

REPORT HIGHLIGHTS



STATEWIDE SINGLE AUDIT, FISCAL YEAR ENDED JUNE 30, 2016
FINANCIAL AUDIT

STATE OF COLORADO

FINANCIAL STATEMENT FINDINGS

- The State's financial statements covered \$36.3 billion in total assets and \$31.4 billion in total expenditures for Fiscal Year 2016.
- We have issued an unmodified opinion on the State's financial statements for the Fiscal Year Ended June 30, 2016. That means the State's financial statements presented fairly, in all material respects, the State's financial position, results of all financial operations, and cash flows in conformance with generally accepted accounting principles.
- We identified 51 internal control weaknesses related to compliance with internal control over financial reporting.

FEDERAL PROGRAM FINDINGS

- The State expended approximately \$12.3 billion in federal funds in Fiscal Year 2016. The four largest federal programs were:
 - ▶ Medicaid: \$5.1 billion
 - ▶ Student Financial Assistance: \$1.4 billion
 - ▶ Research and Development Cluster: \$818 million
 - ▶ Highway Planning and Construction: \$827 million
- We identified 35 internal control issues related to the State's compliance with requirements applicable to major federal programs.
- We identified over \$56,000 in known questioned costs related to federal awards granted to the State. The federal portion of the questioned costs was over \$41,000.

OVERVIEW

This report presents our financial and compliance audit of the State of Colorado for Fiscal Year 2016.

The report may not include all financial- and compliance-related findings and recommendations from separately issued reports on audits of state departments, institutions, and agencies.

However, in accordance with the federal Single Audit Act, this report includes all findings and questioned costs related to federal awards that came to our attention through our audit.

We made 84 recommendations to state departments and higher education institutions. Recommendations may be classified as both financial and federal; therefore, the total number of recommendations given does not match the number noted in the individual sections of this summary.

AUTHORITY, PURPOSE, AND SCOPE

This audit was conducted under the authority of Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and with Government Auditing Standards issued by the Comptroller General of the United States. We performed our audit work during the period of May 2016 through February 2017. The purpose of this audit was to:

- Express an opinion on the State's financial statements for the Fiscal Year Ended June 30, 2016.
- Express an opinion on the State's Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2016.
- Review internal accounting and administrative control procedures, as required by generally accepted auditing standards and Government Auditing Standards.
- Evaluate compliance with applicable State and federal laws, rules, and regulations.
- Evaluate progress in implementing prior years' audit recommendations.

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

FINANCIAL STATEMENT FINDINGS

This section summarizes our report on the State’s compliance with internal controls over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards.

INTERNAL CONTROLS OVER FINANCIAL ACTIVITY AND FINANCIAL REPORTING

State departments are responsible for having adequate internal controls in place to ensure compliance with laws and regulations and with management’s objectives. In addition, state departments are responsible for reporting financial activity accurately, completely, and in a timely manner. As part of our audit, we reviewed state departments’ internal control processes, including policies and procedures, related to financial reporting, and tested samples of financial transactions to determine whether internal controls were adequate and that financial activity was reported properly. We identified the need for improvements in these areas at the following state departments:

- DEPARTMENT OF CORRECTIONS. The Department lacks adequate internal controls over its procurement cards. Specifically, we identified errors with supervisory review in six of the 40 procurement card monthly statements we tested (15 percent). This is classified as a SIGNIFICANT DEFICIENCY.
- DEPARTMENT OF PERSONNEL & ADMINISTRATION’S OFFICE OF THE STATE CONTROLLER (OSC).
 - ▶ Noncompliance with Statutory Reporting Requirements. The OSC did not prepare and submit financial statements and related required reports in accordance with timeframes established by statutes. In addition, the OSC did not receive all statutorily-required quarterly reports. This is classified as a MATERIAL WEAKNESS.
 - ▶ GASB 68. We identified several problems with the OSC’s processes related to the continuing implementation, annual adjustments, and financial statement note disclosures required by GASB Statement No. 68. This is classified as a MATERIAL WEAKNESS.
 - ▶ Labor Allocation. The OSC has not ensured that basic internal controls have been established for reconciling allocated labor costs at the State’s central level. Further, the OSC has not established a process for performing secondary reviews of central reconciliations and the OSC lacks a documented monitoring process to ensure all State departments are reconciling allocated labor costs across programs consistently and in a timely manner. This is classified as a 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 with governance.

