

Report Highlights

Statewide Single Audit, Fiscal Year Ended June 30, 2024

State of Colorado • Financial Audit • February 2025 • 2401F



OFFICE OF THE STATE AUDITOR
C O L O R A D O

Overview

This report presents the results of our financial audit and Statewide Single Audit, including federal compliance audit work of the State of Colorado for Fiscal Year 2024.

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 131 recommendations to state departments and higher education institutions resulting from our audit.

Financial Statement Findings

- The State’s financial statements covered \$64.6 billion in total assets and \$50.8 billion in total expenditures for Fiscal Year 2024.
- 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 the aggregate remaining fund information for the Fiscal Year Ended June 30, 2024. 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 (GAAP).
- We identified 85 internal control weaknesses over financial reporting, including 50 material weaknesses and 35 significant deficiencies at 16 state departments and higher education institutions.

Federal Program Expenditures

- The State expended approximately \$20.6 billion in federal funds in Fiscal Year 2024. The five largest federal programs were:
 - Medicaid Cluster: \$8.5 billion
 - Coronavirus State and Local Fiscal Recovery Funds: \$2.0 billion
 - Research and Development Cluster: \$1.4 billion
 - Supplemental Nutrition Assistance Program (SNAP) Cluster: \$1.3 billion
 - Student Financial Assistance Programs Cluster: \$1.1 billion
- We identified 55 internal control issues related to requirements applicable to major federal programs.

Audit Recommendations Made	Agency Responses		
	Agree	Partially Agree	Disagree
131	115	13	3

Authority, Purpose, 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 April 2024 through January 2025. 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, 2024.
- Express an opinion on the State's Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2024.
- Review internal accounting and administrative control procedures, as required by GAAP and Government Auditing Standards.
- Evaluate compliance with applicable state and federal laws, rules, and regulations.
- Evaluate progress in implementing prior audit recommendations.

Internal Controls Classifications Defined

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.

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 approved and recorded a significant number of transactions totaling \$9.8 billion for all state departments, agencies, and higher education institutions (State Entities) in the Colorado Operations Resource Engine (CORE), the State's accounting system, after the statutorily-required August 5, 2024, close deadline. While the OSC has historically posted some adjustments after the deadline, the amount posted after the deadline was significant and indicated that State Entities were continuing to finalize their accounting as late as January 2025, which does not appear to meet the intent of the 35-day statutorily-required closing deadline.
 - The OSC did not have a process in place to ensure that State Entities that reported abnormal balances and/or accounting discrepancies through their third quarter reports, resolved the issues by the August 5, 2024 statutory close date.
 - The OSC did not develop a complete set of IT policies and procedures to ensure Gravity, the OSC's IT system used to create the State's financial statements, and its users comply with all Colorado Information Security Policies.
 - The OSC used Gravity to automate the preparation of the Fiscal Year 2024 financial statements and we found errors where the amounts populated by Gravity did not produce the correct result.
 - Classification: **Material Weakness.**
- **Department of Higher Education.** Internal Controls Over Financial Reporting. We experienced extreme delays in receiving requested supporting documentation for purposes of testing the accuracy and completeness of the Department's accounting records as well as the effectiveness of its internal controls. In addition, we identified the following errors:
 - The Department posted 115 entries into CORE, totaling approximately \$241.5 million, between 1 and 122 days after the OSC's closing deadline of August 5, 2024.
 - The Department submitted all four of its required exhibits to the OSC between 3 and 73 days after their respective due dates.
 - The Department incorrectly recorded federal revenues in CORE for the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program, resulting in an overstatement of \$4.7 million in revenue, and failed to record \$2.5 million in TABOR revenue received from higher education institutions throughout the year for indirect cost recoveries, which understated TABOR revenue at fiscal year end.
 - The Department failed to submit any of its four statutorily-required quarterly reports for Fiscal Year 2024 to the OSC.
 - Classification: **Material Weakness.**
- **Department of Labor and Employment.** Family and Medical Leave Insurance Revenue Recognition. The Department did not ensure proper financial reporting for the paid Family and Medical Leave Insurance (FAMLI) leave program (Program). We identified the following errors:
 - The Department did not record a total of \$127.7 million in liabilities for amounts due to employers not enrolled in FAMLI that originally paid premiums to the Program, resulting in Fiscal Year 2023 and 2024 revenues being overstated by \$89.0 million and \$38.7 million, respectively.

