

# Report Highlights

## Statewide Single Audit, Fiscal Year Ended June 30, 2022

State of Colorado • Financial Audit • February 2023 • 2201F



OFFICE OF THE STATE AUDITOR

C O L O R A D O

### Overview

This report presents the results of our financial audit of the State of Colorado, the Statewide Single Audit, and federal compliance audit work for Fiscal Year 2022.

This report may not include all financial- and compliance-related findings and recommendations from separately issued reports on audits of state departments, institutions, and agencies. However, in accordance with the federal Single Audit Act, this report includes all findings and questioned costs related to federal awards that came to our attention through our audit, including separately-issued reports on audits of state departments, institutions, and agencies.

In this report, we made 176 recommendations to state departments and higher education institutions resulting from our audit.

### Financial Statement Findings

- The State's financial statements covered \$61.2 billion in total assets and \$45.1 billion in total expenditures for Fiscal Year 2022.
- We have issued unmodified, or "clean" opinions on the financial statements of the State's governmental activities, business-type activities, each major fund, aggregate discretely presented component units, and aggregate remaining fund information for the Fiscal Year Ended June 30, 2022. 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.
- We identified 100 internal control weaknesses over financial reporting, including 40 material weaknesses and 60 significant deficiencies at 18 state departments and higher education institutions.

### Federal Program Findings

- The State expended approximately \$21.5 billion in federal funds in Fiscal Year 2022. The five largest federal programs were:
  - Medicaid Cluster: \$8.1 billion
  - Disaster Grants – Public Assistance (Presidentially Declared Disasters: \$1.5 billion
  - Supplemental Nutrition Assistance Program (SNAP) Cluster: \$1.5 billion
  - Research and Development Cluster: \$1.2 billion
  - Unemployment Insurance: \$1.1 billion
- We identified 81 internal control issues related to requirements applicable to major federal programs.

### 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 June 2022 through December 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, 2022.
- Express an opinion on the State's *Schedule of Expenditures of Federal Awards* for the Fiscal Year Ended June 30, 2022.
- 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

**176**

### Responses

Agree: **171**

Partially Agree: **4**

Disagree: **1**

## 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 Personnel & Administration's Office of the State Controller (OSC).**
  - Statutory Compliance and Internal Controls over Financial Reporting. We identified several issues, including:
    - The OSC did not ensure State entities met the statutory close date of August 4, 2022. Specifically, the OSC approved the posting of transactions totaling \$23.7 billion for certain State entities in CORE after this date.
    - The OSC did not implement financial reporting requirements under Governmental Accounting Standards Board Statement No. 87, *Leases*, timely or effectively.
    - The OSC did not establish appropriate IT governance for the new Gravity system by developing IT policies and procedures and ensuring access management controls were configured properly.
    - Classification: **Material Weakness**.
- **Department of Labor and Employment.**
  - Unemployment Insurance (UI) Recording of Estimates. We identified errors with the Department's fiscal year-end calculations, including the following:
    - The Department over estimated its accounts receivable for UI claimant overpayments by \$2.9 million.
    - The Department understated its accounts receivable balance for estimated fraudulently-obtained UI claims by \$44.0 million. In addition, the Department failed to record a related federal payable of \$10.5 million and an allowance for uncollectible receivables of \$13.5 million.
    - The Department incorrectly recorded its Fiscal Year 2021 UI claims estimates which resulted in an adjustment of \$2.4 billion to its accounts payable balance and an adjustment of \$1.4 billion to its accounts receivable balance for UI claims in Fiscal Year 2022.
    - Classification: **Material Weakness**.
  - Exhibit K, *Schedule of Federal Assistance*. We identified approximately \$803.3 million in total errors on the Department's K1, including:
    - The Department underreported more than \$95.4 million for 23 programs, and over reported \$110.3 million of federal expenditures for two programs.
    - The Department incorrectly reported State and Local Fiscal Recovery Funds expenditures as \$580,000 instead of the correct amount of \$580.0 million—an understatement of about \$579 million.
    - The Department inappropriately included \$16.5 million of Coronavirus Relief Fund expenditures on its Exhibit K1 that it distributed to another state agency (the Department of Public Health and Environment).
    - The Department incorrectly recorded about \$1.4 million as expenditures for the wrong federal program—the WIOA Dislocated Worker program, instead of the WIOA Adult Program.
    - Classification: **Material Weakness**.

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.

