STATEWIDE SINGLE AUDIT
FISCAL YEAR ENDED JUNE 30, 2011
Report Summary

Dianne E. Ray, CPA
State Auditor

State of Colorado

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 2011.

The purpose of this audit was to:

- Express an opinion on the State's financial statements for the Fiscal Year Ended June 30, 2011.
- Express an opinion on the State's Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2011.
- 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 years' audit recommendations.

OVERVIEW OF FINDINGS AND AUDITOR'S OPINIONS

This report presents our financial and compliance audit of the State of Colorado for Fiscal Year 2011. 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.

We made 65 recommendations to state agencies and higher education institutions.

FINANCIAL STATEMENT FINDINGS

- The State's financial statements covered $28.1 billion in total assets and $25.2 billion in total expenditures.
- We have issued an **unqualified opinion** on the State's financial statements for the Fiscal Year Ended June 30, 2011. That means the State's financial statements presented fairly, in all material respects, the State's financial position, results of all financial operations, and cash flows in conformance with generally accepted accounting principles.
- We identified **19 internal control weaknesses** related to compliance with internal control over financial reporting and other matters.

FEDERAL PROGRAM FINDINGS

The State expended approximately $11.7 billion in federal funds in Fiscal Year 2011. The four largest federal programs were:

- Medicaid: $2.6 billion
- Unemployment Insurance: $2.1 billion
- Supplemental Nutrition Assistance Program: $801 million
- Temporary Assistance for Needy Families: $190 million

- We identified **46 internal control issues** related to the State's compliance with requirements applicable to major federal programs.
- We identified **$23.3 million in questioned costs** related to federal awards granted to the State.

For further information about this report, contact the Office of the State Auditor
303.869.2800 - www.state.co.us/auditor

FINANCIAL STATEMENT FINDINGS

This section summarizes our 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. 115 issued by the American Institute of Certified Public Accountants 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.

Internal Controls Over Financial Activity and Financial Reporting

State agencies are responsible for having adequate internal controls in place to ensure compliance with laws and regulations and with management's objectives. We tested controls over the processing of transactions and accounting for financial activity and identified the need for improvements in the following areas:

- **Capital Assets:** The Department of Personnel & Administration did not conduct timely reconciliations of vehicular capital assets, and the Department of Transportation improperly expensed more than $32 million in capital asset expenditures.

- **Medical Insurance Premiums:** The Department of Personnel & Administration lacked adequate controls to ensure the accurate and consistent calculation of monthly employee- and State-paid premiums for medical insurance.

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 identified notable issues at the following departments:

- **Department of Public Health and Environment:** The Department had several problems with its financial reporting processes, including inaccurate calculation of construction in progress and Pollution Remediation Obligations liability, resulting in errors of $17.4 million and $23 million, respectively. Both were corrected later.

- **Department of Revenue:** The Department lacked adequate controls to ensure that the State identifies and collects severance taxes from all individuals and entities that owe them. Severance taxes are special excise taxes imposed on income derived from the extraction of nonrenewable natural resources.

> Professional standards define the following three levels of internal control weaknesses that must be reported. 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 with governance.
>
> 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.

- **Office of the Governor:** The Governor's Energy Office did not properly account for revolving loan fund and loan loss reserve transactions involving grant monies from the U.S. Department of Energy. As a result, the agency understated cash and deferred revenue by $7.7 million, understated loans receivable by $5.3 million, overstated federal revenue by $7.7 million, and overstated expenditures by $13 million.

Our opinion on the financial statements is presented in the State's Comprehensive Annual Financial Report for Fiscal Year 2011, which is available electronically from the Office of the State Controller's website at http://www.colorado.gov/dpa/dfp/sco/CAFR/cafr11/cafr11.pdf.

FEDERAL PROGRAM FINDINGS

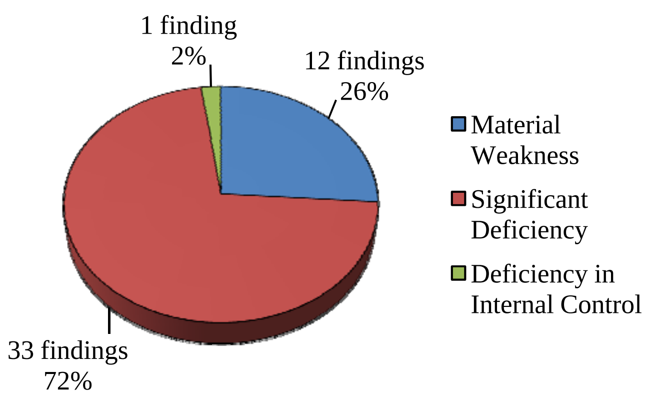
This section summarizes our report on the State's compliance with requirements applicable to major federal programs and internal control over compliance in accordance with the federal Office of Management and Budget's (OMB) *Circular A-133*, *Audits of States, Local Governments, and Non-Profit Organizations*. We planned and performed the audit to obtain reasonable assurance over compliance requirements that could have a direct and material effect on a major federal program occurred. 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 nearly $2 billion expended under the federal American Recovery and Reinvestment Act of 2009 (Recovery Act).

