OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

SINGLE AUDIT OF THE STATE OF COLORADO FOR THE FISCAL YEAR ENDED JUNE 30, 2008

May 2010 A-77-10-00008

MANAGEMENT ADVISORY REPORT

Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, Congress and the public.

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.
- Promote economy, effectiveness, and efficiency within the agency.
- Prevent and detect fraud, waste, and abuse in agency programs and operations.
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.
- Access to all information necessary for the reviews.
- Authority to publish findings and recommendations based on the reviews.

Vision

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.

SOCIAL SECURITY

MEMORANDUM

Date: May 18, 2010 Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the State of Colorado for the Fiscal Year Ended June 30, 2008 (A-77-10-00008)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Colorado for the Fiscal Year ended June 30, 2008. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

The Colorado State Auditor performed the audit. The results of the desk review conducted by the Department of Health and Human Services (HHS) concluded that the audit met Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by the Colorado State Auditor and the reviews performed by HHS. We conducted our review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspections*.

For single audit purposes, the Office of Management and Budget assigns Federal programs a Catalog of Federal Domestic Assistance (CFDA) number. SSA's Disability Insurance (DI) and Supplemental Security Income (SSI) programs are identified by CFDA number 96. SSA is responsible for resolving single audit findings reported under this CFDA number.

The Colorado Disability Determination Services (DDS) performs disability determinations under SSA's DI and SSI programs in accordance with Federal regulations. The DDS is reimbursed for 100 percent of allowable costs. The Colorado Department of Human Services (CDHS) is the DDS' parent agency.

The single audit reported that the Colorado DDS did not accurately report overtime and leave hours on the Form SSA-4514, *Time Report of Personnel Services for DDSs*. In addition, the DDS did not accurately report equipment purchases on the Form SSA-871, *Schedule of Equipment Purchases for Disability Programs* (Attachment A, Pages 1 through 3). The corrective action plan indicated the reports have been revised and additional procedures for further supervisory review of the Federal reporting process have been put in place (Attachment A, Page 3).

We recommend that SSA verify that the DDS implemented internal control procedures to ensure the accuracy of the Forms SSA-4514 and SSA-871.

The single audit also disclosed the following findings that may impact DDS operations although they were not specifically identified to SSA. I am bringing these matters to your attention as they represent potentially serious service delivery and financial control problems for the Agency.

- The Colorado Office of Information Technology did not have adequate controls over access to the State's mainframe system (Attachment B, Pages 1 through 5).
- CDHS did not have sufficient internal controls over cash compliance (Attachment B, Pages 6 through 8).
- CDHS did not have adequate controls over preparation of the Federal award expenditures report and fiscal year-end grant accounting (Attachment B, Pages 9 through 12).
- CDHS did not adhere to policies and procedures for payroll (Attachment B, Pages 12 through 14).
- CDHS did not have adequate internal controls over purchase cards (Attachment B, Pages 14 through 17).
- CDHS did not have adequate internal controls over travel expenditures (Attachment B, Page 17 through 19).
- The Colorado Office of the State Treasurer failed to include appropriate programs in the Treasury-State Agreement (Attachment B, Pages 20 through 22).

Please send copies of the final Audit Clearance Document to Shannon Agee. If you have questions, contact Shannon Agee at (816) 221-0315, extension 1537.

Patrick P. O'Carroll, Jr.

Attachments

Disability Determination Services Reporting

During Fiscal Year 2008, the Department expended approximately $14.9 million for the Social Security Disability Insurance program (CFDA No. 96.001). Under this program, the Disability Determination Services (DDS) Division within the Department assists the U.S. Social Security Administration (SSA) in determining whether individuals are eligible for federal disability insurance. Individuals determined to be eligible receive benefits to replace part of the earnings lost because of a physical or mental impairment severe enough to prevent a person from working.

During our Fiscal Year 2008 audit, we found the Department is not accurately reporting the required data to the SSA for the program. Specifically, we identified the following problems with two reports submitted during Fiscal Year 2008:

- **Time Report of Personnel Services for Disability Determination Services (SSA-4514).** This report, which is prepared by DDS program accounting staff, contains the total number of on-duty, holiday, leave, and overtime hours worked by personnel engaged in the SSA disability program during each quarter. We noted two issues on the report for the quarter ending March 31, 2008:

  - **Overtime Hours.** We noted that the Department only reported overtime hours that had not been paid to employees as of the end of the quarter; however, the report instructions require all overtime worked during the quarter to be reported. As a result, the SSA-4514 report understated the number of overtime hours worked by 87.5 hours. According to DDS program accounting staff, the instructions were misunderstood during preparation of this report, resulting in the omission of the overtime hours. Once we brought the error to their attention, Department personnel submitted a revised report to correct the amount of overtime hours for the period.

  - **Holiday and Leave Hours.** The report instructions require the Department to report hours for holidays observed, sick, annual, and other paid leave taken during the quarter. DDS program staff prepare a leave usage report using data from the Department's timekeeping system and provide the report to program accounting staff to prepare the SSA-4514. During our audit, we reviewed the leave usage report supporting documentation from the timekeeping system. We calculated that the Department erroneously excluded nearly 131 leave hours from the leave usage report. As a result, these hours were inaccurately reported on the SSA-4514. While the total number of hours worked by DDS personnel was correctly reported on the SSA-4514, the amount of on-duty hours was overstated by 131 hours, and the amount of holiday and leave hours were understated by 131 hours. The Department was unable to provide supporting documentation that would explain or reconcile the difference. The Department did not submit a revised report to correct the difference due to the fact that total hours were correctly reported.

- **State Agency Schedule for Equipment Purchases for SSA Disability Programs (SSA-871).** This report, which is also prepared by DDS program accounting staff, contains disbursements made by DDS for equipment purchases, including both Electronic Data Processing (EDP) equipment and non-EDP equipment. We noted three exceptions on the report submitted by the Department for the quarter ending March 31, 2008.

