STATE OF COLORADO
OFFICE OF THE STATE AUDITOR **REPORT SUMMARY**

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STATE OF COLORADO
STATEWIDE SINGLE AUDIT
FISCAL YEAR ENDED JUNE 30, 2001

Authority, Purpose, and Scope

This audit was conducted under the authority of Section 2-3-103 et seq., C.R.S., which authorizes the Office of the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The audit was conducted in accordance with generally accepted auditing standards and the financial and compliance standards contained in the *Government Auditing Standards* issued by the U.S. General Accounting Office. We performed our audit work during the period January 2001 through November 2001.

The purpose of this audit was to:

- Express an opinion on the State's General Purpose Financial Statements for the fiscal year ended June 30, 2001.
- Express an opinion on the State's Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2001.
- Review internal accounting and administrative control procedures as required by generally accepted auditing standards.
- Evaluate compliance with applicable state and federal laws, rules, and regulations.
- Evaluate progress in implementing prior audit recommendations.

We expressed a qualified opinion on the State's General Purpose Financial Statements and an unqualified opinion on the State's Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2001. They are presented in the Financial Statement and Federal Awards Schedule sections of this report, respectively.

Current Year Findings and Recommendations

This report presents the results of the statewide financial and compliance audit for Fiscal Year 2001. The report may not include all findings and recommendations related to audits performed of state departments, institutions, and agencies which are issued under separate report covers. However, in accordance with the Single Audit Act, this report does include all findings and questioned costs related to federal awards which came to our attention through either the Statewide Audit or separate audits.

As part of our Statewide Audit we examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements. We considered the internal controls over financial reporting; tested compliance with certain provisions of federal and state laws, regulations, contracts, and grants; and tested account balances and transactions for proper financial reporting.

The following is a highlight of the more significant findings included in our report. Please refer to the Recommendation Locator in the next section for the recommendations, responses, implementation dates, and location of the full text of the findings, recommendations, and agency responses for each agency.

Internal Controls

Agencies are responsible for ensuring that adequate controls are in place. As part of our audit we tested controls over the processing of and accounting for financial activity. We found:

- During Fiscal Year 2001 nine mechanisms were used to refund the Fiscal Year 2000 TABOR excess of $941.1 million. We reviewed over 200 income tax returns, covering seven of the nine TABOR refund mechanisms, and determined about $343,000 in credits were erroneously granted to taxpayers. We also found that some taxpayers were not receiving their personal property tax refunds. There were 3,100 outstanding personal property tax refund checks, totaling about $1.3 million. Many of the checks were issued over a year and a half before. The Department has not made sufficient efforts to locate these taxpayers given the amount of time the checks have been outstanding.

- During our review of certificates of deposit at the Oil and Gas Conservation Commission, we found that 26 certificates, totaling about $187,000, are held in non-PDPA-eligible depositories. The Oil and Gas Conservation Commission should ensure that all certificates of deposit are in compliance with statutory and other legal requirements.

- In Fiscal Year 2001 the Division of Wildlife canceled about 560 payments totaling $245,000. We reviewed 30 of these canceled payments and found that 13 were returned to the Division and subsequently reissued to limited license applicants. This occurred because the Division did not have adequate procedures to ensure license applicant information was correct. In addition, we found that 3 of the 30 payments were duplicate payments, explanations could not be provided for 2 canceled payments, and another payment voucher could not be located.

- The Department of Personnel and Administration is responsible for overseeing all major human resource programs and systems in the State. During a review of personnel files at five agencies we noted problems with unsigned leave forms, leave systems not being updated, unsupported leave time, and mathematical errors. The Department should incorporate the review of leave controls and processes into its examinations of state human resource programs.

Financial Reporting

The State Controller's Office (SCO) minimizes the risk of inaccurate reporting by establishing standard policies and procedures. In addition, agencies are responsible for accurately reporting financial activity. As part of our audit we reviewed the policies and procedures that were in place at the SCO and agencies. In addition, we sampled financial transactions to ensure that financial activity was reported properly.

- Due to a lack of controls over federal receivables, the Department of Health Care Policy and Financing had to write-off almost $16 million in receivables. The Department could not determine the nature of the receivables, i.e., whether it was the result of reporting errors or of a failure to collect moneys owed.

- The Department of Human Services did not adhere to legally established spending limits. We found the Department charged about $78,000 in payouts of sick and annual leave to retiring staff against a prior year payable accrual rather than against a current year expenditure as required. This type of transaction circumvents controls over agencies' spending authority and, in some instances, can be used to hide overexpenditures.

- We found five agencies were not performing reconciliations of supporting documentation to the State's accounting system to ensure that errors were found and corrected in a timely manner. These reconciliations include fixed assets, Medicaid expenditures, Transportation Revenue Anticipation Notes, mined land reclamation deposits, cash receipts, and grant expenditures.

Federal Grants

The State received about $3.6 billion in federal grants in Fiscal Year 2001. As part of our testwork we determined compliance with federal regulations and grant requirements. The audit work included, among other requirements, testing of allowable activities, eligibility, and subrecipient monitoring.

