STATE OF COLORADO

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STATE OF COLORADO
STATEWIDE SINGLE AUDIT
FISCAL YEAR ENDED JUNE 30, 2009

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 from February through December 2009.

The purpose of this audit was to:

- Express an opinion on the State's financial statements for the fiscal year ended June 30, 2009.
- Express an opinion on the State's Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2009.
- 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.

We have issued three reports in connection with our audit. First, we issued an unqualified opinion on the State's financial statements for the fiscal year ended June 30, 2009. Our opinion on the financial statements is presented in the State's Comprehensive Annual Financial Report for Fiscal Year 2009, which is available electronically from the Office of the State Controller's website at http://www.colorado.gov/dpa/dfp/sco/CAFR/cafr09/cafr09.htm.

Second, we issued a report on the State's compliance with internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards.* These standards and Statement on Auditing Standards No. 112 (SAS 112) issued by the American Institute of Certified Public Accountants (AICPA) require that we communicate matters related to the State's internal control over financial reporting identified during our audit of the State's financial statements. The standards define three levels of internal control weaknesses that must be reported. These are described on the following page.

- A *control deficiency* is the least serious level of internal control weakness. A control deficiency 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 misstatements on a timely basis. Control deficiencies are reported in the accompanying Schedule of Findings and Questioned Costs as Recommendation Nos. 1-2, 4, 7-9, 15, 18, 26, 30-33, 35-36, 38, 41, 46-49, 72, 122-123, and 125.

- A *significant deficiency* is a higher level of internal control weakness. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. Significant deficiencies are reported in the accompanying Schedule of Findings and Questioned Costs as Recommendation Nos. 3, 5-6, 10-14, 16-17, 19-25, 27-29, 34, 37, 39-40, 43-45, 50-51, 56-57, 65, 69-71, 85, 97-98, and 120-121.

- A *material weakness* is the most serious level of internal control weakness. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. We did not note matters involving the internal control over financial reporting and its operation during our audit that we consider to be material weaknesses.

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

The third report we issued is on the State's compliance with requirements applicable to major federal programs and internal control over compliance in accordance with the federal Office of Management and Budget's (OMB) *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. 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 occurred. As with matters identified during our audit of the State's internal control over the financial reporting, we are required to communicate three levels of internal control issues related to each of the major federal programs. These three levels of internal control weaknesses over major federal programs are as follows:

- *A control deficiency* is the least serious level of internal control weakness. A control 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 noncompliance with a compliance requirement of a federal program on a timely basis. Control deficiencies are reported in the accompanying Schedule of Findings and Questioned Costs as Recommendation Nos. 63, 72-80, 83-84, 86-96, 102, 105-108, 115, 122-123, 126-132, and 148.

- A *significant deficiency* is a higher level of internal control weakness. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. Significant deficiencies are reported in the accompanying Schedule of Findings and Questioned Costs as Recommendation Nos. 52-62, 64-71, 81-82, 85, 97, 99-101, 103-104, 109-114, 116-121, 124, 133-144, and 149-150.

- A *material weakness* is the most serious level of internal control weakness. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Material weaknesses are reported in the accompanying Schedule of Findings and Questioned Costs as Recommendation Nos. 52-61, 65-66, 85, 97, 99-100, 133-134, and 149.

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

During our testing of compliance with federal requirements, we determined the State did not comply with requirements regarding Matching, Level of Effort, or Earmarking that are applicable to the Secure Payments for States and Counties Containing Federal Lands Program (CFDA No. 10.665); Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, and Subrecipient Monitoring that are applicable to the Supplemental Nutrition Assistance Programs Cluster (CFDA Nos. 10.551 and 10.561); Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, and Subrecipient Monitoring that are applicable to the Children's Health Insurance Program (CFDA No. 93.767), and Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, Period of Availability, Program Income, Reporting, Subrecipient Monitoring, and Special Tests and Provisions that are applicable to the Medicaid Cluster (CFDA Nos. 93.777 and 93.778). Compliance with such requirements is necessary to meet requirements applicable to those programs. Material noncompliance associated with the above mentioned programs is described in the accompanying Schedule of Findings and Questioned Costs as Recommendations Nos. 53, 56-59, 61, 65-66, 85, 100, 133-134, and 149.

