

Report Highlights



Statewide Single Audit, Fiscal Year Ended June 30, 2025

State of Colorado • Financial Audit • February 2026 • 2501F

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 2025.

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

Financial Statement Findings

- The State’s financial statements covered \$65.9 billion in total assets and \$56.3 billion in total expenditures for Fiscal Year 2025.
- 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, 2025. 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 87 internal control weaknesses over financial reporting, including 61 material weaknesses and 26 significant deficiencies at 14 state departments and higher education institutions.

Federal Program Expenditures

- The State expended approximately \$20.8 billion in federal funds in Fiscal Year 2025. The five largest federal programs were:
 - Medicaid Cluster: \$9.7 billion
 - Supplemental Nutrition Assistance Program (SNAP) Cluster: \$1.5 billion
 - Research and Development Cluster: \$1.4 billion
 - Student Financial Assistance Programs Cluster: \$1.2 billion
 - Unemployment Insurance: \$897.2 million
- We identified 22 internal control issues related to requirements applicable to major federal programs.

Audit Recommendations Made	Agency Responses		
	Agree	Partially Agree	Disagree
105	95	6	4

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 2025 through December 2025. The purpose of this audit was to:

- Express an opinion on the State’s financial statements and on compliance for each of the State’s major federal programs for the Fiscal Year Ended June 30, 2025.
- Provide an opinion in relation to the State’s financial statements as a whole as to whether the State’s Schedule of Expenditures of Federal awards is fairly stated in all material respects for the Fiscal Year Ended June 30, 2025.
- 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, in internal control over financial reporting, 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 over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A **Deficiency in Internal Control** is the least serious level of internal control weakness. A deficiency in internal control over financial reporting 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 did not close the State’s “official books” by August 4, 2025, as required by statute.
 - The OSC approved and recorded a significant number of transactions totaling \$22.5 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 August 8, 2025, the new close deadline.
 - The OSC incorrectly processed and posted its last Fiscal Year 2025 bi-weekly payroll to CORE.
 - The OSC did not develop a complete set of IT policies and procedures for Gravity, the OSC’s IT system used to create the State’s financial statements, to ensure the OSC’s compliance with all Colorado Information Security Policies.
 - Classification: **Material Weakness.**
 - Identification and Risk Assessment of the State’s Significant IT Systems and System and Organization Control Reports. The OSC failed to update its procedures to include a required completeness check of IT systems and

deadlines to follow up with state entities to obtain missing information for IT systems and System and Organization Controls (SOC) report—a SOC 1, Type 2 (SOC 1) report. In addition, the OSC did not establish a formal review process over the OSC's SOC 1 risk assessment process and state entities' SOC 1 report information. Lastly, the OSC did not update the OSC's Fiscal Procedures Manual or provide training to state entities to ensure timely and complete submission of IT system information. Classification: **Material Weakness**.

- Internal Controls Over Central Payroll – IRS Form 941 Errors. The OSC's Central Payroll Unit (Unit) staff made multiple reporting errors in their submission of the IRS's Form 941, Employer's Quarterly Federal Tax Return (Form 941), for two quarters tested for Fiscal Year 2025. Additionally, Unit staff reported that they did not maintain any documentation of the revised Form 941 submitted for one quarter during Fiscal Year 2025, as required by federal tax return regulations. Classification: **Material Weakness**.
- **Governor's Office of Information Technology (OIT)**. Internal Controls over Revenue at OIT. We identified errors in OIT's revenue transactions recorded in CORE for Fiscal Year 2025 and revenue transactions that did not follow OIT's written revenue procedures, as follows:
 - OIT posted approximately \$733,000 of Fiscal Year 2024 revenue to Fiscal Year 2025 which understated Fiscal Year 2024 revenue and overstated Fiscal Year 2025 revenue.
 - OIT did not comply with OIT's written revenue procedure that an accounting supervisor, manager, or controller must review and approve revenue transactions in CORE.
 - OIT improperly recorded approximately \$693,300 of Fiscal Year 2025 revenue in CORE as Taxpayer's Bill of Rights (TABOR) exempt rather than nonexempt revenue. This error resulted in an overstatement of Fiscal Year 2025 TABOR nonexempt revenue and an understatement of Fiscal Year 2025 TABOR exempt revenue in the same amount.
 - Classification: **Material Weakness**.
- **Department of Labor and Employment**.
 - Recording of Unemployment Insurance Estimates. We determined that the Department did not have adequate internal controls in place over the calculation of its estimated payables and receivables related to Unemployment Insurance (UI) benefit claims during Fiscal Year 2025. Specifically, the gross dollar amount of accounting adjustments that the Department needed to make totaled \$10.6 billion, including the following:
 - The Department incorrectly calculated its UI benefit payments owed to claimants, resulting in the UI accounts receivable and revenue balances being overstated by \$1.4 billion at fiscal year end. Additionally, the Department incorrectly calculated both its estimated UI accounts payable and expenditures, resulting in these balances being overstated by \$1.4 billion at fiscal year-end.
 - The Department subsequently recorded another transaction that further incorrectly adjusted their accounts resulting in an understatement of \$794.3 million in bad debt expense, an understatement of \$1.6 billion in revenue, an understatement of \$2.5 billion in expenditures, and an overstatement of \$75.5 million in deferred revenue.
 - Classification: **Material Weakness**.
 - Financial Reporting. We identified issues with a portion of the Department's Fiscal Year 2025 exhibits, capital asset balances, and an accounts receivable balance, as follows:
 - We identified issues with three of the Department's 28 exhibits. The Department incorrectly included a transaction totaling \$5.0 billion on its Exhibit P, Major Accounting Estimates in Excess of \$5 million, that was not related to the recording of a major accounting estimate and therefore, should not have been reported on this exhibit. The Department understated its federal expenditures on Exhibit K1, Schedule of Federal Assistance by \$660,000. The Department incorrectly reported its prior period adjustments on the Exhibit PPA, Prior Period Adjustments, by not including six adjustment transactions totaling \$39.7 million, and incorrectly reported \$182,500 as an operating expense rather than an asset.
 - The Department overstated its capital asset balance in the General Full Accrual Account Group Fund by \$14.6 million.

