STATE OF COLORADO

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Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance In Accordance with OMB Circular A-133

Members of the Legislative Audit Committee:

Compliance

We have audited the compliance of the State of Colorado with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1997. The State of Colorado's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Colorado's management. Our responsibility is to express an opinion on the State of Colorado's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Colorado's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Colorado's compliance with those requirements.

In our opinion, the State of Colorado complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1997. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Recommendation Nos. 5, 6, 16, 17, 18, 20, 23, 25, 27, and 28.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose the reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.