  - **Reporting Period.** We found that the report submitted by the Department covered the reporting period from October 1, 2007 through March 31, 2008; however, the report instructions require reporting equipment purchases during the reporting quarter only. Therefore, the report should have only covered the period from January 1, 2008 through March 31, 2008. As a result, the report overstated equipment purchases by more than $2,500. Department personnel submitted a revised report to correct the error once we notified them of the error.

  - **Omission of EDP Purchases.** The report instructions require all equipment purchases made during the quarter to be reported on the SSA-871. However, when reviewing the supporting documentation used for preparing this report, we found that the Department failed to include approximately $3,050 of EDP equipment purchases made during the quarter on the SSA-871. Based on discussions with DDS accounting staff, they misunderstood the report instructions, causing them to omit these purchases from the report. Department personnel submitted a revised report to correct the error once we notified them of the error.

  - **Type of Approval.** We noted that the Department's equipment tracking report that was provided as supporting documentation for the SSA-871 did not accurately track the type of approval for each purchase. Specifically, we noted that a disbursement of $1,260 was reported on the SSA-871 as having SSA Regional Office approval, when it should have been reported as having SSA annual budget approval for EDP purchases. We identified that there is no supervisory review of the equipment tracking report by DDS program staff before it is sent to accounting for use in preparing the SSA-871. While we did not identify an overexpenditure of the annually approved EDP budget funds during this reporting period, without an accurate process for tracking and reporting the source of approval for each purchase, DDS could overexpend on future equipment purchases. Department personnel submitted a revised report to correct the error once we notified them of the error.

According to DDS program staff, electronic information related to federal reporting requirements is provided to accounting staff; however, no follow-up is conducted to ensure that accounting staff understand and complete reports in compliance with federal reporting requirements. The Department is required to ensure information reported to the SSA is accurate. Therefore, the Department must ensure that staff preparing federal DDS reports are adequately trained in the proper preparation of the reports in order to avoid possible reporting inaccuracies and that adequate supervisory reviews are in place for all aspects of the federal reporting process. Further, the Department should improve communication between DDS program and accounting staff to ensure the reports adhere to the SSA requirements.

(CFDA No. 96.001, Disability Determination Services, Reporting. Classification of Finding: Control Deficiency.)

Recommendation No. 90:

The Department of Human Services should ensure it is in compliance with federal Disability Determination Services (DDS) reporting requirements by:

a. Ensuring that staff preparing federal DDS reports are adequately trained.

b. Ensuring that adequate supervisory reviews are in place for all aspects of the federal reporting process to identify the kinds of errors we identified in our audit.

c. Improving communication between DDS program and accounting staff to ensure reports adhere to the SSA requirements.

Department of Human Services Response:

Agree. Implementation date: September 15, 2008.

a. Three Department of Human Services staff [two accountants and one Disability Determination Services (DDS) analyst] participated in the Social Security Administration (SSA) national fiscal training in September. The accountant preparing the reports is new and was one of the accountants attending the training. Procedures have been revised to ensure errors do not occur in the future.

b. The Department has put in place additional procedures for further supervisory review of the federal reporting process to ensure that errors, including those identified in the audit, are identified and corrected.

c. The Department believes communication between the DDS program and accounting staff is good, but has improved it by holding more face-to-face meetings to discuss accounting and reporting issues between the two parties.

Mainframe Controls

The Governor's Office of Information Technology (OIT) manages the State mainframe computer. The State mainframe houses a number of critical state government applications, including the State's accounting system, COFRS, Colorado Personnel and Payroll System, CPPS, and the Department of Revenue's tax systems. As custodian of the State mainframe, OIT is responsible for the confidentiality, integrity, and availability of the data and systems that reside on it.

OIT has delegated some of the security responsibilities for the State's mainframe to state agency security administrators. Specifically, agency security administrators are responsible for setting up new users, reviewing and acting upon security violation reports, and removing or suspending user IDs belonging to those who no longer need access to the mainframe. Although user ID management is primarily handled at the agency level, OIT maintains responsibility for the overall security of the State mainframe and is therefore responsible for providing adequate guidance and oversight to agency security administrators. It is imperative that OIT staff and agency security administrators work cooperatively to ensure the security of the State mainframe.

We reviewed security over the State's mainframe and found that OIT needs to strengthen several key security controls. Specifically, mainframe user access, as well as access to data sets, is controlled through Top Secret, a commercially developed access control software. Commercial systems such as Top Secret must be securely configured or hardened to ensure that the proper or expected levels of security are achieved. System hardening includes properly configuring the system's security parameters; implementing strong password management controls; removing unneeded services, applications, and IDs; and enabling auditing mechanisms.

We found that OIT has hardened many areas of Top Secret, but should further harden Top Secret in three primary areas. First, we found that OIT does not periodically review the Top Secret security parameters. Rather, OIT has relied on the universal settings of the Top Secret software. Second, we noted that OIT has not configured Top Secret to require that user passwords contain combinations of letters, numbers, and special characters as required by State Cyber Security Policies. Third, according to OIT staff, Top Secret user IDs should automatically suspend after 60 days of inactivity; however, we found that many accounts were set to suspend after 90 days.

We also reviewed the actions taken by agency security administrators with regard to user access management and identified several problems, as described below.

