESPONSE

## ADAMS STATE UNIVERSITY

- A AGREE. IMPLEMENTATION DATE: AUGUST 2021.

The University will enhance fiscal year-end reconciliation and exhibit preparation procedures to ensure the accurate preparation of financial statements and exhibits in accordance with the Office of the State Controller's *fiscal procedures manual*.

- B AGREE. IMPLEMENTATION DATE: AUGUST 2021.

The University will ensure effective overall supervisory reviews and approvals are in place for fiscal year end accounting and reporting processes.

# METROPOLITAN STATE UNIVERSITY OF DENVER

Established in 1963 as Colorado’s “College of Opportunity,” Metropolitan State University of Denver (University or MSU Denver) is the third largest higher education institution in Colorado and one of the largest public 4-year universities in the United States. With a modified open-enrollment policy, students who are at least 20 years old need only have a high school diploma, a general educational development (GED) high school equivalency certificate, or the equivalent to gain admission.

The University is governed by the Board of Trustees, an 11-member board consisting of nine voting members appointed by the Governor of Colorado with the consent of the Senate, and a faculty and a student representative, both of whom are non-voting.

The University offers 96 major fields of study and 94 minors, 28 certificates, and 40 licensure programs through its College of Business; School of Education; School of Hospitality; College of Letters, Arts and Sciences; and College of Professional Studies. Degrees include Bachelor of Science, Bachelor of Arts, Bachelor of Fine Arts, Bachelor of Music, Bachelor of Music Education, and eight Master’s majors and nine Master’s certificates. Academic bachelor programs range from the traditional, such as English, art, history, biology, and psychology, to business-related degrees in computer information systems, accounting, and marketing; and professional directed programs in nursing, healthcare management, criminal justice, pre-medicine, pre-law, and pre-veterinary science. The Master’s major programs include art in teaching, social work, professional accountancy, health administration, business administration, cybersecurity, Clinical Behavioral Health, and Human Nutrition and Dietetics.

Enrollment and faculty and staff information is provided below. Full-time equivalent (FTE) students reported by the University for the last 3 fiscal years are as follows:

METROPOLITAN STATE UNIVERSITY OF DENVER FULL-TIME EQUIVALENT STUDENTS, FACULTY, AND STAFF FISCAL YEARS 2018 THROUGH 2020			
	2018	2019	2020
Resident Students	14,733	14,570	14,067
Nonresident Students	519	538	521
<b>TOTAL STUDENTS</b>	<b>15,252</b>	<b>15,108</b>	<b>14,588</b>
Faculty FTE	853	836	825
Staff FTE	517	533	544
<b>TOTAL FACULTY AND STAFF FTE</b>	<b>1,370</b>	<b>1,369</b>	<b>1,369</b>

SOURCE: Metropolitan State University of Denver's financial statements for the Fiscal Year Ended June 30, 2020.

The following comment was prepared by the public accounting firm of Plante & Moran, PLLC, which performed the Fiscal Year 2020 audit work at the University under contract with the Office of the State Auditor.

## INCORRECT RECORDING OF ASSET AND LIABILITY TRANSFER

On August 17, 2010, the University's Board of Trustees approved the incorporation of a special-purpose, not-for-profit corporation known as HLC@Metro, Inc. (HLC@Metro) with the intention that HLC@Metro would own the Hotel and Hospitality Learning Center (HLC), and related assets, including a hotel located on the University's campus. After the hotel was built, HLC@Metro established an agreement with Sage Hospitality to manage the hotel and established a franchise agreement with Marriott to market the hotel.

Due to the nature and significance of HLC@Metro's relationship with the University, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *the Financial Reporting Entity: Omnibus*, and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, HLC@Metro, Inc is considered to

be a discretely presented component unit of the University; therefore, the University reports HLC@Metro’s financial statements in a separate column on the face of the University’s financial statements.

During Fiscal Year 2020, the University entered into an agreement with HLC@Metro under which the University effectively purchased and transferred most of HLC@Metro’s assets and liabilities to the University as of June 30, 2020. The agreement and resulting transfer of assets and liabilities occurred in order to allow the hotel to potentially be used as additional COVID-19 hospital capacity for the State of Colorado, since HLC@Metro’s existing bond covenants did not allow for the unconventional use of the hotel space. More specifically, in an effort to make the hotel available to the City and County of Denver and the surrounding communities as possible hospital patient overflow, a complex set of transactions were executed to alleviate use restrictions on the hotel, which resulted in the University acquiring the hotel. Prior to the acquisition, the HLC@Metro Series 2010 bonds, which were used to construct the hotel, only allowed the space to be use as a hotel and not as a care facility. In order to release the use restriction on the hotel, HLC@Metro’s Series 2010 bonds needed to be paid off (or defeased).

In April 2020, the University issued Series 2020 bonds, the proceeds of which were used by the University to fund the purchase of most of the assets and liabilities of HLC@Metro, including the hotel. In turn, HLC@Metro used the proceeds from the sale of its assets to pay off its existing Series 2010 bonds, which allowed the University to move forward with potentially using the hotel as a care facility. As part of the bond issuance, the University began steps to enter into an interest rate swap agreement in order to protect, or “hedge,” against the potential increase of interest rates. This interest rate swap agreement was executed on September 30, 2020.

## WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of the audit work was to test recorded journal entries related to the transfer of assets and liabilities from HLC@Metro to the University, including entries related to its interest rate swap agreement.

Overall, we performed testing to determine whether the University appropriately recorded the activities related to the transfer of assets and liabilities in its accounting records. Specific testing we performed included the following:

- Review of underlying agreements related to the asset transfers.
- Review of support for the amount of the transferred assets.
- Requested information related to the interest rate swap, including a report obtained by management from an external specialist that concluded on the effectiveness of the interest rate as of June 30, 2020. Effectiveness refers to the extent that the changes in the fair value of the interest rate swap offset the changes in value of the interest rate. The resulting accounting treatment for the recognition of the interest rate swap is determined based on the conclusion about effectiveness.
- Summary of management's accounting considerations and conclusions and related journal entries recorded.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

Governmental accounting standards contained within Governmental Accounting Standards Board (GASB) Statement 69, *Government Combinations and Disposals of Government Operations*, (GASB 69) addresses requirements for recording activities related to asset and liability transfers. Specifically, paragraph 43 of GASB 69, states that

“the acquiring government should recognize the assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the carrying values of the selling entity.” GASB Statement 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, (GASB 56), also addresses related party transactions. Specifically, paragraph 4 discusses the requirement to “recognize the substance of the transaction rather than merely its legal form” with respect to related party transactions. Finally, GASB Statement 53, *Accounting and Financial Reporting for Derivative Instruments*, (GASB 53) addresses the requirements for accounting for “hedge” instruments, such as interest rate swaps.

## WHAT PROBLEM DID THE AUDIT WORK IDENTIFY?

Based on our testing, we determined that the University overstated in its financial statements the value of the capital assets transferred to it from HLC@Metro by approximately \$8.3 million and understated the liability and related deferred outflow of resources related to the interest rate swap by approximately \$11.5 million. Further, the University originally incorrectly recorded the liability and deferred outflow of resources related to the interest rate swap on HLC@Metro’s Statement of Net Position within the University’s financial statements instead of on the University’s Statement of Net Position.

## WHY DID THIS PROBLEM OCCUR?

This problem occurred because the University did not have sufficient internal controls in place to ensure that it executed its existing policies and procedures related to unusual and significant accounting transactions. Specifically, although the University has procedures in place for researching applicable accounting guidance for unusual and significant accounting transactions, it did not sufficiently allocate staff to research and appropriately apply guidance specific to government acquisition of assets within the same financial reporting entity, as

outlined in GASB 69 and GASB 56. As a result, the University's internal controls failed to ensure that its evaluation of the transfer of liabilities was complete, and included the impact of the interest rate swap liability.

## WHY DOES THIS PROBLEM MATTER?

Without proper application of relevant accounting guidance, amounts recorded on the University's financial statements were materially overstated. Additionally, the incomplete analysis related to the interest rate swap liability led to the related balances initially being reported on the wrong reporting unit, which would have resulted in liabilities and deferred outflow of resources on the University's financial statements being materially understated, with an offsetting overstatement on the discretely presented component unit's financial statements.

CLASSIFICATION OF FINDING	MATERIAL WEAKNESS
THIS FINDING DOES NOT APPLY TO A PRIOR AUDIT RECOMMENDATION	

# RECOMMENDATION

## 2020-016

Metropolitan State University of Denver should improve its internal controls over unusual and significant accounting transactions by fully executing its existing policies and procedures, including allocating the appropriate level of resources to research and implement required accounting procedures, while ensuring that all related transactions are correctly recorded and reported.

# RESPONSE

## METROPOLITAN STATE UNIVERSITY OF DENVER

AGREE. IMPLEMENTATION DATE: FEBRUARY 2021.

The complex nature of the acquisition of the HLC@Metro Inc., coupled with its expedient execution in the last quarter of the fiscal year, a remote work environment with substantial staff changes and position vacancies, combined with agreements and contracts not being finalized until several months after year end, lead to the errors noted above. In order to ensure existing controls are executed MSU Denver has implemented a procedure to document any unusual and significant accounting transactions that will include how the transactions were recorded with supporting relevant accounting guidance. Should an accounting transaction meet the definition of both unusual (not having occurred within the last 7 years) and significant (exceeding \$5 million) this documentation will not only be prepared but will be shared with the Chief Financial Officer (CFO) before the draft financials are shared with the auditors.

# UNIVERSITY OF COLORADO

The University of Colorado (University) was established on November 7, 1861, by an Act of the Territorial Government. Upon the admission of Colorado into the Union in 1876, the University was declared an institution of the State and the Board of Regents was established under the State Constitution as its governing authority.

The University consists of the system office and the following campuses:

- University of Colorado Boulder
- University of Colorado Denver
- University of Colorado Denver | Anschutz Medical Campus
- University of Colorado Colorado Springs

The campuses comprise 26 schools and colleges, which offer 178 programs of study at the undergraduate level and 284 at the graduate level, offering 377 bachelor and master's degrees, along with 110 doctorates.

The Board of Regents is charged constitutionally with the general supervision of the University and the exclusive control and direction of all funds of and appropriations to the University, unless otherwise provided by law. The Board of Regents consists of nine members serving staggered 6-year terms, one elected from each of the State's seven congressional districts and two elected from the State at large.

The Board of Regents appoints the President of the University. The President is the chief executive officer of the University. The President is responsible for the administration of the University, and for compliance of all University matters with applicable regent laws and policies, as well as state and federal constitutions, laws, and regulations. The President is the chief academic officer of the University, responsible for providing academic leadership in meeting the needs of the State, and

shall maintain and advance the academic policies of the University. The President is also the chief spokesperson for the University, interpreter of University policy, and represents and interprets the roles, goals, and needs of the University throughout the State and elsewhere, as appropriate. The Chancellors are the chief academic and administrative officers at the campus level, responsible to the President for the conduct of the affairs of their respective campuses in accordance with the policies of the Board of Regents.

Full-time equivalent (FTE) students, faculty, and staff reported by the University for the last 3 fiscal years were as follows:

UNIVERSITY OF COLORADO FULL-TIME EQUIVALENT STUDENTS, FACULTY, AND STAFF FISCAL YEARS 2018 THROUGH 2020			
	2018	2019	2020
Resident Students	41,259	41,817	41,845
Nonresident Students	17,054	17,742	17,904
<b>TOTAL STUDENTS</b>	<b>58,313</b>	<b>59,559</b>	<b>59,749</b>
Faculty FTE	6,420	6,986	7,246
Staff FTE	14,203	14,495	14,911
<b>TOTAL FACULTY AND STAFF FTE</b>	<b>20,623</b>	<b>21,481</b>	<b>22,157</b>

SOURCE: University of Colorado’s Financial Statements for June 30, 2020.

The following comments were prepared by the public accounting firm of BKD, LLP, which performed the Fiscal Year 2020 audit work at the University under contract with the Office of the State Auditor.

## VENDOR MANAGEMENT AND DATA CENTER PHYSICAL SECURITY

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the*

*specific technical details of this finding, along with the response, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding and response have been provided to the University in a separate, confidential memorandum.*

The University of Colorado's (University) University Information Services (UIS) department provides tools and applications that support university-wide business and academic applications. These include the core service lines and common business operations tools used by faculty and staff across all campuses. UIS also supports the computers, phones, networks and software used by the Office of the President.

The University's primary financial system is PeopleSoft and is housed at a co-location data center that is overseen by a service organization.

In lieu of each user entity performing a separate vendor assessment to obtain assurances on the service organization's internal control environment, service organizations may engage a service auditor to perform an examination and issue an opinion on the service organization's design of controls at a point in time, or the design and operating effectiveness of controls over a period of time. These examinations are referred to as System and Organization Control (SOC) examinations, in which service organizations can then provide user entities with the resulting SOC report to provide them with assurances on the controls they managed and operate.

## WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to review and determine whether vendor management and physical security controls related to the co-location data center housing the PeopleSoft application and its supporting infrastructure were designed, in place, and operating effectively during the audit period.

We interviewed relevant UIS staff, reviewed University policies and procedures and industry leading IT practices, and performed walk-throughs of the significant IT process areas to identify key controls within each respective process area.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our audit work against UIS' Vendor Management procedure, National Institute of Standards and Technology (NIST) Special Publication 800-53 Revision 4, and the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book).

## WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

During our testing we noted deficiencies within the UIS vendor management process, including UIS' approach to gain assurance over the service organization's data center physical security controls.

## WHY DID THESE PROBLEMS OCCUR?

UIS management did not have a process in place to obtain, review, and conclude on their service organization's SOC reports or perform an independent assessment and conclude on its service organization's controls. In addition, neither of the contractual agreements the University has with the service organization specifies a SOC report deliverable on a regular interval, even though the service organization does have an annual SOC examination performed and a report available.

UIS management did not have a formalized process in place to perform certain physical access IT controls, related to the co-location data center.

## WHY DO THESE PROBLEMS MATTER?

Without the appropriate independent review of service providers through SOC reports for the current reporting period, management may not be alerted to situations that may indicate that their service providers are not complying with contractual requirements or industry-leading practices.

The lack of a process in place, related to the co-location data center, could result in disclosure of sensitive information, system malfunctioning/unavailability, or damage to systems and/or data housed in the data center.

CLASSIFICATION OF FINDING	SIGNIFICANT DEFICIENCY
THIS FINDING DOES NOT APPLY TO A PRIOR AUDIT RECOMMENDATION	

## RECOMMENDATION 2020-017

The University of Colorado should improve vendor management and data center physical security controls by:

- A Mitigating the problems identified in PART A of the confidential finding.
- B Mitigating the problems identified in PART B of the confidential finding.
- C Mitigating the problems identified in PART C of the confidential finding.

# RESPONSE

## UNIVERSITY OF COLORADO

### A AGREE. IMPLEMENTATION DATE: DECEMBER 2020.

Management will work to mitigate the problems identified in PART A of the confidential finding. Please see the confidential finding for additional details.

### B AGREE. IMPLEMENTATION DATE: APRIL 2021.

Management will work to mitigate the problems identified in PART B of the confidential finding. Please see the confidential finding for additional details.

### C AGREE. IMPLEMENTATION DATE: OCTOBER 2020.

Management will work to mitigate the problems identified in PART C of the confidential finding. Please see the confidential finding for additional details.

## PEOPLESOFT— INFORMATION SECURITY

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding and response have been provided to the University in a separate, confidential memorandum.*

The University Information Services (UIS) unit is responsible for the access management for to a variety of enterprise-wide applications and systems, including PeopleSoft.

## WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to determine whether UIS had access management IT general controls designed, in place, and operating effectively for PeopleSoft during Fiscal Year 2020.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

The results of our audit work were measured against the University's IT procedures and standards.

## WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

We noted problems related to UIS's access management process for PeopleSoft.

## WHY DID THESE PROBLEMS OCCUR?

These problems occurred because UIS did not enforce the University's procedures and standards. Due to reprioritization of work-effort to deal with COVID-19 demands, certain access management processes were postponed.

## WHY DO THESE PROBLEMS MATTER?

Without adequate access management controls in place to ensure the confidentiality and integrity of the data in the PeopleSoft system, the University is risking that financially significant information, including

that of personally identified information, may be disclosed to individuals who are not authorized to view this information, or who are able to make unauthorized changes to system data.

CLASSIFICATION OF FINDING	SIGNIFICANT DEFICIENCY
THIS FINDING DOES NOT APPLY TO A PRIOR AUDIT RECOMMENDATION	

## RECOMMENDATION 2020-018

The University of Colorado’s University Information Services unit should improve PeopleSoft access management controls and ensure compliance with University IT procedures and standards by:

- A Mitigating the problems identified in PART A of the confidential finding.
- B Mitigating the problems identified in PART B of the confidential finding.

## RESPONSE

### UNIVERSITY OF COLORADO

- A AGREE. IMPLEMENTATION DATE: NOVEMBER 2020.

Management will work to mitigate the problems identified in PART A of the confidential finding. Please see the confidential finding for additional details.

- B AGREE. IMPLEMENTATION DATE: DECEMBER 2020.

Management will work to mitigate the problems identified in PART B of the confidential finding. Please see the confidential finding for additional details.

# PEOPLESOFT—CHANGE MANAGEMENT

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding and response have been provided to the University in a separate, confidential memorandum.*

IT change management processes are designed to ensure the efficient and prompt handling of all changes to IT infrastructure through the use of standardized methods and procedures.

## WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to determine whether UIS had IT change management internal controls in place and operating effectively relating to system changes within PeopleSoft. We interviewed UIS staff and reviewed documentation provided by staff to determine compliance with the University’s change management process.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our audit work against the University’s change management process, National Institute of Standards and Technology (NIST) Special Publication 800-53 Revision 4, and the United States Government Accountability General Accounting Office

*Standards for Internal Control in the Federal Government* (“Green Book”).

## WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY AND HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

During our testing, we noted problems within UIS’s process for managing the change management process for PeopleSoft.

## WHY DID THESE PROBLEMS OCCUR?

These problems occurred because the current process lacks specific requirements to retain documentation and UIS management does not have formalized segregation of duties policies.

## WHY DO THESE PROBLEMS MATTER?

A lack of formal policies, procedures, or processes in place, related to change management can result in damage or loss of data, inaccurate financial reports, and/or malfunctioning systems.

CLASSIFICATION OF FINDING	SIGNIFICANT DEFICIENCY
THIS FINDING DOES NOT APPLY TO A PRIOR AUDIT RECOMMENDATION	

# RECOMMENDATION 2020-019

The University of Colorado should improve PeopleSoft change management controls by:

- A Mitigating the problems identified in PART A of the confidential finding.

- B Mitigating the problems identified in PART B of the confidential finding.

## RESPONSE

### UNIVERSITY OF COLORADO

- A AGREE. IMPLEMENTATION DATE: DECEMBER 2020.

Management will work to mitigate the problems identified in PART A of the confidential finding. Please see the confidential finding for additional details.

- B AGREE. IMPLEMENTATION DATE: DECEMBER 2020.

Management will work to mitigate the problems identified in PART B of the confidential finding. Please see the confidential finding for additional details.

# WESTERN COLORADO UNIVERSITY

Western Colorado University (University) is a liberal arts university in Gunnison, Colorado, with graduate programs in teacher education, business, counseling, and art. Section 23-56-101, C.R.S., states that the University shall be a general baccalaureate institution with selective admission standards. The University is a regional educational provider approved to offer professional degree programs, undergraduate sciences degrees, and developmental education courses.

The Board of Trustees is the governing board for the University. The Board of Trustees has oversight and responsibility in the areas of finance, resources, academic programs, admissions, role and mission, and personnel policies.

The board consists of nine members appointed by the Governor to serve 4-year terms. Additionally, an elected member of the faculty serves for a 2-year term and an elected member of the student body serves for a 1-year term. The University President is responsible for providing leadership and administering the policies and procedures of the Board of Trustees. The board conducts its business at regular monthly meetings, all of which are open to the public. Full-time equivalent (FTE) students, faculty, and staff reported by the University for the last 3 fiscal years were as follows:

WESTERN COLORADO UNIVERSITY FULL-TIME EQUIVALENT STUDENTS, FACULTY, AND STAFF FISCAL YEARS 2018 THROUGH 2020			
	2018	2019	2020
Resident Students	1,528.2	1,524.1	1,593.4
Nonresident Students	590.9	646.0	599.0
<b>TOTAL STUDENTS</b>	<b>2,119.1</b>	<b>2,170.1</b>	<b>2,192.4</b>
Faculty FTE	156.9	160.6	155.9
Staff FTE	203.5	211.5	217.8
<b>TOTAL FACULTY AND STAFF FTE</b>	<b>360.4</b>	<b>372.1</b>	<b>373.7</b>

SOURCE: Western Colorado University's Fiscal Year 2020 Financial Statements.

The following comment was prepared by the public accounting firm of Dalby, Wendland & Co., P.C., which performed the Fiscal Year 2020 audit work at the University under contract with the Office of the State Auditor.

## TIMELY BANK ACCOUNT RECONCILIATIONS

Western Colorado University's (University) accounting department is responsible for all of the University's financial accounting and reporting, including the accurate and timely reconciliation and review of bank statements. This requires the University to properly implement adequate internal controls over its cash receipts and disbursements process, including a strong bank reconciliation process.

### WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of the audit work was to assess the design and effectiveness of the University's internal controls over cash receipts and disbursements. As part of these audit procedures, we performed testing to determine whether monthly bank statement reconciliations were prepared and reviewed in a timely manner.

We reviewed a sample of 40 of 48 bank statements the University received for its four bank accounts during Fiscal Year 2020—10 from each account—and inspected the University's related documentation to determine if bank reconciliations were prepared and reviewed in a timely manner during the year.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

Bank account reconciliation is a key component of internal controls over cash. As stated in the University's Internal Control procedure memo, Division of Duties (last updated April 2020), the Asset Accountant should reconcile the revenue, clearing, accounts payable, and payroll bank account balances reported within its accounting software to the monthly bank statements for those accounts and these should be reviewed by the controller. This should be done in a timely manner to ensure that:

- All receipts and disbursements are recorded.
- Disbursements are clearing the bank in a reasonable time frame.
- Bank account statements are reviewed timely and reconciled to the University's accounting records.
- Reconciling items are appropriate and are being recorded.
- The reconciled cash balance agrees to the general ledger cash balance.

The bank reconciliation preparation and review should occur shortly after each month end to identify errors or potential fraud in a timely manner.

## WHAT PROBLEM DID THE AUDIT WORK IDENTIFY?

As a result of our audit testwork, we found that bank account reconciliations were not completed for any of the University's four bank accounts for the months of January through May 2020 until July 2020. The five months of activity in the four accounts included a total of \$82.3 million deposits and a total of \$82.2 million withdrawals.

## WHY DID THIS PROBLEM OCCUR?

The University had a vacancy in its controller position within its accounting department from January through May 2020, but the University did not have a policy in place that specified an individual to serve as the backup reviewer for bank reconciliations in the event the controller was not available. Further, the University's bank reconciliation policy did not specify timeframe requirements for the completion and review of bank account reconciliations. As a result, the University's Asset Accountant did not prepare the bank reconciliations for the 5-month period, and a supervisor did not identify the issue until the University hired a new controller in June 2020.