- The Department has not completed its review to determine whether \$79.7 million included in its UI accounts receivable balance from prior years is collectible or should be written off.
- Classification: **Material Weakness.**
- Contract Compliance Related to System and Organization Control Reports. The Department did not obtain SOC 1, Type 2 reports for its significant IT systems for Fiscal Year 2025. Additionally, the Department did not implement our prior audit recommendation, which stated that the Department should hold its IT service organizations accountable for contract provisions for engaging with a service auditor to obtain an opinion on the service organizations' internal controls, through SOC 1, Type 2 reports. Classification: **Material Weakness.**
- **Department of Local Affairs.** Internal Controls Over Financial Reporting. We identified issues with a portion of the Department's Fiscal Year 2025 financial reporting as follows:
 - The Department erroneously recorded a total of \$158.5 million in federal accounts receivable and revenue across four funds: \$47.6 million in the Connecting Coloradans Experiencing Homelessness with Services Housing Fund, \$5.3 million in Economic Recovery and Relief Cash Fund, \$24.6 million in the Regional Navigation Campus Cash Fund, and \$81.0 million in Transformational Affordable Housing Fund. Department staff improperly set up the funds as federally-reimbursable grants in CORE, which resulted in the automatic posting of federal revenue and receivables when expenditures for the four programs were recorded in CORE.
 - The Department improperly included defined benefit salary-related payments in its Governmental Accounting Standards Board (GASB) Statement No. 101 compensated absence liability calculations, resulting in an overstatement of the Fiscal Year 2025 liability of \$362,500.
 - Classification: **Material Weakness.**
- **Department of Military and Veterans Affairs.** Statutorily-Required Testing of the Colorado National Guard Tuition Fund - Tuition Assistance Program Eligibility. We identified issues with the Department's administration of the Tuition Assistance program for Fiscal Year 2025. Specifically, we found the following:
 - For the Summer 2024 semester, the Department was unable to provide supporting documentation for any of the 88 applicants, including the 66 approved for the Tuition Assistance program. As a result, we were unable to determine if \$145,486 in tuition payments were appropriate.
 - The Department's billing records for the Tuition Assistance program of \$1,153,646 did not agree to expenditures in CORE of \$1,207,529 for Fiscal Year 2025 and we determined the difference of \$53,883 was recorded in error.
 - Classification: **Significant Deficiency.**
- **Department of Public Health and Environment.** Internal Controls Over Financial Reporting. We identified issues with a portion of the Department's Fiscal Year 2025 financial reporting, as follows:
 - The Department did not recalculate the lease asset and liability when its office building lease was extended, resulting in an understatement of both the lease asset and liability of \$50.4 million.
 - The Department made errors in its GASB Statement No. 101 compensated absences liability calculation that resulted in an overstatement of \$10.1 million.
 - The Department did not properly record an adjustment to update its inventory balances in CORE as of fiscal year end, resulting in an overstatement to the inventory asset balance of \$3.0 million.
 - Classification: **Significant Deficiency.**



Our opinion on the financial statements is presented in the State’s Annual Comprehensive Financial Report for Fiscal Year 2025, 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 IT computer systems. During our Fiscal Year 2025 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):