- **Revocation of Access**. We reviewed access to the State mainframe and found that OIT lacks sufficient controls to ensure that user access is immediately removed upon termination. State Cyber Security Policies require that all system access be removed immediately upon termination of employment or when a change in job responsibility occurs. As of June 17, 2008, there were more than 13,700 active user IDs for the mainframe from 23 state agencies and institutions. Of these IDs, we found 109 assigned to individuals who were no longer employed by the State. We also noted that of these 109 IDs, 64 were used to access the mainframe after the employees' termination dates. We notified OIT of these 64 IDs, and OIT staff reported they could not conduct a more detailed analysis of the access use during the period of our audit. The time these IDs were active and accessed the mainframe after the date of the employees' termination to the date of our review ranged from 15 to approximately 360 days. We identified similar problems during our November 2008 audit of OIT's Data Center and made specific recommendations for ensuring user IDs belonging to terminated users are removed promptly. OIT agreed to implement the recommendations by January 2010.

- **User ID ownership**. To ensure the appropriate level of system accountability and auditability, generally accepted information security standards stipulate that all users and their IT system activities be uniquely identifiable. To achieve this, all users need to be assigned an individual ID and all IDs must have an identified owner. During our review, we noted that since August 2006 agencies have created approximately 4,300 new IDs for mainframe access. Of this total, 5 percent, or 230 IDs, were created as generic IDs. This means that agencies did not designate specific owners for the IDs. It should be noted that we had a similar finding in 2006, and OIT has made significant progress in reviewing and controlling the number of generic IDs since that time. Lack of specific ID designation can undermine security because there is no individual accountability for the activity initiated through them.

- **Access privileges.** Access privileges vary, depending upon the functions a user needs to perform on a specific system. One of the highest levels of access is administrator access. A user with administrator privileges has the ability to modify Top Secret security parameters and create and modify mainframe user IDs. Administrator privileges, if used inappropriately, could severely impact the security of the State's mainframe computer. Generally accepted information security standards and State Cyber Security Policies specify that the number of users with administrator privileges be limited. We reviewed all IDs possessing administrator-level privileges and noted that these privileges are not always restricted to users with an established need. We identified 44 users with administrator-level privileges for whom access was inconsistent with their job duties. Three of these 44 users had escalated administrator privileges. These three users were OIT enterprise-level staff. These three OIT staff had system privileges greater than those of an agency security administrator and could perform tasks such as shutting down the State's mainframe. This level of access greatly exceeded that necessary for these users to perform their jobs and creates an unnecessary security risk.

The control weaknesses we identified were not isolated to a few state departments. Rather, as the table below indicates, we found a lack of compliance with one or more security controls at 14 state departments and agencies and institutions of higher education.

Office of Information Technology
System Access Controls
As of June 17, 2008

Agency/ Institution	Total Number of IDs	Control Weaknesses Identified		
		Lack of Access Revocation	Generic User IDs[1]	Users with Inappropriate Administrative Privileges
Health Care Policy and Financing	74		4	
Higher Education	33	2		
Historical Society	4	1		
Human Services	3,990	38	130	3
Judicial	402	4		
Labor and Employment	3,424	28	52	31
Local Affairs	45	1		
Military Affairs	7	2	1	
Office of Information Technology	697	5	9	3
Personnel & Administration	307	1	3	
Public Health and Environment	420	2		
Public Safety	125	3		
Regulatory Agencies	82		1	
Revenue	3,256	22	30	7
Total	**12,866**	**109**	**230**	**44**

Source: Office of the State Auditor analysis of active mainframe user IDs. Only departments with exceptions are listed. Thus, this table does not include all departments.
[1]These are the number of new generic IDs created between August 22, 2006 and June 17, 2008.

Additionally, as part of the Statewide Single Audit for Fiscal Year 2006, we made eight recommendations in a separate, confidential report to OIT to strengthen its controls and comply with statewide policies and procedures related to network security and user access. During our Fiscal Year 2008 audit we assessed the implementation status of these recommendations and found that OIT failed to implement one recommendation. OIT's failure to implement this recommendation increases the risk of unauthorized access to the State mainframe and unintentional disclosure of confidential information. Due to the sensitive nature of the control deficiency, we have provided the details to OIT under separate cover.

Overall, the control deficiencies we identified occurred due to insufficiently trained agency security administrators, a lack of documented procedures and guidelines, and failure by OIT staff to properly configure Top Secret security parameters and oversee the activities of agency security administrators. OIT will need to work closely with agency security administrators to resolve the problems we identified. It is critical that all administrators collectively understand their roles and responsibilities and follow documented information system security procedures.

(Classification of Finding: Significant Deficiency.)

Recommendation No. 4:

The Office of the Governor of Information Technology should strengthen its controls over the State mainframe computer by:

a. Implementing audit recommendations related to network security and user access communicated to OIT in 2006 under separate cover.

b. Periodically reviewing Top Secret security parameters to ensure compliance with best practices and OIT security policies.

c. Ensuring password management controls are in compliance with State Cyber Security Policies.

d. Setting Top Secret security parameters to ensure user IDs automatically suspend after 60 days of inactivity.

e. Establishing policies and procedures for agency security administrators to follow when creating generic IDs.

f. Restricting system administrator-level privileges to those who have a documented business need for such access.

g. Ensuring all mainframe security administrators are properly trained and understand their roles and responsibilities.

h. Overseeing the activities of agency security administrators to ensure compliance with established information system controls and security policies and procedures.

i. Researching instances identified during this audit where user IDs for terminated employees were used after the date of termination and taking action as appropriate.

Office of the Governor of Information Technology Response:

Agree. Implementation date: January 2010.

Ensuring the security of the mainframe computing environment and more specifically, effectively managing Top Secret Security Administration is a priority for the Governor's Office of Information Technology (OIT). As noted by the Office of the State Auditor, Top Secret security has been managed in a distributed environment since inception. Specifically, departmental administrators were responsible for maintaining the integrity of the data sets and user IDs in their purview. OIT has provided high level administration and oversight to the system but the data and application owners at the department level have had the sole responsibility for security at this level.