## WHY DOES THIS PROBLEM MATTER?

By failing to perform and review bank reconciliations in a timely manner, the University increases its risk that misstatements related to cash transactions, whether due to errors or fraud, will occur and not be identified and addressed timely.

CLASSIFICATION OF FINDING	SIGNIFICANT DEFICIENCY
THIS FINDING DOES NOT APPLY TO A PRIOR AUDIT RECOMMENDATION	

# RECOMMENDATION

## 2020-020

Western Colorado University should improve its internal controls over cash accounts by:

- A Establishing a procedure that specifies a required timeframe for preparation and supervisory review of bank account reconciliations.
- B Assigning back-up responsibility for preparation of bank account reconciliations in the event of staffing vacancies.

# RESPONSE

## WESTERN COLORADO UNIVERSITY

AGREE. IMPLEMENTATION DATE: JULY 2020.

We have implemented procedures to complete all bank reconciliations within five business days of the end of the month. The reconciliation will be signed off on by the Controller and the Asset Accountant preparing the bank reconciliation. The reconciling items will be researched by the appropriate departments (payroll, accounts payable, etc.) on a timely basis and if we do not know the status of the reconciling items they will be documented. This was implemented in July 2020.

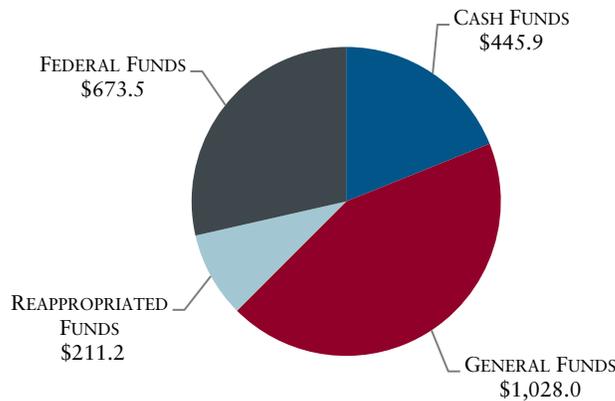
# DEPARTMENT OF HUMAN SERVICES

The Department of Human Services (Department) is solely responsible, according to statute [Section 26-1-111 (1), C.R.S.], for administering, managing, and overseeing the delivery of the State’s public assistance and welfare programs throughout Colorado. Most of these programs are administered through local county departments of human/social services. The Department also manages and directly administers programs in the areas of developmental disabilities, mental health, nursing homes, and youth corrections.

For Fiscal Year 2020, the Department was appropriated approximately \$2.4 billion and 5,135 full-time equivalent (FTE) staff.

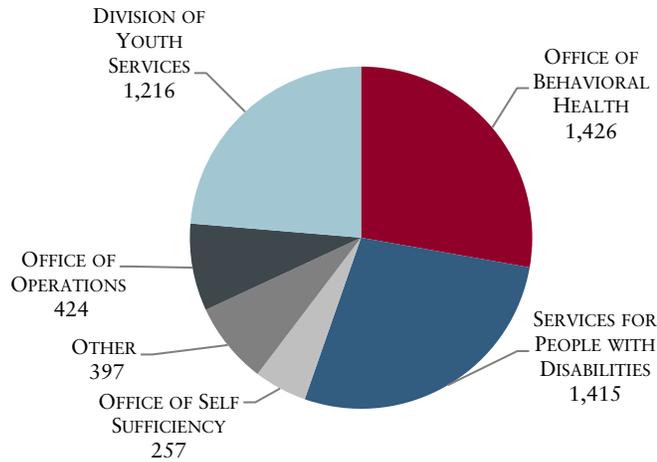
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for Fiscal Year 2020.

**DEPARTMENT OF HUMAN SERVICES  
FISCAL YEAR 2020 APPROPRIATIONS  
BY FUNDING SOURCE (IN MILLIONS)**



SOURCE: Joint Budget Committee Fiscal Year 2020-21 Appropriations Report.

DEPARTMENT OF HUMAN SERVICES  
 FISCAL YEAR 2020 FULL-TIME EQUIVALENT STAFF  
 BY MAJOR AREAS



SOURCE: Joint Budget Committee Fiscal Year 2020-21 Appropriations Report.

## COLORADO PERSONNEL PAYROLL SYSTEM— INFORMATION SECURITY

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding and response have been provided to the Department in a separate, confidential memorandum.*

The Department has about 5,100 active employees and, of those, 104 employees in their Human Resources and Payroll units currently have access to the Colorado Personnel Payroll System (CPPS), the State’s payroll system. The Office of the State Controller (OSC), within

the Department of Personnel & Administration, is the functional business owner of this system. The OSC requires agencies using CPPS, including the Department, to perform account management processes for agency CPPS users.

These account management processes are part of the required quarterly reporting to the OSC's Financial Services Unit.

## WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to determine whether the Department performed CPPS account management processes effectively.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our audit work against the OSC's CPPS security administration requirements and responsibilities.

## WHAT PROBLEM DID THE AUDIT WORK IDENTIFY?

The Department did not provide any evidence that staff performed the required CPPS account management processes during Fiscal Year 2020.

## WHY DID THIS PROBLEM OCCUR?

The Department reported that a new requirement from the OSC went into effect during the third quarter of Fiscal Year 2020, and the Department did not have procedures developed for it until after the end of the fiscal year. Staff were focused on COVID-19 responses during this time and did not assign the necessary personnel to perform the account management processes.

## WHY DOES THIS PROBLEM MATTER?

The Department is responsible for the information contained in CPPS for its agencies. By not performing CPPS account management processes, the reliability and security of data stored and reported in CPPS could be impacted.

CLASSIFICATION OF FINDING	SIGNIFICANT DEFICIENCY
THIS FINDING DOES NOT APPLY TO A PRIOR AUDIT RECOMMENDATION	

## RECOMMENDATION 2020-021

The Department of Human Services should improve IT controls and safeguard information contained in the Colorado Personnel Payroll System by mitigating the information security problem identified in the confidential recommendation.

## RESPONSE

### DEPARTMENT OF HUMAN SERVICES

AGREE. IMPLEMENTATION DATE: SEPTEMBER 2020.

The Colorado Department of Human Services has improved CPPS controls by mitigating the problems identified in the confidential finding.

# DEPARTMENT OF HUMAN SERVICES

The following recommendation relating to an internal control deficiency classified as a SIGNIFICANT DEFICIENCY was communicated to the Department of Human Services (Department) in the previous year, and has not been remediated as of June 30, 2020, because the original implementation dates provided by the Department are in a subsequent fiscal year. These recommendations can be found in the original report and SECTION III: PRIOR FINANCIAL RECOMMENDATIONS of this report.

CONTROLS OVER PAYROLL TIME CERTIFICATION					
CURRENT REC. NO.	2020-022	PRIOR REC. NO.	2019-023	IMPLEMENTATION DATE	A JULY 2020 B JULY 2020 C JULY 2020
CLASSIFICATION	SIGNIFICANT DEFICIENCY				



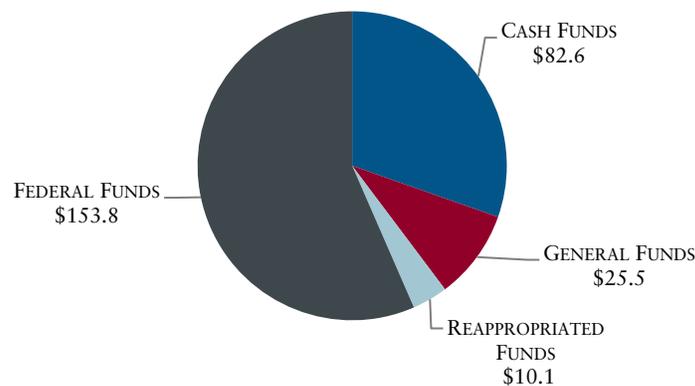
# DEPARTMENT OF LABOR AND EMPLOYMENT

The Department of Labor and Employment (Department) is responsible for ensuring compliance with regulations, performing safety inspections, and the administration of various programs. The principal programs the Department administers are Colorado’s Unemployment Insurance Program, Colorado’s Workers’ Compensation program, workforce development programs, and the Vocational Rehabilitation Programs.

For Fiscal Year 2020, the Department was appropriated approximately \$272.0 million and 1,293 full-time equivalent (FTE) staff.

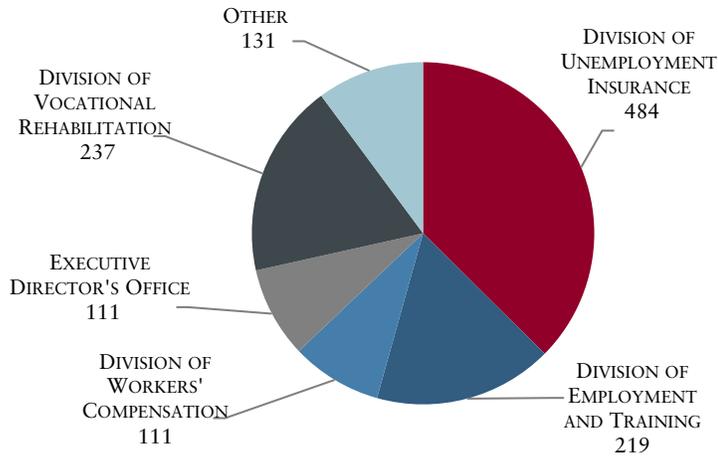
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for Fiscal Year 2020.

DEPARTMENT OF LABOR AND EMPLOYMENT  
FISCAL YEAR 2020 APPROPRIATIONS  
BY FUNDING SOURCE (IN MILLIONS)



SOURCE: Joint Budget Committee Fiscal Year 2020-21 Appropriations Report.

DEPARTMENT OF LABOR AND EMPLOYMENT  
FISCAL YEAR 2020 FULL-TIME EQUIVALENT STAFF  
BY MAJOR AREAS



SOURCE: Joint Budget Committee Fiscal Year 2020-21 Appropriations Report.

The following comments were prepared by the public accounting firm of BDO USA, LLP, which performed the Fiscal Year 2020 audit work at the Department under contract with the Office of the State Auditor.

## UNEMPLOYMENT INSURANCE FINANCIAL REPORTING

The Department’s Division of Unemployment Insurance is responsible for the administration and monitoring of Colorado's unemployment insurance programs, including the collection of unemployment insurance premiums from employers, the payment of unemployment insurance benefits to claimants, and conducting audits and investigations of premiums and benefits to ensure they are properly paid. The Department’s Accounting Section is responsible for all of the Department’s financial reporting, including the accurate and timely entry and approval of financial transactions into the Colorado Operations and Resource Engine (CORE), the State’s accounting system.

On March 13, 2020, the President of the United States issued the *Proclamation on Declaring a National Emergency Concerning the Novel Coronavirus Disease (COVID-19) Outbreak* and Congress subsequently passed the Emergency Unemployment Insurance Stabilization and Access Act of 2020 (EUISAA) and the Coronavirus Aid, Relief, and Economic Security Act (CARES). Both EUISAA and CARES included additional federal funding for and eased restrictions on all states' unemployment compensation programs. For example, CARES established the Pandemic Unemployment Assistance (PUA) program for individuals not eligible for regular Unemployment Insurance (UI), which includes self-employed individuals, gig workers, and other independent contractors.

Also in March 2020, the Governor declared a state of emergency relating to COVID-19 and issued Executive Order 2020-12 to expedite UI benefits claim processing and distribution of payments. To accomplish the directive, the Executive Order suspended various statutory provisions that previously required the Department to wait a specified number of days before paying a claim.

The Department reviews, or adjudicates, claims to ensure that claimants are eligible and entitled to receive UI benefits. As part of the adjudication process, wage checks for claimants, other than the new PUA claims, are compared to employer reported wages submitted to the Department on a quarterly basis and the Department sends a notification to the last employer to determine the validity and reason for the claimant leaving the workplace. In addition, the Department reviews to identify potential issues with a claimant's ability and availability to work and to ensure that the claimant is actively looking for work. If information provided by an interested party relating to the reason for leaving the workforce does not agree to the claimant information, the Department follows up on the information and issues eligibility determinations, as appropriate. Prior to the Governor's Order going into effect, the Department adjudicated claims prior to payment, which the Department indicated was generally a 4- to 6-week process.

For PUA claims, claimants self-attest eligibility to receive benefits under the program, but must provide documentation to support wages since the claimant’s benefit payment amount is calculated based on the claimant’s wages. As these individuals are not eligible to receive payments under the regular UI Program, a comparison cannot be completed automatically between the claimant-reported amount and the employer-reported amount of wages submitted to the Department. Department staff indicated that if a claimant does not provide documentation to support wages, or provides incomplete documentation, the claimant can still receive the minimum amount that is eligible under the program.

During Fiscal Year 2020, due to the COVID-19 pandemic, the Department experienced a 1,500 percent increase in UI benefits paid compared to Fiscal Year 2019. The Department reported it paid over \$4.2 billion in UI benefit payments during Fiscal Year 2020.

## WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of the audit work was to determine whether the Department had adequate internal controls in place during Fiscal Year 2020 over adjudicating claims and processing of UI benefit payments, and whether it recorded the UI financial transactions accurately in CORE.

As part of our testing procedures, we requested the detail of UI benefit payments processed by the Department from March to June 2020—the time period during which additional UI payments were issued as a result of the COVID-19 pandemic. We interviewed Department personnel related to the processing of UI payments, as well as the impacts on UI as a result of the pandemic. We requested support for amounts paid after fiscal year end that were related to claims incurred prior to June 30, 2020, as well as support for overpayments identified by the

Department after fiscal year end that related to benefits paid prior to June 30, 2020.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our audit against the following:

- Governmental Accounting Standards Board Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, as amended, states that “Preparing financial statements requires estimating the effects of future events. Examples of items for which estimates are necessary are uncollectible receivables.... Future events and their effects cannot be perceived with certainty; estimating, therefore, requires the exercise of judgment. Therefore, accounting estimates change as new events occur, as more experience is acquired, or as additional information is obtained.”
- The Office of the State Controller’s (OSC) *Fiscal Procedures Manual* (Manual) 3.1, *Preparing Accounting Estimates*, states that departments should review their current accounting estimation procedures to ensure they are consistent with OSC guidance. The revenue and expenditure accrual estimation methodologies must be documented, so the process and source data may be used from year to year to achieve consistency and improve the estimation methodology. An inaccurate estimate may indicate the need to research variances and use a different methodology to produce a more accurate estimate.

## WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

During our Fiscal Year 2020 audit, we identified several significant problems with the Department’s accounting related to UI benefit

payments. Specifically, we found that the Department failed to consider the impact of a 1,500 percent increase in UI claims during Fiscal Year 2020 resulting from the COVID-19 pandemic when performing its fiscal year-end accounting processes and recording accounting activity. As a result, the Department's accounting records were significantly understated as of the time of our audit. After we inquired about the accounting omissions, Department staff submitted three transactions totaling approximately \$2.1 billion to the OSC to record and adjust liabilities, receivables, federal revenue, and expenditures related to UI benefit payments in the Unemployment Insurance Fund.

The specific issues that we found are as follows:

- **FAILURE TO RECORD A PAYABLE FOR FISCAL YEAR 2020 CLAIMS DUE AS OF JUNE 30, 2020, BUT PAID AFTER YEAR END.** The Department failed to calculate and record an accounts payable amount for UI claims that were due to individuals as of June 30, 2020, but had not been paid. When we brought this to the Department's attention, the Department recorded an estimated liability and related expenditures owed to claimants of \$597.3 million, and a federal receivable and federal revenue of \$444.0 million. Department staff indicated that this estimate was based on payments made from the period of July 1 through July 18, 2020; however, the Department did not provide evidence that this period covered the accurate time frame for recording the estimate. Therefore, the reasonableness of this estimate could not be established.
- **FAILURE TO RECORD RECEIVABLES AND PAYABLES FOR UNADJUDICATED CLAIMS.** The Department did not record an estimated accounts receivable from claimants or related accounts payable to the federal government for erroneous and/or fraudulent claims paid prior to June 30, 2020, which had not been adjudicated. When we brought this to the Department's attention, the Department recorded an estimated overpayment receivable of \$359.5 million and federal payable of \$215.3 million. The Department calculated the estimate using a prior year UI

overpayment average across all states of 10.2 percent of claims paid. It was unclear if the prior year average reflected a similar overpayment percentage or if the estimate was otherwise appropriate due to the Department's lack of research related to the outstanding claims.

- **FAILURE TO RECORD ACTIVITY RELATED TO UNCOLLECTED OVERPAYMENTS.** In October 2020, the Department identified an error in the form used by applicants to apply for PUA claims and estimated that the error resulted in \$52.1 million in overpayments to 11,445 claimants during Fiscal Year 2020. Although the Department determined it would not require the claimants to repay the funds, the Department did not make an adjusting entry in CORE to reflect the overpayments, including reducing its federal revenues and expenditures and recording an amount due to the federal government and bad debt expense. In addition, the Department did not provide documentation to support the amount of the overpayments other than email correspondence, and it could not provide evidence that the entire \$52.1 million overpayment was related to payments prior to June 30, 2020.
- **CALCULATION ERROR IN ALLOWANCE ACCOUNT.** The Department miscalculated an offset, or allowance, to a UI benefit overpayment receivable that it recorded to reflect overpayments that it does not expect to collect from claimants. The Department used its methodology for estimating the allowance, but made a calculation error that resulted in the Department understating the allowance and overstating the receivable by \$7.4 million. After we notified the Department of the error, the Department corrected the entry.
- **FAILURE TO RECORD A RECEIVABLE FOR IDENTIFIED FRAUDULENT OVERPAYMENTS.** The Department identified fraudulent PUA payments totaling approximately \$243,000 during Fiscal Year 2020. For these identified payments, the claimant was not responsible for the identify theft fraud. The Department did not record a receivable and a payable to the federal government, or bad

debt expense for any of these fraudulent payments, and did not reduce its federal revenue.

## WHY DID THESE PROBLEMS OCCUR?

The Department lacked adequate internal controls over its accounting for UI benefit payments, as follows:

- As of June 30, 2020, the Department had not adjudicated all claims that had received UI benefits during Fiscal Year 2020, and therefore could not estimate the amount of UI overpayments it had made due to error or fraud as of June 30, 2020. As of the end of our audit, the Department stated that approximately 206,000 standard UI issues, representing about 82,000 unique claimants, had not been adjudicated and remained outstanding for payments that were processed prior to June 30, 2020. Furthermore, the Department could not provide information relating to the number of claims that still needed to be reviewed for payments made under the PUA program. This issue will also be addressed in the Department of Labor and Employment section of our Statewide Single Audit Report, to be released in June 2021.
- The Department lacked sufficient communication between its UI Program staff and accounting staff to consider the impacts of decisions made for the UI Program on the Department’s accounting records and, ultimately, the State’s financial statements.
- The Department did not have an adequate methodology for calculating and recording the estimated amount of receivables and payables for UI payments. Specifically, the Department’s current process requires that Department accounting staff record the receivables for established overpayments based on the benefit system once at fiscal year end, rather than during the year as overpayments are identified.

## WHY DO THESE PROBLEMS MATTER?

Overall, the Department's records did not permit us, nor was it practical to extend or apply other auditing procedures, to obtain sufficient, appropriate audit evidence to conclude that the receivable and payable balances in the Unemployment Insurance Fund as of June 30, 2020, were free of material misstatement. Further, due to the uncertainty surrounding the balances as a result of the significant number and amount of unadjudicated cases that were outstanding at fiscal year end, we issued a modified audit opinion on the State's Fiscal Year 2020 financial statements related to the Unemployment Insurance Fund and Business-Type Activities as a whole.

Strong financial accounting internal controls are necessary to ensure that UI balances are accurate; free of material misstatement; supported by sufficient, appropriate evidence; and reported accurately on the State's financial statements. Because the UI Program and its related activities are material to the State's financial statements, errors related to the program can negatively affect the auditor's opinion on the State's financial statements, as they did for Fiscal Year 2020.

CLASSIFICATION OF FINDING	MATERIAL WEAKNESS
THIS FINDING DOES NOT APPLY TO A PRIOR AUDIT RECOMMENDATION	

## RECOMMENDATION

### 2020-023

The Department of Labor and Employment (Department) should improve its internal controls over its accounting for Unemployment Insurance (UI) benefit payments by:

- A Establishing a timeframe for adjudicating the backlog of outstanding claims, and establishing overpayments for any benefits that were paid in error and/or fraud.

- B Developing and implementing an adequate communication process between its UI Program staff and accounting staff to consider the impact of program staff decisions on the Department’s accounting records and State’s financial statements, and to ensure that transactions are properly recorded in the Colorado Operations and Resource Engine.
- C Developing and implementing a methodology for calculating estimated receivables and payables for UI benefit payments, and recording receivables throughout the year as overpayments are established.

## RESPONSE

### DEPARTMENT OF LABOR AND EMPLOYMENT

- A AGREE. IMPLEMENTATION DATE: DECEMBER 2021.

The UI Division processed and continues to process the outstanding backlog of claims in accordance with: requirements contained within the Colorado Employment Security Act, Executive Order D 2020-12 and its extensions, Section 303(A)(1) of the Social Security Act, 20 CFR Part 602, Appendix A, Employment Security Manual (ESM), Part V, Section 6013, ETA Manual No. 301, UI Performs: Benefits Timeliness and Quality - Nonmonetary Determinations Quality Review, and Unemployment Insurance Program Letter (UIPL) 15-01. Additionally, the UI Division engaged with a vendor to assist with this work under all of the aforementioned requirements and will continue to utilize those additional services so long as merit staffing flexibility is provided through Congressional action. Unique challenges were caused by the COVID-19 pandemic, resulting in implementation of three new federal programs along with regular state unemployment benefits. Regular state claims for the preceding three fiscal years averaged 109,000 per year and did not require review of all claims. Claims submitted for regular state

benefits in the recently closed fiscal year amounted to 548,000 with all requiring review to ensure proper account charging pursuant to EO D 2020-12. This represents five years volume of work with 337,000 of those claims filed between March 15 and April 30,2020. We expect adjudication of the backlog of outstanding claims to be completed by the implementation date.

B AGREE. IMPLEMENTATION DATE: SEPTEMBER 2021.

Finance now has metrics in each employee's performance evaluation that requires written policies and procedures as part of the first step of the Finance Reorganization Plan. The UI Division and the Finance Office will strengthen communication and ensure there is mutual understanding of the impact of programmatic decisions on future accounting transactions. CDLE is committed to ensuring program and fiscal staff collaborate. Key UI Division Leadership, Finance Accountants, and Budget Analysts will attend regularly scheduled UI Budget meetings, Finance Accountants will be trained and cross trained and collaborate with UI program staff to ensure that all accounting transactions are properly recorded in the State's accounting system, the Colorado Operations and Resource Engine (CORE). The UI Division recognizes this recommendation as a shared responsibility with the Finance Office and will develop a system of check-off lists to be maintained and reviewed on a semi-annual basis to ensure proper procedures and notification to the Finance Office is occurring on a regular basis. Creating these documents will prevent similar errors from occurring in future years regardless of leadership in place at that time.

C AGREE. IMPLEMENTATION DATE: SEPTEMBER 2021.

