



OFFICE OF THE STATE AUDITOR  
KERRI L. HUNTER, CPA, CFE • STATE AUDITOR

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**MEMORANDUM**

Date: March 29, 2024

To: Controllers and Chief Fiscal Officers of State Departments and  
Higher Education Institutions and Boards

From: Kerri L. Hunter, CPA, CFE  
State Auditor

RE: **Fiscal Year 2024 Statewide Financial and Compliance Audit of the State of  
Colorado Identified Risk Areas**

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We have begun our Fiscal Year 2024 Statewide Financial and Compliance Audit of the State of Colorado (State) and have met or will be meeting soon with many of you to hold our audit entrance conferences.

We are planning to complete our Fiscal Year 2024 audit and issue our opinion on the State's Annual Comprehensive Financial Report (ACFR) and federal major programs in December 2024. It is important to meet this timeline because it also impacts other related reporting timelines. For example, the federal Office of Management and Budget (OMB) requires the State to complete its Single Audit and submit the federal data collection form, which includes the opinions on the ACFR and federal major programs by March 31, 2025, or within thirty days of the State receiving the Single Audit report from the State Auditor. It will be critical for State departments and institutions of higher education to meet the Office of the State Controller (OSC) deadlines in order to help ensure that the OSC has the necessary information to complete the Basic Financial Statements by September 20, 2024, in accordance with State statutes, and to ensure completion of the audit timely and in accordance with required deadlines.

Our Fiscal Year 2024 audit will include the performance of audit procedures required by generally accepted auditing standards and Government Auditing Standards, reviews of departments' and institutions' compliance with selected state and federal laws, and the performance of entity-specific audit procedures to address other key financial areas. We will also perform follow up procedures on prior-year audit findings and recommendations.

The purpose of this memorandum is to advise departments and institutions of key areas that we preliminarily identified for audit testing, so you may be aware of them. Some of the specific areas of focus of the Fiscal Year 2024 audit include, but are not limited to:

- **Federal Funding and Turnover.** State government still continues to be impacted by the COVID-19 Pandemic in many ways, including increased workloads due to increases in federal funds and beneficiaries, expectations for expedited work to ensure timely spending of the pandemic federal funds, and the loss of productivity due to staff sick leave and turnover.

Additionally, there are several State departments and institutions experiencing staff vacancies and turnover, such as vacant management and/or accounting positions, employees in high-level positions planning for retirement, and increased staffing needs (due to increased workload and resource constraints). It will continue to be important for departments and institutions to train and cross-train their existing employees and to consider succession planning to reduce the risk of errors resulting from internal control deficiencies. It will also be important for departments, institutions, and the OSC to continue to work together and communicate about complicated accounting entries in order to ensure accurate financial and federal reporting in spite of accounting staff vacancies and new and/or increased federal funding. We will continue to look at how changes to department and institution processes, internal controls, and operations have impacted financial reporting and compliance with legal and federal requirements. In addition, we will continue to ask about new and/or increased federal funding and programs and their impact on financial and federal reporting and compliance.

- **Internal Controls Over Financial Reporting and Other Matters.** Internal controls over financial reporting should reduce the risk of errors and/or fraud, and provide reasonable assurance that financial reporting is reliable, accurate, timely, and complete. Internal controls should ensure operations are performed effectively and efficiently, and that departments and institutions comply with state laws, rules, and regulations. We made a total of 108 recommendations in Fiscal Year 2023 related to financial reporting. Of these, 39 percent were considered material weaknesses and 61 percent were significant deficiencies. Our audit identified weaknesses in various internal control areas over financial activities and reporting, such as:
  - **Issues with statutory compliance and accounting close.** We continued to identify departments and institutions that did not comply with various statutory compliance

requirements, including issues with TABOR revenue classifications and spending authority. In addition, we noted that several departments and institutions did not comply with the statutory accounting close deadline and, instead, continued to post transactions after the deadline. It is important for the OSC, departments, and institutions to meet statutory and OSC-related deadlines to ensure accurate and timely financial reporting.