- The Department overstated Program deferred revenue by \$51.6 million, which ultimately understated Fiscal Year 2024 revenue by \$51.6 million.
- The Department has not estimated the amount of premiums that employers owe but have not paid to the Program, or estimated the associated fines for these employers who are not complying with Program regulations. According to the Department, there are 4,134 employers that registered for the Program, but have never reported wage information or paid premiums.
- Classification: **Material Weakness.**
- **Department of Corrections.** Internal Controls Over Exhibit K1. The Department lacked adequate controls over its preparation of the Exhibit K1, Schedule of Federal Assistance, and omitted \$495.0 million in SLFRF expenditures on its Exhibit K1 that was submitted to the OSC. Classification: **Material Weakness.**
- **Department of Higher Education – Western Colorado University.** Timeliness of Financial Reporting. The University did not have adequate financial reporting controls in place to ensure that it was able to meet the OSC’s deadlines for statewide reporting, resulting in the recording of post-closing adjustments totaling \$373.4 million and the late submission of 16 out of 21 required exhibits to the OSC—10 of which had to be revised after the initial submissions due to the University’s identification of errors and correcting entries. Classification: **Material Weakness.**
- **Department of Human Services.** Internal Controls Over Financial Reporting. We identified issues with the Department’s financial accounting and reporting for Fiscal Year 2024. Specifically, we found that:
 - The Department did not meet the OSC’s required deadline for booking its financial transactions in CORE. Specifically, the Department posted 106 entries totaling approximately \$179.0 million after the OSC’s closing deadline of August 5, 2024.
 - The Department’s exhibits were late or not submitted until we requested to review them. Specifically, the Department submitted 11 of its 18 exhibits more than 20 days after their respective due dates. Additionally, errors were noted in some of the amounts disclosed in the exhibits, which caused delays in the submissions or revisions to the OSC.
 - The Department did not record entries related to Governmental Accounting Standards Board Statement No. 87, Leases. The Department did not adjust the lease asset balances and deferred inflows for payments received throughout the fiscal year. The total leased asset and deferred inflow balances as of Fiscal Year 2023 were each \$2.4 million, and as of Fiscal Year 2024, should have been reduced to \$2.0 million.
 - Classification: **Material Weakness.**
- **Department of Public Health and Environment.** Timely Performance of Financial Reporting and Internal Controls. The Department did not have adequate financial accounting and reporting controls in Fiscal Year 2024, as follows:
 - The Department recorded eight entries totaling approximately \$213.1 million after the OSC’s statutory closing deadline of August 5, 2024.
 - The Department improperly recorded a reduction of expenditures rather than recognition of revenue when removing unearned revenues relating to inventory totaling \$17.4 million.
 - The Department did not record \$8.4 million in estimated pollution remediation liabilities until we identified the omission during our audit work.
 - Classification: **Material Weakness.**

- **Department of Treasury.**

- Internal Controls Over Statutorily-Required Transfers. The Department did not have a process to track and monitor new and reoccurring statutorily-required transfers to ensure these required transfers were recorded on or before the statutory transfer date. We identified six transfers totaling approximately \$348.6 million that were recorded between 19 and 234 days after the statutorily-required transfer date. Classification: **Material Weakness.**
- Internal Controls Over Financial Reporting. The Department lacked adequate internal controls over its financial accounting. Specifically, we identified the following:
 - The Department posted 20 entries totaling approximately \$1.15 billion between 1 and 78 days after the OSC's August 5, 2024 closing deadline.
 - The Department submitted 5 of its 20 exhibits 6 to 9 days after their respective due dates.
 - The Department did not accurately calculate net interest cost reported on the Exhibit S, Changes in Short-Term Financing, for two debt issuances and underreported these amounts by over \$434,000.
 - Classification: **Material Weakness.**