One of the greatest impacts of COVID19 was, and continues to be, the increase in workload volume of regular state unemployment claims and related Finance activities. In 2020, regular unemployment claims equaled five years worth of work (548,000) and Pandemic Unemployment Assistance (PUA) claims equaled over one additional year of work (127,000). Historically, payables were

not recorded by CDLE due to the fact that benefit payments are made on a cash basis. Finance and UI will need to quantify and support, with data from MyUI+; what subsequent payments relate to the prior fiscal year in order to record payables. The SFY2020 external audit revealed that Finance Accountants were not aware (until February 2021) of the need to capture additional receivables for Pandemic funding or for overpayments. Normally, receivables are adjusted based on reporting from the benefit payment system once a year. Comprehensive reports were not available from MyUI+ for the additional receivable adjustment for pandemic claims and overpayments for SFY2020. With more frequent budget to actual meetings; with the availability of comprehensive reporting from MyUI+, with the development of policies and procedures of accounting processes, and with the implementation of a checklist of activities; Finance can record receivables and payables on a consistent basis throughout the year.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Department's Accounting Section is responsible for all of the Department's financial reporting, including the accurate and timely entry and approval of financial transactions into CORE. The Department is also responsible for providing additional information through the submission of OSC-required exhibits to assist the OSC in its preparation of the State's financial statements and required note disclosures.

In order for the OSC to meet its statutorily-required timeframes for the creation of the State's financial statements, the OSC established various periods with specified closing dates in CORE for department entries. For example, for Fiscal Year 2020, Period 13, which was closed on August 4, 2021, was available for departmental entry of adjustments

and represented the OSC's closing of the State's "official accounting records" by 35 days after fiscal year end, as required by state statute [Section 24-30-204(3), C.R.S.].

## WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of the audit work was to determine whether the Department had adequate internal controls in place over financial accounting and reporting during Fiscal Year 2020. In addition, the purpose of our work was to determine whether the Department complied with state requirements and OSC procedures related to financial accounting and reporting.

We analyzed the Department's CORE transactional data recorded after the State's Fiscal Year 2020 statutory closing date of August 4, 2020, to identify the number and dollar amount of transactions that were processed after the OSC's statutory deadline for closing the State's accounting records. We also reviewed the Department's exhibits that were submitted to the OSC for Fiscal Year 2020 year-end reporting and the related supporting documentation to determine whether Department staff prepared the exhibits in accordance with the OSC's Manual.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured our results against the following criteria:

- State statute [Section 24-30-204(3), C.R.S.] requires the State's "official accounting records" to be closed no later than 35 days after the end of the fiscal year. Specifically, for Fiscal Year 2020, the State's accounting records were required to be closed by August 4, 2020. As of this date, all departments' adjusted revenue, expenditures, and expense accounts were required to be entered into

CORE. Any Fiscal Year 2020 entries made after that date were required to be approved by the OSC.

- State Fiscal Rule 1-2, *Internal Controls*, Rule 3.5, requires that state departments “implement internal accounting and administrative controls that reasonably ensure that financial transactions are accurate, reliable, conform to State Fiscal Rules, and reflect the underlying realities of the accounting transaction (substance rather than form).” Examples of these internal controls are written policies and procedures, periodic reconciliations of amounts to CORE, and periodic staff training on policies and procedures.
- The Manual references the Fiscal Year 2020 Open/Close Calendar published by the OSC, which states that the submission due dates for the majority of the exhibits is August 12, 2020. In addition, the Manual contains specific instructions for the completion of the exhibits. Specifically:
  - ▶ **Exhibit M, *Custodial Credit Risk Related to Cash on Hand or Deposited with Financial Institutions***, is used to report each department’s cash on hand and cash deposited in financial institutions by categories of risk. In addition, the Exhibit M reports the related cash balances recorded in CORE.
  - ▶ **Exhibit K1, *Schedule of Federal Assistance***, is used to report federal expenditure information for statewide compilation and reporting of the *Schedule of Expenditures of Federal Awards* (SEFA). Federal requirements issued by the Office of Management and Budget (OMB) [2 CFR 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Appendix XI to Part 200—Compliance Supplement] requires that state unemployment insurance expenditures be included with federal unemployment insurance expenditures on the State’s SEFA; therefore, the full amount of state and federal unemployment insurance expenditures should be included on the Exhibit K1. Also, the OSC requires departments to report all monetary and non-

monetary federal award amounts passed through to a subrecipient in a separate column on the Exhibit K1.

## WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

Based on our audit testwork, we identified issues with the Department's fiscal year-end accounting procedures and exhibit reporting. The specific issues we identified are as follows:

- The Department posted 142 entries totaling approximately \$944.3 million between the State's statutory closing deadline of August 4, 2020, and September 17, 2020, or up to 44 days after the closing deadline. Furthermore, based on our audit testwork, we determined that the Department did not consider the impacts of Unemployment Insurance overpayments and potential fraud to the accounting records as of fiscal year end, and did not record related entries in CORE. After we brought the issues to the Department's attention, the Department submitted three entries totaling approximately \$2.1 billion to the OSC to record liabilities and receivables for the Unemployment Insurance Fund on February 22, 2021, more than 200 days after the State's statutory closing period. See RECOMMENDATION 2020-023 for additional details.
- The Department submitted 6 of its 10 required exhibits (60 percent) 13 to 15 days after the OSC deadline. In addition, we identified errors and omissions related to 2 of its 10 exhibits (20 percent). Specifically, we found the following issues:
  - ▶ **Exhibit M, *Custodial Credit Risk Related to Cash on Hand or Deposited with Financial Institutions*.** For one of eight cash accounts included on the Department's Exhibit M, the Department incorrectly understated its CORE balance by \$20.9 million. After we notified Department staff of the error, they submitted a corrected Exhibit M to the OSC. Additionally, for two cash accounts, the Department reported large differences totaling \$226.6 million between the Department's bank balances

and the amounts recorded in CORE on its Exhibit M. The Department could not provide evidence to support whether the balance in CORE, which was lower than the bank balance in both instances, was accurate or the reason for the differences. These two accounts are used by the Department to record unemployment insurance benefit transactions, including payments to individuals and reimbursements from the federal government.

- ▶ **Exhibit K1, *Schedule of Federal Assistance*.** The Department inappropriately omitted approximately \$1.4 billion of the State’s Unemployment Trust Fund expenditures on the Exhibit K1. While these amounts are not federal expenditures, the State’s expenditures from the Unemployment Trust Fund are required to be reported on the SEFA. In addition, the Department inappropriately omitted \$30.2 in payments to subrecipients on the Exhibit K1. After we notified Department staff of the errors, they submitted a corrected Exhibit K1 to the OSC.

## WHY DID THESE PROBLEMS OCCUR?

The Department lacked sufficient internal controls over its financial accounting processes, including its fiscal year-end closing process for Fiscal Year 2020. Specifically, the Department did not have documented policies and procedures related to its accounting processes and exhibit preparation and review. In addition, the Department did not perform routine reconciliations between its bank and CORE balances throughout the year or at fiscal year end to identify, investigate, and correct, as applicable, reconciling items in a timely manner. Finally, the Department experienced staff turnover in key financial positions during Fiscal Year 2020, and existing employees were not adequately cross-trained to take on the required additional responsibilities.

## WHY DO THESE PROBLEMS MATTER?

Strong financial accounting internal controls, including effective review processes and procedures over financial transactions, exhibits, and

routine reconciliations, are necessary to ensure that balances are reported accurately and in accordance with rules and regulations. Without sufficient internal controls, the Department cannot ensure that it is providing timely, complete, and accurate financial information to the OSC and, ultimately, that the State's financial statements are accurate.

CLASSIFICATION OF FINDING	MATERIAL WEAKNESS
THIS FINDING DOES NOT APPLY TO A PRIOR AUDIT RECOMMENDATION	

## RECOMMENDATION

### 2020-024

The Department of Labor and Employment should strengthen its internal controls over financial reporting to ensure the timely entry of fiscal year-end financial activity into the Colorado Operations Resource Engine (CORE) and accurate reporting of financial information by:

- A Developing and implementing policies and procedures for its accounting processes and exhibit preparation and review.
- B Performing reconciliations between its bank and CORE balances throughout the year and at fiscal year end to identify, document, and correct reconciling items in a timely manner.
- C Cross-training existing employees on additional responsibilities to allow for appropriate delegation when turnover occurs.

# RESPONSE

## DEPARTMENT OF LABOR AND EMPLOYMENT

### A AGREE. IMPLEMENTATION DATE: MARCH 2022.

CDLE would like to provide context surrounding Fiscal Year 2020 (SFY20). On February 20, 2020, CDLE lost both its Controller and Deputy Controller to transfers to another State agency. By the end of July, we lost two Accountant IIIs (one to another State agency), an Accountant I who transferred to another State agency and one Accountant II. Lastly, in August; we lost one of our two Accountant IVs, who had the responsibilities of cost allocation, schedule K-1, and supervising UI Accountants (who manage cash, subsystems, year end reconciliation of applicable grants, and reconciliation of UI bank accounts). These staff vacancies compromised our ability to timely and effectively close SFY20. Finance had fewer experienced accountants to complete all required tasks and meet deadlines. By June, it was obvious to the new Controller and the DED/CFO that there was inadequate documentation of financial policies and procedures and no cross training. As a result, the new Controller and the DED/CFO released a Finance Reorganization Plan on August 21st to address and remedy these issues. The development and release of the Finance Reorganization Plan is our first step toward hiring Accountants with state experience which will aid in the creation of policies and procedures, monitoring, timely review and completion of accounting processes up to and including activities and exhibits related to fiscal year end.

### B AGREE. IMPLEMENTATION DATE: MARCH 2022.

Prior Finance leadership left CDLE with inconsistent reconciliation practices, and inadequate written procedures. Once fully staffed, with technically capable individuals in the

appropriate roles and responsibilities; we will remedy these issues. Our plan to address these deficiencies, includes but is not limited to, checklists/desk aids, written documentation of policies and procedures, training and cross training, and implementing monthly bank reconciliations throughout the year and at fiscal year-end to identify, document, and correct reconciling items in a timely manner. We project that it will require a year to be fully staffed, trained, and cross trained.

C AGREE. IMPLEMENTATION DATE: MARCH 2022.

Prior Finance leadership left CDLE with inadequate available written procedures/business practices of which staff was aware. Positions were siloed, in other words, narrow in focus and based solely on programs/funding source. COVID19 impacted the Finance Division with increased volume of activities and transactions associated with Unemployment Insurance benefits. Areas impacted included UI fraud, Federal legislation, upcoming roll out of MyUI+, UI Trust Fund insolvency, special projects (including Lost Wages Assistance, and Polis Single Payment) and data reporting. The way in which communication and training could be performed while teleworking changed. In addition, budget cuts requiring furloughs, compounded our cross training deficiencies. With much care and thought, the Controller and the DED/CFO released a Finance Reorganization Plan. This Plan details the elimination of Accounting Technician positions and replacing them with more technically competent Accountants. The Plan also requires cross training and integration of performance metrics into employee performance evaluations. We are continuing to hire and to develop new technically competent accounting staff. We plan to train existing staff in support of our vision and to transfer institutional knowledge when turnover occurs. We expect that by 2022, we will be in that position. The CDLE Finance Reorganization Plan is available upon request.

# DEPARTMENT OF LABOR AND EMPLOYMENT

The following recommendation relating to an internal control deficiency classified as a SIGNIFICANT DEFICIENCY was communicated to the Department of Labor and Employment (Department) in the previous year, and has not been remediated as of June 30, 2020, because the original implementation dates provided by the Department are in a subsequent fiscal year. This recommendation can be found in the original report and SECTION III: PRIOR FINANCIAL RECOMMENDATION of this report.

CUBS, CATS, AND CLEAR INFORMATION SECURITY				
CURRENT REC. NO.	2020-025	PRIOR REC. NO.	2019-026	IMPLEMENTATION DATE
				A AUGUST 2020
				B SEPTEMBER 2020
				C JUNE 2021
				D SEPTEMBER 2020
CLASSIFICATION	SIGNIFICANT DEFICIENCY			

# LEGISLATIVE DEPARTMENT

The Legislative Department (Department) is comprised of six individual agencies, which include:

- **GENERAL ASSEMBLY.** Colorado’s State Legislature is called the General Assembly. The Colorado Constitution grants the lawmaking power and thus, the public policy-making power of the State, to the General Assembly. There are 100 elected members serving as Legislators—35 senators and 65 representatives.
- **JOINT BUDGET COMMITTEE (JBC).** The JBC is the fiscal and budget review agency for the State and is comprised of six members of the General Assembly. The JBC works year-round and has a full-time staff. The JBC studies the programs, management, operations, and fiscal needs of all state agencies and reviews budget requests and holds hearings with agency managers. The JBC also reviews capital construction and controlled maintenance recommendations made by the Capital Development Committee.
- **LEGISLATIVE COUNCIL.** The Legislative Council Committee is an 18-member body comprised of six members of the Senate, six members of the House, and the six-member Executive Committee. The Executive Committee, which is comprised of the President of the Senate, the Speaker of the House of Representatives, and the majority and minority leaders of both houses, is the governing body of the Legislative Branch. Legislative Council Staff provides nonpartisan services to the General Assembly, including Information Technology, central accounting, constituent services, research services, fiscal analysis, economic forecasting, visitor services, printing, and committee staffing services.

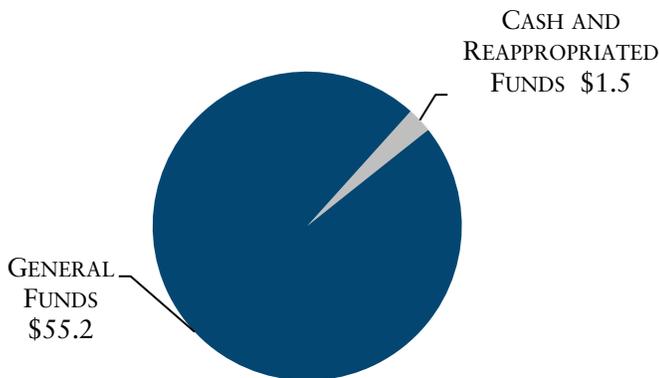
- **OFFICE OF THE STATE AUDITOR (OSA).** The State Auditor was established in the State’s Constitution and serves as the State’s independent, external auditor. The State Auditor is appointed by a majority vote of both houses of the General Assembly to serve for a term of five years and must be a certified public accountant licensed to practice in Colorado. The duties of the State Auditor are to conduct performance and financial audits of all state departments, institutions, and agencies of state government and to conduct special audits of any department, institution, or agency at the request of the Governor or a member of the General Assembly, upon a majority vote of the Legislative Audit Committee. In addition, the OSA examines all reports submitted by local governments under the Local Government Audit Law, administers the OSA Fraud Hotline, and conducts tax expenditure evaluations on a 5-year cycle.
- **OFFICE OF LEGISLATIVE LEGAL SERVICES.** The Committee on Legal Services consists of 10 members of the General Assembly: the chairpersons of the Senate and House Judiciary Committees; four members from the Senate appointed by the President, two from each party; and four members from the House of Representatives appointed by the Speaker, two from each party. The Committee on Legal Services appoints a director who is an attorney-at-law. The director appoints a professional staff which includes attorneys-at-law and technical and clerical personnel to assist in the operation of the Office of Legislative Legal Services.
- **REDISTRICTING COMMISSIONS.** Colorado voters approved two amendments, Amendments Y and Z, to the Colorado Constitution in 2018, which established and required two separate independent commissions for congressional and state legislative redistricting. Each commission comprises 12 members who are chosen by a three-judge panel from a pool of applicants. Legislative leadership is given an opportunity to provide input on eight of the members who are selected from the pool to represent the two major political parties. The three-judge panel chooses the final four commissioners from those applicants who are unaffiliated with a

political party. The Commission has nonpartisan staff who are responsible for creating and making public the commissioner applications, vetting the applicants, staffing the three-judge panels and the commissions, and drawing and amending maps based on constitutional parameters and feedback from the commissioners and the public. The redistricting commissions were not active during Fiscal Years 2019 or 2020.

For Fiscal Year 2020, the Department was appropriated approximately \$56.7 million and 307 full-time equivalent (FTE) staff.

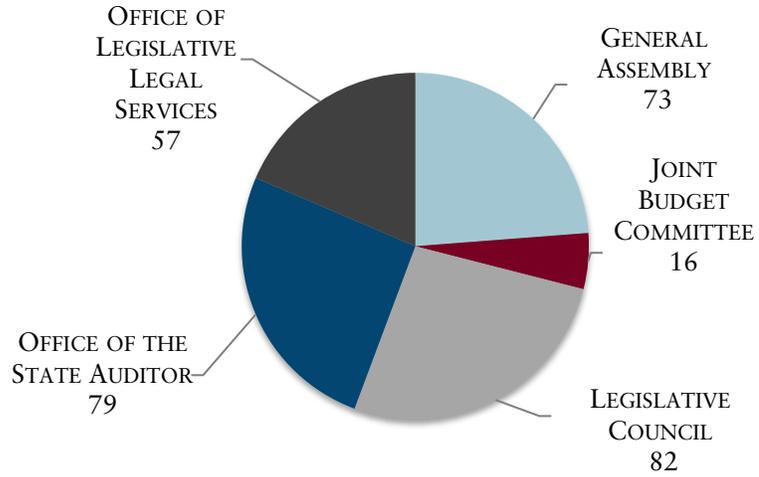
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for Fiscal Year 2020.

**LEGISLATIVE DEPARTMENT  
FISCAL YEAR 2020 APPROPRIATIONS  
BY FUNDING SOURCE (IN MILLIONS)**



SOURCE: Joint Budget Committee Fiscal Year 2020-21 Appropriations Report.

LEGISLATIVE DEPARTMENT  
FISCAL YEAR 2020 FULL-TIME EQUIVALENT STAFF  
BY MAJOR AREAS



SOURCE: Joint Budget Committee Fiscal Year 2020-21 Appropriations Report.

The following comment was prepared by the public accounting firm of McGee, Hearne & Paiz, LLP, which performed the Fiscal Year 2020 audit work at the Department under contract with the Office of the State Auditor.

# ACCOUNTING CONTROLS— INACCURATE PREPARATION AND TIMELINESS OF FINANCIAL STATEMENTS AND EXHIBIT J

The Department's financial activity is managed through two separate and distinct accounting processes and personnel. Specifically, the OSA maintains accounting internal controls and records separate from the remaining five agencies of the Department, which are maintained by Legislative Council Staff (LCS). For financial reporting purposes, the OSA's Controller provides accounting records to LCS's Controller, who is ultimately responsible for preparing the Department's financial statements and for reporting the financial statement information for the Department as a whole to the Office of the State Controller (OSC) through exhibit submissions. The financial statements and exhibits are required to be accurate, submitted on a timely basis, and representative of the Department's financial information for the fiscal year. The financial statements and exhibits are provided to the external auditors who subject them to testing in order to ensure the State's overall aggregate financial statement reporting is complete and accurate.

## WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of the audit work was to determine whether the Department had adequate internal controls in place over, and complied with, applicable requirements related to its financial accounting and reporting processes for Fiscal Year 2020.

As part of our audit, we performed testing of the Department’s internal controls over various financial processes, including the Department’s preparation of its Fiscal Year 2020 financial statements and Exhibit J, *Financial Statement Report*. The OSC requires state departments that prepare separate standalone financial statements to prepare the Exhibit J, which requires departments to reconcile the financial statements to the Colorado Operations Resource Engine (CORE), the State’s accounting system. Our testing included comparing the Department’s financial statements to Exhibit J and the related supporting documentation to determine whether the Department prepared the financial statements and Exhibit J accurately and in accordance with the OSC’s *Fiscal Procedures Manual* (Manual).

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

The Manual [Chapter 1, Section 3.3, *State of Colorado Accounting Organization Objectives* and Section 3.7a, *State of Colorado Accounting Organization Shared Responsibilities*] requires state departments to “establish internal controls for their departments” in order to “maintain an internal control environment that enhances sound business practices, clearly defines roles, responsibilities, and accountability, and provides for the prevention and detection of fraudulent activity.” This includes maintaining internal controls over the preparation of applicable exhibits for submission to the OSC, per the requirements of the Manual.

The Exhibit J is required to be prepared and submitted to the OSC by departments that prepare separately issued financial statements, such as the Department. The Exhibit J is used to reconcile the Department’s account balances contained in CORE to the Department’s financial statements. State statute [Section 24-30-204, C.R.S.] requires that department financial statements be submitted annually to the OSC no later than August 25, subject to any extensions that may be granted by the OSC; the OSC requires departments to submit their financial

statements and related notes to the OSC with the Exhibit J. The Department's final Fiscal Year 2020 reporting due date for the Exhibit J, after OSC-provided extensions, was September 2, 2020.

The Department is also responsible for preparing its standalone financial statements and related note disclosures in compliance with generally accepted accounting principles (GAAP). Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*, requires that investments be measured at fair value.

## WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

The Department's June 30, 2020, cash balances on deposit with the State Treasurer, as reported in its Fiscal Year 2020 financial statements, were understated by \$542,621 due to the Department's failure to record an adjustment to increase its fiscal year-end pooled cash and investment balances from the cost basis to fair market value. The Department also reported the incorrect cash balances to the OSC on its financial statements and Exhibit J. Further, the Department submitted its financial statements and Exhibit J to the OSC on September 14, 2020, which was 12 days after the required submission date. We also experienced delays in receiving requested supporting documentation for purposes of testing the accuracy and completeness of the financial statements and the Exhibit J.

## WHY DID THESE PROBLEMS OCCUR?

In November 2019, the Department experienced turnover in LCS's Controller position, who is tasked with the review of financial activity entered in CORE by the accounting staff, preparation of the Department's financial statements, and submission of all exhibits to the OSC, including the Exhibit J. Although the Department filled the position after 2 months, the Department lacked documented procedures for the position and provided only minimal training to the new

Controller related to financial statement and Exhibit J preparation. Further, the Department does not have a process in place for cross-training of these processes among staff. The Department also did not have a supervisory review process in place over preparing the financial statements and exhibits during Fiscal Year 2020 or sufficient controls to ensure they were completed and submitted to the OSC in a timely manner.

### WHY DO THESE PROBLEMS MATTER?

A lack of sufficient internal controls, including a lack of an adequate and timely review process, ultimately threatens the integrity of the State’s financial statements by potentially affecting the accuracy and completeness of the financial reporting information contained in the financial statements and accompanying notes necessary for compliance with GAAP.

CLASSIFICATION OF FINDING	SIGNIFICANT DEFICIENCY
THIS FINDING DOES NOT APPLY TO A PRIOR AUDIT RECOMMENDATION	

## RECOMMENDATION

### 2020-026

The Legislative Department should improve its internal controls over fiscal year-end financial reporting by:

- A Documenting the procedures and related supporting documentation necessary to prepare the Office of the State Controller’s (OSC) required exhibits and the related standalone financial statements to ensure consistent, accurate, and timely reporting of the information to the OSC and the external auditors.
- B Implementing a documented review of all exhibits to be submitted to the OSC by a person who is not the exhibit preparer.

- C Ensuring that all staff involved in the preparation and review processes established through PART B of this recommendation receive adequate training to ensure the exhibits are accurate and comply with the OSC submission requirements.
- D Providing sufficient cross-training of accounting personnel in regard to the key preparation and review controls related to the exhibits, so that in the event of turnover or unexpected leaves of absence, the controls will continue to operate as designed.

## RESPONSE

### LEGISLATIVE DEPARTMENT

- A AGREE. IMPLEMENTATION DATE: JUNE 2021.