Current Year Findings and Recommendations

The Statewide Single Audit report presents our financial and compliance audit of the State of Colorado for Fiscal Year 2009. 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 federal Single Audit Act, this report includes all findings and questioned costs related to federal awards that came to our attention through our audit.

As part of our audit, we examined, on a test basis, evidence supporting the amounts and disclosures in the State's financial statements. We considered the internal control 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 section presents highlights of findings included in our report. The Recommendation Locator, following the Summary of Auditor's Results, includes 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

State agencies are responsible for having adequate internal 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 Revenue had internal control weaknesses related to severance tax refunds, business tax refunds, estimated taxes, and electronic funds transfers.

- Five agencies' internal controls over travel expenditures were inadequate. Overall the sample of transactions tested at the Departments of Human Services, Personnel & Administration, Public Safety, and Secretary of State, as well as the Colorado Historical Society showed a total error rate of 28 percent. Problems identified included lack of sufficient supporting documentation, reimbursements to employees claiming excess mileage, and coding errors.

- Four agencies did not have adequate controls over the preparation of year-end exhibits. Exhibits prepared by the Departments of Human Services, Labor and Employment, Personnel & Administration, and Regulatory Agencies contained errors and/or omissions when submitted to the Office of the State Controller. These exhibits are necessary to ensure appropriate disclosures are made in the State's annual financial statements.

- The Department of Health Care Policy and Financing lacked adequate controls over the financial reporting process, Medicaid payment liability calculation, and communication of audit adjustments.

- Four agencies did not have adequate payroll controls. At the Department of Agriculture two employees were underpaid for four months because the funding percentages were inaccurate. At the Department of Human Services 47 percent of the 198 time sheets tested were not properly certified by employees and/or supervisors. The Judicial Department's payroll review process failed to catch two instances in which hours were not recorded appropriately and one instance in which recorded leave time did not accurately reflect approved leave. At the Department of Personnel & Administration 10 percent of the 58 payroll adjustments tested identified over-and under-payments to employees.

- The Department of Human Services lacked adequate internal controls over rentals of state-owned surplus facilities, mental health institutes and nursing home revenue, and timely deposits for its Background Investigation Unit.

- The Department of Revenue had internal control weaknesses related to severance tax refunds, business tax refunds, estimated taxes, and electronic funds transfers.

Financial Reporting

State agencies are responsible for reporting financial activity accurately, timely, and completely. The Office of the State Controller establishes standard policies and procedures that must be followed by state agencies and institutions. As part of our audit, we reviewed the agencies' and institutions' control processes, policies, and procedures related to financial reporting and tested a sample of financial transactions to ensure that controls were adequate and financial activity was reported properly. We found:

- The Department of Human Services continues to be unable to reconcile differences between amounts due to or due from the counties recorded on the State's accounting system, COFRS, and amounts recorded on the Department's County Financial Management System, CFMS. During our Fiscal Year 2009 audit the difference between the two systems was approximately $1.3 million.

- The Department of Personnel & Administration had difficulties calculating accounting gains and losses on vehicles sold, reconciling the Colorado Automotive Reporting System (CARS) to COFRS, and recording depreciation. The Department overstated its gain in COFRS on a sample of tested vehicle disposals by approximately $37,000 and overstated depreciation expenses on COFRS by approximately $1.2 million.

Federal Grants

The State expended approximately $8.5 billion in federal grants in Fiscal Year 2009. As part of our audit, we determined compliance with federal regulations and grant requirements, such as activities allowed or unallowed, allowable costs, cash management, eligibility, reporting, and subrecipient monitoring. Our testing included $552.9 million expended under the federal American Recovery and Reinvestment Act (Recovery Act). The three largest areas of Recovery Act expenditures for the State in Fiscal Year 2009 were $252.5 million for the Medicaid program, $175.6 million for the State Fiscal Stabilization Cluster, and $97.6 million for the Unemployment Insurance program.