While OIT still believes that each department has the primary responsibility over granting, monitoring, and maintaining security over their data and applications, we recognize that we are in the best position to ensure statewide compliance with security practices. OIT has kicked off a project to strengthen the Top Secret security posture for the State. This will include targeted training for departmental Top Secret Security Administrators, updated policies and related auditing by OIT to ensure policies are adhered to and additional reporting which departments can utilize. This will ensure the types of issues found during this audit are addressed in a proactive manner.

Cash Compliance

On a yearly basis, the Department is required by the Office of the State Controller (OSC) to confirm the fiscal year end balance of each checking, savings, and certificate of deposit account that is deposited with a commercial financial institution and held in the Department's name. The OSC provides a bank confirmation form and instructions in the Fiscal Procedures Manual to assist the Department in verifying deposits, insurance, and collateralization. The Department uses this information to confirm balances and determine risk categories for each account on the Exhibit M.

As of the end of Fiscal Year 2008, the Department had approximately $17.1 million in cash and cash-equivalent accounts at various institutions. During the Fiscal Year 2008 audit, we found the following four problems with cash compliance at the Department:

Confirmation of PDPA numbers. The confirmation process provides he Department, as well as the OSC, with specific information on the balances including whether funds are federally insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by the commercial financial institution as required under the Public Deposit Protection Act (PDPA). Each governmental entity must request and be assigned unique PDPA numbers by the Colorado Division of Banking. The purpose of the PDPA is to ensure that public funds are protected in the event that the commercial financial institution holding public deposits becomes insolvent. At fiscal year-end, each department is required to confirm PDPA numbers with the commercial banking institution and verify that the number associated with the account is a PDPA number assigned to the department. If the PDPA number does not agree, the department is required to contact the bank to resolve the difference.

We noted problems relating to the confirmation of PDPA numbers in our Fiscal Year 2007 audit at the Department and continued to note problems in this area. During our Fiscal Year 2008 audit, we tested year-end bank confirmations obtained by Department staff for 58 bank accounts. Bank confirmations for 24 accounts were returned by the bank with a missing or incorrect PDPA number. The Department contacted the banks to correct the PDPA numbers. However, in four out of 58 bank accounts (7 percent), the bank still had an incorrect PDPA number on file as of the date of our audit. In three out of 58 accounts (5 percent), the Department did not obtain a bank confirmation.

The failure to confirm PDPA numbers associated with the account and to verify that the PDPA number is assigned to the Department could potentially result in public funds held by a commercial financial institution being unprotected and lost in the event of the institution's becoming insolvent. The Department should ensure that staff preparing and reviewing confirmations are adequately trained in the information that should be included on the form and confirmed by the commercial financial institution, as well as the importance of the Public Deposit Protection Act.

Risk Category Classification. The bank confirmation provides information on the insured or collateralized status of the account balances. With this information the Department can determine the appropriate risk category to be reported on the Exhibit M, for inclusion in the required note disclosures in the State's financial statements. We found errors in the Exhibit M in reporting these risk categories. Specifically, we found six bank deposits totaling more than $107,500 reported inaccurately within the Exhibit M risk category. In addition, we found three bank deposits totaling about $220,300 that did not include sufficient information to determine the risk category.

Preparation of Exhibit M. The Exhibit M is used by the State to make disclosures in the State's Comprehensive Annual Financial Report; therefore, it is important that this Exhibit is accurate and complete. We found three instances in which a bank balance was duplicated on the Exhibit M, resulting in an overstatement of about $14,300. We found an additional error in which a bank balance was reported incorrectly, resulting in an overstatement of $400. As a result of these errors, the total bank balance reported on the Exhibit M was overstated by approximately $14,700. The Department did not detect these errors during its review and approval of the Exhibit M.

External Bank Account Approval Process. In addition to the above problems, we noted one instance in which a bank account was opened without approval by the State Controller and the State Treasurer. State Fiscal Rules require a state agency or institution of higher education to obtain written approval from the State Controller and State Treasurer prior to establishing a bank account. The Department's Central Accounting staff stated that it became aware of the unapproved account during the Fiscal Year 2008 bank confirmation process and instructed the DHS division that opened the account to close it. The account was closed prior to our testwork in this area.

(Classification of Finding: Significant Deficiency.)

Recommendation No. 10:

The Department of Human Services should improve controls over the year-end preparation of the Exhibit M and the confirmation of funds held by commercial financial institutions by:

a. Adequately reviewing the returned confirmations and following up with the institution(s) on any information that is incorrect, incomplete, or not confirmed.

b. Adequately reviewing the Exhibit M for completeness and accuracy prior to submission.

c. Ensuring that bank accounts are established in accordance with State Fiscal Rules.

Department of Human Services Response:

a. Agree. Implementation date: May 15, 2009.

   The Department will conduct training for responsible staff on the requirements of the bank confirmation form to ensure that all required information, including the Public Deposit Protection Act (PDPA) information, is obtained from, and confirmed by, the commercial financial institutions. The responsible staff will assure the completeness and accuracy of information on the bank confirmation form prior to submission.

b. Agree. Implementation date: August 15, 2009.

   The person responsible for preparing the Exhibit M will review the required information on the bank confirmation form for completeness and accuracy. In the event of any missing and/or incorrect information, the form will be returned to the responsible staff for follow-up with the appropriate bank account custodian to resend the bank confirmation form to the commercial financial institution. The Department will ensure that the Exhibit M reporting is in compliance with the Fiscal Procedures Manual.

c. Agree. Implementation date: May 15, 2009.

   The Department will communicate to all parties, who are in a position to open external bank accounts, the proper procedures for establishing bank accounts and ensure that they are approved in accordance with State Fiscal Rules.