We agree and have already discussed the assembly of a fiscal year-end financial reporting procedural manual. The controller will assemble the manual to cover year-end processes for closing the fiscal year, and the preparation of the correlating financial statements.

- B AGREE. IMPLEMENTATION DATE: AUGUST 2021.

The controller will present and review all exhibits with the Legislative Council Director prior to the submission deadline. A reviewed and signed copy by the Legislative Council Director will be kept on file with our year-end close files.

- C AGREE. IMPLEMENTATION DATE: APRIL 2021.

In order to ensure the exhibits are accurate and comply with OSC submission requirements, the Legislative Council Controller will document attendance to the open and close training facilitated by the OSC each year. The Controller's active participation in this yearly training will ensure that there is an understanding of any newly implemented requirements, and will also give an opportunity to clarify any areas of uncertainty in producing the department's exhibits.

D AGREE. IMPLEMENTATION DATE: JUNE 2021.

In conjunction with recommendation “A,” the accounting staff will begin cross training on key processes outlined in the new procedural manual.

# DEPARTMENT OF LOCAL AFFAIRS

The Department of Local Affairs (Department) is responsible for strengthening local communities by providing strategic training, research, technical assistance, and funding to localities. There are five separate divisions within the Department as follows:

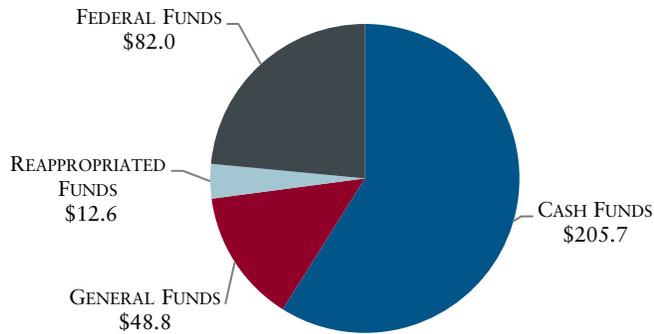
- EXECUTIVE DIRECTOR'S OFFICE. This office provides leadership and support for the other Department divisions, including communications and media relations, legislative liaison, human resources, budgeting, and finance.
- BOARD OF ASSESSMENT APPEALS. This board hears appeals filed by real and personal property owners regarding the valuation placed on their property.
- DIVISION OF HOUSING. This division provides state and federal funding to increase the inventory of affordable housing and to offer Housing Choice Voucher rental assistance statewide. The Housing Choice Voucher program, formerly known as Section 8, funded by the U.S. Department of Housing and Urban Development (HUD) contracts with public housing authorities and non-profit organizations to assist low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market.
- DIVISION OF LOCAL GOVERNMENTS. This division provides technical information to local governments on available federal and state programs, performs research on local government issues, and provides information to the Governor and General Assembly on local government needs and problems.

- DIVISION OF PROPERTY TAXATION. This division coordinates and administers the implementation of property tax law throughout the State.

For Fiscal Year 2020, the Department was appropriated approximately \$349.1 million and 189 full-time equivalent (FTE) staff.

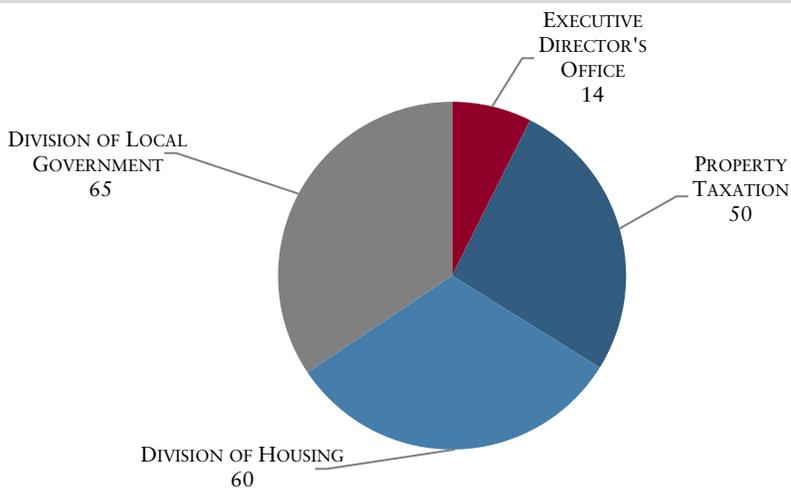
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for Fiscal Year 2020.

DEPARTMENT OF LOCAL AFFAIRS  
FISCAL YEAR 2020 APPROPRIATIONS  
BY FUNDING SOURCE (IN MILLIONS)



SOURCE: Joint Budget Committee Fiscal Year 2020-21 Appropriations Report.

DEPARTMENT OF LOCAL AFFAIRS  
FISCAL YEAR 2020 FULL-TIME EQUIVALENT STAFF  
BY MAJOR AREAS



SOURCE: Joint Budget Committee Fiscal Year 2020-21 Appropriations Report.

The following comment was prepared by the public accounting firm of Eide Bailly, LLP, which performed the Fiscal Year 2020 audit work at the Department under contract with the Office of the State Auditor.

## CORE—INFORMATION SECURITY

*Government Auditing Standards allow for information that is considered sensitive in nature, such as detailed information related to information technology system security, to be issued through a separate “classified or limited use” report because of the potential damage that could be caused by the misuse of this information. We consider the specific technical details of this finding, along with the response, to be sensitive in nature and not appropriate for public disclosure. Therefore, the details of the following finding and response have been provided to the Department in a separate, confidential memorandum.*

The Colorado Operations Resource Engine (CORE) is the State’s accounting system. The Department of Personnel & Administration’s

Office of the State Controller (OSC) developed policies which apply to all state departments outlining the requirements for regulating employee access to the system. The Department is responsible for compliance with the OSC’s CORE policies.

## WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to determine whether the Department had CORE information security controls in place.

We interviewed Department staff and performed procedures to test the Department’s IT internal controls over CORE information security.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our work against the OSC’s CORE policies.

## WHAT PROBLEM DID THE AUDIT WORK IDENTIFY?

Based on our work, we found that the Department did not ensure full compliance with the OSC’s CORE policies during Fiscal Year 2020.

## WHY DID THE PROBLEM OCCUR?

Department staff did not communicate in a timely manner with the CORE security administrator.

## WHY DOES THIS PROBLEM MATTER?

The Department is responsible for its information contained in CORE and ensuring compliance with the OSC’s CORE policies. By not ensuring compliance, the Department is at an information security risk,

which could have an adverse impact on the confidentiality, integrity, and availability of the data within CORE.

CLASSIFICATION OF FINDING

SIGNIFICANT DEFICIENCY

THIS FINDING DOES NOT APPLY TO A PRIOR AUDIT RECOMMENDATION

## RECOMMENDATION

### 2020-027

The Department of Local Affairs should improve information security controls over the Colorado Operations Resource Engine by mitigating the information security problems noted in the confidential finding.

## RESPONSE

### DEPARTMENT OF LOCAL AFFAIRS

AGREE. IMPLEMENTATION DATE: JANUARY 2021.

The Department will implement this recommendation by mitigating the specific problems noted in the confidential finding.



# DEPARTMENT OF PERSONNEL & ADMINISTRATION

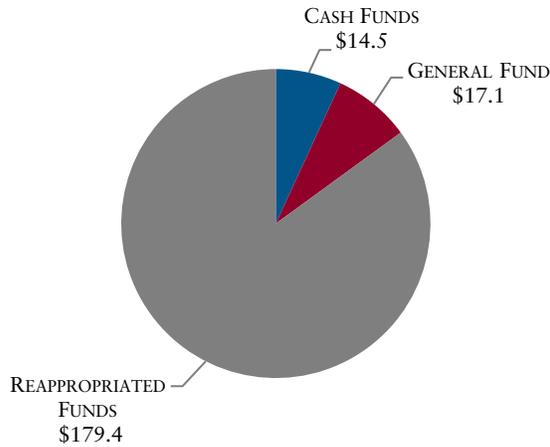
The primary function of the Department of Personnel & Administration (Department) is to support the business needs of the State's Executive Branch. The Department administers the classified personnel system, comprising 34,650 full-time equivalent (FTE) employees across the State—excluding the Department of Higher Education, which includes the State's higher education institutions—and providing general support for state departments. The Department includes the following divisions and offices:

- Executive Director's Office
- Division of Central Services
- Division of Accounts and Control
- Division of Human Resources
- Office of Administrative Courts
- Constitutionally Independent Entities Division, including the State Personnel Board
- Division of Capital Assets

For Fiscal Year 2020, the Department was appropriated approximately \$211.0 million and 405 FTE staff.

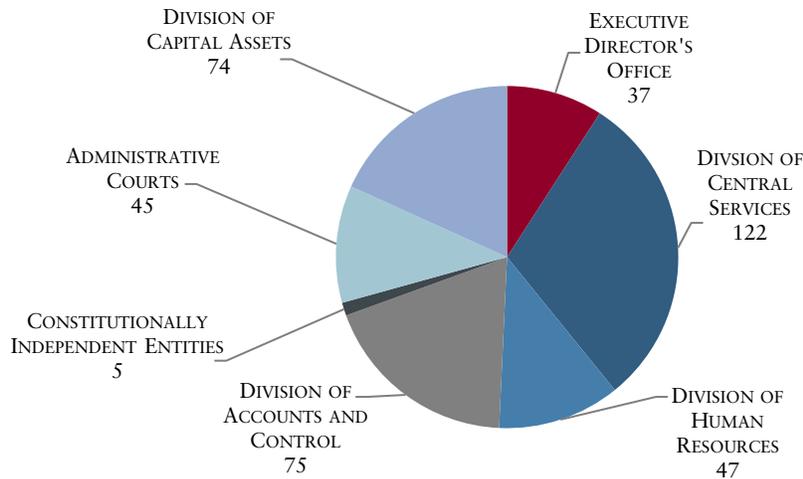
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for Fiscal Year 2020.

**DEPARTMENT OF PERSONNEL & ADMINISTRATION  
FISCAL YEAR 2020 APPROPRIATIONS  
BY FUNDING SOURCE (IN MILLIONS)**



SOURCE: Joint Budget Committee Fiscal Year 2020-21 Appropriations Report.

**DEPARTMENT OF PERSONNEL & ADMINISTRATION  
FISCAL YEAR 2020 FULL-TIME EQUIVALENT STAFF  
BY MAJOR AREAS**



SOURCE: Joint Budget Committee Fiscal Year 2020-21 Appropriations Report.

## OFFICE OF THE STATE CONTROLLER

The Office of the State Controller (OSC) is located within the Department's Division of Accounts and Control. The OSC is responsible for managing the State of Colorado's financial affairs,

which includes (1) the preparation and submission of the State's financial statements to the Governor and General Assembly by the statutorily-required September 20 due date, referred to as Financial Statements, (2) preparation and issuance of the State's audited Comprehensive Annual Financial Report (Annual Report), and (3) the preparation of the State's *Schedule of Expenditures of Federal Awards* (SEFA) that reports the total federal awards expended by the State during the fiscal year.

The OSC is the functional business owner of the Colorado Operations Resource Engine (CORE), the State's accounting system. As such, the OSC is responsible for providing guidance to the various state departments on the use of CORE, overseeing certain access and information security requirements of the system, and ensuring that the system is working as intended.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

The OSC must prepare the Financial Statements in accordance with generally accepted accounting principles (GAAP), as required by state statute [Section 24-30-204(1), C.R.S.]. The overall objective of GAAP is to create consistency in financial reporting to ensure reliable, concise, and understandable information. The Governmental Accounting Standards Board (GASB) establishes GAAP for state and local government entities through the issuance of GASB statements, which the OSC must comply with when preparing the Financial Statements and Annual Report.

Because governmental operations are diverse and constrained by numerous legal and fiscal requirements, a basic principle of governmental GAAP is fund accounting. A fund represents part of the activities of an organization, so that each fund separates its activities in

the accounting records and has a self-balancing set of accounts. In order to more easily demonstrate compliance with legal restrictions or limitations, governmental transactions and balances are accounted for through separate funds across several sets of financial statements.

In preparing the Financial Statements, Annual Report, and SEFA, the OSC compiles financial information from the State’s departments, agencies, and higher education institutions. The OSC requires departments, agencies, and institutions to provide certain financial and federal expenditure information to the OSC through exhibits.

## WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of the audit work was to review the OSC’s internal controls over its Financial Statements, Annual Report, and SEFA reporting responsibilities during Fiscal Year 2020. This included determining whether the OSC prepared these accurately, completely, and in accordance with GAAP.

Additionally, we reviewed the OSC’s progress in implementing our Fiscal Year 2019 audit recommendation related to the OSC’s financial reporting responsibilities. At that time, we recommended the OSC strengthen its internal controls, such as implementing an expanded supervisory review process over financial reporting, to ensure that the Financial Statements and Annual Report are accurate and prepared in accordance with GAAP.

As part of our audit work, we tested the effectiveness of the OSC’s internal controls over the preparation and review of the Fiscal Year 2020 Financial Statements, Annual Report, and SEFA, which included the following:

- Reviewing the Financial Statements and Annual Report for accuracy, completeness, and compliance with GAAP.

- Reviewing the OSC’s exhibits and exhibit instructions contained within the OSC’s *Fiscal Procedures Manual* (Manual), including the OSC’s Exhibit K1, *Schedule of Federal Assistance*, and the OSC’s related policies and procedures, to determine whether the OSC followed its own procedures when compiling Exhibit K1s submitted by departments and higher education institutions for SEFA preparation.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

State statutes, State Fiscal Rules, GAAP, and the OSC’s Manual outline various requirements for the State Controller. Specifically:

- Section 24-30-204(1), C.R.S., requires that the State Controller prepare Financial Statements in accordance with GAAP and submit them to the Governor and the General Assembly each year no later than September 20.
- GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, states that each of the financial statements should “...report separate columns for the General Fund, and for other major...funds.” Further, it defines major funds as those funds having significant assets, liabilities, revenues, and expenditures in comparison to other funds included in the Financial Statements and Annual Report, based on a prescribed calculation.
- The OSC’s *FY 2020 Exhibit Instructions* state that, “Revised exhibits are due as soon as practical once an error in the original submission has been identified.”
- State Fiscal Rule 1-2, *Internal Controls*, states that the OSC “shall implement internal accounting and administrative controls that reasonably ensure that financial transactions are accurate, reliable, [and] conform to the Fiscal Rules...”

- According to the OSC’s *Internal Control System* policy, state agencies shall use the *Standards for Internal Control in the Federal Government* (Green Book), published by the U.S. Government Accountability Office, as its framework for its system of internal control. Green Book Paragraph OV2.14, *Roles in an Internal Control System*, states that management is responsible for designing an internal control system. This should include controls over the preparation of external financial reporting in accordance with professional standards and applicable laws and regulations.

## WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

The OSC did not fully implement our Fiscal Year 2019 audit recommendation related to internal controls over financial reporting during Fiscal Year 2020. Specifically, the OSC did not strengthen existing policies and procedures for reviewing the State’s Financial Statements and Annual Report in sufficient detail to detect and correct significant issues.

During our testing of the OSC’s Fiscal Year 2020 Financial Statements, Annual Report, and SEFA, we discovered several errors that were not identified and corrected through the OSC’s preparation and review processes, as follows:

- The OSC failed to present the Highway Users Tax Fund (HUTF), which included \$1.3 billion in assets, \$343.1 million in liabilities, \$2.0 billion in revenues, and \$2.4 billion in expenses, as a major fund in a separate column in either report as required by GASB Statement No. 34. Instead, the OSC included HUTF activity as part of the *Other Governmental Funds* column. After we notified the OSC, they corrected the error and presented HUTF activity within its own column as a separate major fund in the Annual Report.
- The OSC overstated the SEFA expenditures for one federal grant by approximately \$8.2 million. The OSC subsequently corrected the error on the SEFA.

- During our testing, we also identified 37 additional errors within 7 of 22 (32 percent) note disclosures; Management’s Discussion and Analysis, a section in the Annual Report intended to discuss key issues which may not otherwise be apparent to the reader; and supplementary cash flow information. These errors were significant individually, or when combined, to either the Financial Statements or Annual Report. For example, these errors included the following:
  - ▶ In one note disclosure, a table presenting a breakdown of depreciation expense was presented as being rounded to the nearest thousand, but the table included actual depreciation expense amounts. Thus, it could appear to a financial statement user that total depreciation expense in the note disclosure was about \$1 trillion more than it is.
  - ▶ In another note disclosure, due to a typographical error, the OSC overstated pledged revenue by \$700 million for one higher education institution, and did not agree to the underlying exhibit.
  - ▶ The OSC incorrectly reported in the note disclosures a combination of insurance coverage, debt, and financial guarantees totaling about \$1 billion. The amounts did not agree to the underlying exhibits submitted by departments or higher education institutions.
  - ▶ The OSC did not include \$108.7 million of supplementary cash flow information that was reported on an agency’s standalone financial statements.
  - ▶ The OSC updated an entire note disclosure section about Taxpayer’s Bill of Rights revenues, liabilities, and reserves with Fiscal Year 2020 information in the Financial Report, but inadvertently replaced it with the Fiscal Year 2019 note disclosure in the first draft of the Annual Report.
- We also identified 16 instances in which amounts contained on the SEFA, Financial Statements, and Annual Report did not agree to the

exhibits prepared and submitted by departments and higher education institutions. Specifically, the OSC used different amounts than those submitted on three Exhibit K1s to create the SEFA, and 13 other exhibits to create note disclosures in the Financial Statements and Annual Report. After we notified the OSC of these issues, the OSC indicated that, in some instances, it changed information reported on these exhibits without obtaining either a revised exhibit or additional information from the department or higher education institution. We were able to verify that final amounts reported in the SEFA, Financial Statements, and Annual Report were correct and amounts contained on the exhibits prepared by departments and higher education institutions were incorrect in these instances. Changes not reported on revised exhibits totaled \$944.3 million.

## WHY DID THESE PROBLEMS OCCUR?

The OSC did not have effective internal controls in place over its Fiscal Year 2020 financial reporting. Specifically, the OSC did not appropriately design, or require staff to follow, its procedures or otherwise ensure that the Financial Statements, Annual Report, and SEFA were prepared and reviewed appropriately, and that errors were identified and corrected, as follows:

- The OSC lacked a process for conducting an analysis of major funds presented in the Financial Statements when significant changes are made to the underlying accounting records.
- The OSC did not follow its procedures to collect updated exhibits from the departments, agencies, and higher education institutions to complete the Financial Statements, Annual Report, or the SEFA. Instead, the OSC completed, calculated, or changed amounts on the exhibits themselves, including Exhibit K1s, and did not require the departments, agencies, or higher education institutions to submit revised exhibits.

## WHY DO THESE PROBLEMS MATTER?

If robust internal controls over financial reporting and the related preparation are not in place and operating effectively within the OSC, it can result in the Financial Statements or Annual Report being materially misstated, which could lead users of these statements, including the Governor and General Assembly, to make decisions based on inaccurate information. When the OSC circumvents its internal control processes by not requiring revised exhibits to correct identified errors, it increases the risk that the information presented in the Financial Statements, Annual Report, and SEFA will be incorrect and differ from department, agency, or higher education institution records.

CLASSIFICATION OF FINDING

MATERIAL WEAKNESS

THIS FINDING APPLIES TO PRIOR AUDIT RECOMMENDATION 2019-030E

## RECOMMENDATION 2020-028

The Department of Personnel & Administration's Office of the State Controller (OSC) should strengthen internal controls over financial and federal reporting to ensure that the OSC's preparation of the State's Financial Statements, Comprehensive Annual Financial Report (Annual Report), and *Schedule of Expenditures of Federal Awards* (SEFA), detect and correct material misstatements. This should include the following:

- A Evaluating the OSC's internal controls over preparing and reviewing the Financial Statements and Annual Report to ensure their effectiveness in identifying and correcting significant issues, such as those identified in the audit. This should include ensuring that OSC staff implement and perform an analysis of major funds when significant changes are made to the underlying accounting records.

- B Ensuring that information contained in the Financial Statements, Annual Report, and SEFA is supported by information provided by departments, agencies, and higher education institutions, by either requiring them to complete and/or update exhibits submitted to the OSC, as applicable, or implementing an alternative process to ensure that changes made by the OSC are communicated and reconciled with source documentation.

## RESPONSE

### OFFICE OF THE STATE CONTROLLER

- A AGREE. IMPLEMENTATION DATE: JUNE 2021.

The Office of the State Controller agrees with this recommendation. In preparation for the Fiscal Year 2021 financial audit, the OSC will continue to evaluate, and modify as needed, its internal controls over financial reporting and financial statement review processes. In addition, the OSC will revise its documented process for major fund determination by requiring an analysis of major funds when significant changes to the general ledger occur due to post-closing journal entries.

- B AGREE. IMPLEMENTATION DATE: JUNE 2021.

The Office of the State Controller agrees with this recommendation. The OSC will evaluate and make revisions, as applicable, to existing processes for collection of exhibits and other documentation supporting financial statements and related disclosures to ensure they reconcile to department and institution source documentation.

# CORE INFORMATION SECURITY

The OSC has overall responsibility for the State's financial information recorded in CORE. The OSC works closely with CORE's third-party service organization, CGI, which maintains and houses the CORE system infrastructure components in its remote hosting facilities. As part of the contract between CGI and the State, CGI is required to provide an annual internal controls audit report, which covers those controls that CGI applies to its primary hosting facility and the associated control activities provided to the State. To meet this contractual requirement, CGI contracts with an independent service auditor to perform an examination of its internal controls. Those examination results are provided to the OSC on an annual basis in the form of a Service and Organization Controls (SOC) 1, Type II report (SOC 1). Database controls supporting the CORE system should be included in the SOC 1 report, providing assurance to the OSC of reliable data within CORE.

## WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of our audit work was to determine whether the OSC implemented our Fiscal Year 2018 CORE Information Security recommendation to work with CGI to ensure that the SOC 1 report covers appropriate database controls relevant to financial reporting. We originally identified this issue during our Fiscal Year 2017 audit. We performed our audit work through inquiry of OSC staff, as well as inspection of supporting documentation.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

According to the OSC's *Internal Control System* policy, state agencies must use the Green Book as the framework for their systems of internal control. The Green Book Section 4, *Additional Considerations*, indicates that management retains responsibility for the performance of processes assigned to service organizations, and further indicates that management needs to understand the controls each service organization has designed, implemented, and operates for the assigned operational process, and how the service organization's internal control system impacts the entity's internal control system.

## WHAT PROBLEM DID THE AUDIT WORK IDENTIFY?

During our Fiscal Year 2020 audit work, we found that the OSC worked with CGI to obtain quotes for the additional cost to include database controls within the CORE SOC 1 report. However, a contract amendment with CGI to include database controls was not executed until August 2020, after the audit period for the Fiscal Year 2020 CORE SOC 1 report.

## WHY DID THIS PROBLEM OCCUR?

OSC funding, through the Fiscal Year 2021 Long Bill, is not available until Fiscal Year 2021 to make the change to the CORE SOC 1 report.

## WHY DOES THIS PROBLEM MATTER?

Without appropriate database controls included within the CORE SOC 1 report, there is an increased risk that the OSC would not be able to rely on the data underlying the State's financial information, which could lead to misstatements of the State's financial statements or potential undetected fraudulent activity.

