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State Auditor

STATE OF COLORADO
STATEWIDE SINGLE AUDIT
FISCAL YEAR ENDED JUNE 30, 2003

Authority, Purpose, and Scope

This audit was conducted under the authority of Section 2-3-103, 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 auditing standards generally accepted in the United States of America 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 2003 through November 2003.

The purpose of this audit was to:

- Express an opinion on the State's financial statements for the fiscal year ended June 30, 2003.
- Express an opinion on the State's Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2003.
- 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 an unqualified opinion on the State's financial statements and an unqualified opinion on the State's Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2003. Our opinion on the financial statements is presented in the State's Comprehensive Annual Financial Report, which is available in hard copy from the State Controller's Office and electronically at http://www.sco.state.co.us/cafr/cafr.htm. Our opinion on the Schedule of Expenditures of Federal Awards is presented under the Federal Awards Schedule section of this report.

For further information on this report, contact the Office of the State Auditor at 303.869.2800.

Current Year Findings and Recommendations

This report presents the results of the Statewide Financial and Compliance Audit for Fiscal Year 2003. The report may not include all findings and recommendations from separately issued reports on audits of state departments, institutions, and agencies. However, in accordance with the Single Audit Act, this report includes all findings and questioned costs related to federal awards that came to our attention through either the Statewide Financial and Compliance Audit or other audits.

As part of our Statewide Financial and Compliance 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 presents highlights of findings included in our report. Please refer to the Recommendation Locator following this summary for a complete listing of all recommendations, agency responses, and implementation dates, as well as references to the location of each recommendation in the report.

Internal Controls

Agencies are responsible for having adequate controls in place to ensure compliance with laws and regulations and with management's objectives. As part of our audit, we tested controls over the processing of transactions and accounting for financial activity and identified the need for improvements in the following areas:

- The Department of Human Services has not remedied long-standing weaknesses in internal controls. These include (1) lack of adequate reconciliations and other procedures related to capital assets to ensure assets are safeguarded, (2) lack of adequate review to prevent inaccuracies in exhibits submitted for the preparation of the State's annual financial statements, and (3) lack of adequate documentation to ensure the appropriateness and accuracy of payroll.

- The Division of Minerals and Geology at the Department of Natural Resources had approximately $13.4 million of reclamation deposits held in custody for mine and well operators. We found that the Division does not have (1) adequate procedures in place to ensure that certificates of deposits exist at financial institutions, (2) adequate segregation of duties over reclamation deposits, and (3) an adequate process for reconciling its internal records of reclamation deposits with the State's accounting system.

- The Department of Transportation does not have appropriate safeguards in place over credit card purchases to prevent unauthorized personnel from accessing credit card information on the database. The Department had about $10.8 million in credit card purchases in Fiscal Year 2003.

- Three agencies did not have adequate controls in place over accounts receivable. The Department of Health Care Policy and Financing has not reconciled the Medicaid receivable recorded on its internal system to the State's accounting system (COFRS) since October 2002. The Department of Labor and Employment does not ensure that accounts are collected timely. Of the $483,000 accounts receivable balance in the Department's Petroleum Storage Tank Fund, 75 percent is over one year old. At the Department of Military and Veterans Affairs, we noted a lack of supervisory review over the identification and calculation of accounts receivable for the Tuition Assistance Program.

- Two departments had weaknesses in internal controls over payments to outside parties. We found that for child welfare services under Title IV-E of the federal Social Security Act, Human Services has not adhered to the statutory requirement that federal reimbursements in excess of the annual appropriated base amount be returned to the counties; the amount not paid to counties was about $1.5 million for Fiscal Years 2000 through 2002. The Office of the State Treasurer sent incorrect amounts totaling $1.2 million of Highway Users Tax Fund payments to three local governments.

Financial Reporting

State agencies are responsible for reporting financial activity accurately and completely. The State Controller's Office (SCO) establishes standard policies and procedures that must be followed by state agencies. As part of our audit, we reviewed the policies and procedures related to financial reporting that were in place at both the SCO and agencies and tested a sample of financial transactions to ensure that financial activity was reported properly. We found:

- The Department of Regulatory Agencies did not record its revenue consistently across its divisions and commissions or in accordance with generally accepted accounting principles. As a result of our audit, the Department increased Fiscal Year 2003 revenue by $420,000 to correct current-year misstatements and increased fund balance by about $1.8 million to correct Fiscal Year 2001 and 2002 misstatements.

- Four departments were not performing adequate reconciliations between their internal systems and the State's accounting system to ensure that the amounts reported in the State's financial statements are correct. We found that improvements are needed at the Departments of Health Care Policy and Financing, Human Services, Labor and Employment, and Natural Resources.

Federal Grants

The State received about $4.9 billion in federal grants in Fiscal Year 2003. As part of our audit, we determined compliance with federal regulations and grant requirements. The audit work included, among other requirements, testing of allowable activities, allowable costs, cash management, eligibility, reporting, and subrecipient monitoring.