Federal American Recovery and Reinvestment and Act

Enacted in response to a significant slowdown in the American economy and increased unemployment nationwide, the federal American Recovery and Reinvestment Act (Recovery Act) became law in February 2009.

The Recovery Act is expected to direct approximately $787 billion in federal funds toward the American economy primarily over the next several years. To meet the commitment to provide an unprecedented level of transparency and accountability over how funds are invested, the federal Office of Management and Budget (OMB) has issued guidance for implementation of the Recovery Act. As part of this guidance, OMB expanded audit requirements for entities that receive Recovery Act funds.

In August 2009 OMB designated programs receiving funding under the Recovery Act as higher risk and issued additional guidance specific to the audit of these programs. This high-risk designation will affect the scope of the audits conducted for the period in which Colorado expends Recovery Act funds, beginning in Fiscal Year 2009.

OMB formalized an early reporting process by establishing the Internal Control Pilot Project (Pilot Project) in the fall of 2009. Participation in the Pilot Project was available to all non-federal entities expending Recovery Act dollars, including all 50 states, with the goal of at least 10 states volunteering. Colorado was one of 14 states that volunteered to participate in the Pilot Project.

The Pilot Project required that states report on the results of the Single Audit work for at least two federal programs, which the auditor was required to select from a list of 11 federally-designated programs. Audit work was to be completed by November 30, 2009, and the auditor was required to issue a report to management and those charged with governance by December 31, 2009. The Office of the State Auditor conducted the *American Recovery and Reinvestment Act of 2009 Internal Control Pilot Project*, Report No. 2047, dated November 2009. The information and comments contained in the Pilot are also included in this Statewide Single Audit report as Recommendation Nos. 89, 93, 94, and 107-113.

Colorado Benefits Management System (CBMS): For Fiscal Year 2009 we evaluated transactions processed by CBMS through review of four federal programs. Two programs are overseen by the Department of Human Services (DHS): Temporary Assistance for Needy Families (TANF) and Supplemental Nutrition Assistance Program (SNAP). The other two programs, Medicaid and the Children's Basic Health Plan (CBHP), are overseen by the Department of Health Care Policy and Financing (HCPF). We reviewed the Departments' procedures for complying with federal requirements for determining individuals' eligibility to receive SNAP, TANF, Medicaid and CBHP. For three of the four programs we found significant error rates. In general, these errors related to problems with the recipient's eligibility or the amount of the benefit issued.

- **TANF/Colorado Works:** We found that 5 of the 60 benefit payments in our sample (8 percent) contained at least one error. For these 5 payments we identified questioned costs of $987 out of the total sampled costs of $13,906 (7 percent of costs). We identified an additional $4,914 in questioned costs from payments not included in our original sample of 60 payments but were paid to the recipients whose case files we reviewed as part of our original sample. The total amount of questioned costs for all errors found was $5,901. Total TANF benefit payments for Fiscal Year 2009 were $161 million, and the average monthly caseload was 10,471.

- **SNAP/Food Assistance:** We found that 24 of the 60 benefit payments in our sample (40 percent) contained at least one error. For these 24 payments we identified questioned costs of $2,034 out of the total sampled costs of $15,330 (13 percent). We identified an additional $8,368 in questioned costs from payments not included in our original sample of 60 payments but were paid to the recipients whose case files we reviewed as part of our original sample. The total amount of questioned costs for all errors found was $10,402. Total SNAP/Food Assistance benefit payments for Fiscal Year 2009 were nearly $443 million, and the average monthly caseload was 128,200.

- **Medicaid:** We found that 38 of the 63 payments sampled (60 percent) contained at least one error. For these 38 payments we identified questioned costs of about $16,986 out of the total sampled costs of $131,563 (13 percent). We identified an additional 27 errors from payments not included in our sample, resulting in another $448,783 in questioned costs. These payments were not included in our original sample of 63 payments but were paid to the recipients whose case files we reviewed as part of our original sample. The total amount of questioned costs for all errors found was $465,769.