Preparation of Federal Award Expenditures Exhibit and Fiscal Year-End Grant Accounting Entries

During Fiscal Year 2008 the Department administered more than 70 federal programs and expended more than $957 million in federal funds. Each year the Department is required to prepare a report, or "exhibit," to aid the Office of the State Controller (OSC) in preparation of the Schedule of Expenditures of Federal Awards (SEFA). The SEFA is required by the federal Office of Management and Budget's *Circular A-133* to show the State's expenditures for federal awards during the fiscal year. The exhibit is referred to as the "Exhibit K" or the Schedule of Federal Assistance.

In order to provide information required for completion of the Exhibit K, Department program accounting staff prepare two types of reconciliations that reconcile federal funds received and expended by the Department: summary reconciliations and R-120 worksheets. Department staff responsible for the preparation of the Exhibit K use information contained on the reconciliations for each federal program to prepare the Exhibit K. Department staff also prepare a reconciliation of the Exhibit K to COFRS, as required by the Fiscal Procedures Manual published by the OSC.

We previously identified problems with the Department's preparation of the Exhibit K during our Fiscal Year 2006 audit. During our Fiscal Year 2008 audit, we found problems with the Department's supporting documentation used for the preparation of the Exhibit K. Specifically, we found the following:

- Fiscal Year 2008 beginning balances for five summary reconciliations prepared by program accounting staff did not agree to Fiscal Year 2007 ending balances. Further, three of the five reconciliations did not cross-foot.

- For three programs contained on R-120 reconciliations, the format for deferred revenue reporting was not consistent with the deferred revenue reporting for the other federal programs. Although the information was correctly reported on the Exhibit K, the reconciliations for all programs should be prepared in a standardized format.

During our Fiscal Year 2006 audit we recommended that the Department develop formal, written procedures for the preparation of the Exhibit K, including steps required to prepare adequate supporting documentation. Further, we recommended the Department expand its supervisory review process over the Exhibit K to include a review of supporting documentation. According to Department staff, the Department has not written formal procedures for the preparation of the Exhibit K or its supporting documentation. Additionally, based on our testwork, the Department has not instituted a supervisory review process for the Exhibit K that includes a review of supporting documentation such as the summary reconciliations and the R-120 worksheets.

We also found during our Fiscal Year 2008 audit that the Department did not prepare fiscal year-end accounting entries to net federal receivable and payable balances for federal programs. The Department uses three COFRS accounts – two receivable accounts and one payable account – to record and track federal program balances. For example, the Department may show a receivable balance for a program for expenditures incurred at the same time it shows a payable balance for the same program for funds due back to the federal government for a federal disallowance. As a result, at any given time, the Department may show that the Department both owes to and is due money from the federal government for the same program. In recent years, the Department has prepared accounting entries to offset the federal program receivable and payable balances at fiscal year end to determine an accurate status for each program. That is, by offsetting the receivable and payable balances, the Department was able to easily determine for each federal program whether the Department owed money to or was due money from the federal government. Based on our discussions with Department staff, we determined that the Department does not have a formal policy in place for offsetting the balances at fiscal year-end. As a result, for Fiscal Year 2008, new staff in place over federal grant accounting did not realize that an entry should be made and did not make the entry.

The federal grant program COFRS balances are used by accounting staff to prepare the Exhibit K and its supporting reconciliations. Therefore, by not making the offsetting federal payable and receivable entries on COFRS at fiscal year end, the Department increases its risk of errors on the Exhibit K and the supporting reconciliations.

The lack of procedures over the Exhibit K preparation and fiscal year-end federal grant offset accounting entries, and the lack of a detailed supervisory review is of particular concern because the Department is responsible for about 14 percent of the expenditures reported on the State's SEFA. Further, the Department has recently experienced high staff turnover in the area of grant accounting and Exhibit K preparation, which increases the need for adequate training and supervisory review.

Therefore, the Department should develop formal, written procedures for the preparation of the Exhibit K and related supporting documentation and required fiscal year-end federal grant program closing entries and provide training to current and new staff on the requirements. The Department should also ensure that its annual review process over the Exhibit K includes a review of supporting documentation used to prepare the exhibit.

(Classification of Finding: Significant Deficiency.)

Recommendation No. 12:

The Department of Human Services should improve controls over the preparation of the Schedule of Federal Expenditures, or Exhibit K, by:

a. Developing formal, written procedures for the preparation of the Exhibit K, including steps required to prepare adequate supporting documentation and required fiscal year-end entries to offset federal program receivable and payable balances.

b. Ensuring its supervisory review process over the Exhibit K includes a review of supporting documentation.

c. Providing training to staff preparing supporting reconciliations and the Exhibit K that addresses the format to be used for reconciliations, the required fiscal year-end federal grant accounting offset entries, and the importance of accurate information.

Department of Human Services Response:

Agree. Implementation date: September 30, 2009.

a. The Department will develop a written procedures manual to include step-by-step instructions, including instructions to ensure that entries to offset federal program receivables and payables are made where appropriate. These instructions will explain what supporting documentation is needed to successfully prepare the Exhibit K and how to prepare the information.

b. The Department will implement a review process by a supervisor for the supporting documentation done on a quarterly basis to ensure accurate information is being reported. This review will assist the Department in ensuring the accuracy of the Exhibit K.

c. The Department will provide training to its federal grant accounting staff annually to review and update them on any changes to the reconciliation process. This training will include the overview of the importance of the reconciliation and the necessity of providing accurate information as well as preparation of grant accounting offset entries.

Payroll

During Fiscal Year 2008 the Department spent more than $241 million on salaries and wages and had appropriated full-time equivalents, or FTE, of nearly 5,500. The Department's Payroll and Human Resources staff across the various divisions work together to ensure that employees are paid appropriately through the Colorado Personnel and Payroll System (CPPS) and that payroll amounts are accurately reflected on COFRS. Human Resources staff are required to enter information into CPPS prior to payroll processing on either a monthly or biweekly basis. Payroll staff prepare routine payroll reconciliations of expected to actual payroll to ensure that all necessary adjustments are accurately reflected on COFRS and that employees' pay is appropriate. Reconciliations compare the current regular payroll and any adjustments needed to reflect reductions or increases in employees' pay with the anticipated payroll for the next pay period.