Medicaid and Medicaid-Related Programs: The largest of the federal programs, Medicaid, is administered by the Department of Health Care Policy and Financing (HCPF). During Fiscal Year 2001 Medicaid expenditures exceeded $2 billion. Some of the more significant problems noted with the management of Medicaid funds were as follows:

- We reviewed grant requirements and transactions to determine whether the costs charged to the grant were allowable. We also reviewed controls over eligibility determination systems, oversight, and training provided to counties on federal requirements. We sampled 127 Medicaid program expenditures. We found 51 were not in compliance with one or more of the allowable cost principles. These 51 expenditures totaled about $45,000 (federal share about $22,000). For example, 43 Electronic Data Interchange agreements were not available for review. In addition, 86 of the 127 expenditures contained errors related to lack of required license and registration documentation on file with the Medicaid fiscal agent. These totaled about $977,000 (federal share about $489,000).

- For the Home and Community Based Services (HCBS) program, we sampled 138 client records and identified 14 clients who should not have been approved for services. An additional 12 clients, who should not have been approved for services, were reported to us by staff at Single Entry Point (SEP) agencies. These 26 clients received about $275,000 in HCBS and Medicaid provided services. Additionally, we found that, of five SEPs reviewed, four were not subject to a financial compliance review as required by federal guidelines.

Cash Management: The Cash Management Improvement Act (CMIA) was established to regulate the transfer of federal funds between federal and state agencies. The Treasurer's Office is responsible for the coordination of CMIA for Colorado. In Fiscal Year 2001, 30 federal programs were covered by CMIA at seven different state agencies. These programs had expenditures in excess of $2 billion. We found problems related to cash management at two departments. For example, all 14 programs at Human Services covered under CMIA either did not draw funds timely or were overdrawn.

Student Financial Aid: Student loans amounted to about $229 million in Fiscal Year 2001. During our audit we found the following problems at various state schools:

- Lack of adequate supporting documentation. We noted required documentation, under both Perkins loan and Federal Family Education loan requirements, was not maintained within loan files. One institution's files did not contain evidence of the required counseling session for new or exiting borrowers. This occurred in 3 of 30 files reviewed. At another institution we noted that 1 of 10 Perkins loan borrowers' files did not contain a required signed addendum to the promissory note. Also, 4 of 10 borrowers, who had their loans deferred or canceled, did not have adequate documentation in the file supporting the reason for a deferment of loan payments.

- Perkins loan grace periods were not in accordance with federal regulations at one institution. The grace period should begin the day after a recipient withdrawals from school or reduces enrollment to less than half-time. We found the grace period for students did not begin until the month following the end of the semester in which the students' enrollment status changed.

Temporary Assistance for Needy Families (TANF), Donated Foods, and Vocational Rehabilitation: We also found problems with the administration of other federal funds at the Department of Human Services. These three programs represent over $246 million, or 13 percent, of the $1.8 billion expended by the Department. We noted the following areas where improvements could be made:

- Significant discrepancies in monthly inventories of commodities for the Donated Foods program exist. We noted two monthly reconciliations reported shortages and overages of commodities valued at $384,000 and $431,500, respectively. Program staff could not provide documentation as to how these discrepancies were resolved; therefore, we were unable to confirm that resolutions were handled appropriately.

- Subrecipient monitoring was lacking and inadequate. We found that TANF staff did not adequately monitor county activities during Fiscal Year 2001. We have identified this issue in prior year audits. Also, Vocational Rehabilitation program staff did not perform any on-site reviews as required.

Records Management

The State Archivist is responsible for the proper administration of public records. Additionally, agencies are required to appoint records liaison officers to aid in the oversight of records management processes at their agencies. We surveyed 22 state agencies and found six did not have records liaison officers, four agencies were not purging records on a regular basis, and none of the agencies were able to produce an inventory listing of records being stored. We also noted that Archives needs to improve access to information by establishing an electronic cataloging system.

Communication of Audit Related Matters

There were no significant or unusual matters reported in connection with the audit of the State of Colorado for the year ended June 30, 2001. Areas in which uncorrected misstatements were aggregated during the Fiscal Year 2001 audit were determined by management and the Office of the State Auditor to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The net effect of the uncorrected misstatements would have been to decrease the fund balances by about $2.4 million, decrease assets by about $200,000, increase liabilities by about $7.1 million, increase revenue by about $14.6 million, and increase expenditures by about $19.5 million. See Appendix B which shows the net and gross passed audit adjustments by agency and the net and gross posted audit adjustments by agency.

Recommendation Locator

The attached Recommendation Locator is arranged by department. In addition, Appendix A contains a Locator with additional columns added to provide the information necessary to meet Single Audit reporting requirements. The CFDA No./Compliance Requirement/Federal Entity column indicates the federal program, type of compliance requirement by letter, and applicable federal agency. The contact for the Corrective Action Plan designates the state agency contact person. For those findings not subject to the Single Audit Act, the CFDA No./Compliance Requirement/Federal Entity column will be marked not applicable.

Summary of Progress in Implementing Prior Year Recommendations

This report includes an assessment of the disposition of prior audit recommendations reported in both the Statewide Single Audit Reports and the Statewide Financial and Compliance Audit Reports for Fiscal Years 1996 through 2000. If a recommendation was reported in both reports, it has been only included once in the following table. Additionally, prior years' recommendations that were implemented in Fiscal Year 2000 are not included.

Statewide Single and Financial Audit Reports for Fiscal Year						
	Total	**2000**	**1999**	**1998**	**1997**	**1996**
Implemented	46	38	5	2	1	-
Partially Implemented	26	16	6	2	2	-
Not Implemented	7	5	1	-	-	1
Deferred	13	10	3	-	-	-
Total	**92**	**69**	**15**	**4**	**3**	**1**