A DEFICIENCY IN INTERNAL CONTROL is the least serious level of internal control weakness. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. Deficiencies in internal control generally are reported to agencies in separate management letters and, therefore, would not be included in this report.

- DEPARTMENT OF PUBLIC SAFETY. We identified the following issues at the Department:
 - ▶ Internal Controls over Financial Reporting. The Department has not ensured that basic internal accounting and administrative controls, such as effective secondary review processes over transactions entered in CORE, TABOR revenue classification, and the preparation of fiscal year-end exhibits, are in place and operating effectively. This is classified as a MATERIAL WEAKNESS.
 - ▶ Colorado Automobile Theft Prevention Cash Fund. The Department did not properly recognize Fund revenue in Fiscal Years 2012 through 2016. Specifically, the Department used the payment due date on individual assessments as the criteria for recognizing Fund revenue rather than the billing date. This is not considered an internal control issue and does not have a classification.

- OFFICE OF THE TREASURY. The Treasury does not have adequate internal written policies and procedures in place for recording TRANs debt. The Treasury improperly recognized approximately \$509,000 of interest revenue related to the TRANs when no interest had been earned. The Treasury also improperly classified approximately \$532,000 of expenditures by classifying an underwriter's discount of approximately \$23,000 as interest expense and overstating interest expense by approximately \$509,000. This is classified as a SIGNIFICANT DEFICIENCY.

- In addition to the deficiencies noted above, the following six departments did not have internal controls in place to ensure that employees' CORE access is disabled in a timely manner:
 - ▶ HISTORY COLORADO. History Colorado staff failed to disable the employee's CORE access for all 11 employees tested within 5 Business Days of employment termination. Staff terminated access for the 11 employees from 1 to 8 months after employment termination. This is classified as a MATERIAL WEAKNESS.
 - ▶ DEPARTMENT OF HUMAN SERVICES. For 33 of 52 employees tested (63 percent), Department staff failed to disable the employee's CORE access within 5 Business Days of employment termination. This is classified as a MATERIAL WEAKNESS.
 - ▶ OFFICE OF THE GOVERNOR. For 14 of the 20 employees tested (70 percent), the Office failed to disable the employee's CORE access within 5 days of employment termination. This is classified as a SIGNIFICANT DEFICIENCY.
 - ▶ DEPARTMENT OF HEALTH CARE POLICY AND FINANCING. For 16 of the 25 employees tested (64 percent), the Department failed to disable the employee's CORE access within 5 Business Days of employment termination. This is classified as a SIGNIFICANT DEFICIENCY.
 - ▶ DEPARTMENT OF NATURAL RESOURCES. Department staff removed access

Our opinion on the financial statements is presented in the State's Comprehensive Annual Financial Report for Fiscal Year 2016, 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)

for nine out of 10 individuals tested (90 percent) more than 5 Business Days after termination. This is classified as a SIGNIFICANT DEFICIENCY.

- ▶ DEPARTMENT OF PUBLIC SAFETY. For 19 of 24 employees tested (79 percent), the Department staff failed to disable the employee's CORE access within 5 Business Days of employment termination. This is classified as a SIGNIFICANT DEFICIENCY.

INTERNAL CONTROLS OVER INFORMATION TECHNOLOGY SYSTEMS

State departments, often in cooperation with the Governor's Office of Information Technology (OIT), are responsible for implementing, maintaining, and adequately securing the State's computer systems. During our Fiscal Year 2016 audit, we determined that some state departments' internal controls did not comply with information technology and information security related standards and/or the Colorado Information Security Policies. The following bullets describe notable examples of these issues:

- Information Security Policies Training. OIT did not conduct a comprehensive training for OIT staff over the 2015 Security Policies or develop a mechanism for holding OIT staff accountable for implementing the policy requirements. This is classified as a SIGNIFICANT DEFICIENCY.
- Identification of Information Security Roles and Responsibilities. OIT did not develop or communicate written Service Level Commitment (SLC) procedures to OIT staff responsible for drafting and managing SLCs between OIT and respective Executive Branch Agencies. In addition, OIT did not develop a tracking mechanism to ensure that service level agreements are in place, reviewed, and updated, as necessary. This is classified as a SIGNIFICANT DEFICIENCY.
- GENTAX Disaster Recovery Plan Updates. We found that the GenTax disaster recovery plan was not reviewed by OIT during Fiscal Year 2016. Specifically, when we reviewed the current plan in place, we found the plan was dated December 2014, and the Department could not provide documentation that the plan was reviewed or that any updates were made to the plan during Fiscal Year 2016. This is classified as a SIGNIFICANT DEFICIENCY.
- KRONOS Information Systems Disaster Recovery. We found that OIT did not document or test a Disaster Recovery Plan for KRONOS during Fiscal Year 2016, and KRONOS has been missing this critical component for at least 5 years. This is classified as a SIGNIFICANT DEFICIENCY.
- GENTAX Information Security and Logical Access and System Security Compliance. We identified problems at both OIT and the Department of Revenue related to the overall security of information within the GenTax system, as well as problems with GenTax user account management and