- **Issues with exhibit preparation and submission.** We identified several departments and institutions that did not meet the OSC's due dates for submission of exhibits and/or that submit exhibits with errors. While we identified issues related to almost all exhibit types, we most commonly found errors in the following exhibits:
  - Exhibit K1, *Schedule of Federal Assistance*
  - Exhibit P, *Major Accounting Estimates in Excess of \$5,000,000*
  - Exhibit PPA, *Prior Period Adjustments*
  - Exhibit J1 and Exhibit J2, *Financial Statement Reconciliations*
- **Lack of review and training.** We continued to identify a lack of adequate review procedures over basic accounting processes, such as reconciliations, exhibits, fiscal year-end accounting and reporting processes, and instances in which preparers and/or reviewers had not been adequately trained. Continued employee turnover has compounded this issue and elevates this risk.
- **Lack of policies and procedures.** We noted that several departments and institutions did not establish, update, and/or implement policies and procedures for various accounting and financial reporting processes within their organizations.
- **Internal Controls Over Compliance with Federal Program Requirements and Federal Reporting.** For Fiscal Year 2024, the State's administration of federal grants continues to be an overall risk area due to the large number and varied requirements of federal grant awards the State receives. Departments and institutions of higher education receiving federal funds are responsible for complying with the related requirements in the federal Office of Management and Budget's Uniform Guidance contained within federal regulations at Title 2 Part 200 – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. As a result of our Fiscal Year 2023 audit, we identified internal control and/or compliance issues with 8 of 30 individual federal programs or program clusters tested. In total, we made 63 audit recommendations related to federal program compliance and reporting. Of these 63 recommendations, 52 percent were considered material weaknesses and 48 percent were significant deficiencies in internal control over compliance. Our audit identified weaknesses in various compliance requirements, such as the following:

- **Errors in Federal Reporting.** We noted that several departments and institutions of higher education failed to fully comply with federal reporting requirements. Additionally, we continued to identify departments that were late in reporting or failed to report subawards as required by the Federal Funding Accountability and Transparency Act.
- **Errors in Subrecipient Monitoring.** We noted that several departments did not have adequate internal controls to ensure compliance with federal subrecipient monitoring requirements. Under Uniform Guidance, the department is responsible for (1) identifying all awards with subrecipient monitoring requirements, and then communicating those requirements to all subrecipients; (2) evaluating each subrecipient’s risk of noncompliance with federal statutes, regulations, and the terms of the awards; and (3) monitoring the activities of the subrecipient to ensure the subaward complies with all applicable requirements. In addition, the department is responsible for making contractor versus subrecipient determinations on a case-by-case basis for any contract/grant with federal disbursements.
- **Lack of Compliance with Other Federal Requirements.** We noted that several departments did not have adequate internal controls to ensure compliance with other federal requirements, such as allowable costs, eligibility, and procurement, suspension and debarment.
- **Complying with Federal Requirements as the Federal Waivers Expire.** A significant number of national emergency and public health waivers have been in place since early 2020, which gave departments and institutions flexibility to waive or modify certain requirements in a range of areas, including in the Medicaid and Children’s Basic Health Plan programs. The Public Health Emergency expired on May 11, 2023, effectively ending the federal waivers in place at that time. Therefore, it will be critical for State departments and institutions to ensure that they are in compliance with the most current federal requirements for all federal programs.
- **Internal Controls over Information Technology Systems.** For Fiscal Year 2024, the State’s controls over its information technology systems continue to be an overall risk area due to the sensitive financial and federal data contained within these systems. In the Fiscal Year 2023 audit, we determined that some State departments’ and institutions’, including the Governor’s Office of Information Technology’s (OIT’s), internal controls over IT systems did not comply with information technology and information security-related standards and/or the Colorado Information Security Policies and OIT Cyber Policies. In total, we made 66 recommendations related to 17 specific IT systems within 10 State departments/institutions. Of these 66 recommendations, 23 percent were considered material weaknesses and 77 percent were significant deficiencies in internal control.

We anticipate that Fiscal Year 2024 will continue to present a challenge for those of you closest to the audit. We want to be mindful of your time constraints, while balancing that with keeping the audit on track. Thank you for the work that you do and for your assistance in completing the State's annual audit.

If you have questions about the audit process, please feel free to contact your assigned audit staff.

A handwritten signature in cursive script that reads "Sheri L. Hunter".