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Continued Improvements Are Needed to Ensure Proper Financial Reporting and Compliance with Federal Grant Program Requirements

DENVER—The Office of the State Auditor (OSA) has issued the remainder of its annual Statewide Single Audit for the Fiscal Year Ended June 30, 2022 related to audit findings and recommendations for the Colorado Department of Labor and Employment (CDLE) and the Colorado Department of Transportation (CDOT). Auditors identified material weaknesses at both CDLE and CDOT.

With respect to internal controls over financial reporting, auditors identified errors with CDLE's fiscal year-end calculations. Errors included a \$44.0 million understatement of its accounts receivable balance for estimated fraudulently-obtained unemployment insurance (UI) claims; incorrectly recorded prior year UI claims estimates, which resulted in prior period adjustments of \$2.4 billion and \$1.4 billion to accounts payable and accounts receivable balances, respectively, in Fiscal Year 2022; and a \$2.9 million overestimate of its accounts receivable balance for UI claimant overpayments. At CDOT, auditors identified an accounts receivable and related revenue totaling \$104 million that were improperly recognized, and approximately \$1.4 million in accounts receivables at fiscal year-end that had been outstanding without being fully collected by the Department for as long as 3 years.

A significant component of this annual audit conducted by the OSA involves assessing the State's compliance with major federal program requirements. With respect to UI, CDLE places a hold on those UI claims that demonstrate characteristics that are indicators of fraud. The fraud hold prevents any future benefit payments to the claimant until the fraud hold is removed. Auditors tested a sample of 60 fraud holds on UI claims and identified issues with 32 of the sampled fraud holds (53 percent). These issues included CDLE clearing 12 fraud holds without performing an

investigation or providing evidence of the reason for clearing the hold, and a lack of segregation of duties for 20 fraud holds in which the same individual who investigated the fraud hold also cleared the fraud hold. Additionally, auditors found that one individual who cleared a number of fraud holds was not authorized to clear them. “Although intended to help expedite the fraud hold clearing process, this activity nonetheless constituted a management override of controls because it circumvented CDLE’s normal escalation process,” said Ferminia Hebert, Legislative Financial Audit Manager.

With respect to the Highway Planning and Construction Program, CDOT did not comply with approved federal cash management draw patterns for 8 of the 25 draws (32 percent) that auditors tested. Cash management draw patterns are established to ensure interest neutrality. By drawing federal funds early, CDOT creates a risk that the State may ultimately owe interest charges to the federal government. Additionally, CDOT did not perform a federally-required risk assessment for 6 of the 25 subrecipients that auditors tested. CDOT also did not provide supporting documentation for reviews of any Fiscal Year 2022 financial and programmatic reports submitted by subrecipients. As a result, auditors were unable to determine if any reviews were conducted during the fiscal year, as required. Performing timely and appropriate subrecipient monitoring helps CDOT mitigate risk and ensure that it only provides funding to those entities that are using funds in compliance with applicable federal grant requirements.

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

About the Office of the State Auditor

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

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