system security configuration monitoring. Both of these recommendations are classified as SIGNIFICANT DEFICIENCIES.

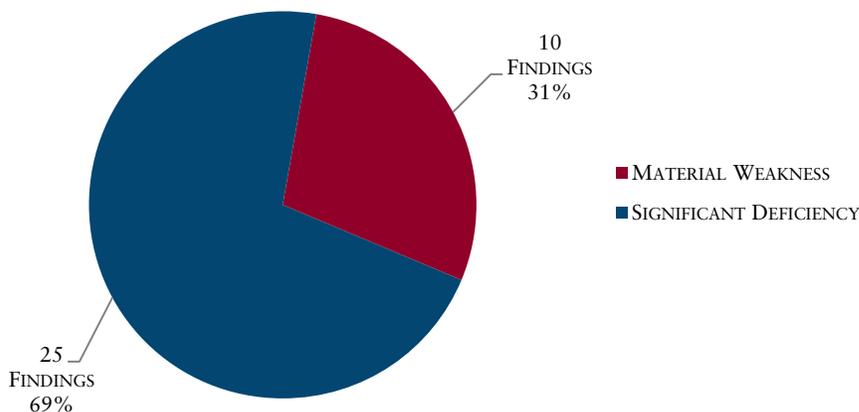
FEDERAL PROGRAM FINDINGS

This section summarizes our report on the State’s compliance with requirements applicable to major federal programs and internal controls over compliance with Uniform Guidance. We planned and performed the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements that could have a direct and material effect on a major federal program had occurred. As part of our audit, we determined the State’s compliance with federal regulations and grant requirements, such as activities allowed or unallowed, allowable costs, cash management, eligibility, reporting, and subrecipient monitoring.

INTERNAL CONTROLS OVER FEDERAL PROGRAMS

The following table shows the breakdown of types of internal control weaknesses over compliance with federal requirements that we identified during our Fiscal Year 2016 audit. Prior to each recommendation in this report, we have indicated the classification of the finding.

FEDERAL COMPLIANCE
INTERNAL CONTROL WEAKNESSES
FISCAL YEAR 2016



Professional standards define the following three levels of internal control weaknesses over compliance related to Federal Programs. Prior to each recommendation in this report, we have indicated the classification of the finding.

A **MATERIAL WEAKNESS** is the most serious level of internal control weakness. A material weakness is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A **SIGNIFICANT DEFICIENCY** is a moderate level of internal control weakness. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

A **DEFICIENCY IN INTERNAL CONTROL** is the least serious level of internal control weakness. A deficiency in an entity’s internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a compliance requirement of a federal program on a timely basis.

COMPLIANCE WITH FEDERAL PROGRAM REQUIREMENTS AND FEDERAL REPORTING

Various state departments administer federal programs in Colorado and are required to comply with federal program requirements. We identified problems with several departments' compliance with those requirements. We identified the need for improvements at the following state departments:

- DEPARTMENT OF CORRECTIONS. The Department improperly excluded approximately \$2.16 million in federal funding for the Wild Horse and Burro Resource Management program in the Department's reporting of federal expenditures to be included in the State's Schedule of Expenditures of Federal Awards. This is classified as a SIGNIFICANT DEFICIENCY.
- DEPARTMENT OF HEALTH CARE POLICY AND FINANCING. We identified the following issues related to compliance and internal controls related to the Department's administration of its federal programs:
 - ▶ Provider Eligibility. The Department does not have adequate internal controls in place over the provider eligibility and enrollment process for the Medicaid and Children's Basic Health Plan (CBHP) programs to ensure it is in compliance with federal and state regulations, including verifying database match functionality of the system and maintaining required documentation. Specifically, we identified at least one error in 57 of the 60 provider applications tested (95 percent). This is classified as a MATERIAL WEAKNESS.
 - ▶ SSAE 16 Reviews. The Department does not have adequate internal controls over the review of the Statement on Standards for Attestation Engagements (SSAE) 16 reports. This is classified as a SIGNIFICANT DEFICIENCY.
 - ▶ Subrecipient Monitoring. The Department did not update its subrecipient monitoring policies for the Medicaid and CBHP programs to be in compliance with new federal Uniform Guidance in place for Fiscal Year 2016. This is classified as a SIGNIFICANT DEFICIENCY.
 - ▶ Federal Reporting. The Department did not have sufficient internal controls in place to ensure its Federal Financial Reports and the associated supporting documentation were accurate and complete for Fiscal Year 2016. This is classified as a SIGNIFICANT DEFICIENCY.
- DEPARTMENT OF HUMAN SERVICES. We identified the following examples of federal compliance issues with the Department's administration of its federal programs:
 - ▶ Colorado Child Care Assistance Program (CCCAP). The Department does not have adequate internal controls, in place to ensure compliance with CCCAP requirements. We identified at least one error in 33 of the 40 case files tested (83 percent) related to income, parental fee, timely processing of

- applications, and missing or inadequate case file documentation. This is classified as a MATERIAL WEAKNESS.
- ▶ Vocational Rehabilitation Program (Program). We found that the Program's staff training and supervisory reviews have not been effective in ensuring that Program counselors comply with Program requirements. Specifically, in 27 of 40 case files (68 percent) tested, we identified at least one error related to missing or inadequate documentation, timeliness of eligibility determination, and data entry. This is classified as a MATERIAL WEAKNESS.
 - ▶ SSAE 16 Reviews. The Department did not review the SSAE 16 reports issued for Fiscal Year 2016 for the Electronic Benefits Transfer system or the Colorado Benefits Management System. Additionally, the Department does not have an established review and follow-up process for identifying and addressing exceptions noted in the SSAE 16 reports for its CBMS and EBT systems. The SNAP, TANF, Child Care, and Foster Care programs use these systems either to determine eligibility, or make payments to or on behalf of eligible beneficiaries. This is classified as a SIGNIFICANT DEFICIENCY.
 - ▶ Subrecipient Monitoring. Overall, we found that the internal audit Division did not have sufficient internal controls in place during Fiscal Year 2016 to ensure Single Audit subrecipient monitoring requirements were followed. Specifically, the Department did not update its existing subrecipient monitoring policies to be in compliance with Uniform Guidance, and did not evaluate its' subrecipients' risk of noncompliance with federal statutes. This is classified as a SIGNIFICANT DEFICIENCY.
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- DEPARTMENT OF LOCAL AFFAIRS. The Department lacks sufficient controls over procurement for the Community Development Block Grant–Disaster Recovery Grants Program. We noted that the Department could not provide documentation to support that it performed verification procedures during Fiscal Year 2016 to determine whether the Department's contractors were debarred or suspended. We also found that neither the Department nor one of its subrecipients was able to provide documentation to support that one of the subrecipient's contractors in place during Fiscal Year 2016 was not suspended or debarred. This is classified as a SIGNIFICANT DEFICIENCY.
 - DEPARTMENT OF PUBLIC SAFETY. The Department understated its federal grant expenditures for the Disaster Grant in its reporting for the State's Schedule of Expenditures of Federal Awards. This is classified as a SIGNIFICANT DEFICIENCY.

SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR RECOMMENDATIONS

This report includes an assessment of our disposition of audit recommendations

reported in previous Statewide Single Audit Reports. Prior years' recommendations that were fully implemented in Fiscal Year 2015 or earlier are not included.

| OUTSTANDING STATEWIDE SINGLE AUDIT REPORT RECOMMENDATIONS BY FISCAL YEAR | | | | | | |
|--|-------|------|------|------|------|------|
| | TOTAL | 2015 | 2014 | 2013 | 2012 | 2011 |
| IMPLEMENTED | 30 | 16 | 5 | 6 | 3 | 0 |
| PARTIALLY IMPLEMENTED | 33 | 20 | 3 | 5 | 4 | 1 |
| NOT IMPLEMENTED | 9 | 8 | 0 | 0 | 0 | 1 |
| DEFERRED | 13 | 13 | 0 | 0 | 0 | 0 |
| TOTAL | 85 | 57 | 8 | 11 | 7 | 2 |