



# Report Highlights

## Statewide Single Audit, Fiscal Year Ended June 30, 2021

State of Colorado • Financial Audit • May 2022 • 2101F-B

OFFICE OF THE STATE AUDITOR  
C O L O R A D O

### Overview

This report presents the results of our State of Colorado, Statewide Single Audit, federal compliance audit work for Fiscal Year 2021. The Statewide Financial Audit Report, which was released under separate cover in March 2022, includes the financial and IT-related findings and recommendations from our Fiscal Year 2021 audit.

In accordance with the federal Single Audit Act, this report includes all findings and questioned costs related to federal awards that came to our attention through our audit, including separately-issued reports on audits of state departments, institutions, and agencies.

In this report, we made 81 recommendations to state departments and higher education institutions resulting from our single audit.

### Federal Program Findings

The State expended approximately \$26.2 billion in federal funds in Fiscal Year 2021. The five largest federal programs were:

- Unemployment Insurance: \$9.3 billion
- Medicaid Cluster: \$6.9 billion
- Supplemental Nutrition Assistance Program (SNAP) Cluster: \$1.3 billion
- Student Financial Assistance Programs Cluster: \$1.2 billion
- Research and Development Cluster: \$1.1 billion

Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by Uniform Guidance; and Report on *Schedule of Expenditures of Federal Awards* Required by Uniform Guidance:

- We have issued a disclaimer of opinion on the Unemployment Insurance program for the fiscal year ended June 30, 2021. 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 internal controls over compliance with federal Uniform Guidance, if any, could be both material and pervasive.
- A qualified opinion is issued when an auditor detects material instances of noncompliance. We have issued qualified opinions on the following programs for the Fiscal Year Ended June 30, 2021:
  - Block Grants for Prevention and Treatment of Substance Abuse
  - Child Care and Development Fund (CCDF) Cluster
  - Children’s Health Insurance Program
  - COVID-19 – Pandemic EBT Food Benefits
  - Food Distribution Cluster
  - Low-Income Home Energy Assistance
  - Medicaid Cluster
  - Mineral Leasing Act
  - Student Financial Assistance Programs Cluster
- We have issued unmodified, or “clean,” opinions on all other major federal programs tested for the Fiscal Year Ended June 30, 2021.

### 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 2021 through May 2022. The purpose of this audit was to:

- Express an opinion on compliance for each of the State’s major federal programs for the Fiscal Year Ended June 30, 2021.
- Express an opinion on the State’s *Schedule of Expenditures of Federal Awards* for the Fiscal Year Ended June 30, 2021.
- Review internal accounting and administrative control procedures, as required by generally accepted auditing standards and *Government Auditing Standards*.
- Evaluate compliance with applicable state and federal laws, rules, and regulations.
- Evaluate progress in implementing prior audit recommendations.

### Recommendations Made

**81**

### Responses

Agree: **76**  
Partially Agree: **4**  
Disagree: **1**

## Federal Program Findings

We identified:

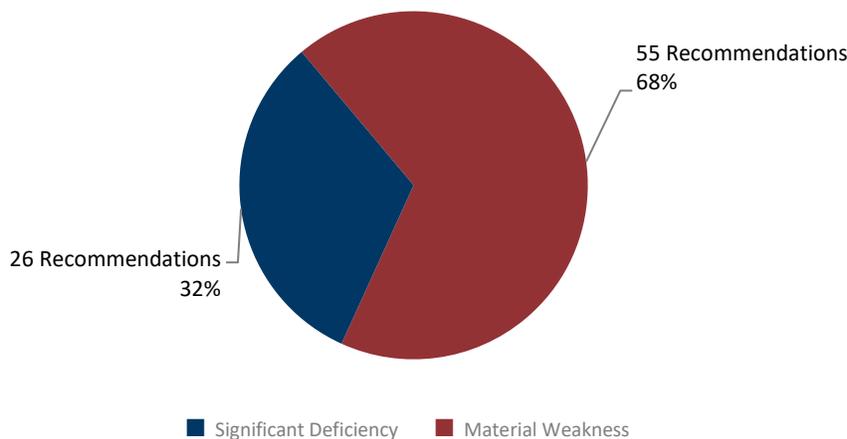
- 81 internal control issues related to requirements applicable to major federal programs.
- Approximately \$364,239 in known questioned costs related to federal awards granted to the State. Of these questioned costs, \$27,655 related to COVID-19 funding. Federal regulations require auditors to report questioned costs identified through the audit, which are federal grant expenditures made in violation or possible violation of the related grant requirements, and/or federal expenditures that lack adequate supporting documentation.

The following summarizes our report on the State's compliance with requirements applicable to major federal programs and internal controls over compliance with federal Uniform Guidance, such as activities allowed or unallowed, allowable costs, cash management, eligibility, reporting, subrecipient monitoring, and special tests and provisions.

### Internal Controls over Federal Programs

The following chart shows the breakdown of levels of internal control weaknesses over compliance with federal requirements that we identified during our Fiscal Year 2021 audit. Prior to each recommendation in this report, we have indicated the classification of the finding.