- **CBHP:** We found that 27 of the 60 case files sampled (45 percent) contained at least one error. For these 27 case files with errors, we identified questioned costs of $12,250 out of the total sampled costs of $68,837 (18 percent). We identified an additional 15 errors in the reviewed cases, resulting in another $27,552 in questioned costs. These errors were not included in our original sample of 60 case files but were paid to the recipients whose case files we reviewed as part of our sample. The total amount of questioned costs for all errors found was $39,802.

Medicaid and CBHP: The Medicaid program is the State's largest federal program with expenditures for administration and claims paid by HCPF totaling about $3.6 billion (state and federal funds) during Fiscal Year 2009. HCPF expended $135.3 million (state and federal funds) for the CBHP program during Fiscal Year 2009. In addition to the error rates noted above we found significant problems with the management of the Medicaid Program.

- HCPF lacked adequate internal controls for identifying and recording about $252.5 million in expenditures of American Recovery and Reinvestment Act funds.

- HCPF continued to lack adequate controls over provider eligibility. Of the 100 providers sampled, 83 were required to be licensed. We found that for 52 (63 percent) of the 83 providers, current licensing information was not reflected in the Medicaid Management Information System. Additionally, 5 of the 100 providers did not have provider participation agreements in the files.

- HCPF lacked policies and internal controls over the process for calculating Family Planning expenditures and under-reported its expenditures by about $450,000.

Student Financial Aid and the Research and Development Cluster: State higher education institutions disbursed about $1.2 billion in student loans and grants and expended $588.8 million in Research and Development (R&D) funds in Fiscal Year 2009. We found the following problems at various state institutions:

- The Colorado School of Mines expended approximately $24.9 million in R&D funds during Fiscal Year 2009 and failed to review contracting entities to determine if the entities were either suspended or debarred from receiving federal dollars.

- Colorado State University-Pueblo and the Colorado School of Mines lacked sufficient review processes over the Fiscal Operation Report and Application to Participate (FISAP) report, which contains information related to the Student Financial Aid Cluster.

- The University of Colorado, Colorado State University-Pueblo, University of Northern Colorado, and the Colorado School of Mines lacked adequate controls to ensure the return of Title IV student financial aid funds was in compliance with federal requirements.

Federal Reporting

The Departments of Human Services, Labor and Employment, and Colorado State University - Pueblo failed to initially report expenditures correctly on the Exhibit K, which directly affects the Schedule of Expenditures of Federal Awards (SEFA).

Communication of Audit-Related Matters

There were no unusual or significant audit-related matters to report in connection with the audit of the State of Colorado for the year ended June 30, 2009. Uncorrected misstatements identified during the Fiscal Year 2009 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 net assets by more than $8 million, increase assets by more than $1.8 million, increase liabilities by nearly $8.6 million, decrease revenue by more than $33.1 million, and decrease expenditures by more than $30.2 million. Appendix VII - 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 VI. Required Communications section of this report.

Recommendation Locator

The Recommendation Locator following this summary is arranged by department. In addition, Appendix VII - A contains a separate Locator with additional columns to provide the information necessary to meet Single Audit reporting requirements. The Catalog of Federal Domestic Assistance (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 reporting under the Single Audit Act, the CFDA No./Compliance Requirement/Federal Entity column is marked "not applicable."

Summary of Progress in Implementing Prior Recommendations

This report includes an assessment of the disposition of prior audit recommendations reported in the previous Statewide Single Audit Reports. Prior years' recommendations that were implemented in Fiscal Year 2008 or earlier are not included.

Outstanding Statewide Single Audit Report Recommendations by Fiscal Year								
	Total	**2008**	**2007**	**2006**	**2005**	**2004**	**2002**	**2001**
Implemented	64	45	13	4	-	-	2	-
Partially Implemented	65	42	17	2	2	1	-	1
Not Implemented	18	16	2	-	-	-	-	-
Deferred	9	6	3	-	-	-	-	-
Total	**156**	**109**	**35**	**6**	**2**	**1**	**2**	**1**