As part of our Fiscal Year 2008 audit we reviewed a sample of 120 payroll adjustments—60 monthly payroll adjustments and 60 biweekly payroll adjustments. The Divisions included in this testing were the Department's primary administrative and grant program agency, the Mental Health Institute at Pueblo, and the Division of Youth Corrections. We identified problems with 21 of the 120 (18 percent) adjustments we reviewed. Specifically, we identified the following:

- Six adjustments were calculated incorrectly, resulting in two overpayments totaling $47 and four underpayments totaling $109. For example, in two cases, payroll staff incorrectly used the monthly hourly rate instead of the annualized hourly rate to calculate the adjustment. In one case, payroll staff used the incorrect salary to calculate the adjustment.

- One payroll adjustment made to reduce the monthly salary for an employee transferring out of the Department did not have a Personnel Action Form, as required by Department policy.

- In 11 instances Human Resources staff did not enter employee information including resignations, promotions, terminations, and new hires, in a timely manner. Because of the lack of timely input by the Human Resources' staff, an adjustment totaling $410 had to be prepared by the payroll staff to reimburse an employee for a promotion which occurred nearly two months prior.

- In two instances, payroll staff did not enter employee payroll adjustments totaling $229 and $9 timely into CPPS. The adjustments were posted, and employees were paid for these adjustments about six months and one month, respectively, after the affected payroll period.

We also found that the Department did not have supporting documentation for one adjustment totaling about $260 for one employee's overtime hours. Based on additional testwork performed and discussions with Department staff, we determined that the employee improperly claimed a total of 222 hours of overtime from June 2007 to April 2008 and, as a result, was overpaid approximately $7,570. The Department pursued legal action and recovered the overpayment from the employee.

The problems we identified in our current audit point to a lack of adherence to policies and procedures and supervisory review to ensure policies and procedures are followed and entries and calculations are accurate and timely. While the amounts identified in our sample are small in terms of the Department's overall Fiscal Year 2008 operations, payroll is an inherently high-risk area, as demonstrated by the excess hours claimed by one employee in our sample. The lack of adequate controls and supervision indicate an environment where errors and irregularities could and did occur and may not be detected in a timely manner, which could result in more significant problems. The Department should improve controls in this area to ensure that payroll is accurate and policies are in compliance with State Personnel Rules.

(Classification of Finding: Significant Deficiency.)

Recommendation No. 13:

The Department of Human Services should improve controls over payroll by:

a. Reviewing adjustments to ensure they are calculated correctly, made timely, and supported by appropriate documentation.

b. Ensuring that employee information is entered into CPPS in a timely manner.

c. Correcting all over and underpayments to employees identified in this audit.

Department of Human Services Response:

a. Agree. Implementation date: February 2009.

Both payroll supervisors will review all audit findings with timekeeping and payroll staff. Staff will be provided additional training and clarification on any issues that were recurrent. The importance of review and verification of all information and the highest level of attention to accuracy of variables and calculations will be emphasized in the trainings. All adjustments will be reviewed and signed off by another payroll officer or supervisor to ensure accuracy and adequacy of documentation.

b. Agree. Implementation date: April 2009.

The Department agrees to ensure that employee information is entered into CPPS in a timely manner. Human Resources (HR) will train employees who are responsible for initiating HR paperwork. The training will include communicating all of the required documentation for HR personnel actions, reviewing the compensation plan for understanding and importance, and initiating cross-training within HR to provide additional back-up for entering employee information. HR will also institute a tracking and follow-up system for entering information into CPPS and ensuring that information is entered timely.

c. Agree. Implementation date: July 2008.

The Department will continue to make all corrections for overpayments and underpayments as errors are discovered for active employees. Due to time and budget constraints, decisions on whether or not to go through the collection process for small overpayments to terminated employees will continue to be based on whether an overpayment will or can be corrected in various reporting systems and the cost of collecting and processing the overpayment.

Purchasing Cards

The purchasing card program was adopted by the Department to facilitate purchases of less than $5,000. The goal of the program is to make it easier for approved state employees to acquire goods and services that cost less than $5,000 while providing more timely payment to merchants and reducing the number of small-dollar payments issued by the traditional vouchering system.

During Fiscal Year 2008, the Department expended approximately $10.5 million through the use of purchasing cards. For that period, the Department reported that its average monthly purchasing card purchases totaled nearly $877,000, with an average number of almost 4,000 monthly transactions. As of the end of Fiscal Year 2008, approximately 900 Department employees, or nearly 17 percent of its 5,500 employees, had been issued purchasing cards.

All Department employees are potentially eligible for a purchasing card, but each is evaluated on his or her need to make purchases. An employee becomes a cardholder by completing the cardholder account form, attending training, and obtaining approval from his or her designated approving official, typically the employee's manager. All charges made on the card are the liability of the Department; the cardholder has no personal liability on the card unless the cardholder violates the terms of card use. Department policy requires that at the end of each purchasing card cycle, the cardholder must attach supporting documentation for his or her purchase(s), review the account coding, and sign and date the statement. This information is forwarded to the approving official, who is responsible for performing a secondary review for accuracy and appropriateness and applying his or her signature and date to the statement. Both the cardholder and approving official must review and sign off on the monthly statement by the end of the following month.

As part of our Fiscal Year 2008 audit, we selected a sample of 51 purchasing card transactions. We identified a total of 19 problems with 15 of the 51 (29 percent) transactions we reviewed.