- **Department of Military and Veteran's Affairs.** Internal Controls Over Financial Reporting. We identified issues with the Department's financial accounting and reporting for Fiscal Year 2022, including the following.
  - The Department posted nine entries totaling about \$2.9 million between 6 to 42 days after the OSC's closing deadline of August 4, 2022.
  - The Department submitted 5 of its 10 exhibits (50 percent) between 8 and 80 days after the August 16, 2022 due date.
    - The Department underreported total federal expenditures on its Exhibit K1 by a net total of about \$2.8 million.
    - Classification: **Material Weakness**.
- **Department of Public Safety.** Internal Controls over Financial Reporting. The Department did not record grant revenue totaling approximately \$241.8 million. Specifically, the Department failed to record revenue for federal COVID-19 pandemic-related expenditures incurred by the Department of Public Health and Environment (CDPHE) that CDPHE then billed to the Department—which were at that point considered earned, or “recognized” by the Department. Classification: **Material Weakness**.
- **Department of Transportation.** Accounting Controls. The Department lacked adequate financial accounting controls for Fiscal Year 2022, as follows:
  - The Department improperly recognized an accounts receivable and related revenue totaling approximately \$104 million. Additionally, the Department had approximately \$1.4 million of accounts receivables at fiscal year end that had been outstanding and not collected by the Department for as much as 3 years.
  - The Department overreported its accounts payable accrual by approximately \$3.3 million.
  - The Department incorrectly reported approximately \$20 million in expenditures under the wrong federal program's Assistance Listing Number on its Exhibit K1.
  - Classification: **Material Weakness**.
- **Department of Human Services.** Payroll. Department did not comply with its payroll policies; we identified issues including missing time sheets, late certification of time sheets, incorrect payment for overtime pay, and missing Personal Action Forms. Classification: **Significant Deficiency**.
- **Department of Public Health and Environment.**
  - Internal Controls over Inventory Adjustments and Valuation. The Department did not ensure that it appropriately tracked and safeguarded its inventory during the fiscal year. Specifically, The Department's inventory system and tracking spreadsheets did not agree to the inventory on hand for 23 of the 30 inventory items we sampled (77 percent), which resulted in the value of the inventory noted in the system and on the tracking spreadsheets exceeding the inventory on-hand by approximately \$2.0 million. Classification: **Significant Deficiency**.
  - Internal Controls Over Financial Reporting. The Department did not record grant revenue for approximately \$35.5 million. Classification: **Significant Deficiency**.
- **Department of Revenue.** Year-end Accruals. We identified errors with the Department's year-end revenue estimates, or accrual calculations, including the following:
  - The Department incorrectly recorded a portion of its short- and long-term estimates for taxes due to the Department and deferred inflows, resulting in amounts being understated by approximately \$171.8 million.
  - The Department failed to record an estimate for amounts due to taxpayers related to the Property Tax Credit Rebate for the second half of Fiscal Year 2022, which resulted in it understating amounts due back to taxpayers by approximately \$1.4 million. Classification: **Significant Deficiency**.

Our opinion on the financial statements is presented in the State's Annual Comprehensive Financial Report for Fiscal Year 2022, which is available electronically from the Office of the State Controller's website at:

[https://osc.colorado.gov/  
financial-operations/  
financial-reports/acfr](https://osc.colorado.gov/financial-operations/financial-reports/acfr)

## 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 2022 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).**
  - CATS Disaster Recovery. Classification: **Significant Deficiency**.
  - GenTax and DRIVES Information Security—Access Management. Classification: **Significant Deficiency**.
  - GenTax and DRIVES IT Governance, Information Security, and Computer Operations. Classification: **Significant Deficiency**.
  - GenTax—Information Security. Classification: **Significant Deficiency**.
  - State Data Center Physical Access. Classification: **Significant Deficiency**.
  - CORE and DRIVES Exception Request Procedures and Documentation. Classification: **Significant Deficiency**.
  - SAP Access Management and Cybersecurity Training. Classification: **Significant Deficiency**.
- **Department of Labor and Employment.**
  - CATS Disaster Recovery. Classification: **Significant Deficiency**.
- **Department of Revenue.**
  - GenTax and DRIVES IT Governance, Information Security, and Computer Operations. Classification: **Significant Deficiency**.
- **Department of Transportation**
  - SAP Access Management and Cybersecurity Training. Classification: **Significant Deficiency**.



## Federal Program Findings

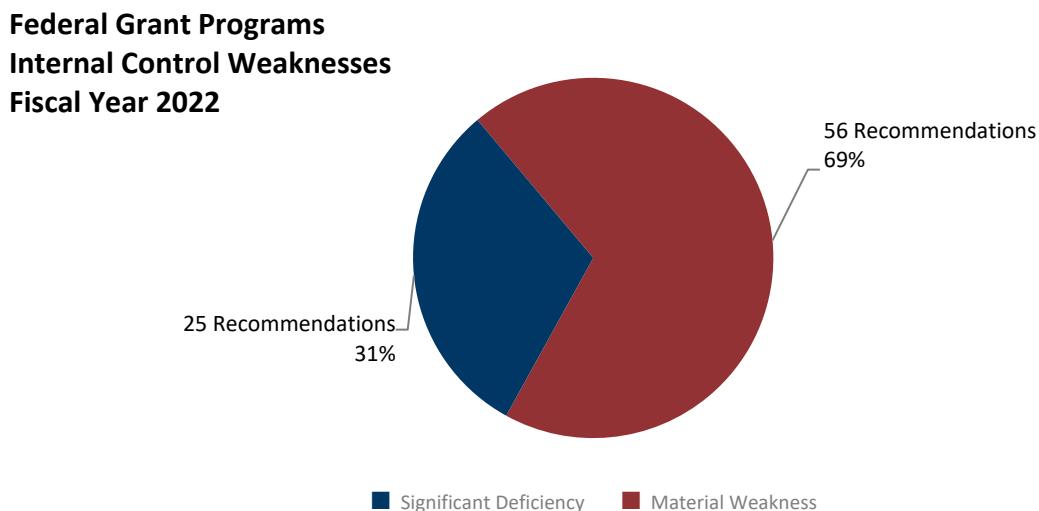
We identified:

- 81 internal control issues related to requirements applicable to major federal programs.
- Approximately \$3,262,916 in known questioned costs related to federal awards granted to the State. Of these questioned costs, \$3,260,323 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 requirement, such as activities allowed or unallowed, allowable costs, cash management, eligibility, reporting, subrecipient monitoring, and special tests and provisions, that are applicable to major federal programs. and internal controls over compliance with federal Uniform Guidance.

## 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 2022 audit. Prior to each recommendation in this report, we have indicated the classification of the finding.



- **Department of Labor and Employment.**

- Unemployment Insurance Fraud Holds—The Department places a fraud hold on a claimant's UI claim in the Department's UI benefit system, MyUI+, when the claim has characteristics that are indicators of fraud; the fraud hold prevents any future benefit payments to the claimant until the fraud hold is removed. We identified issues with 32 of the 60 (53 percent) fraud holds we tested, as follows:
  - The Department cleared 12 of the 60 fraud holds tested (22 percent) without performing an investigation or providing evidence of the reasoning used to clear the hold.
  - The Department did not segregate the duty of investigating the fraud hold and clearing the fraud hold within MyUI+, for 20 of the 48 cases in our sample (42 percent). Rather, the same individual conducted and concluded on the investigations, and cleared the fraud hold in MyUI+.
  - One Department staff who cleared fraud holds in our sample as well as an additional 55 fraud holds outside of our sample was not authorized to clear fraud holds from MyUI+. Further, this unauthorized individual cleared 11 of 12 fraud holds we identified above that did not have an investigation, as required.
  - Classification: **Material Weakness**.
- Employment Service Cluster—Federal Funding Accountability and Transparency Act (FFATA). The Department failed to report approximately \$11.26 million in federal Employment Service Cluster: Employment Service grant subawards to 11 subrecipients, as required by FFATA. Classification: **Material Weakness**.

- **Department of Health Care Policy and Financing.** Medicaid Claims Payments—The Department did not resolve information system issues identified in our prior audits related to Medicaid eligibility and claims payments. Specifically, the Department had not fully implemented required fixes and system enhancements to its Medicaid claims and eligibility information systems. Classification: **Material Weakness**.

- **Department of Transportation.**

- Cash Management—The Department did not comply with the approved federal cash management draw patterns for the Highway Planning and Construction program for 8 of the 25 draws (32 percent) we tested. Classification: **Material Weakness**.
- Subrecipient Monitoring—The Department did not perform a federally-required risk assessment for the Highway Planning and Construction program for 6 of the 25 subrecipients we tested. Classification: **Material Weakness**.

- **Department of the Treasury.** Mineral Leasing Act Subrecipient Monitoring—Treasury did not communicate, or ensure that the Department of Local Affairs communicated, the required award information and applicable federal compliance requirements to all Program subrecipients in accordance with federal regulations. Classification: **Material Weakness**.
- **Department of Education.** Federal Funding Accountability and Transparency Act Reporting (FFATA)—The Department was late in reporting, or did not report its subawards in the FFATA Subaward Reporting System for two federal grant programs we tested for Fiscal Year 2022. Collectively, these subawards totaled about \$30 million for Fiscal Year 2022. Classification: **Significant Deficiency**.
- **Department of Local Affairs.** COVID-19-Coronavirus Relief Funds (CRF)—Property Owner Preservation Program. The Department did not implement necessary internal controls to ensure it maintains adequate supporting documentation for federal Property Owner Preservation Program grant spending, as recommended during our prior audit. Specifically, the Department did not develop and implement policy and procedure guidance to address the issues we identified. 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 2021 or earlier are not included.

**Statewide Single Audit Report Recommendation Status as of Fiscal Year 2022 by Fiscal Year**

	Total	2021	2020	2019	2018
Implemented	<b>69</b>	44	22	2	1
Partially Implemented	<b>19</b>	15	2	2	-
Not Implemented	<b>15</b>	14	-	1	-
Deferred	<b>73</b>	53	18	2	-
No Longer Applicable	<b>14</b>	2	3	9	-
<b>TOTAL</b>	<b>190</b>	<b>128</b>	<b>45</b>	<b>16</b>	<b>1</b>

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