CLASSIFICATION OF FINDING

MATERIAL WEAKNESS

THIS FINDING APPLIES TO PRIOR AUDIT RECOMMENDATIONS 2019-035 AND  
2018-032

# RECOMMENDATION

## 2020-029

The Office of the State Controller should strengthen information technology controls over the Colorado Operations Resource Engine (CORE) system by continuing to work with CGI to ensure that the System and Organization Controls (SOC) 1, Type II report for Fiscal Year 2021 covers appropriate database controls relevant to financial reporting.

# RESPONSE

## OFFICE OF THE STATE CONTROLLER

AGREE. IMPLEMENTATION DATE: SEPTEMBER 2021.

The Office of the State Controller agrees with this recommendation. The funding to include database controls relevant to financial reporting was approved for the Fiscal Year 2021 Long Bill and a contract amendment to include the testing of these controls in the SOC 1, Type II Report with CGI was executed in August 2020. The Fiscal Year 2021 SOC 1, Type II Report, which was also amended to align with the State's fiscal year, is expected to be provided by CGI in September 2021.

# DEPARTMENT OF PERSONNEL & ADMINISTRATION

The following recommendations relating to internal control deficiencies classified as a MATERIAL WEAKNESS or SIGNIFICANT DEFICIENCY were communicated to the Department of Personnel & Administration (Department) in the previous year, and have not been remediated as of June 30, 2020, because the original implementation dates provided by the Department are in a subsequent fiscal year. These recommendations can be found in the original report and SECTION III: PRIOR FINANCIAL RECOMMENDATIONS of this report.

STATUTORY COMPLIANCE AND INTERNAL CONTROLS OVER FINANCIAL REPORTING					
CURRENT REC. NO.	2020-030	PRIOR REC. NO.	2019-030	IMPLEMENTATION DATE	A DECEMBER 2020 B DECEMBER 2020 C DECEMBER 2022 D DECEMBER 2020 E [1]
CLASSIFICATION	MATERIAL WEAKNESS				

SYSTEM AND ORGANIZATION CONTROL REPORTS					
CURRENT REC. NO.	2020-031	PRIOR REC. NO.	2019-032	IMPLEMENTATION DATE	A DECEMBER 2020 B DECEMBER 2020 C DECEMBER 2020
CLASSIFICATION	MATERIAL WEAKNESS				

INTERNAL CONTROLS OVER GASB ANALYSIS AND IMPLEMENTATION					
CURRENT REC. NO.	2020-032	PRIOR REC. NO.	2019-033	IMPLEMENTATION DATE	SEPTEMBER 2020
CLASSIFICATION	SIGNIFICANT DEFICIENCY				

[1] This part of the recommendation has been implemented, partially implemented, not implemented, or is no longer applicable. SEE SECTION III: PRIOR FINANCIAL RECOMMENDATIONS of this report for information regarding this part of the recommendation.

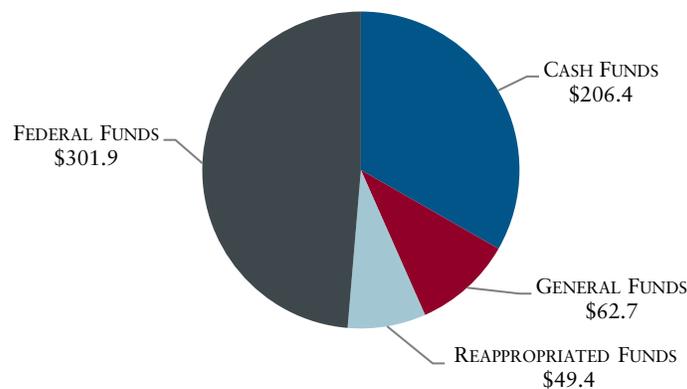
# DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT

The Department of Public Health and Environment (Department) is responsible for protecting and improving the health of the people of Colorado and protecting the quality of Colorado’s environment.

For Fiscal Year 2020, the Department was appropriated approximately \$620.4 million and 1,385 full-time equivalent (FTE) staff.

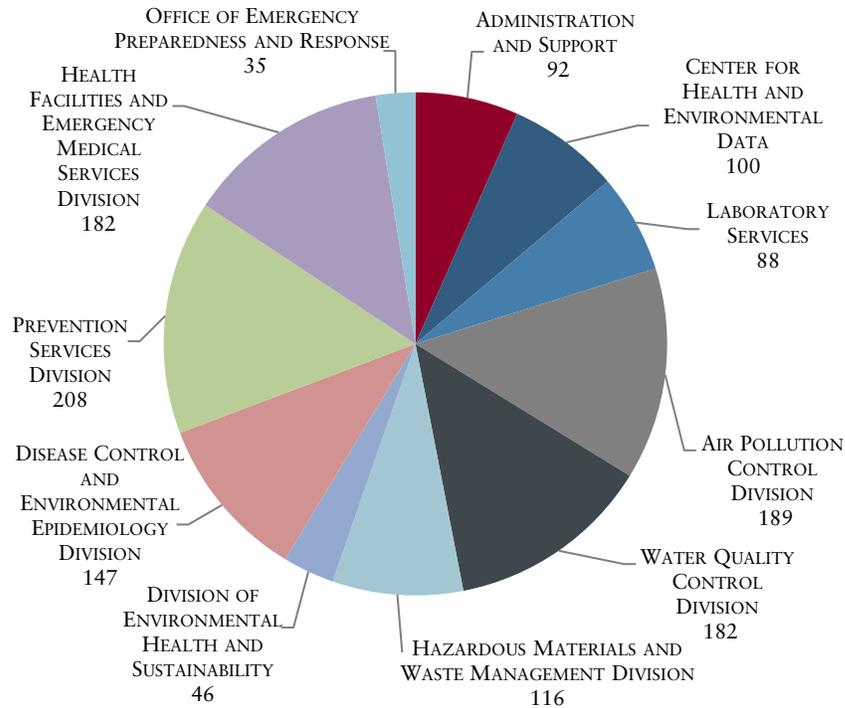
The following charts show the appropriations by funding source and FTE staff by major areas, respectively, within the Department for Fiscal Year 2020.

**DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT  
FISCAL YEAR 2020 APPROPRIATIONS  
BY FUNDING SOURCE (IN MILLIONS)**



SOURCE: Joint Budget Committee Fiscal Year 2020-21 Appropriations Report.

DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT  
 FISCAL YEAR 2020 FULL-TIME EQUIVALENT STAFF  
 BY MAJOR AREAS



SOURCE: Joint Budget Committee Fiscal Year 2020-21 Appropriations Report.

The following comment was prepared by the public accounting firm of BKD, LLP, which performed the Fiscal Year 2020 audit work at the Department under contract with the Office of the State Auditor.

## ACCOUNTING CONTROLS

The Department’s Accounting Division staff are responsible for all of the Department’s financial reporting, which includes the accurate, complete, and timely entry and approval of financial transactions into the Colorado Operations and Resource Engine (CORE), the State’s accounting system. This responsibility also includes required reporting of various information through forms, or exhibits, to the Office of the State Controller (OSC) for preparation of the State’s financial statements.

Accounting Division staff are also specifically tasked with appropriately classifying revenues in accordance with the provisions of the Taxpayer's Bill of Rights (TABOR), as well as classifying transactions in accordance with Section 24-30-207, C.R.S., which contains the provisions for the State's Cash Funds Uncommitted Reserves.

Within CORE, accounting transactions are segmented into accounting periods throughout the fiscal year. Periods 1 through 12 correspond to the activity recorded in the months of the fiscal year (July through June, respectively). Periods 13 through 16 are used, as necessary, to record any required adjusting entries to correct errors or reclassify information, as may be necessary to create the State's financial statements. Specifically, for departmental purposes for Fiscal Year 2020, Period 13 was closed on August 4, 2020. This date represented the OSC's closing of the State's "official accounting records" by 35 days after fiscal year end, as required by state statute [Section 24-30-204(3), C.R.S.]. Period 14 was closed by the OSC for any new transactions on August 7, 2020, and represented the final time period for adjustments, which are required to be approved by the OSC prior to posting.

## WHAT WAS THE PURPOSE OF OUR AUDIT WORK AND WHAT WORK WAS PERFORMED?

The purpose of the audit work was to determine whether the Department had adequate internal controls in place and complied with policies and procedures related to financial accounting and reporting processes and requirements.

We analyzed the Department's CORE transactional data recorded after the State's Fiscal Year 2020 statutory closing date of August 4, 2020, to identify the number and dollar amount of transactions that were processed after the OSC's statutory deadline for closing the State's accounting records. We also reviewed the Department's TABOR-related exhibits and variance responses prepared by the Department. In

addition, we tested the Department's portion of the OSC-prepared Fiscal Year 2020 Cash Funds Uncommitted Reserves report that was approved by the Department.

## HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We measured the results of our audit work against the following:

- State statute [Section 24-30-204(3), C.R.S.] requires the State's official accounting records to be closed no later than 35 days after the end of the fiscal year. Specifically, for Fiscal Year 2020, the State's accounting records were required to be closed by August 4, 2020. As of this date, all departments' adjusted revenue, expenditures, and expense accounts were required to be entered into CORE. Any Fiscal Year 2020 entries made after that date were required to be approved by the OSC.
- The OSC's *Fiscal Procedures Manual* (Manual), Chapter 1, Section 2.14, *Pre-Audit Sensitive Account Codes*, states that revenue accounts relevant to TABOR reporting "should be carefully reviewed for proper classification throughout the year and again prior to close." In addition, the Manual requires departments to submit explanations for OSC-selected TABOR variances each year to the OSC. The Manual [Chapter 5, Section 5.7] also specifically requires departments to prepare and submit an Exhibit A1, *Change in TABOR Revenue and Base Fiscal Year Spending*, to the OSC after fiscal year-end whenever an error exceeding \$200,000 that occurred within the previous 4 fiscal years is identified that affects TABOR revenue. The OSC uses the exhibit as a basis for adjusting the TABOR calculation used for identifying any potential TABOR refunds. Exhibit A1 and the TABOR variance analysis explanations were due to the OSC on August 12, 2020, and August 14, 2020, respectively, in order for the OSC to meet its September 1, 2020, statutory TABOR reporting deadline.

- State statute [Section 24-30-207, C.R.S.] requires the State Controller to annually prepare the Cash Funds Uncommitted Reserves Report showing the amount of uncommitted reserves credited to each of the State's cash funds. Section 24-75-402(2)(b) defines cash funds to mean any fund that is established by law for a specific program or purpose and that includes money from fees; excluding the state general fund, any federal fund, and any fund used by a state institution of higher education. The OSC provided each department its respective portion of the Fiscal Year 2020 Cash Funds Uncommitted Reserve Report, or Turnaround Report, for review; correction, as applicable; approval; and required submission back to the OSC by August 14, 2020, in order for the OSC to meet its statutorily-required statewide cash funds reporting deadline of September 20, 2020.

## WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

Overall, we found that the Department lacked processes and procedures to meet required financial reporting-related state deadlines for Fiscal Year 2020, as follows:

- The Department posted 16 entries totaling \$52,796,501, after the OSC's statutory closing deadline of August 4, 2020. Entries were required due to errors the Department failed to identify and correct through its fiscal year-end review process. These entries included adjustments that impacted both TABOR and Cash Funds.
- The Department identified TABOR net adjustments totaling \$494,621, for Fiscal Years 2016 through 2019, after June 30, 2020, but did not submit an Exhibit A1 to the OSC to report the adjustments until September 11, 2020, which was 30 days after the original due date and 10 days after the OSC's statutorily-required TABOR reporting due date.

- The Department failed to identify and communicate to the OSC an error totaling \$842,214 on the Cash Funds Turnaround Report. This error required an audit adjusting entry which was not posted by the Department until September 10, 2020. This timing was 27 days after the Department approval of the Turnaround Report was due to the OSC.

## WHY DID THESE PROBLEMS OCCUR?

The Department lacked sufficient internal controls to ensure that it met OSC financial reporting deadlines for Fiscal Year 2020. Specifically, the Department experienced turnover during Fiscal Year 2020 that required existing employees to take on new responsibilities, in addition to fiscal year-end close responsibilities within the Accounting Division. The Department did not have a clearly outlined plan to distribute and delegate responsibilities, as well as provide additional training, as applicable. This resulted in the Accounting Division having limited staff with the requisite background and training to review and assist with the year-end close process. As such, many of the responsibilities to complete required fiscal year-end close responsibilities fell to one individual.

In addition, the Department did not fully comply with its fiscal year-end close checklist, including internal preparation and review deadlines that ensure OSC deadlines were met.

## WHY DO THESE PROBLEMS MATTER?

Strong financial accounting internal controls, including effective review processes and procedures over financial transactions, are necessary to ensure the Department records and reports financial information accurately, in a timely manner, and in accordance with rules and regulations. Untimely financial reporting can adversely affect the State's financial information and result in the State being out of compliance with statutory requirements.

CLASSIFICATION OF FINDING

SIGNIFICANT DEFICIENCY

THIS FINDING DOES NOT APPLY TO A PRIOR AUDIT RECOMMENDATION

# RECOMMENDATION

## 2020-033

The Department of Public Health and Environment (Department) should strengthen its internal controls over fiscal year-end financial activities by:

- A Creating and implementing a staffing plan that clearly assigns roles and responsibilities to its Accounting Division staff, including the distribution of secondary assignments in the case of staff turnover.
- B Cross-training existing employees to allow for appropriate segregation of duties and review, and to allow for appropriate delegation when turnover occurs.
- C Continuing to improve upon and follow a fiscal year-end close checklist, which outlines internal deadlines, includes all divisions, and allows sufficient time for internal review of Office of the State Controller (OSC)-required reports, including the Taxpayer's Bill of Rights (TABOR) variance analyses and the Cash Funds Uncommitted Reserves report, in order to ensure all Department and OSC deadlines are met.

# RESPONSE

## DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT

### A AGREE. IMPLEMENTATION DATE: SEPTEMBER 2021.

The Department agrees with the importance of the timely and accurate recording of financial records and the importance of maintaining a proper control environment. While improvement is an ongoing goal, the Department continues to make strides as has been indicated in prior-year responses.

Central accounting is currently fully staffed and has been able to maintain nearly full staffing levels in recent years. This has allowed staff to be delegated new roles and responsibilities, including roles and responsibilities during year-end close. Additionally, starting with the fiscal year-ended June 30, 2018, central accounting began migrating to a "program accountant" model. This model requires that each program accountant has responsibility for all accounting aspects for their assigned programs. There are a few functions within central accounting that still rely on the work of one individual and these functions will be addressed through staff cross-training. This will ensure proper coverage during times that the unit experiences staff turnover or extended leave requests.

### B AGREE. IMPLEMENTATION DATE: SEPTEMBER 2021.

As stated, central accounting has migrated to a "program accountant" model. Inherent within this model is the need for each program accountant to gain and maintain an understanding of multiple accounting concepts. Central accounting performed a formalized assessment process to identify accounting concepts that needed further reinforcement. Selected central accountants then researched those identified accounting concepts, created training materials, and presented the information to their peers.

While staff have been delegated new roles and responsibilities, there are a few functions within the accounting unit that still rely on the work of one individual and these functions will be addressed through staff cross-training. Additionally, central accounting will continue conducting targeted trainings to broaden staff's knowledge bases.

C AGREE. IMPLEMENTATION DATE: SEPTEMBER 2021.

The Department agrees with the importance of ensuring that revenues received are recorded appropriately and its role in TABOR considerations and the calculation of any excess uncommitted reserves. Furthermore, the Department acknowledges that there were corrections that were needed after the statutory close deadline. Most of these, however, were identified and initiated by the Department after consultation with the Office of the State Controller, and are generally non-recurring in nature.

Proper revenue recording is being reiterated throughout the Department and will be incorporated within the Department's Fiscal Procedures Manual. The Department is also developing interim analytic procedures that can be performed prior to fiscal year-end close to assist in identifying potential issues earlier in a given fiscal year.

Finally, the Department has developed and utilized a year-end close checklist for closing the fiscal years-ended June 30, 2019 and 2020. This checklist identifies tasks, due dates, staff assignments, etc. The Department continues to refine the checklist to ensure deliverables are timely considered for future year-end closing periods.



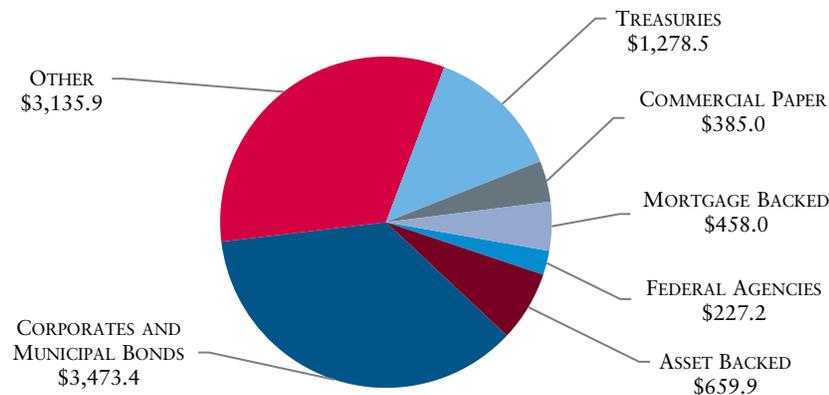
# DEPARTMENT OF THE TREASURY

The Department of the Treasury (Treasury) is established by the Colorado Constitution. The State Treasurer is an elected official who serves a 4-year term. The Treasury’s primary functions are to manage the State’s pooled investments and to implement and monitor the State’s cash management procedures. Other duties and responsibilities of the Treasury include:

- Receiving, managing, and disbursing the State’s cash.
- Acting as the State’s banker and investment officer.
- Managing the State’s Unclaimed Property Program, the Interest-Free School Loan Program, the Property Tax Deferral Program for Seniors and Veterans, and the Colorado Housing and Finance Authority Loan Program.
- Managing certain state public funding transactions.

The State’s \$9.6 billion of pooled investments are made up of a variety of securities, as shown in the following chart:

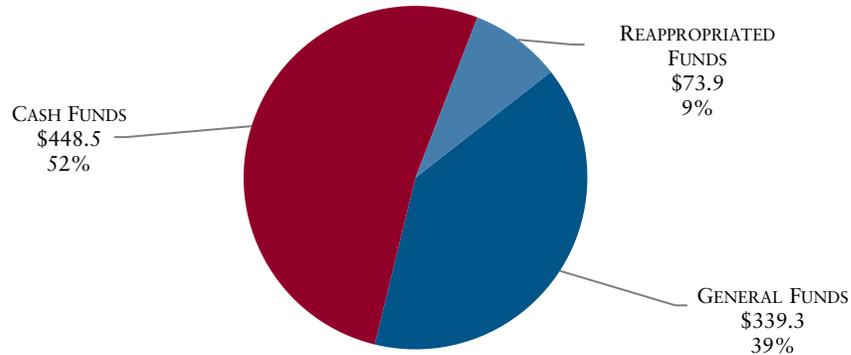
**COLORADO TREASURY POOL PORTFOLIO MIX AS OF JUNE 30, 2020 (IN MILLIONS)**



SOURCE: Department of the Treasury records.

For Fiscal Year 2020, the Treasury was appropriated approximately \$861.7 million and 33 full-time equivalent (FTE) staff, with 17 FTE allocated to administration and 16 FTE allocated to the Unclaimed Property program. The majority of the Treasury’s funding, approximately 99 percent, was for special purpose programs and the remaining 1 percent was for Treasury administration and the Unclaimed Property program. The following chart shows Treasury’s appropriations by funding source for Fiscal Year 2020.

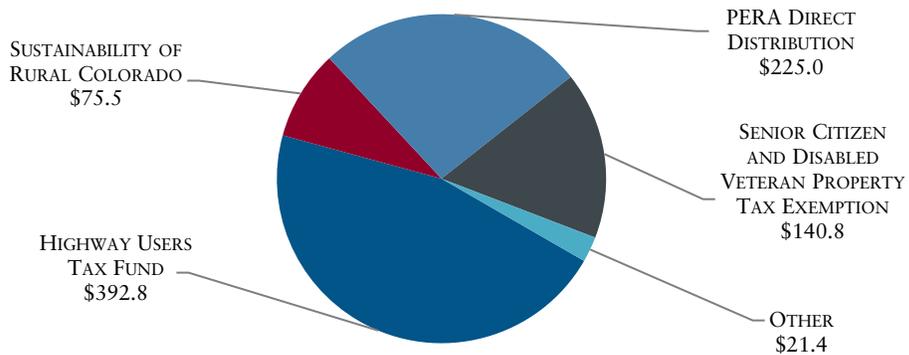
**DEPARTMENT OF THE TREASURY  
FISCAL YEAR 2020 APPROPRIATIONS  
BY FUNDING SOURCE (IN MILLIONS)**



SOURCE: Joint Budget Committee Appropriations Report Fiscal Year 2020-21.

With 17 allotted FTE, Treasury’s Administration Division manages special purpose programs, which are summarized in the following chart.

**DEPARTMENT OF THE TREASURY  
FISCAL YEAR 2020 SPECIAL PURPOSE PROGRAMS  
APPROPRIATIONS (IN MILLIONS)**



SOURCE: Colorado Senate Bill 19-207 (Fiscal Year 2020 Long Appropriations Act).

# COMPLIANCE WITH COLORADO FUNDS MANAGEMENT ACT AND THE TAX ANTICIPATION NOTE ACT

The Colorado Funds Management Act (Funds Management Act) under Section 24-75-902, C.R.S., asserts that, because the State “currently experiences and may hereafter” experience fluctuations in revenue and expenditures, as well as temporary cash flow deficits, this section of the statute is necessary, outlining the authority and mechanisms the State can use to fund shortfalls. Under Section 24-75-905(1), C.R.S., the State Treasurer is specifically authorized to sell Tax and Revenue Anticipation Notes (TRANS), short-term notes payable from anticipated pledged revenue, to meet these shortfalls. These TRANS are referred to as General Fund Tax and Revenue Anticipation Notes (General Fund Notes).

Under Section 29-15-112(1), C.R.S., the Tax Anticipation Note Act also specifically authorizes the State Treasurer to issue TRANS for school districts. The purpose of these TRANS is to alleviate temporary cash flow deficits of school districts by making interest-free loans to those districts. These TRANS are referred to as Education Loan Program Tax and Revenue Anticipation Notes (ELP Notes).

Section 24-75-914, C.R.S., requires the Office of the State Auditor to review information relating to the General Fund Notes and annually report this information to the General Assembly. We have also included information about the ELP Notes. The following table and discussion provide information about the Treasurer’s issuance of these notes during Fiscal Year 2020.

STATE OF COLORADO DETAILS OF TAX AND REVENUE ANTICIPATION NOTE ISSUANCES FOR THE FISCAL YEAR ENDED JUNE 30, 2020				
	GENERAL FUND NOTES SERIES 2019	EDUCATION LOAN PROGRAM NOTES		
		EDUCATION LOAN PROGRAM NOTES SERIES 2019A	EDUCATION LOAN PROGRAM NOTES SERIES 2019B	TOTAL EDUCATION LOAN PROGRAM
Date of Issuance	July 24, 2019	July 18, 2019	January 16, 2020	—
Maturity Date	June 26, 2020	June 29, 2020	June 29, 2020	—
Issue Amount	\$600,000,000	\$400,000,000	\$400,000,000	\$800,000,000
Interest	\$22,317,778	\$11,366,667	\$6,055,903	\$17,422,570
Denominations	\$5,000	\$5,000	\$5,000	—
Face Interest Rate	4.03%	3.00%	3.34%	—
Premium on Sale	\$15,821,800	\$6,932,000	\$4,390,500	\$11,322,500
Net Interest Cost to the State	1.18%	1.18%	0.94%	—
Total Due at Maturity	\$622,317,778	\$411,366,667	\$406,055,903	\$817,422,570

SOURCE: Department of the Treasury records.  
NOTE: For comparative purposes, in Fiscal Year 2019, the Treasurer issued \$600,000,000 in General Fund Notes and \$635,000,000 in Education Loan Program Notes.