Specifically, we found the following:

- **Cardholder statement reviews.** We found 11 transactions in which the cardholder and/or approving official either had not signed the cardholder statement or had not signed the cardholder statement within the required time frame. Specifically, for 11 transactions totaling approximately $3,650, the cardholder and/or approving official did not sign the statement within the required time frame. In four of the 11 transactions, totaling $489, the cardholder/approving official had not signed the cardholder statement at the time of our review. These purchases had occurred approximately four to eleven months earlier.

- **Account coding errors.** We found four transactions totaling approximately $1,330 that were coded to an improper account code.

We also performed testwork to determine whether the Department was closing purchasing card accounts in a timely manner for those employees no longer working for the Department. When an employee leaves the Department, the employee's approving official is required by Department policy to return the employee's purchasing card to the Department's Procurement Office with an account closure form. Department Procurement Office staff are to destroy the card and close the cardholder's account at the time of receipt. We identified four instances in which the approving officials responsible for returning the procurement cards to the Procurement Office did not return the cards for approximately one to three months after the employees' last date of employment. Therefore, the purchasing card accounts remained open for that same timeframe.

During our Fiscal Year 2007 audit, we also identified problems with the Department's internal controls over purchasing cards. During Fiscal Year 2008, the Department implemented an automated system for tracking actions taken by approving officials on cardholder violations. However, the Department was still testing the reporting function for the system. The automated system will enable the Department to monitor and follow up on purchasing card violations.

Adequate controls over purchasing cards are important because the cards are a high-risk area for fraud and abuse. Because of the number of employees within the Department that have purchasing cards, ongoing monitoring and training are imperative.

(Classification of Finding: Significant Deficiency.)

Recommendation No. 14:

The Department of Human Services should improve its internal controls over purchasing cards by:

a. Completing implementation of the automated violation tracking system's reporting function and utilizing the system's reports to monitor the results of the Department's internal purchasing card audits and actions taken by approving authorities in response to cardholder violations.

b. Continuing to train approving officials and cardholders on their responsibilities to ensure compliance with Department policy and consequences for policy violations. The training should clearly emphasize the time frame for review and sign-off of monthly statements.

c. Ensuring purchasing card accounts are closed in a timely manner upon employee termination.

Department of Human Services Response:

Agree. Implementation date: January 31, 2009.

a. The Department has now completed the database and began to track the results of Department's internal purchasing card audits and actions taken since July 1, 2008. Management reports will be sent to the approving officials and Executive Management Team members for their follow up on purchasing card violations.

b. The Department continues to train the approving officials and cardholders on their responsibilities to ensure that purchase card transactions are processed in compliance with Department policy. Communication via e-mail will go out to the approving officials on a quarterly basis reiterating that the cardholder statements need to be reviewed and signed in a timely manner.

c. The Department relies heavily on the approving officials to notify the Purchasing Office when a cardholder is leaving the Department. The approving officials will be reminded of their responsibilities to ensure that cards are closed when a cardholder has left the Department. In addition, CDHS Human Resources will provide a list of terminated employees each month to the District Procurement Offices as additional information to make ensure that purchasing card accounts are closed in a timely manner upon employee termination.

Travel Expenditures

During Fiscal Year 2008 the Department expended nearly $2 million for in-state and out-of-state business travel. State Fiscal Rules issued by the Office of the State Controller require state agencies to follow certain procedures concerning business travel. In addition, the Department has issued its own policies and procedures governing authorization for travel and reimbursement of travel expenses for its employees.

As part of our Fiscal Year 2008 audit, we reviewed a sample of 40 travel expense forms totaling nearly $19,000 in expenditures. We identified a total of 20 problems with 18 of the 40 (45 percent) expense forms we reviewed.

We noted the following problems:

- One travel reimbursement totaling $127 was paid without the proper reimbursement form. The employee used the Request to Use Private Automobile form in place of the travel expense form required under both Department policy and State Fiscal Rules. There was also no supervisory approval on the form.

- One travel expenditure totaling $90 was paid twice for the same hotel room.

- One per diem amount of $16 was paid for an employee's lunch during the time in which the employee was on annual leave.

- One travel expenditure totaling $89 was coded incorrectly on COFRS, the State's accounting system.

- Two travel reimbursements totaling $566 did not contain a purpose for the travel, as required by State Fiscal Rules and Department policy.

- One travel reimbursement request totaling $218 was not submitted within 60 days of the travel as required by Department policy.

- Twelve travel reimbursements totaling $3,961 did not have supporting documentation related to the business purpose of the travel, such as agendas for either meetings or seminars attended, as required by Department policy.

Although Department policies and State Fiscal Rules require review and approval and supporting documentation for travel expenditures, our review indicates that employees and supervisors are not consistently adhering to the policies, and the Department is not consistent in its enforcement of the policies. For example, the Department's policy specifically states agendas for conferences, meetings, or seminars must be attached to the travel expense reimbursement request. However, the results of our testing indicate that in some cases travel expenditures are approved without proper support.

We identified similar weaknesses with the Department's controls over travel expenditures during our Fiscal Year 2006 audit. Based on our current audit, the Department needs to strengthen controls over travel expenditures. Specifically, the Department should adhere to requirements for travel expenditures and ensure that employees and supervisors are adequately trained on state and Department travel rules and policies.

(Classification of Finding: Significant Deficiency.)

Recommendation No. 15:

The Department of Human Services should strengthen controls over travel expenditures by ensuring consistent compliance with existing State and Department travel policies. This should include ensuring that correct forms are used, adequate supporting documentation accompanies each expenditure, and expenditures are appropriately coded on COFRS before approval. Additionally, staff and supervisors should be periodically trained on State and Department travel rules and policies.

Department of Human Services Response:

Agree. Implementation date: April 30, 2009.