Our opinion on the financial statements is presented in
the State's Annual Comprehensive Financial Report for Fiscal Year 2024,
which is available electronically from the Office of the State Controller's website at:

<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 2024 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. Some of the issues were identified at the following departments and agencies (and related systems):

- **Office of the Governor (OIT).**
 - IT Governance: Enterprise Cybersecurity Security Plan Statutory and Policy Noncompliance. Classification: **Material Weakness.**
 - Nicus Software—IT Governance and Information Security. Classification: **Material Weakness.**
 - GenTax Information Security—Access Management. Classification: **Material Weakness.**
 - GenTax and DRIVES Information Security—Access Management. Classification: **Material Weakness.**
 - State Data Center Physical Access. Classification: **Material Weakness.**
 - CPPS—Information Security. **Significant Deficiency.**
 - Trails—Information Security. Classification: **Significant Deficiency.**
- **Department of Higher Education—Colorado Community College System.** Banner, Operational Data Store, and Cognos—Access Management. Classification: **Significant Deficiency.**
- **Department of Labor and Employment.**
 - MyUI+—IT Governance and Information Security. Classification: **Material Weakness.**
 - Connecting Colorado—IT Governance and Information Security. Classification: **Significant Deficiency.**
- **Department of Transportation.**
 - Colorado Department of Transportation—IT Governance. Classification: **Significant Deficiency.**

Internal Controls Over Compliance Classifications Defined

Professional standards define the following three levels of internal control weaknesses over compliance related to federal programs. 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, in internal control over compliance, such that there is a reasonable possibility that a 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 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.

Federal Program Findings

We identified:

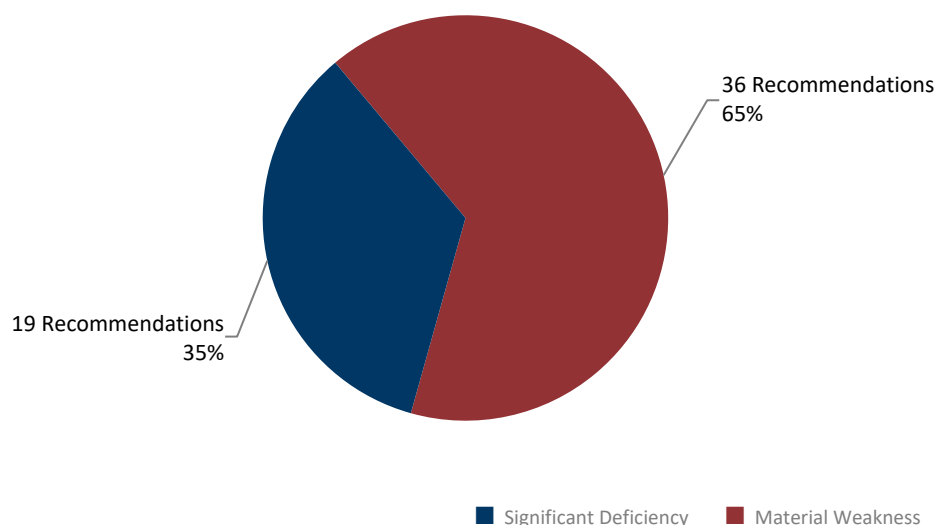
- 55 internal control issues related to requirements applicable to major federal programs at 10 state departments.
- Approximately \$172,269 in known questioned costs related to federal awards granted to the State. Of these questioned costs, \$42,835 related to COVID-19 funding. Federal regulations require 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 federal requirements, 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.

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 2024 audit. Prior to each recommendation in this report, we have indicated the classification of the finding.