## TERMS AND PRICE

Section 24-75-907(1), C.R.S., states that the General Fund Notes are required to mature no later than 3 days prior to the end of the fiscal year. Section 29-15-112(5)(b), C.R.S., states that the ELP Notes are required to mature on or before August 31 of the fiscal year immediately following the fiscal year in which the notes were issued. In addition, if the notes have a maturity date after the end of the fiscal year, then on or before the final day of the fiscal year in which the ELP Notes are issued, there shall be deposited, in one or more special segregated and restricted accounts and pledged irrevocably to the payment of the ELP Notes, an amount sufficient to pay the principal, premium, if any, and interest related to the ELP Notes on their stated maturity date.

Notes in each series are issued at different face interest rates. These are the rates at which interest will be paid on the notes. The average net interest cost to the State differs from the face interest rates because the notes are sold at a premium, which reduces the net interest cost incurred.

The maturity dates of the General Fund Notes and the ELP Notes issued during Fiscal Year 2020 comply with statutory requirements. Specifically, as shown in the previous table, the General Fund Notes had a maturity date of June 26, 2020, and both of the ELP Notes had a maturity date of June 29, 2020. Neither were subject to redemption prior to maturity.

## SECURITY AND SOURCE OF PAYMENT

In accordance with the Funds Management Act, principal and interest on the General Fund Notes are payable solely from any cash income or other cash receipts recorded in the General Fund for Fiscal Year 2020. The General Fund's cash receipts include those that are subject to appropriation in Fiscal Year 2020 and any pledged revenue, including the following:

- Revenue not yet recorded in the General Fund at the date the notes were issued.
- Any unexpended note proceeds.
- Proceeds of internal borrowing from other state funds recorded in the General Fund.

The State Treasurer records monies reserved to pay the principal and interest of the General Fund Notes in the Note Payment Account (General Fund Account) in the Colorado Operations Resource Engine (CORE), the State's accounting system. The General Fund Notes are secured by an exclusive first lien on assets in the General Fund Account. The State Treasurer holds custody of the assets in this account.

According to Section 29-15-112(2)(e)(II), C.R.S., interest on the ELP Notes is payable from the General Fund. In accordance with the TRANS issuance documents, principal on the ELP Notes was required to be paid solely from the receipt of property taxes received by the participating school districts during March through June 2020, which were to be deposited into the General Fund of each school district. Section 29-15-112(4)(a)(I)(A), C.R.S., requires the school districts to

make payments for the entire principal on the ELP Notes to the State Treasury. Per the TRANS issuance documents, these payments were to be made by June 25, 2020. We confirmed that the school districts made all payments by June 25, 2020, and the State Treasurer used these funds to repay the principal on the ELP Notes.

In accordance with the TRANS issuance documents, if the balance in the ELP Notes Repayment Account (ELP Account) had been less than the principal of the ELP Notes at maturity on June 29, 2020, the State Treasurer would have been required to deposit an amount sufficient to fully fund the ELP Account from any funds on hand that were eligible for investment. The State Treasurer's ability to use the General Fund's current revenues or borrowable resources to fund a deficiency in the ELP Account is subordinate to the use of such funds for payment of any outstanding General Fund Notes.

In accordance with the TRANS issuance documents, if the balance in the General Fund Account on June 15, 2020, had been less than the principal and interest of the General Fund Notes due at maturity, the State Treasurer would have been required to deposit all of the General Fund's revenue available at that time into the General Fund Account, and borrow from other state funds until the balance met the required level. In addition, the State Treasurer would be required to give notice of such deficiency to the note's securities depository and the Municipal Securities Rulemaking Board.

To ensure the payment of the General Fund Notes and ELP Notes, the Treasurer agreed to deposit pledged revenue into both the General Fund Account and the ELP Account so that the balance on June 15, 2020, and June 25, 2020, respectively, would be no less than the amounts to be repaid. The note agreements also provide remedies for holders of the notes in the event of default. The amounts to be repaid on the maturity date are detailed in the previous table.

We determined that, on June 15, 2020, and June 25, 2020, the account balance plus accrued interest earned on investments was sufficient to

pay the principal and interest on the General Fund and ELP Notes, respectively, without borrowing from other state funds.

## LEGAL OPINION

Sherman & Howard, LLC, and Kutak Rock LLP, bond counsels, have stated that, in their opinion:

- The State has the power to issue the notes and carry out the provisions of the note agreements.
- The General Fund Notes and ELP Notes are legal, binding, secured obligations of the State.
- Interest on the notes is exempt from taxation by the U.S. government and by the State of Colorado.

## INVESTMENTS

The Funds Management Act, the Tax Anticipation Note Act, and the General Fund and ELP Notes' agreements allow the Treasurer to invest the General Fund Account and ELP Account funds in eligible investments until they are needed for note repayment. Interest amounts earned on the investments are credited back to the General Fund, since the General Fund pays interest at closing. The State Treasurer is authorized to invest the funds in a variety of long- and short-term securities according to Section 24-36-113(1), C.R.S. Furthermore, Section 24-75-910, C.R.S., of the Funds Management Act and Section 29-15-112(3)(b), C.R.S., of the Tax Anticipation Note Act state that the Treasurer may:

- Invest the proceeds of the notes in any securities that are legal investments for the fund from which the notes are payable.
- Deposit the proceeds in any eligible public depository.

## PURPOSE OF THE ISSUANCE AND USE OF PROCEEDS

The General Fund Note proceeds were used to alleviate temporary cash flow shortfalls and to finance the State’s daily operations in anticipation of taxes and other revenue to be received later in Fiscal Year 2020. The State Treasurer deposited the proceeds of the sale of the General Fund Notes in the State’s General Fund.

The ELP Notes were issued to fund a portion of the anticipated cash flow shortfalls of the school districts during Fiscal Year 2020. The net proceeds of the sale of the notes were specifically used to make interest-free loans to the school districts in anticipation of the receipt of property tax revenue by the individual districts on and after March 1, 2020, and up to and including June 25, 2020.

## ADDITIONAL INFORMATION

The General Fund Notes and the ELP Notes were issued through competitive sales. A competitive sale involves a bid process in which notes are sold to bidders offering the lowest interest rate.

The issuance of both types of notes is subject to the Internal Revenue Service’s (IRS) arbitrage requirements. In general, arbitrage is defined as the difference between the interest earned by investing the note proceeds and the interest paid on the borrowing. In addition, if the State meets the IRS safe harbor rules, the State is allowed to earn and keep this arbitrage amount. The IRS safe harbor rules require the State to meet certain spending thresholds related to the note proceeds. For Fiscal Year 2020, Treasury reported that the State met the IRS safe harbor rules. Treasury further indicated that, although these requirements were met, interest earned by investing note proceeds was less than interest paid on the borrowing, thus no arbitrage was earned or kept. The Treasury is responsible for monitoring compliance with the arbitrage requirements to ensure that the State will not be liable for an arbitrage rebate.

## STATE EXPENSES

The State incurred expenses as a result of the issuance and redemption of the General Fund and ELP Notes. These expenses totaled approximately \$677,000. The expenses included the following:

- Bond legal counsel fees and reimbursement of related expenses incurred by the bond counsel.
- Disclosure counsel fees and expenses.
- Fees paid to rating agencies for services.
- Costs of printing and distributing preliminary and final offering statements and the actual notes.
- Fees paid to financial advisors.
- Redemption costs, consisting of fees and costs paid to agents to destroy the redeemed securities.

## SUBSEQUENT EVENTS

On August 4, 2020, the State issued \$410 million in ELP Notes, Series 2020A, with a maturity date of June 29, 2021. The notes carry an average coupon rate of 3.51 percent and were issued with a premium of \$12.3 million. The total due at maturity includes \$410 million in principal and \$13.0 million in interest.

On August 6, 2020, the State issued \$600 million in General Fund Notes with a maturity date of June 25, 2021. The notes carry an average coupon rate of 4.00 percent and were issued with a premium of \$20.3 million. The total due at maturity includes \$600 million in principal and \$21.3 million in interest.

On January 28, 2021, the State issued \$390 million in ELP Notes, Series 2020B, with a maturity date of June 29, 2021. The notes carry an average

coupon rate of 3.0 percent and were issued with a premium of \$4.9 million. The total due at maturity includes \$390 million in principal and \$5.0 million in interest.

NO RECOMMENDATION IS MADE IN THIS AREA.

## PUBLIC SCHOOL FUND

The Public School Fund (Fund), created under Section 22-41-101, C.R.S., is used for the deposit and investment of proceeds from the sale of land granted to the State by the federal government for educational purposes, as well as for other monies as provided by law. Interest and income earned on the Fund are to be distributed to and expended by the State’s school districts for school maintenance. In accordance with Section 22-41-104(2), C.R.S., the State Treasurer has the authority to “effect exchanges or sales” of investments in the Fund whenever the exchanges or sales will not result in the loss of the Fund’s principal. An aggregate loss of principal to the Fund occurs only when an exchange or sale that resulted in an initial loss of principal is not offset by a gain on an exchange or sale in the Fund within 12 months.

Section 2-3-103(5), C.R.S., requires the Office of the State Auditor to annually evaluate the Fund’s investments and to report any loss of the Fund’s principal to the Legislative Audit Committee. During our Fiscal Year 2020 audit, we obtained confirmations from Wells Fargo Bank on the fair value of all investments held in the Fund. We compared the total fair value of the Fund’s investments to the book value of the investments as recorded in CORE, and noted that the fair value exceeded the book value of the investments at June 30, 2020, by approximately \$57.0 million. We did not identify any recognized loss of principal to the Fund during Fiscal Year 2020.

NO RECOMMENDATION IS MADE IN THIS AREA.

# DISPOSITION

## OF PRIOR FINANCIAL AUDIT RECOMMENDATIONS

The following financial audit recommendations are summarized from the Statewide Audit for Fiscal Years 2015 through 2019 and include only the financial recommendations not fully implemented as of our Fiscal Year 2019 Statewide Audit. The disposition is the implementation status as of June 30, 2020.

The classification of findings described in SECTION I: REPORT SUMMARY has been included throughout the dispositions, as needed. If the disposition is implemented, the classification is not applicable; if the disposition references a current financial audit recommendation, the classification will be included with the current audit finding. All findings classified as significant deficiencies or material weaknesses with a disposition of deferred will be listed in SECTION II: FINANCIAL STATEMENT FINDINGS following each department's current findings and will include a new recommendation number for Fiscal Year 2020.

## DEPARTMENT OF AGRICULTURE

## RECOMMENDATION 2017-001

STATUS	RECOMMENDATION TEXT
PARTIALLY IMPLEMENTED	<p>The Colorado State Fair Authority should continue the implementation of the Strategic Business Plan for long-term financial stability. This may also include continuing to work with the Colorado Department of Agriculture and the Joint Budget Committee to obtain additional appropriations in the State Long Bill, seeking new sources and increased contributions to ensure continued operations.</p> <p>STATUS NOTE: The Authority is continuing to implement its Strategic Business Plan. The Authority has improved its cash flow by approximately \$4 million since Fiscal Year 2017. The Authority plans to fully implement this recommendation by June 30, 2021.</p>
CLASSIFICATION: OTHER MATTER	

## DEPARTMENT OF CORRECTIONS

## RECOMMENDATION 2019-001

STATUS	RECOMMENDATION TEXT
IMPLEMENTED	<p>The Department of Corrections should improve information security controls over the Colorado Operations Resource Engine by implementing the recommendation as noted in the confidential finding to mitigate the specific problems noted in the confidential finding.</p>

## RECOMMENDATION 2018-002

STATUS	RECOMMENDATION TEXT
	<p>The Department of Corrections (Department) should strengthen its internal controls over procurement card expenditures by:</p>
A IMPLEMENTED	<p>Ensuring that the procurement card administrator is fulfilling the duties and responsibilities outlined in the Procurement Card Program Handbook, including compliance reviews, sales tax inquiries, and declined transaction inquiries on a monthly basis.</p> <p>STATUS NOTE: Implemented in Fiscal Year 2019.</p>
B IMPLEMENTED	<p>Providing training to procurement card users and approvers on a timely basis in accordance with the Procurement Card Program Handbook. The training should emphasize the importance of following the State's established procedures for review, approval, and maintenance of the procurement card statement and detailed receipts.</p>
C IMPLEMENTED	<p>Instituting a required, routine process for reviewing all credit limit amounts on procurement cards to ensure that amounts are reasonable and appropriate for the needs of the individual cardholder to fulfill their duties and that the Department's use of procurement cards is within policies and intended use.</p> <p>STATUS NOTE: Implemented in Fiscal Year 2019.</p>

**OFFICE OF THE GOVERNOR**

**RECOMMENDATION 2019-002**

STATUS		RECOMMENDATION TEXT
		The Governor’s Office of Economic Development and International Trade (OEDIT) should strengthen its internal controls over vendor information management by:
A	IMPLEMENTED	Establishing and implementing formal written policies and procedures to track and monitor all vendor information change request submissions. These should include requiring set protocols for staff to follow in order to independently verify the vendor requests.
B	IMPLEMENTED	Providing adequate training to staff over these policies and procedures, and the Central Management Unit’s Electronic Funds Transfer (EFT) form vendor verification guidance, to ensure that OEDIT staff are performing an independent source verification for all EFT change requests prior to processing payments.

**RECOMMENDATION 2019-003**

STATUS		RECOMMENDATION TEXT
IMPLEMENTED		The Governor’s Office of Information Technology should mitigate the change management problems identified in the confidential finding.

**RECOMMENDATION 2019-004**

STATUS		RECOMMENDATION TEXT
		The Governor’s Office of Information Technology should strengthen information security controls by:
A	IMPLEMENTED	Implementing recommendation PART A as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding.
B	DEFERRED	Implementing recommendation PART B as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding. STATUS NOTE: OIT plans to fully implement the recommendation by the June 2021 implementation date.
C	PARTIALLY IMPLEMENTED	Implementing recommendation PART C as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding. STATUS NOTE: See Current Audit Recommendation 2020-004.
D	NO LONGER APPLICABLE	Implementing recommendation PART D as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding. STATUS NOTE: OIT disagreed with this recommendation and did not implement it.

**CLASSIFICATION: MATERIAL WEAKNESS**

**RECOMMENDATION 2019-005**

STATUS		RECOMMENDATION TEXT
		The Governor’s Office of Information Technology should improve GenTax information security controls by:
A	PARTIALLY IMPLEMENTED	Implementing recommendation PART A as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding. STATUS NOTE: See Current Audit Recommendation 2020-006.
B	IMPLEMENTED	Implementing recommendation PART B as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding.
C	IMPLEMENTED	Implementing recommendation PART C as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding.

### III-4

RECOMMENDATION 2019-006	
STATUS	RECOMMENDATION TEXT
NOT IMPLEMENTED	The Governor's Office of Information Technology (OIT) should improve GenTax information security controls and comply with OIT Cyber Policies by configuring the GenTax operating system to automatically disable user accounts after 90 days of inactivity. STATUS NOTE: See Current Audit Recommendation 2020-006.

RECOMMENDATION 2019-007	
STATUS	RECOMMENDATION TEXT
	The Governor's Office of Information Technology should implement information security controls over GenTax to ensure compliance with applicable laws, regulations, and policies by:
A IMPLEMENTED	Implementing recommendation PART A as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding.
B PARTIALLY IMPLEMENTED	Implementing recommendation PART B as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding. STATUS NOTE: See Current Audit Recommendation 2020-007.
C NOT IMPLEMENTED	Implementing recommendation PART C as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding. STATUS NOTE: See Current Audit Recommendation 2020-007.

RECOMMENDATION 2019-008	
STATUS	RECOMMENDATION TEXT
	The Governor's Office of Information Technology should improve the Colorado Personnel Payroll System mainframe information security controls by:
A NO LONGER APPLICABLE	Implementing recommendation PART A as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding. STATUS NOTE: OIT's Chief Information Security Officer approved a Secure Configuration Exception Request, exempting this issue from compliance with Colorado Information Security Policies.
B IMPLEMENTED	Implementing recommendation PART B as noted in the confidential finding to mitigate the specific related problems noted in the confidential finding.

RECOMMENDATION 2019-009	
STATUS	RECOMMENDATION TEXT
NO LONGER APPLICABLE	The Office of Information Technology (OIT) should strengthen information security controls over the Colorado Personnel Payroll System (CPPS) application by configuring the password length in compliance with OIT Cyber Policies or documenting management's acceptance of the risk, and configuring the inactivity time frame. STATUS NOTE: OIT's Chief Information Security Officer approved a Secure Configuration Exception Request, exempting this issue from compliance with Colorado Information Security Policies.

RECOMMENDATION 2019-010	
STATUS	RECOMMENDATION TEXT
IMPLEMENTED	The Governor's Office of Information Technology should ensure change management controls over the Colorado Personnel Payroll System (CPPS) comply with standards and policies, including completing change management procedure documentation, and requiring documented quarterly access reviews over the CPPS test and production environments, to ensure that access is provisioned appropriately.

RECOMMENDATION 2019-011	
STATUS	RECOMMENDATION TEXT
IMPLEMENTED	The Governor’s Office of Information Technology should continue to improve Colorado Personnel Payroll System (CPPS) computer operations controls and processes by working with key business and information system leaders to review and approve the CPPS disaster recovery plan, in accordance with the Colorado Information Security Policy requirements.

RECOMMENDATION 2019-012	
STATUS	RECOMMENDATION TEXT
	The Governor’s Office of Information Technology should improve information technology controls related to system interfaces by:
A	IMPLEMENTED Developing, documenting, and implementing interface procedures for GenTax.
B	IMPLEMENTED Developing, documenting, and implementing interface procedures for the Colorado Operations Resource Engine’s interface server.
C	IMPLEMENTED Training staff on the appropriate interface procedures once developed as recommended in PARTS A and B.

RECOMMENDATION 2019-013, 2018-012 AND 2017-009	
STATUS	RECOMMENDATION TEXT
	The Governor’s Office of Information Technology (OIT) should ensure physical security over the State’s main data center by:
A	IMPLEMENTED Establishing formalized access management processes to mitigate the specific related problems noted in the confidential finding.
B	IMPLEMENTED Ensuring compliance with Colorado Information Security Policies, OIT Cyber Policies, and OIT’s data center standard operating procedures, related to physical access management. STATUS NOTE: Implemented in Fiscal Year 2019.
C	PARTIALLY IMPLEMENTED Establishing formalized policies, procedures and written agreements over physical access to mitigate the specific related problems noted in the confidential finding. STATUS NOTE: See Current Audit Recommendation 2020-008.
D	NOT IMPLEMENTED Establishing formalized policies, procedures and written agreements over physical access to mitigate the specific related problems noted in the confidential finding. STATUS NOTE: See Current Audit Recommendation 2020-008.

RECOMMENDATION 2019-027	
STATUS	RECOMMENDATION TEXT
	The Governor’s Office of Information Technology (OIT) should work with the Department of Labor and Employment to improve information security controls over the Colorado Unemployment Benefits System (CUBS), the Colorado Automated Tax System (CATS), and the Colorado Labor and Employment Accounting Resource (CLEAR), and to comply with Colorado Information Security Policies, OIT Cyber Policies, and IRS Publication 1075, as applicable, by:
A	DEFERRED Mitigating the information security problem noted in the confidential finding PART A. STATUS NOTE: OIT plans to fully implement this recommendation by the August 2020 implementation date.
B	DEFERRED Mitigating the information security problem noted in the confidential finding PART B. STATUS NOTE: OIT plans to fully implement this recommendation by the September 2020 implementation date.
C	PARTIALLY IMPLEMENTED Mitigating the information security problem noted in the confidential finding PART C. STATUS NOTE: OIT plans to fully implement this recommendation by October 2020.
D	DEFERRED Mitigating the information security problem noted in the confidential finding PART D. STATUS NOTE: OIT plans to fully implement this recommendation by the June 2021 implementation date.
CLASSIFICATION: SIGNIFICANT DEFICIENCY	

RECOMMENDATION 2019-038	
STATUS	RECOMMENDATION TEXT
NO LONGER APPLICABLE	The Governor’s Office of Information Technology should strengthen information security controls over the Driver License, Record, Identification, and Vehicle Enterprise Solution (DRIVES) system by mitigating the information security problems noted in the confidential finding. STATUS NOTE: OIT disagreed with this recommendation and did not implement it.

RECOMMENDATION 2018-013, 2017-013, AND 2016-011	
STATUS	RECOMMENDATION TEXT
	The Governor’s Office of Information Technology should improve oversight of CGI, as the CORE application’s third-party service provider, to ensure compliance with the Colorado Information Security Policies (Security Policy or Policies) by:
A	IMPLEMENTED Amending the CGI contract as necessary to clearly and unambiguously state that the contractor is required to comply with all current and future updated State of Colorado Information Security Policies. STATUS NOTE: Implemented in Fiscal Year 2017.
B	IMPLEMENTED Ensuring it has a process and effective mechanism in place to assess CGI for compliance with the CISP’s including ensuring that CGI’s policies and procedures for CORE comply with the Security Policies.
C	IMPLEMENTED Amending the CGI contract as necessary to assign DPA/OSC primary responsibility for contract oversight, while stipulating that OIT should continue to ensure compliance with the Security Policies. STATUS NOTE: Implemented in Fiscal Year 2019.

RECOMMENDATION 2018-014 AND 2017-030	
STATUS	RECOMMENDATION TEXT
NOT IMPLEMENTED	Once the Unemployment Insurance Modernization project is implemented and operational, the Governor’s Office of Information Technology (OIT) should ensure that logging, monitoring, and reporting capabilities are in place; logs are reviewed and analyzed for inappropriate activity; and audit records are retained in accordance with applicable security requirements as agreed upon with the Department of Labor and Employment and in compliance with Colorado Information Security and OIT Cyber Policies.  STATUS NOTE: OIT plans to fully implement this recommendation by October 2020.
CLASSIFICATION: DEFICIENCY IN INTERNAL CONTROL	

RECOMMENDATION 2017-014, 2016-015, AND 2015-006	
STATUS	RECOMMENDATION TEXT
	The Governor’s Office of Information Technology (OIT) should improve information technology service agreement controls by
A IMPLEMENTED	Formalizing an agreement with the State Internet Portal Authority (SIPA) to ensure that SIPA complies with Colorado Information Security Policies, includes provisions required by OIT’s vendor management policy and other applicable legal and regulatory information security requirements, and requires OIT’s review and approval of any contract initiated by an Executive Branch agency for IT services provided by SIPA. This could be accomplished through a master agreement to ensure coverage of all state contracts
B IMPLEMENTED	Instituting an effective mechanism to track vendor agreements with SIPA. STATUS NOTE: Implemented in Fiscal Year 2016.
C IMPLEMENTED	Communicating with Executive Branch agencies OIT’s responsibility to review and approve all SIPA contracts, in the event a formalized agreement is not put in place, as described in Part A. STATUS NOTE: Implemented in Fiscal Year 2017.
D IMPLEMENTED	Updating all existing and future information technology service contracts between Executive Branch agencies and SIPA, as applicable, to comply with Colorado Information Security Policies and include the provisions required by the OIT’s vendor management policy and other applicable legal and regulatory information security requirements, in the event that a formalized agreement is not put in place, as described in PART A.