**Federal Grant Programs Internal Control Weaknesses Fiscal Year 2021**



- **Department of Labor and Employment.**
  - Unemployment Insurance. The Department did not fully implement our Fiscal Year 2020 audit recommendation resulting from several significant problems we identified through that audit related to the Department's compliance with federal Unemployment Insurance (UI) program requirements. Our recommendation noted that the Department should improve its overall internal controls over the UI program and ensure that it complies with federal and state requirements by developing a disaster plan, identifying necessary reporting and ensuring the reporting is consistent, resuming the quarterly wage crossmatch for all UI claims, and resuming the Treasury Offset Program. Classification: **Material Weakness.**

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

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

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

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

- Unemployment Insurance—Federal Reporting. The Department did not have sufficient internal controls in place to ensure that the federal reports and associated documentation were accurate and complete during Fiscal Year 2021. We identified issues with 3 of the 6 (50 percent) reports we tested. Additionally, there is no requirement for a supervisory review of these reports prior to submitting them to the federal government. Classification: **Significant Deficiency**.
- **Department of Health Care Policy and Financing.** Overall, we identified issues with the Department’s compliance with requirements for Medicaid and the Children’s Basic Health Plan (CBHP). In total, we identified approximately \$67,235 in known questioned costs. For example, we found the following:
  - Medicaid Eligibility - Social Security Numbers associated with Multiple State IDs. The Department did not have adequate internal controls in place during Fiscal Year 2021 to prevent or detect instances of Social Security Numbers tied to more than one State ID, resulting in \$67,235 in known questioned costs. Classification: **Material Weakness**.
  - Medical Loss Ratio Reporting for Managed Care Entities (MCEs). The medical loss ratio template provided by the Department to the MCEs did not include all 13 required reporting elements. Therefore, the medical loss ratio information reported by the MCEs to the Department and by the Department to the Centers for Medicare & Medicaid Services (CMS) federal government was incomplete. In addition, the Department did not submit one medical loss ratio report to CMS during Fiscal Year 2021. Classification: **Material Weakness**.
  - Managed Care Entities’ (MCE) Periodic Audit Reporting. For two of the 10 (20 percent) MCEs, the Department did not obtain complete financial data from the MCEs, such as the MCE’s methodology for calculating administrative and medical costs. In addition, the Department did not post the results of the MCEs’ financial data audits to its website as required by federal regulations. Classification: **Material Weakness**.
  - Federal Funding Accountability and Transparency Reporting (FFATA) for the Medicaid and CBHP Programs. Although the Department submitted FFATA reports to the federal government for its subawards, as required, the Department was unable to provide copies of the submitted FFATA reports for the 5 subawards that were selected for testing. Classification: **Material Weakness**.
- **Department of Human Services.**
  - Federal Funding Accountability and Transparency Act Reporting. The Department did not report its subawards in the Federal Funding Accountability and Transparency Act Subaward Reporting System for any of the three federal grant programs we tested for Fiscal Year 2021. In total, for the three programs, the Department did not report subawards totaling \$5.77 million. Classification: **Material Weakness**.
  - Misreporting of Federal Expenditures for the COVID-19 - Pandemic EBT Food Benefits and Child Care and Development Block Grant on the Exhibit K1 – *Schedule of Federal Assistance*. The Pandemic EBT Food Benefits (P-EBT) program staff revised its federal report but did not notify the Department’s accounting team, who prepares the Exhibit K1, of the revision. The accounting team was unaware of the revision and, therefore, did not update the Exhibit K1 to reflect the changes in federal expenditures. As a result, the Department overstated \$63.5 million in COVID-19 Pandemic EBT program expenditures on its June 2021 report, as well as on the Department’s Exhibit K1 for Fiscal Year 2021. For Child Care and Development Block Grant (CCDF) program, Department misreported \$8.7 million in CCDF expenditures as subrecipient, rather than direct, expenditures on its Exhibit K1. These funds were incorrectly identified and coded as subrecipient expenditures in CORE, which caused them to be incorrectly reported as such on the Exhibit K1. Classification: **Material Weakness**.
- **Department of Local Affairs.**
  - COVID-19-Coronavirus Relief Funds - Property Owner Preservation Program. The Department lacked sufficient internal controls during Fiscal Year 2021 over costs charged to newly-received federal funds, including funds through the Property Owners Preservation Program (Program). We specifically found that the Department could not provide support for 4 of the 60 transactions (6.7 percent) we tested that were charged to the Program. In total, we identified \$5,407 in known questioned costs. Classification: **Significant Deficiency**.

- o Section 8 Housing Choice Vouchers and Mainstream Vouchers Programs – Internal Controls over the Waiting List. During our testing of 40 individuals admitted to the Housing Vouchers Program during Fiscal Year 2021, we found that the Department could not provide appropriate support for 5 of the 40 (12.5 percent) tenant files reviewed. Additionally, during our testing of 40 individuals that the Department selected from the waiting list due to the individuals reaching the top of the waiting list during Fiscal Year 2021, we found issues with 8 of the 40 (20 percent) tenant files reviewed. Classification: **Significant Deficiency**.

## Summary of Progress in Implementing Prior Recommendations

The following table includes an assessment of our disposition of Financial and Federal audit recommendations reported in previous Statewide Single Audit Reports. Prior years' recommendations that were fully implemented in Fiscal Year 2020 or earlier are not included.

### Statewide Single Audit Report Recommendation Status as of Fiscal Year 2021 Not Fully Implemented as of Fiscal Year 2020 by Fiscal Year of Recommendation

	Total	2020	2019	2018	2017
Implemented	110	79	23	6	2
Partially Implemented	33	18	9	3	3
Not Implemented	15	5	8	1	1
Deferred	43	37	6	0	0
No Longer Applicable	16	5	8	0	3
<b>TOTAL</b>	<b>217</b>	<b>144</b>	<b>54</b>	<b>10</b>	<b>9</b>

Note: The table above includes each recommendation subpart as an individual recommendation.