- **Governor’s Office of Information Technology (OIT).**
 - Nicus Software—IT Governance and Information Security. Classification: **Material Weakness.**
 - State Data Center Physical Access. Classification: **Significant Deficiency.**
 - Colorado Personnel and Payroll System (CPPS) – Information Security. Classification: **Significant Deficiency.**
 - IT Governance. Classification: **Material Weakness.**
- **Department of Higher Education—Colorado School of Mines.** Workday and Banner—Service Organization Internal Controls. Classification: **Significant Deficiency.**
- **Department of Higher Education—Metropolitan State University of Denver.** Service Organization Internal Controls. Classification: **Significant Deficiency.**
- **Department of Labor and Employment.**
 - MyFAMLI+ Access Management. Classification: **Material Weakness.**
 - AWARE – Information Security and Change Management. Classification: **Significant Deficiency.**
 - MyUI+ – IT Governance and Information Security. Classification: **Significant Deficiency.**
- **Department of Personnel & Administration.** CPPS – Information Security. Classification: **Significant Deficiency.**
- **Department of Transportation.**
 - SAP – Information Security Logical Access. Classification: **Material Weakness.**
 - SAP – Information Security Access Management. Classification: **Material Weakness.**

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:

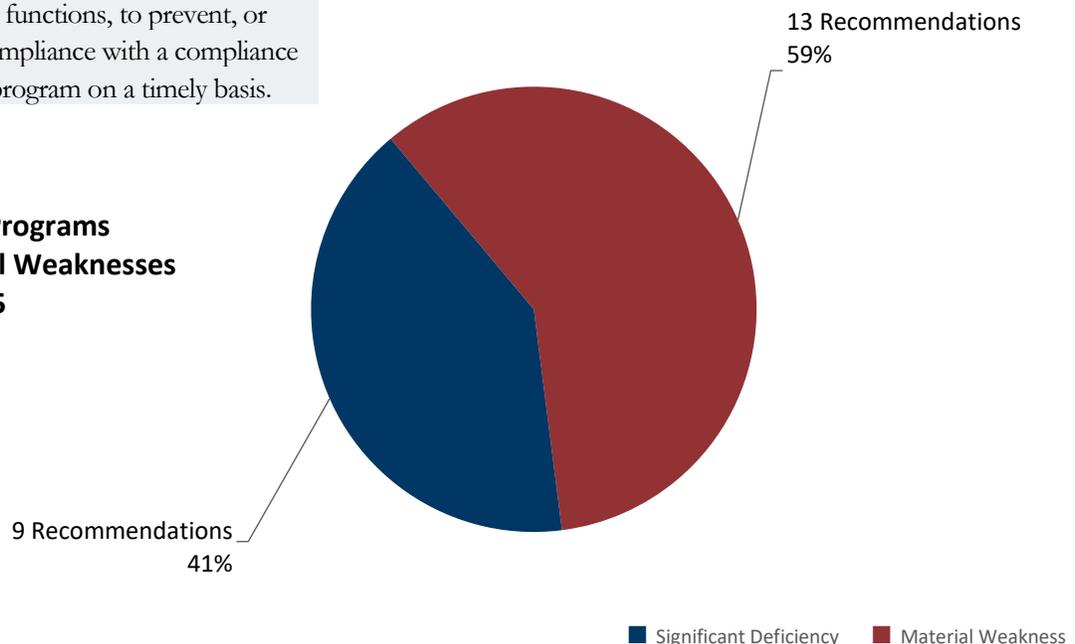
- 22 internal control issues related to requirements applicable to major federal programs at 8 state departments.
- Approximately \$3,514,769 in known questioned costs related to federal awards granted to the State. Federal regulations require auditors to report questioned costs identified through the audit, which are amounts expended or received from a federal award that are noncompliant or suspected noncompliance with federal statutes, regulations, or the terms and conditions of the federal award; at the time of the audit, lacked adequate documentation to support compliance; or appeared unreasonable and did not reflect the actions a prudent person would take in the circumstances.

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 2025 audit. Prior to each recommendation in this report, we have indicated the classification of the finding.