Federal Grant Programs Internal Control Weaknesses Fiscal Year 2024



Some of the areas where we identified a need for improvement included the following, by state department:

- **Department of Health Care Policy and Financing.** Overall, we identified issues with the Department’s compliance with requirements for Medicaid and the Children’s Basic Health Plan (CBHP). In total, we identified \$190,427 in known questioned costs. Specifically, we found the following:
 - Medicaid Claims Payments. The Department did not have adequate internal controls in place related to updating the medical claims payment rate in Colorado interChange, its medical claims system, which resulted in nearly \$190,000 of known questioned costs. Classification: **Material Weakness.**
 - Medicaid and CBHP Ex Parte Renewal Process. Federal regulations require state medical assistance programs to renew a beneficiary’s eligibility once every 12 months to determine whether the beneficiary continues to qualify for benefits. States must first attempt to redetermine the beneficiary’s eligibility based on information the Department has available at that time, without requiring additional information from the beneficiary. This is called an “ex parte” renewal. If sufficient information is available, the Department can renew eligibility on an ex parte basis and notify the beneficiary that their coverage has been renewed. The Department was not in full compliance with eligibility requirements related to the ex parte renewal process during Fiscal Year 2024. Specifically, the Department was inappropriately conducting ex parte renewals at the household level rather than individual level, without using individually-specific eligibility statutes and income thresholds for individuals within the household. Classification: **Material Weakness.**
 - Compliance with Eligibility for Medicaid. In 7 of the 60 Medicaid case files tested (12 percent), we identified at least one error related to eligibility, which resulted in over \$300 of known questioned costs. Classification: **Material Weakness.**
 - Compliance with Eligibility for CBHP. In 8 of the 60 CBHP case files tested (13 percent), we identified at least one error related to eligibility, which resulted in over \$1,000 of known questioned costs. Classification: **Material Weakness.**
- **Department of Human Services.** Overall, we identified issues with the Department’s compliance with requirements for the Block Grants for Community Mental Health Services, Social Services Block Grants, Foster Care, and Child Support Services programs. In total, we identified \$11,129 in known questioned costs. Specifically, we found the following:
 - Federal Funding Accountability and Transparency Act (FFATA). The Department did not have adequate internal controls in place related to FFATA reporting to ensure that this reporting was completed in accordance with federal requirements. Specifically, the Department failed to provide evidence showing review and approval of two out of the eight (25 percent) reports for one federal program and failed to report any of the 64 (100 percent) counties’ subawards for two other federal programs. Classification: **Material Weakness.**
 - Foster Care Controls over Eligibility Determinations and Payment Rate Setting. The Department lacked sufficient internal controls to ensure compliance with eligibility and special tests and provisions requirements for the Foster Care Title IV-E program during Fiscal Year 2024. The problems we identified resulted in known questioned costs of nearly \$11,000. Classification: **Significant Deficiency.**
 - Compliance with Activities Allowed or Unallowed and Allowable Costs/Cost Principles for Child Support Services and Block Grants for Community Mental Health Services. We determined that the Department did not ensure that costs charged to federal grants for either program tested were allowable, and there was not proper evidence of internal control procedures. This resulted in known questioned costs of about \$200. Classification: **Significant Deficiency.**

Summary of Progress in Implementing Prior Recommendations

The following table includes a summary of our disposition of Financial and Federal audit recommendations, including IT recommendations, reported in previous Statewide Single Audit Reports. Prior years' recommendations that were fully implemented in Fiscal Year 2023 or earlier are not included.

Statewide Single Audit Report Recommendation Status as of Fiscal Year 2024 by Fiscal Year

	Total	2023	2022	2021	2020
Implemented	111	71	20	12	8
Partially Implemented	28	18	6	4	-
Not Implemented	16	13	3	-	-
Deferred	35	34	-	-	1
No Longer Applicable	7	2	1	4	-
Other – Not Applicable	2	2	-	-	-
TOTAL	199	140	30	20	9

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