As with matters identified during our audit of the State's internal control over financial reporting, we are required to communicate three levels of internal control issues related to each of the major federal programs.

Internal Controls Over Federal Programs

The following table shows the breakout of types of internal control weaknesses over compliance with federal requirements that we identified during Fiscal Year 2011. Prior to each recommendation in this report, we have indicated the classification of the finding.

Federal Compliance Internal Control Weaknesses Fiscal Year 2011



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.

Compliance With Federal Program Requirements and Federal Reporting

Two state departments—the Department of Health Care Policy and Financing and the Department of Human Services—administer a number of federal programs in the state. We identified problems with those departments' compliance with federal program requirements.

- **Department of Health Care Policy and Financing:** The Department has not met federally required processing time frames for Medicaid and the Children's Basic Health Plan program. From July 2010 to July 2011, unprocessed cases exceeding the required processing time frame increased by 101 percent.

    - **Children's Basic Health Plan (CBHP):** The Department of Health Care Policy and Financing lacked adequate controls over eligibility determination for CBHP recipients and timely termination of benefits for individuals who were no longer eligible for CBHP.

    - **Medicaid:** We found significant problems with the management of the Medicaid program. For example, the Department of Health Care Policy and Financing lacked adequate controls over determination of Medicaid provider eligibility, determination of individuals' Medicaid eligibility, and timely termination of benefits for individuals who were no longer eligible for Medicaid.

    - **Data Entry in the Colorado Benefits Management System (CBMS):** The Department uses CBMS to determine individuals' eligibility for Medicaid and CBHP benefits. We found that the Department did not monitor county departments of human/social services to identify data entry errors in CBMS related to both Medicaid and CBHP eligibility.

- **Department of Human Services:** The Department was not in compliance with documentation requirements of the federal Office of Management and Budget's *Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments* related to personnel costs associated with administering six different federal grant programs.

    - **Child Care and Development Fund Program Cluster:** The Department of Human Services did not address a Fiscal Year 2010 recommendation to implement a plan for monitoring the county departments of human/social services that administer this program.

    - **Child Support Enforcement Program:** The Department of Human Services did not provide federally required services, or it did not provide those services within required time frames.

We also identified the following issues related to compliance with requirements for other federal programs administered by the State:

- **State Energy Program:** The Governor's Energy Office improperly charged nearly $1.1 million in employee personnel costs for this program. In addition, the agency did not comply with federal requirements related to subrecipient monitoring; verification that vendors or grant subrecipients were not suspended, debarred, or otherwise excluded from receiving federal funds; and maintenance of documentation to demonstrate compliance with the program's spending requirements.

- **Unemployment Insurance Program:** The Department of Labor and Employment did not comply with federal eligibility requirements related to verifying that recipients of unemployment insurance were U.S. citizens or permanent legal residents. The Department also did not ensure that unemployment insurance benefits were terminated for individuals who obtained new employment.

- **Weatherization Assistance Program:** The Governor's Energy Office improperly charged nearly $1.1 million in employee personnel costs for this program.

In addition, we identified the following issues related to reporting requirements for federal programs administered by the State.

- **Immunization Cluster Grant Program:** The Department of Public Health and Environment understated its federally funded vaccines by $50 million.

- **Weatherization Assistance Program:** In its required Recovery Act reporting under Section 1512, the Governor's Energy Office understated award amounts for this program by a total of $825,000.

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 2010 or earlier are not included.

Outstanding Statewide Single Audit Report Recommendations by Fiscal Year

	Total	**2010**	**2009**	**2008**	**2007**	**2006**
Implemented	84	52	20	8	3	1
Partially Implemented	67	35	20	10	2	-
Not Implemented	10	7	3	-	-	-
Deferred	15	12	3	-	-	-
Not Applicable	3	3	-	-	-	-
Total	**179**	**109**	**46**	**18**	**5**	**1**