RECOMMENDATION 2017-028	
STATUS	RECOMMENDATION TEXT
	The Governor’s Office of Information Technology (OIT) should work with the Department of Labor and Employment to improve internal controls over the Colorado Unemployment Benefits System (CUBS), Colorado Automated Tax System (CATS), and the Colorado Labor and Employment Applicant Resource (CLEAR) by:
A PARTIALLY IMPLEMENTED	Developing and establishing adequate processes to comply with Security and OIT Cyber Policies, and IRS Publication 1075. STATUS NOTE: The Department has worked with OIT to resolve certain information security internal control problems identified in the confidential finding. Both the Department and OIT continue to further strengthen processes, as they work through the final implementation of the modernization project expected to be completed in October 2020.
B NO LONGER APPLICABLE	Reconfiguring system settings and refining practices to mitigate the specific problems noted in the confidential finding related to account management. STATUS NOTE: Included as part of Fiscal Year 2019 Recommendation 2019-027.
CLASSIFICATION: DEFICIENCY IN INTERNAL CONTROL	

### DEPARTMENT OF HEALTH CARE POLICY AND FINANCING

#### RECOMMENDATION 2019-052

STATUS		RECOMMENDATION TEXT
		The Department of Health Care Policy and Financing should improve controls over its financial reporting by:
A	IMPLEMENTED	Working with its service organization, DXC Technology Services, LLC, to ensure that Colorado interChange SOC 1, Type II reports clearly state the system components and controls that are in scope, such as database change management and database backup and recovery controls.
B	NOT IMPLEMENTED	Developing, documenting, implementing, and communicating a process for conducting reviews of the SOC 1, Type II reports, to ensure that all appropriate database internal controls impacting financial reporting are identified by the service organization, tested for effectiveness, and opined on by the service auditor in its SOC 1, Type II report.
STATUS NOTE: See Current Audit Recommendation 2020-014.		

### DEPARTMENT OF HIGHER EDUCATION – ADAMS STATE UNIVERSITY

#### RECOMMENDATION 2019-014

STATUS		RECOMMENDATION TEXT
		Adams State University should continue to improve its internal controls over financial activities by:
A	PARTIALLY IMPLEMENTED	Ensuring effective supervisory review and approval procedures are in place for year-end accounting and reporting processes.
STATUS NOTE: See Current Audit Recommendation 2020-015		
B	PARTIALLY IMPLEMENTED	Enhancing fiscal year-end training for staff over the effective implementation and performance of internal control procedures to include the importance of properly designed controls over financial activities, and appropriate and timely completion of fiscal year-end exhibits to the Office of the State Controller.
STATUS NOTE: See Current Audit Recommendation 2020-015.		

### DEPARTMENT OF HIGHER EDUCATION – HISTORY COLORADO

#### RECOMMENDATION 2019-015

STATUS		RECOMMENDATION TEXT
		History Colorado should improve its internal controls over the recording of capital assets and depreciation by:
A	IMPLEMENTED	Establishing and implementing well-defined policies and procedures over capital assets, including specific requirements noted in the Office of the State Controller's (OSC) Fiscal Procedures Manual (Manual) and the State Fiscal Rules. At a minimum, these procedures should detail the process for recording, modifying, and tracking capital assets in the Colorado Operations Resource Engine's (CORE) capital asset module.
B	IMPLEMENTED	Implementing a required detailed review of History Colorado's depreciation entries for accuracy, as well as the recording, modifying, and tracking of capital assets.
C	IMPLEMENTED	Providing staff training on CORE, State Fiscal Rules, and the OSC's Manual, as well as History Colorado's updated policies and procedures.

RECOMMENDATION 2019-016		
STATUS	RECOMMENDATION TEXT	
	History Colorado should improve its internal controls over its payroll processes by:	
A	IMPLEMENTED	Updating its existing policies and procedures to include all necessary responsibilities required by State Fiscal Rules and the Office of the State Controller (OSC), as well as all History Colorado payroll processes not currently included in the documented policies. In addition, the updated policies and procedures should include requirements to document and maintain evidence of any reviews that are performed, as well as the timeframe in which those reviews should be performed.
B	IMPLEMENTED	Ensuring that representations made to the OSC are accurate and supported by the maintenance of appropriate documentation.
C	IMPLEMENTED	Providing adequate training to staff over the performance of payroll processes and internal control procedures, including training on requirements for payroll outlined in History Colorado’s policies and procedures, as updated; the OSC’s Fiscal Procedures Manual; and State Fiscal Rules.

RECOMMENDATION 2019-017		
STATUS	RECOMMENDATION TEXT	
	History Colorado should improve its internal controls over financial reporting by:	
A	IMPLEMENTED	Developing and implementing policies and procedures for preparing and reviewing fiscal year-end accounting activities, including History Colorado’s exhibits and all necessary responsibilities required by State Fiscal Rules and the Office of the State Controller.
B	IMPLEMENTED	Instituting a fiscal year-end variance analysis process, including requiring History Colorado staff to compare current year financial information to the prior fiscal year to identify potential misstatements.
C	IMPLEMENTED	Adequately training staff on History Colorado’s new policies and procedures for preparing and reviewing exhibits.
D	IMPLEMENTED	Ensuring a consistent and timely supervisory review process is in place over accounting activities, including fiscal year-end processes.

**DEPARTMENT OF HIGHER EDUCATION – METROPOLITAN STATE UNIVERSITY OF DENVER**

RECOMMENDATION 2019-018		
STATUS	RECOMMENDATION TEXT	
	Metropolitan State University of Denver should improve its information security controls over Banner by:	
A	PARTIALLY IMPLEMENTED	Mitigating the information security problem noted in the confidential finding PART A. STATUS NOTE: Metropolitan State University of Denver has established informal controls related to user access and plans to formalize the controls around user access rights review in order to fully implement by November 2020.
B	IMPLEMENTED	Mitigating the information security problem noted in the confidential finding PART B.
CLASSIFICATION: DEFICIENCY IN INTERNAL CONTROL		

RECOMMENDATION 2019-019	
STATUS	RECOMMENDATION TEXT
IMPLEMENTED	Metropolitan State University of Denver should improve its change management IT controls by mitigating the change management problem noted in the confidential finding.

RECOMMENDATION 2019-020	
STATUS	RECOMMENDATION TEXT
IMPLEMENTED	Metropolitan State University of Denver should improve IT operations controls by mitigating the computer operations problems noted in the confidential finding.

RECOMMENDATION 2018-019	
STATUS	RECOMMENDATION TEXT
	Metropolitan State University of Denver should improve internal controls over computer operations by ensuring that it has the necessary staff to:
A	IMPLEMENTED Prioritize the mitigation of the specific problem noted in the confidential finding PART A. STATUS NOTE: Implemented in Fiscal Year 2019.
B	PARTIALLY IMPLEMENTED Mitigate the specific problem noted in the confidential finding PART B. STATUS NOTE: Metropolitan State University of Denver partially implemented this prior audit recommendation in Fiscal Year 2019 and plans to fully implement this recommendation by December 2020.

CLASSIFICATION: DEFICIENCY IN INTERNAL CONTROL

**DEPARTMENT OF HIGHER EDUCATION – UNIVERSITY OF NORTHERN COLORADO**

RECOMMENDATION 2019-021	
STATUS	RECOMMENDATION TEXT
	The University of Northern Colorado should improve IT controls to safeguard information contained in the Colorado Operations Resource Engine (CORE) and the Banner System by:
A	IMPLEMENTED Mitigating the information security problem noted in confidential finding PART A.
B	IMPLEMENTED Mitigating the information security problem noted in confidential finding PART B.

**DEPARTMENT OF HUMAN SERVICES**

RECOMMENDATION 2019-022	
STATUS	RECOMMENDATION TEXT
	The Department of Human Services should improve IT controls over the Electronic Benefits Transfer System by:
A	IMPLEMENTED Mitigating the information security problems noted in PART A of the confidential finding.
B	IMPLEMENTED Mitigating the information security problems noted in PART B of the confidential finding.
C	PARTIALLY IMPLEMENTED Mitigating the information security problems noted in PART C of the confidential finding. STATUS NOTE: While the Department implemented certain information security controls to mitigate the problems noted in PART C of the confidential finding, these controls were not in place by the end of Fiscal Year 2020. The Department plans to implement this recommendation by July 2020.

CLASSIFICATION: DEFICIENCY IN INTERNAL CONTROL

RECOMMENDATION 2019-023	
STATUS	RECOMMENDATION TEXT
	The Department of Human Services should improve its internal controls over payroll by:
A	DEFERRED Enforcing the Department's policy requiring that employees certify and supervisors approve timesheets within the timeframes specified in the <i>Certified Timesheet Guidelines</i> . STATUS NOTE: The Department plans to implement this recommendation by the July 2020 implementation date.
B	DEFERRED Implementing a process for tracking employees' and supervisors' completion of payroll-related training and for following up to ensure training completion, as applicable. STATUS NOTE: The Department plans to implement this recommendation by the July 2020 implementation date.
C	DEFERRED Creating and implementing a periodic review process to ensure that unit timekeepers maintain all signed and certified timesheets according to the guidelines. STATUS NOTE: The Department plans to implement this recommendation by the July 2020 implementation date.
CLASSIFICATION: SIGNIFICANT DEFICIENCY	

RECOMMENDATION 2018-062	
STATUS	RECOMMENDATION TEXT
	The Department of Human Services should work with the Governor's Office of Information Technology to strengthen information technology general controls over the Childcare Automated Tracking System (CHATS) by:
A	NO LONGER APPLICABLE Implementing procedures to ensure sufficient account management internal controls are in place to address the problems identified in the detailed confidential finding. STATUS NOTE: OIT's Chief Information Security Officer approved a Secure Configuration Exception Request, exempting this issue from compliance with Colorado Information Security Policies.
B	IMPLEMENTED Developing and communicating account management policies and procedures to address the problems identified in the detailed confidential finding. STATUS NOTE: Implemented in Fiscal Year 2019.
C	IMPLEMENTED Ensuring that the account management problems noted in the detailed confidential finding are addressed in the CHATS modernization project when the new system is implemented. STATUS NOTE: Implemented in Fiscal Year 2019.

## JUDICIAL BRANCH

RECOMMENDATION 2019-024	
STATUS	RECOMMENDATION TEXT
	The Judicial Branch should improve internal controls over financial accounting reporting and exhibit review and submission by:
A	IMPLEMENTED Implementing a documented review of all exhibits to be submitted to the Office of the State Controller (OSC) by a person who is not the preparer of the exhibit and ensuring that all staff involved in the preparation and review process are aware of the OSC submission requirements.
B	IMPLEMENTED Establishing a clear backup to the key review controls in the exhibit review process, so that in the event of turnover the control will continue to operate.

RECOMMENDATION 2019-025	
STATUS	RECOMMENDATION TEXT
	The Judicial Branch should improve its information security controls over the Colorado Operations Resource Engine by:
A	IMPLEMENTED Mitigating the information security problem noted in confidential finding PART A.
B	IMPLEMENTED Mitigating the information security problem noted in confidential finding PART B.

**DEPARTMENT OF LABOR AND EMPLOYMENT**

RECOMMENDATION 2019-026	
STATUS	RECOMMENDATION TEXT
	The Department of Labor and Employment should work with the Governor’s Office of Information Technology (OIT) and the Colorado Labor and Employment Applicant Resource (CLEAR) vendor, as applicable, to improve information security controls over the Colorado Unemployment Benefits System, the Colorado Automated Tax System, and the CLEAR systems, and to comply with Colorado Information Security Policies, OIT Cyber Policies, and IRS Publication 1075, as applicable, by:
A	DEFERRED Mitigating the information security problems noted in PART A of the confidential finding. STATUS NOTE: The Department plans to fully implement this recommendation by the August 2020 implementation date.
B	DEFERRED Mitigating the information security problems noted in PART B of the confidential finding. STATUS NOTE: The Department plans to fully implement this recommendation by the September 2020 implementation date.
C	DEFERRED Mitigating the information security problems noted in PART C of the confidential finding. STATUS NOTE: The Department plans to fully implement this recommendation by the June 2021 implementation date.
D	DEFERRED Mitigating the information security problems noted in PART D of the confidential finding. STATUS NOTE: The Department plans to fully implement this recommendation by the September 2020 implementation date.

CLASSIFICATION: SIGNIFICANT DEFICIENCY

RECOMMENDATION 2019-028 AND 2018-023	
STATUS	RECOMMENDATION TEXT
	The Department of Labor and Employment should work with the Governor’s Office of Information Technology and the Colorado Labor and Employment Applicant Resource (CLEAR) vendor, as applicable, to:
A	IMPLEMENTED Implement appropriate procedures to mitigate the specific problems noted in the confidential finding PART A. STATUS NOTE: Implemented in Fiscal Year 2019
B	NOT IMPLEMENTED Implement appropriate procedures to mitigate the specific problems noted in the confidential finding PART B. STATUS NOTE: The Department plans to fully implement this recommendation by September 2020.
C	NOT IMPLEMENTED Hold the CLEAR vendor accountable for contract provisions to ensure they are complying with Colorado Information Security Policies. STATUS NOTE: The Department plans to fully implement this recommendation by September 2020.

CLASSIFICATION: DEFICIENCY IN INTERNAL CONTROL

RECOMMENDATION 2018-025	
STATUS	RECOMMENDATION TEXT
NOT IMPLEMENTED	<p>The Colorado Department of Labor and Employment should work with the Governor's Office of Information Technology to ensure compliance with Colorado Information Security Policies and improve information technology general controls over the Colorado Unemployment Benefits System and Colorado Automated Tax System by: Ensuring that audit logging is designed, built, implemented, and operational as part of the Unemployment Insurance Modernization project.</p> <p>STATUS NOTE: The Department plans to fully implement this recommendation by October 2020.</p>
CLASSIFICATION: DEFICIENCY IN INTERNAL CONTROL	

RECOMMENDATION 2017-027	
STATUS	RECOMMENDATION TEXT
	<p>The Department of Labor and Employment (Department) should work with the Governor's Office of Information Technology (OIT), and the CLEAR vendor, as applicable, to improve internal controls over the Colorado Unemployment Benefits System (CUBS), Colorado Automated Tax System (CATS), and the Colorado Labor and Employment Applicant Resource (CLEAR) by:</p>
A	<p>PARTIALLY IMPLEMENTED</p> <p>Developing and establishing adequate processes to comply with Security and OIT Cyber Policies and IRS Publication 1075, as applicable.</p> <p>STATUS NOTE: The Department has worked with OIT to resolve certain information security internal control problems identified in the confidential finding. Both the Department and OIT continue to further strengthen processes as they work through the final implementation of the modernization project expected to be completed in October 2020.</p>
B	<p>IMPLEMENTED</p> <p>Implementing appropriate procedures to mitigate the specific problems noted in the confidential finding related to safeguarding data backups.</p> <p>STATUS NOTE: Implemented in Fiscal Year 2018.</p>
C	<p>NO LONGER APPLICABLE</p> <p>Reconfiguring system settings and refining practices to mitigate the specific problems noted in the confidential finding related to account management.</p> <p>STATUS NOTE: Included as part of Fiscal Year 2019 Recommendation 2019-027.</p>
D	<p>NO LONGER APPLICABLE</p> <p>Implementing appropriate procedures to mitigate the specific problems noted in the confidential finding relating to CLEAR system event logs.</p> <p>STATUS NOTE: Included as part of Fiscal Year 2019 Recommendation 2019-026.</p>
E	<p>NOT IMPLEMENTED</p> <p>Ensuring that these issues are addressed in the Unemployment Insurance systems modernization project.</p> <p>STATUS NOTE: The Department has worked with OIT to resolve certain information security internal control problems identified in the confidential finding. Both the Department and OIT continue to further strengthen processes as they work through the final implementation of the modernization project expected to be completed in October 2020.</p>
CLASSIFICATION: DEFICIENCY IN INTERNAL CONTROL	

## DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

## RECOMMENDATION 2019-029

STATUS		RECOMMENDATION TEXT
		The Department of Military and Veterans Affairs should improve IT controls and safeguard information contained in the Colorado Operations Resource Engine system by:
A	IMPLEMENTED	Mitigating the information security problems identified in the confidential recommendation PART A.
B	IMPLEMENTED	Mitigating the information security problems identified in the confidential recommendation PART B.

## DEPARTMENT OF PERSONNEL &amp; ADMINISTRATION

## RECOMMENDATION 2019-030

STATUS		RECOMMENDATION TEXT
		The Department of Personnel & Administration's Office of the State Controller (OSC) should strengthen its internal controls over financial reporting to ensure that the OSC's fiscal year-end accounting processes result in compliance with statutes and that the State's Financial Statements provided to decision makers are accurate, complete, and prepared in accordance with generally accepted accounting principles (GAAP). This should include the following:
A	DEFERRED	<p>Analyzing and reviewing historical transactions posted after the statutory close-date in detail to gain an understanding of whether the transactions should be posted by the statutory close and department close to be compliant with statutory requirements.</p> <p>STATUS NOTE: The Department plans to fully implement the recommendation by the December 2020 implementation date.</p>
B	DEFERRED	<p>Applying the analysis from Part A to define, document, and communicate to departments and institutions of higher education the specific types of transactions that must be made within 35 days of fiscal year-end in order for the OSC to comply with the statutory close and department close, and holding departments and institutions of higher education accountable for meeting related deadlines.</p> <p>STATUS NOTE: The Department plans to fully implement the recommendation by the December 2020 implementation date.</p>
C	DEFERRED	<p>Reevaluating the accounting deadlines and adjusting them as necessary in order to meet the GAAP requirements for the Financial Statements. This should include resolving delays caused by the labor allocation process and/or implementing a plan to change or address the issues with the current labor allocation process.</p> <p>STATUS NOTE: The Department plans to fully implement the recommendation by the December 2022 implementation date.</p>
D	DEFERRED	<p>Formalizing and expanding the OSC's existing policies and procedures over Exhibit Js for inclusion in the Financial Statements. The policies and procedures should include sufficient details on the OSC's processes related to:</p> <ol style="list-style-type: none"> <li>i. Specific review procedures that should be performed to ensure that the exhibits are reasonable and completed in accordance with the OSC's <i>Instructions for Exhibits</i>.</li> <li>ii. Making timely adjustments identified through the reviews to the Financial Statements prior to submitting them to the Governor and General Assembly.</li> <li>iii. Obtaining revised exhibits.</li> </ol> <p>STATUS NOTE: The Department plans to fully implement the recommendation by the December 2020 implementation date.</p>
E	NOT IMPLEMENTED	<p>Strengthening the OSC's existing policies and procedures for preparing and reviewing the State's Financial Statements and Annual Report. The changes should include procedures for reviews to be sufficiently detailed to allow for significant issues, such as those identified in the audit, to be detected and corrected.</p> <p>STATUS NOTE: See Current Audit Recommendation 2020-028.</p>

CLASSIFICATION: MATERIAL WEAKNESS

RECOMMENDATION 2019-031	
STATUS	RECOMMENDATION TEXT
	The Department of Personnel & Administration’s Office of the State Controller (OSC) should strengthen its internal controls and reporting of prior period adjustments by:
A	<p>PARTIALLY IMPLEMENTED</p> <p>Requiring departments and institutions of higher education to track all prior period adjustments made during the fiscal year and to report them to the OSC at fiscal year-end. This should include revising the <i>Fiscal Procedures Manual</i> and the Exhibit PPA, <i>Prior Period Adjustments</i>, to eliminate the allowance for a qualification.</p> <p>STATUS NOTE: The OSC revised the Fiscal Procedures Manual and the Exhibit PPA. They also required departments to track and report prior period adjustments made during the fiscal year and report them to the OSC. However, the OSC did not require Institutions of Higher Education to track and report prior period adjustments. The OSC plans to fully implement this part of the recommendation by June 2021.</p>
B	<p>IMPLEMENTED</p> <p>Revising the Exhibit A1, <i>Changes in TABOR Revenue and Base Fiscal Year Spending</i>, and related instructions to eliminate the inconsistent guidance regarding corrections to prior year recorded Taxpayer’s Bill of Rights (TABOR) revenue to require reporting of all prior period adjustments affecting TABOR revenue, regardless of dollar amount.</p>
CLASSIFICATION: DEFICIENCY IN INTERNAL CONTROL	

RECOMMENDATION 2019-032	
STATUS	RECOMMENDATION TEXT
	The Department of Personnel & Administration’s Office of the State Controller (OSC) should continue to improve internal controls related to the American Institute of Certified Public Accountants’ <i>Statement on Standards for Attestation Engagements 18 – System and Organization Controls 1</i> , Type II reports (SOC Reports) by:
A	<p>DEFERRED</p> <p>Creating and implementing policies and procedures around performing risk assessment and planning related to the State’s IT systems to determine which systems are critical to the State’s <i>Comprehensive Annual Financial Report</i>, which systems require SOC Reports, and tracking SOC Report opinions.</p> <p>STATUS NOTE: The Department plans to fully implement the recommendation by the December 2020 implementation date.</p>
B	<p>DEFERRED</p> <p>Providing contract template information for SOC Reports related to financial reporting. The OSC should review contracts that may require SOC Reports and determine how to proceed with the contract.</p> <p>STATUS NOTE: The Department plans to fully implement the recommendation by the December 2020 implementation date.</p>
C	<p>DEFERRED</p> <p>Ensuring that the OSC’s <i>Fiscal Procedures Manual</i> contains sufficient guidance and clear responsibilities on SOC Reports related to financial reporting, specifically including department responsibilities related to SOC Reports, and department responsibilities to review and implement complementary user entity controls.</p> <p>STATUS NOTE: The Department plans to fully implement the recommendation by the December 2020 implementation date.</p>
CLASSIFICATION: MATERIAL WEAKNESS	

RECOMMENDATION 2019-033	
STATUS	RECOMMENDATION TEXT
DEFERRED	<p>The Department of Personnel &amp; Administration's Office of the State Controller (OSC) should improve its processes and review related to the implementation of Government Accounting Standards Board (GASB) statements and implementation guides by ensuring that its analyses include specific anticipated impacts and approaches to the OSC's financial reporting processes for implementing each GASB statement and implementation guide.</p> <p>STATUS NOTE: The Department plans to fully implement the recommendation by the September 2020 implementation date.</p>
CLASSIFICATION: SIGNIFICANT DEFICIENCY	

RECOMMENDATION 2019-034	
STATUS	RECOMMENDATION TEXT
IMPLEMENTED	<p>The Department of Personnel &amp; Administration's Office of the State Controller should ensure that it meets statutory requirements by continuing to work with the Attorney General's Office to obtain an interpretation of the pay-date shift statute and how it relates to the State's institutions of higher education, and to then provide appropriate direction to the institutions of higher education regarding the pay-date shift.</p>

RECOMMENDATION 2019-035 AND 2018-032	
STATUS	RECOMMENDATION TEXT
PARTIALLY IMPLEMENTED	<p>The Office of the State Controller should strengthen information technology controls over the Colorado Operations Resource Engine system by working with CGI to ensure that the System and Organization Controls 1, Type II report covers appropriate database layer controls relevant to financial reporting.</p> <p>STATUS NOTE: See Current Audit Recommendation 2020-029.</p>

RECOMMENDATION 2018-027	
STATUS	RECOMMENDATION TEXT
	<p>The Department of Personnel &amp; Administration's Office of the State Controller (OSC) should strengthen its internal controls over pension and other postemployment benefit reporting by:</p>
A	<p>PARTIALLY IMPLEMENTED</p> <p>Updating and implementing its documented policies and procedures related to financial statement reporting and note disclosures required by GASB Statement No. 68, <i>Accounting and Financial Reporting for Pensions</i> (GASB 68), and GASB Statement No. 75, <i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</i> (GASB 75), to include sufficient details related to the preparation and supervisory review of the note disclosures and supporting documentation to ensure that all elements agree to the underlying accounting records and that financial reporting meets statutory and generally accepted accounting principles requirements.</p> <p>STATUS NOTE: The Office of the State Controller (OSC) implemented updated documented policies and procedures related to pension and Other Post Employment Benefit financial statement reporting and note disclosures. However, we continued to identify some issues with the OSC's reporting, including missing note disclosures, amounts that did not agree to the underlying support, and various calculation errors that were not identified by OSC's staff. The OSC plans to fully this part of the recommendation by September 2021.</p>
B	<p>IMPLEMENTED</p> <p>Establishing and implementing a process to obtain information from the State's higher education institutions on all types of pension and other postemployment benefit plans offered by the institutions. The OSC should compile this information, document its analysis, and include the appropriate disclosures for GASBs 68 and 75 in its financial statements.</p> <p>STATUS NOTE: Implemented in Fiscal Year 2019.</p>

CLASSIFICATION: DEFICIENCY IN INTERNAL CONTROL

## DEPARTMENT OF PUBLIC HEALTH AND ENVIRONMENT

RECOMMENDATION 2019-036	
STATUS	RECOMMENDATION TEXT
	The Department of Public Health and Environment should strengthen its internal controls over financial reporting by:
A	IMPLEMENTED Implementing a process requiring sufficient reviews of information used for calculating Office of the State Controller exhibits, including information used to calculate and report pollution remediation liabilities.
B	IMPLEMENTED Ensuring Accounting Division staff are sufficiently trained on Department accounting-related policies, including those related to pollution remediation obligations.