The Department will continue to improve controls over travel expenditures to ensure that they are processed in compliance with Department travel policy and State Fiscal Rules. The Department travel policy will be updated to provide specific guidelines about the supporting documentation related to the business purpose of the travel when staff plans to attend a meeting. The travel reimbursement open forum will be continuously conducted on a quarterly basis to provide a department-wide training opportunity available to staff and supervisors. The forum will consistently address the understanding of Department travel policy, the proper use of travel related forms, the accurate coding of travel expenditures, the requirement of supporting documentations, the completion of reimbursement requests, the responsibilities of reviewers/approvers, and the compliance of rules and policies.

Office of the State Treasurer

Introduction

The Office of the State Treasurer (Treasury) is established by the State Constitution. The Treasurer is an elected official who serves a four-year term. Please refer to the introduction in the Office of the State Treasurer chapter within the Financial Statement findings section for additional background information.

The following was prepared by the public accounting firm of BKD, LLP, which performed the Fiscal Year 2008 audit at the Treasury.

Cash Management Improvement Act

The Cash Management Improvement Act (CMIA) regulates the transfer of federal grant funds between federal and state agencies. The purpose of CMIA is to minimize the time between when a state makes an expenditure for a federal program and when the federal reimbursement is received so neither party incurs a loss of interest on the funds. In addition, CMIA requires states to enter into a Treasury-State Agreement (Agreement) with the U.S. Treasury that specifies the procedures that each state will follow to carry out the matching requirements. In Colorado, the Department of Treasury is responsible for entering into the Agreement on behalf of the State of Colorado and compiling information on programs required to comply with the CMIA.

Colorado has completed the sixth year of its seven-year Agreement which concludes at the end of Fiscal Year 2009. The Agreement may be modified by either party to reflect updated information or requirements. In Fiscal Year 2008 there were a total of 23 programs covered by CMIA at the Departments of Education, Health Care Policy and Financing, Human Services, Labor and Employment, Local Affairs, Public Health and Environment, and Transportation. These programs had federal expenditures of nearly $4.5 billion out of total federal expenditures of $6.6 billion in Fiscal Year 2008.

Sections 4 and 5 of the Agreement are to identify the programs and agencies that are subject to the CMIA requirements based on an annual program expenditure threshold of $27.4 million in federal funds. Treasury must amend the two sections of the Agreement each year to add programs and agencies that are expected to exceed the established threshold and to delete programs and agencies that are expected to fall below the established threshold.

The federal government assigns each program receiving federal awards a Catalog of Federal Domestic Assistance (CFDA) number. It is not uncommon for more than one state agency to receive federal awards under the same CFDA number. The federal government considers all awards with the same CFDA number to be a single program for purposes of applying the CMIA threshold.

During the Fiscal Year 2008 audit, we noted that when determining which federal programs Colorado should include in the Treasury-State Agreement, the Treasury failed to combine federal awards with the same CFDA number between different state agencies. As a result, the Center for Disease Control and Prevention – Investigations and Technical Assistance programs combined across all State agencies met the required threshold but was not included in the Agreement. Failing to include appropriate programs in the Agreement puts the State at risk of incurring interest costs.

The Treasury must also identify in Appendix A2 of the Agreement the draw patterns of each program, which the agencies are required to follow. We found that the Treasury miscoded the payment voucher days for the Child Care and Development Block Grant (CFDA No. 93.575) as 0 days instead of 5 days. As the agencies follow the draw patterns identified in the Agreement, the miscoding could create a potential loss of interest on state general funds. Both of the issues noted above were also identified in the Fiscal Year 2007 audit.

(CFDA Nos. 93.283, 93.575; Center for Disease Control and Prevention Investigations and Technical Assistance Programs, Child Care and Development Block Grant; Cash Management. Classification of Finding: Not classified - not an internal control issue.)

Recommendation No. 108:

The Office of the State Treasurer should ensure the Treasurer-State Agreement (Agreement) under the Cash Management Improvement Act (CMIA) accurately reflects programs subject to CMIA annually by ensuring programs in the same CFDA number are combined when evaluating expenditures against the required threshold. Programs exceeding the threshold should be included in the Agreement. In addition, the appropriate draw patterns for each program should be identified in the Agreement.

Office of the State Treasurer Response:

Agree. Implementation date: September 2008.

The Treasury will continue to use the most current and accurate information available from both the Office of the State Controller and state agencies in order to ensure that the correct programs and appropriate draw patterns are included in the Agreement. The Treasury corrected both exceptions noted in the comment above and presented the results to the auditors during the performance of the fieldwork for the Fiscal Year 2008 audit.

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of an Office of Audit (OA), Office of Investigations (OI), Office of the Counsel to the Inspector General (OCIG), Office of External Relations (OER), and Office of Technology and Resource Management (OTRM). To ensure compliance with policies and procedures, internal controls, and professional standards, the OIG also has a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management reviews and program evaluations on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts investigations related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as liaison to the Department of Justice on all matters relating to the investigation of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Counsel to the Inspector General

OCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Also, OCIG administers the Civil Monetary Penalty program.

Office of External Relations

OER manages OIG's external and public affairs programs, and serves as the principal advisor on news releases and in providing information to the various news reporting services. OER develops OIG's media and public information policies, directs OIG's external and public affairs programs, and serves as the primary contact for those seeking information about OIG. OER prepares OIG publications, speeches, and presentations to internal and external organizations, and responds to Congressional correspondence.

Office of Technology and Resource Management

OTRM supports OIG by providing information management and systems security. OTRM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OTRM is the focal point for OIG's strategic planning function, and the development and monitoring of performance measures. In addition, OTRM receives and assigns for action allegations of criminal and administrative violations of Social Security laws, identifies fugitives receiving benefit payments from SSA, and provides technological assistance to investigations.