Medicaid: The Medicaid program, administered by the Department of Health Care Policy and Financing (HCPF), is the State's largest federal program. During Fiscal Year 2003, Medicaid expenditures at HCPF exceeded $2.6 billion (state and federal funds). Some of the more significant problems noted with the management of the Medicaid program were as follows:

- Adequate controls are not in place to ensure Medicaid payments are made to eligible individuals and that all providers are properly licensed. We tested 90 expenditures and found seven instances in which payments were made to ineligible individuals. We also found that only 14 of the 79 provider files (18 percent) tested had documentation supporting licensure to provide services in the State.

- We identified a potential disallowance under the Medicaid program totaling over $2 million for Fiscal Years 2002 and 2003 due to a change in the Department of Human Services' billing policy. This policy change affected billings submitted by the State's five nursing homes certified by the U.S. Department of Veterans Affairs (VA) to receive per diem payments on behalf of resident veterans. The Department of Human Services implemented the change without appropriate consultation with the Department of Health Care Policy and Financing. HCPF is the state agency designated under statutes as responsible for administration of the Medicaid program. The State's five VA-certified nursing homes received Medicaid revenue totaling $9.6 million during Fiscal Year 2003.

Student Financial Aid: State higher education institutions paid out about $345 million in student loans and grants in Fiscal Year 2003. We found the following problems at various state schools:

- At six institutions, including five community colleges, controls were not adequate to prevent overpayments to students receiving financial aid and to ensure the return of federal funds in cases where students withdrew from school.

- At two institutions, documentation in student files was not sufficient to support decisions such as student loan deferments or cancellations or for determining the amount of families' required contributions, which affects the amount of student aid provided.

- At five institutions, controls were lacking over reporting to the federal government of student financial aid received. In addition, one institution did not have adequate cash management procedures in place to ensure that timely drawdowns of federal funds are made and another had drawn down federal funds without making the related expenditures. While the excess funds had been returned, our audit found that the institution needed to remit the appropriate interest to the federal government.

Temporary Assistance for Needy Families (TANF), Adoption Assistance Program, and Child Support Enforcement: We found problems at the Department of Human Services with the administration of other federal programs. These three programs represent over $188 million, or 24 percent, of the $774 million in federal funds expended by the Department in Fiscal Year 2003. We noted the following areas where improvements are needed:

- We have serious concerns about the lack of controls over possible fraud and abuse at the counties within the $202 million (state and federal funds) TANF program. We found the Department had not received fraud policies and procedures for 35 of 64 counties, or 55 percent, as of the end of our audit testwork. We noted similar problems during our Fiscal Year 2001 audit.

- Human Services expended about $35 million (state and federal funds) for the operation of the Adoption Assistance program. We found problems with 5 of the 6 counties tested related to the Department's timely reviews of county records.

- Approximately 2400 inmates were required to pay child support as of July 2002, of which about 1500 inmates were more than 45 days delinquent at that time. Our audit detected problems with the Department's automated system for issuing administrative liens for incarcerated noncustodial parents with a child support order.

Workforce Investment Act:

The Department of Labor and Employment has allocated, on average, over $15 million in Workforce Investment Act (WIA) funds to the State's workforce regions in the past three years. We questioned expenditures totaling about $11,000 for 27 of the 78 cases in our sample (35 percent) for clients who received some type of WIA supportive service. We also questioned expenditures of about $29,100 for 13 of the 89 (15 percent) files for clients approved for WIA training services.

Communication of Audit-Related Matters

There were no unusual or significant matters reported in connection with the audit of the State of Colorado for the year ended June 30, 2003. Uncorrected misstatements identified during the Fiscal Year 2003 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 increase the fund balances by about

$2 million, decrease assets by about $1.5 million, increase liabilities by almost $1.5 million, decrease revenue by about $1.3 million, and increase expenditures by about $3.7 million. Appendix B shows the net and gross passed audit adjustments by agency and the net and gross posted audit adjustments by agency. A full disclosure of communications required under generally accepted auditing standards can be found in the Other Required Reports section.

Recommendation Locator

The Recommendation Locator following this summary is arranged by department. In addition, Appendix A contains a separate Locator with additional columns to provide the information necessary to meet Single Audit reporting requirements. The CFDA No./Compliance Requirement/Federal Entity column indicates the federal program, category of compliance requirement, 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 is 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 1997 through 2002. If a recommendation was reported in both, it has only been included once in the following table. Additionally, prior years' recommendations that were implemented in Fiscal Year 2002 or earlier are not included.

Statewide Single and Financial Audit Reports by Fiscal Year							
	Total	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
Implemented	77	43	18	0	3	13	0
Partially Implemented	39	29	9	0	0	1	0
Not Implemented	17	10	5	0	1	1	0
Deferred	13	8	4	0	0	0	1
Ongoing	4	2	0	2	0	0	0
No Longer Applicable	5	1	0	2	0	2	0
Total	**155**	**93**	**36**	**4**	**4**	**17**	**1**