## DEPARTMENT OF REVENUE

RECOMMENDATION 2019-037	
STATUS	RECOMMENDATION TEXT
	The Department of Revenue should improve information security controls for the Driver License, Record, Identification, and Vehicle Enterprise Solution (DRIVES) system by:
A	IMPLEMENTED Mitigating the information security problems noted in PART A of the confidential finding.
B	IMPLEMENTED Mitigating the information security problems noted in PART B of the confidential finding.

RECOMMENDATION 2019-039	
STATUS	RECOMMENDATION TEXT
IMPLEMENTED	The Department of Revenue should improve oversight of vendor contract compliance and develop a mechanism to hold staff accountable for monitoring and enforcing contract provisions by formalizing a process to ensure FAST Enterprises (FAST) has implemented mitigating controls to address those Colorado Information Security Policies that FAST is unable to fully implement, and by initiating discussions with the Governor's Office of Information Technology to document management's acceptance of the risk.

## DEPARTMENT OF TRANSPORTATION

RECOMMENDATION 2019-040	
STATUS	RECOMMENDATION TEXT
	The Colorado Bridge Enterprise (CBE) should improve its internal controls over adjusting accounting entries by:
A	IMPLEMENTED Implementing additional levels of review over recorded journal entries and its annual financial statements. If CBE does not have the capacity within its employees, CBE should request assistance from Colorado Department of Transportation's accounting personnel.
B	IMPLEMENTED Providing additional training to CBE personnel, including those who work outside of the Accounting and Finance Division, on the importance of maintaining proper codes for projects and the effects of a change in a projects code between that of a capital project and a project that is expensed.

REQUIRED

REPORT &  
COMMUNICATIONS





INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Legislative Audit Committee:

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Colorado (State), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the State's basic financial statements and have issued our report thereon dated March 5, 2021. We have also audited the State's budgetary comparison schedule-general fund component and the related note for the year ended June 30, 2020, and have issued our report thereon dated March 5, 2021. Our report disclaims an opinion on the Unemployment Insurance Fund and Business Type Activities for the following basis:

The State of Colorado did not have an adequate methodology to substantiate the estimated amount of receivables and payables within the Unemployment Insurance Fund of \$510 million and \$872 million, respectively, as of June 30, 2020. The receivable balance includes potential overpayments and comprises 54% of total assets of the Unemployment Insurance Fund, and 3% of Business-Type Activities. The payable balance includes potential claims outstanding at year-end and comprises 92% of total liabilities of the Unemployment Insurance Fund and 7% of the Business-Type Activities. As of June 30, 2020, and as of the date of this report, a significant backlog of unprocessed and unadjudicated unemployment insurance claims existed which may represent overpayments due to errors and/or fraud. The State's records do not permit us, nor is it practical to



extend or apply other auditing procedures, to obtain sufficient appropriate audit evidence to conclude that the receivable and payable balances in the Unemployment Insurance Fund and Business-Type Activities were free of material misstatement. As a result of these matters, we were unable to determine whether further audit adjustments may have been necessary in respect to the elements making up the statements of net position, statement of activities, the statement of revenues, expenses and changes in fund net position for proprietary funds, or the statement of cash flows for proprietary funds.

Our report includes a reference to other auditors who audited the financial statements of the discretely presented component units and a blended component unit, as described in our report on the State of Colorado's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. The financial statements of the University of Colorado Foundation, the Statewide Internet Portal Authority, and the Denver Metropolitan Major League Stadium District, which are discretely presented component units, were audited in accordance with auditing standards generally accepted in the United States, but were not audited in accordance with *Government Auditing Standards*.

#### INTERNAL CONTROL OVER FINANCIAL REPORTING

In connection with our engagement to audit the financial statements of the State, we considered the State's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*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. A *material weakness* is a

deficiency, or a combination of deficiencies, in internal control 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. We consider the deficiencies described in the accompanying Schedule of Findings as RECOMMENDATIONS 2020-003, 004, 010, 012, 013, 016, 023, 024, and 028 through 031 to be MATERIAL WEAKNESSES.

A *significant deficiency* is a deficiency, or a 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. We consider the deficiencies described in the accompanying Schedule of Findings as RECOMMENDATIONS 2020-001, 002, 005 through 009, 011, 014, 015, 017 through 022, 025 through 027, 032, and 033 to be SIGNIFICANT DEFICIENCIES.

#### COMPLIANCE AND OTHER MATTERS.

In connection with our engagement to audit the State's financial statements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as RECOMMENDATION 2020-024. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported therein.

#### STATE OF COLORADO'S RESPONSE TO FINDINGS

The State's response to the findings identified in our engagement is included in the accompanying Schedule of Findings. The State's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it.

#### PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness

of the entity's internal control or on compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "D. F. King" or similar, written in a cursive style.

Denver, Colorado  
March 5, 2021



# OFFICE OF THE STATE AUDITOR



March 5, 2021

## INDEPENDENT AUDITOR'S COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Members of the Legislative Audit Committee:

We were engaged to audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Colorado (State) for the year ended June 30, 2020, and the related notes to the financial statements. We have also audited the State's budgetary comparison schedule—general fund component and the related note for the Fiscal Year Ended June 30, 2020.

As previously communicated on March 2, 2021, we encountered significant difficulties completing the audit of the Unemployment Insurance Fund, causing a disclaimer of opinion. Further details are noted in the letter below under the sections titled "Difficulties Encountered in Performing the Audit" and "Other Audit Findings or Issues."

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 3, 2020.

Professional standards also require that we communicate to you the following information related to our audit.

DIANNE E. RAY, CPA  
STATE AUDITOR

OFFICE OF THE STATE AUDITOR  
1525 SHERMAN STREET  
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303.869.2800

## SIGNIFICANT AUDIT MATTERS

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the State are described in Note 1 to the financial statements contained in the State's Fiscal Year 2020 *Comprehensive Annual Financial Report* issued under separate cover. As described in Note 1.A. of the financial statements, the State did not adopt any new Statements of Governmental Accounting Standards (GASB Statements) in Fiscal Year 2020. Auraria Higher Education Center early implemented GASB Statement No. 84, *Fiduciary Activities*, but the standard was not implemented at a statewide level. Accordingly, the cumulative effect of this accounting change as of the beginning of the fiscal year is reported in Note 15.B. of the financial statements. We noted no transactions entered into by the State during the year for which there is a lack of authoritative guidance or consensus. Except for the prior period adjustments reported in Note 15.A. of the financial statements, all significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the State's financial statements included Unemployment Insurance receivables, Unemployment Insurance payables, taxes receivable, allowance for doubtful accounts, depreciation of capital assets, net pension liabilities and other post-employment benefits (OPEB) related liabilities, and pollution remediation obligation estimates. The estimates related to Unemployment Insurance contain significant uncertainty and we were unable to obtain sufficient appropriate audit evidence to support certain elements used to develop the estimates. This resulted in the disclaimer of opinion on the Unemployment Insurance Fund and Business-Type Activities opinion units as discussed in the letter below in the sections entitled "Difficulties Encountered in Performing the Audit" and "Other Audit Findings or Issues." We evaluated the key factors and assumptions used to develop the remaining estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were cash and investments, capital assets and their related depreciation, pension obligations, other postemployment benefits, prior period adjustments, over-expenditures, contingencies, and subsequent events.

The financial statement disclosures are neutral, consistent, and clear.

#### DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered significant audit difficulties in relation to testing of the Unemployment Insurance Fund. This is described further in Recommendation 2020-023 within this Report.

#### CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Section V-Appendix summarizes uncorrected misstatements of the financial statements. Management has determined, and we agree, that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Section V-Appendix also summarizes misstatements corrected by management that were detected as a result of audit procedures.

#### DISAGREEMENTS WITH MANAGEMENT

For the purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of our audit.

#### MANAGEMENT REPRESENTATIONS

We have requested and received certain representations from management that are included in the management representation letter dated March 5, 2021.

## MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a second opinion on certain situations. If a consultation involves application of an accounting principle to the State's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year as the State's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We issued a disclaimer of opinion on the Unemployment Insurance Fund and Business-Type Activities for the fiscal year ended June 30, 2020. A disclaimer of opinion is issued when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. The State of Colorado did not have an adequate methodology to substantiate the estimated amount of receivables and payables within the Unemployment Insurance Fund of \$510 million and \$872 million, respectively, as of June 30, 2020. The receivable balance includes potential overpayments and comprises 54% of total assets of the Unemployment Insurance Fund, and 3% of Business-Type Activities. The payable balance includes potential claims outstanding at year end and comprises 92% of total liabilities of the Unemployment Insurance Fund and 7% of the Business-Type Activities. As of June 30, 2020, and as of the date of this report, a significant backlog of unprocessed and unadjudicated unemployment insurance claims existed which may represent overpayments due to errors and/or fraud. The State's records do not permit us, nor is it practical to extend or apply other auditing procedures, to obtain sufficient appropriate audit evidence to conclude that the receivable and payable balances in the Unemployment Insurance Fund and Business-Type Activities were free of material misstatement. As a result of these matters, we were unable to determine whether further audit adjustments may have been necessary in respect to the

elements making up the statements of net position, statement of activities, the statement of revenues, expenses and changes in fund net position for proprietary funds, or the statement of cash flows for proprietary funds.

We also identified a change in the State's reporting entity. Specifically, as discussed in Note 15 of the financial statements, the State included the Statewide Internet Portal Authority in its reporting entity. This change was based on a reevaluation of financial significance, and is in accordance with other guidance. Our opinion was not modified with respect to this matter.

#### OTHER MATTERS

We applied certain limited procedures to the management's discussion and analysis, budgetary comparison schedules, and notes to the required supplementary information that include the defined benefit pension plan and other postemployment benefit information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures on the RSI do not provide us with sufficient evidence to express an opinion or provide any assurance on the RSI.

We were engaged for the purpose of forming an opinion on the basic financial statements as a whole. The combining nonmajor fund financial statements and schedule of TABOR revenue and computations are presented for the purposes of additional analysis and are not a required part of the financial statements. Based on the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, it is inappropriate to and we do not express an opinion on the supplementary information referred to above

We were not engaged to report on the introductory section, the budget and actual schedules-budgetary basis non-appropriated, and statistical section, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

## GROUP AUDIT COMMUNICATION

The group engagement team should communicate the following matters with those charged with governance of the group:

- Instances in which the group engagement team's evaluation of the work of a component audit gave rise to a concern about the quality of that auditor's work. No such instances were noted.
- Any limitations on the group audit (for example, when the group engagement team's access to information may have been restricted). We encountered no limitations while performing our audit.
- Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls, or others in which a material misstatement of the group financial statements has or may have resulted from fraud. No such matters were noted.

## RESTRICTION ON USE

This information is intended solely for the use of the Legislative Audit Committee and management of the State and is not intended to be, and should not be, used by anyone other than these specified parties. However, upon release by the Legislative Audit Committee, this report is a public document.

Very truly yours,



Denver, CO

March 5, 2021

# APPENDIX



**NET UNCORRECTED AUDIT MISSTATEMENTS BY AGENCY  
FOR FISCAL YEAR ENDED JUNE 30, 2020  
INCREASE (DECREASE)**

AGENCY	ASSETS	DEFERRED OUTFLOWS OF RESOURCES	LIABILITIES	DEFERRED INFLOWS OF RESOURCES	NET POSITION	REVENUES	EXPENDITURES
AGRICULTURE	\$ 5,041,459	\$ -	\$ -	\$ -	\$ -	\$ (9,919)	\$ (5,051,378)
CORRECTIONS	\$ -	\$ -	\$ -	\$ -	\$ (1,589,001)	\$ 1,589,001	\$ -
EDUCATION	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
OFFICE OF THE GOVERNOR	\$ 327,007	\$ -	\$ -	\$ -	\$ 1,168,100	\$ (118,231)	\$ 722,862
HEALTH CARE POLICY AND FINANCING	\$ 11,097,313	\$ -	\$ (489,855)	\$ -	\$ -	\$ (1,160,070)	\$ (12,747,238)
HIGHER EDUCATION	\$ 4,269,716	\$ 1,032,157	\$ 3,968,522	\$ -	\$ (2,496,799)	\$ (506,457)	\$ (4,336,607)
HUMAN SERVICES	\$ 1,145,847	\$ -	\$ 130,629	\$ -	\$ -	\$ (126,369)	\$ (1,141,587)
JUDICIAL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
LABOR AND EMPLOYMENT	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
LAW	\$ 278,484	\$ -	\$ 594	\$ -	\$ -	\$ (15,817)	\$ (293,707)
LEGISLATIVE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
LOCAL AFFAIRS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
MILITARY AND VETERANS AFFAIRS	\$ 1,307	\$ -	\$ -	\$ -	\$ -	\$ 1,307	\$ -
NATURAL RESOURCES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
PERSONNEL & ADMINISTRATION	\$ 9,028,310	\$ -	\$ (21,093,356)	\$ -	\$ 8,968,300	\$ 60,010	\$ (21,093,356)
PUBLIC HEALTH AND ENVIRONMENT	\$ (4,992,459)	\$ -	\$ -	\$ -	\$ 1,082,450	\$ (1,033,450)	\$ 5,041,459
PUBLIC SAFETY	\$ 736,429	\$ -	\$ 76,978	\$ -	\$ -	\$ 1,325,126	\$ 665,675
REGULATORY AGENCIES	\$ 4,722	\$ -	\$ -	\$ -	\$ -	\$ 5,195	\$ 473
REVENUE	\$ (128,664)	\$ -	\$ (31,076)	\$ -	\$ -	\$ 1,499	\$ 99,087
STATE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TRANSPORTATION	\$ -	\$ -	\$ (880,420)	\$ -	\$ -	\$ -	\$ (880,420)
TREASURY	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NET INCREASE (DECREASE)	\$ 26,809,471	\$ 1,032,157	\$ (18,317,984)	\$ -	\$ 7,133,050	\$ 11,825	\$ (39,014,737)

**GROSS UNCORRECTED AUDIT MISSTATEMENTS BY AGENCY  
FOR FISCAL YEAR ENDED JUNE 30, 2020**

AGENCY	ASSETS	DEFERRED OUTFLOWS OF RESOURCES	LIABILITIES	DEFERRED INFLOWS OF RESOURCES	NET POSITION	REVENUES	EXPENDITURES
AGRICULTURE	\$ 6,096,721	\$ -	\$ -	\$ -	\$ -	\$ 9,919	\$ 5,051,378
CORRECTIONS	\$ -	\$ -	\$ -	\$ -	\$ 1,589,001	\$ 1,589,001	\$ -
EDUCATION	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
OFFICE OF THE GOVERNOR	\$ 327,007	\$ -	\$ -	\$ -	\$ 3,628,939	\$ 7,753,914	\$ 1,790,518
HEALTH CARE POLICY AND FINANCING	\$ 13,417,454	\$ -	\$ 489,855	\$ -	\$ -	\$ 1,160,070	\$ 35,361,315
HIGHER EDUCATION	\$ 10,279,571	\$ 1,032,157	\$ 4,115,667	\$ -	\$ 6,651,443	\$ 5,659,052	\$ 9,933,132
HUMAN SERVICES	\$ 1,387,099	\$ -	\$ 306,250	\$ -	\$ -	\$ 310,510	\$ 1,144,908
JUDICIAL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
LABOR AND EMPLOYMENT	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
LAW	\$ 316,486	\$ -	\$ 2,366	\$ -	\$ -	\$ 15,817	\$ 579,742
LEGISLATIVE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
LOCAL AFFAIRS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
MILITARY AND VETERANS AFFAIRS	\$ 1,307	\$ -	\$ -	\$ -	\$ -	\$ 1,307	\$ -
NATURAL RESOURCES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
PERSONNEL & ADMINISTRATION	\$ 9,028,332	\$ -	\$ 26,933,769	\$ -	\$ 9,088,300	\$ 60,032	\$ 24,190,890
PUBLIC HEALTH AND ENVIRONMENT	\$ 5,090,459	\$ -	\$ -	\$ -	\$ 1,322,450	\$ 1,371,450	\$ 5,041,459
PUBLIC SAFETY	\$ 2,487,185	\$ -	\$ 78,081	\$ -	\$ -	\$ 4,425,824	\$ 4,567,840
REGULATORY AGENCIES	\$ 5,667	\$ -	\$ -	\$ -	\$ -	\$ 5,195	\$ 473
REVENUE	\$ 140,487	\$ -	\$ 68,731	\$ -	\$ 30,388	\$ 1,907	\$ 99,088
STATE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TRANSPORTATION	\$ -	\$ -	\$ 30,553,318	\$ -	\$ -	\$ 1,564,366	\$ 30,420,312
TREASURY	\$ 517,054	\$ -	\$ -	\$ -	\$ -	\$ 258,527	\$ 258,527
<b>TOTAL</b>	<b>\$ 49,094,829</b>	<b>\$ 1,032,157</b>	<b>\$ 62,548,037</b>	<b>\$ -</b>	<b>\$ 23,310,521</b>	<b>\$ 24,186,891</b>	<b>\$ 118,439,582</b>

**NET CORRECTED AUDIT MISSTATEMENTS BY AGENCY  
FOR FISCAL YEAR ENDED JUNE 30, 2020  
INCREASE (DECREASE)**

AGENCY	ASSETS	DEFERRED OUTFLOWS OF RESOURCES	LIABILITIES	DEFERRED INFLOWS OF RESOURCES	NET POSITION	REVENUES	EXPENDITURES
AGRICULTURE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CORRECTIONS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
EDUCATION	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
OFFICE OF THE GOVERNOR	\$ 70,427	\$ -	\$ -	\$ -	\$ -	\$ 71,927	\$ 1,500
HEALTH CARE POLICY AND FINANCING	\$ 52,197,897	\$ -	\$ -	\$ -	\$ 27,254,044	\$ (986,927)	\$ (25,930,780)
HIGHER EDUCATION	\$ (11,240,679)	\$ -	\$ (4,928,472)	\$ -	\$ -	\$ (6,068,718)	\$ 243,489
HUMAN SERVICES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
JUDICIAL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
LABOR AND EMPLOYMENT	\$ 498,152,324	\$ -	\$ 868,610,253	\$ -	\$ -	\$ 172,694,828	\$ 543,152,757
LAW	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
LEGISLATIVE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
LOCAL AFFAIRS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
MILITARY AND VETERANS AFFAIRS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NATURAL RESOURCES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
PERSONNEL & ADMINISTRATION	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
PUBLIC HEALTH AND ENVIRONMENT	\$ 4,066,335	\$ -	\$ -	\$ -	\$ -	\$ 6,248,652	\$ 2,182,317
PUBLIC SAFETY	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
REGULATORY AGENCIES	\$ 361,744	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (361,744)
REVENUE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
STATE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TRANSPORTATION	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TREASURY	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NET INCREASE (DECREASE)	\$ 543,608,048	\$ -	\$ 863,681,781	\$ -	\$ 27,254,044	\$ 171,959,762	\$ 519,287,539

**GROSS CORRECTED AUDIT MISSTATEMENTS BY AGENCY  
FOR FISCAL YEAR ENDED JUNE 30, 2020**

AGENCY	ASSETS	DEFERRED OUTFLOWS OF RESOURCES	LIABILITIES	DEFERRED INFLOWS OF RESOURCES	NET POSITION	REVENUES	EXPENDITURES
AGRICULTURE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CORRECTIONS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
EDUCATION	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
OFFICE OF THE GOVERNOR	\$ 73,427	\$ -	\$ -	\$ -	\$ -	\$ 71,927	\$ 1,500
HEALTH CARE POLICY AND FINANCING	\$ 199,826,597	\$ -	\$ -	\$ -	\$ 65,182,670	\$ 986,927	\$ 295,882,721
HIGHER EDUCATION	\$ 11,456,471	\$ -	\$ 28,545,274	\$ -	\$ -	\$ 10,597,438	\$ 459,279
HUMAN SERVICES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
JUDICIAL	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
LABOR AND EMPLOYMENT	\$ 1,237,031,439	\$ -	\$ 868,610,253	\$ -	\$ -	\$ 715,335,061	\$ 1,374,306,631
LAW	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
LEGISLATIVE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
LOCAL AFFAIRS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
MILITARY AND VETERANS AFFAIRS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NATURAL RESOURCES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
PERSONNEL & ADMINISTRATION	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
PUBLIC HEALTH AND ENVIRONMENT	\$ 4,066,335	\$ -	\$ -	\$ -	\$ -	\$ 7,933,080	\$ 2,182,317
PUBLIC SAFETY	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
REGULATORY AGENCIES	\$ 361,744	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,085,231
REVENUE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
STATE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TRANSPORTATION	\$ -	\$ -	\$ -	\$ -	\$ 8,729,576	\$ -	\$ -
TREASURY	\$ 230,740	\$ -	\$ -	\$ -	\$ -	\$ 115,370	\$ 115,370
<b>TOTAL</b>	<b>\$ 1,453,046,753</b>	<b>\$ -</b>	<b>\$ 897,155,527</b>	<b>\$ -</b>	<b>\$ 73,912,246</b>	<b>\$ 735,039,803</b>	<b>\$ 1,674,033,049</b>