Federal Grant Programs Internal Control Weaknesses Fiscal Year 2025



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 \$247,760 in known questioned costs. Specifically, we found the following:
 - Compliance with Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility for Medicaid. In 7 of the 125 Medicaid case files tested (6 percent), we identified at least one error related to eligibility, which resulted in a total of \$240,606 of known questioned costs. Classification: **Material Weakness.**
 - Compliance with Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility for CBHP. In 7 of the 60 CBHP case files tested (12 percent), we identified at least one error related to eligibility, which resulted in a total of \$7,154 of known questioned costs. Classification: **Material Weakness.**
- **Department of Higher Education—Colorado State University.** Internal Controls and Compliance over Student Financial Assistance Cluster – NSLDS Reporting. The Colorado State University did not timely report the student enrollment status changes to the federal Department of Education through the National Student Loan Data System for 2 out of the 40 (5 percent) students during the Fall 2024 and Spring 2025 semesters. Specifically, one student’s enrollment status information during the Fall 2024 semester was submitted 166 days beyond the federal reporting requirement and the other student’s enrollment status information during the Fall 2024 semester was submitted 18 days beyond the federal reporting requirement. Classification: **Significant Deficiency.**
- **Department of Higher Education—Metropolitan State University of Denver.** Overall, we identified issues with the University’s compliance with requirements for the federal Title IV Student Financial Assistance Cluster program. Specifically:
 - Internal Controls and Compliance with Special Tests and Provisions for Student Financial Assistance. The University did not maintain a comprehensive written information security program that reflects the current federal requirements of the Gramm-Leach-Bliley Act. Classification: **Material Weakness.**
 - Internal Controls and Compliance Over Student Financial Assistance Cluster – NSLDS Reporting. The University did not report enrollment status changes to the federal Department of Education (USDE) by the required federal deadlines for 14 of the 40 (35 percent) students. Specifically, the University reported enrollment status changes for these 14 students between 18 to 53 days after USDE’s 60-day enrollment status change reporting requirement. Classification: **Significant Deficiency.**
- **Department of Local Affairs.**
 - Compliance with Reporting for Community Development Block Grant program. We identified issues with the Department’s compliance with reporting for the Community Development Block Grant (CDBG) program. Specifically:
 - We could not tie disbursement amounts reported by the Department to the Department’s accounting records for two Performance and Evaluation Financial Summary Reports for approximately \$15,000 in one report and \$21.7 million in the other report. Additionally, the Department could not provide evidence that Department staff reviewed and approved the reports internally prior to submission to the federal government.
 - We could not tie disbursement amounts reported by the Department to the Department’s accounting records for seven of the eight (88 percent) Quarterly Performance Reports for the total net amount of approximately \$5.0 million.
 - The Department did not submit four of the seven (57 percent) Federal Funding Accountability and Transparency Act of 2006 (FFATA) reports to the federal FFATA Subaward Reporting System—the System for Award Management (SAM.gov) within the required time period, which caused them to be out of compliance with FFATA reporting requirements by up to 14 months.
 - Classification: **Material Weakness.**

- Compliance with Activities Allowed or Unallowed and Allowable Costs/Cost Principles for the Coronavirus Capital Projects Fund. The Department recorded one Coronavirus Capital Projects Fund (CCPF) expenditure transaction, totaling \$3,266,662, twice in CORE and overstated both revenues and expenditures for CCPF by this amount. In addition, the Department overstated its Fiscal Year 2025 CCPF expenditures on its Exhibit K1 by \$3,266,662. Classification: **Material Weakness**.
- **Department of Public Health and Environment.** Compliance with Reporting for Immunization Cooperative Agreements – FFATA Reporting. We determined that the Department did not comply with FFATA reporting requirements for the Immunization Cooperative Agreements program. The Department did not submit any FFATA reports for subawards issued under this program during Fiscal Year 2025, totaling approximately \$15.2 million in unreported subawards. Classification: **Material Weakness**.
- **Department of Public Safety.** Compliance with Subrecipient Monitoring for Disaster Grants. The Department did not fully implement our prior audit recommendation to review all subrecipients’ federally-required Single Audit reports, and did not complete required subrecipient monitoring activities for its Disaster Grants program. Classification: **Material Weakness**.
- **Department of Transportation.** Overall, we identified issues with the Department’s compliance with Reporting and Period of Performance for Highway Safety Cluster. In total, we identified \$347 in known questioned costs. Specifically, we found the following:
 - Compliance with Reporting for the Highway Safety Cluster. The Department did not submit FFATA reports for 5 of 24 subawards (21 percent) for the Highway Safety Cluster, totaling \$1,146,810, in SAM.gov related to awards from Fiscal Years 2024 and 2025. Classification: **Material Weakness**.
 - Compliance with Period of Performance for the Highway Safety Cluster. The Department recorded two of the seven transactions tested (27 percent) outside the period of performance of the federal grant award for the Highway Safety Cluster; each expense was incurred one day prior to the start of the period of performance. This error resulted in questioned costs totaling \$347. 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 2024 or earlier are not included.

Statewide Single Audit Report Recommendation Status as of Fiscal Year 2025 by Fiscal Year

	Total	2024	2023	2022	2021	2020
Implemented	69	48	20	-	1	-
Partially Implemented	20	8	10	-	1	1
Not Implemented	21	15	6	-	-	-
Deferred	24	21	3	-	-	-
No Longer Applicable	8	3	5	-	-	-
Total	142	95	44	0	2	1

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