



CITY AND COUNTY OF DENVER, COLORADO

OMB Circular A-133 Report

Year ended December 31, 2005

CITY AND COUNTY OF DENVER, COLORADO

OMB Circular A-133 Report
Year ended December 31, 2005

Table of Contents

	Page
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	1
Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards	3
Schedule of Expenditures of Federal Awards Year ended December 31, 2005	7
Notes to Schedule of Expenditures of Federal Awards	19
Schedule of Findings and Questioned Costs	22



KPMG LLP
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**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

The Honorable John W. Hickenlooper, Mayor
Members of the City Council
The Honorable Dennis J. Gallagher, Auditor
Members of the Audit Committee
City and County of Denver
Denver, Colorado:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City and County of Denver, Colorado (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 26, 2006, which included a reference to the reports of other auditors. Our report also included an explanatory paragraph discussing the City's implementation during 2005 of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3, *Deposits with Financial Institutions Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of certain Business Improvement Districts, Denver Museum of Nature and Science, and Denver Metro Convention and Visitor's Bureau, Inc. were not audited in accordance with *Government Auditing Standards*.

Our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants, and other matters did not include the entities audited by the other auditors referred to in the previous paragraph. The findings, if any, of those other auditors are not included herein.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report

financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-01 through 05-07.

A material weakness is a reportable 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 caused by error or fraud 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 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 all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 05-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 05-08.

We also noted certain additional matters that we reported to management of the City in a separate letter dated June 26, 2006.

* * * * *

This report is intended solely for the information and use of the Mayor, members of City Council, the Auditor, the audit committee, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 26, 2006



KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

**Independent Auditors' Report on Compliance With Requirements
Applicable to Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133
and on the Schedule of Expenditures of Federal Awards**

The Honorable John W. Hickenlooper, Mayor
Members of the City Council
The Honorable Dennis J. Gallagher, Auditor
Members of the Audit Committee
City and County of Denver
Denver, Colorado:

Compliance

We have audited the compliance of the City and County of Denver, Colorado (the City) 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 December 31, 2005. The City's major federal programs are identified in the summary of auditors' 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 City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Denver Urban Renewal Authority (DURA), a discretely presented component unit, which expended \$2,471,747 in federal awards which is not included in the Schedule of Expenditures of Federal Awards during the year ended December 31, 2005. Our audit, described below, did not include the operations of DURA because the discretely presented component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 States, 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 and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City'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 City's compliance with those requirements.

As listed in the chart below and described in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with certain compliance requirements that are applicable to Temporary Assistance for Needy Families and the Medical Assistance Program. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to those major federal programs. In our opinion, because of the effects of the noncompliance, the City did not comply in all material respects with the requirements regarding Temporary Assistance for Needy Families (CFDA No. 93.558) and the Medical Assistance Program (CFDA No. 93.778).

CFDA no.	Program	Compliance requirement	Type of opinion	Finding number
93.558	Temporary Assistance for Needy Families	Eligibility and Allowability	Adverse	05-18
93.558	Temporary Assistance for Needy Families	Special Tests and Provisions	Adverse	05-19
93.778	Medical Assistance Program	Eligibility	Adverse	05-24

As listed in the chart below and described in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with certain requirements that are applicable to the major programs. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those federal programs.

CFDA no.	Program	Compliance requirement	Type of opinion	Finding number
10.551/10.561	Food Stamps Cluster	Reporting	Qualification	05-09
93.645/93.658	Child Welfare Services and Foster Care – Title IV-E	Eligibility and Allowability	Qualification	05-11
93.645/93.658	Child Welfare Services and Foster Care – Title IV-E	Special Tests and Provisions	Qualification	05-12
14.238	Shelter Plus Care	Subrecipient Monitoring	Qualification	05-13
14.248	Community Development Block Grants – Section 108 Loan Guarantees	Reporting	Qualification	05-15
14.248	Community Development Block Grants – Section 108 Loan Guarantees	Cash Management	Qualification	05-16
17.263	Youth Opportunity Grants	Reporting	Qualification	05-17
93.563	Child Support Enforcement	Special Tests and Provisions	Qualification	05-21

<u>CFDA no.</u>	<u>Program</u>	<u>Compliance requirement</u>	<u>Type of opinion</u>	<u>Finding number</u>
93.575/93.596	Child Care Cluster	Eligibility and Allowability	Qualification	05-22
93.659	Adoption Assistance	Allowability and Eligibility	Qualification	05-23
97.008/16.011	Urban Areas Security Initiative	Allowability	Qualification	05-26

Also, in our opinion, except for the noncompliance described in the preceding chart, the City 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 December 31, 2005 other than Temporary Assistance for Needy Families and the Medical Assistance Program. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which 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 items 05-14, 05-20, and 05-27.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-09 through 05-27.

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 noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 05-10 through 05-13, items 05-15 through 05-19, and items 05-21 through 05-24 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2005, and have issued our report thereon dated June 26, 2006, which included a reference to the reports of other auditors. Our report also included

an explanatory paragraph discussing the City's implementation during 2005 of the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

* * * * *

This report is intended solely for the information and use of the Mayor, members of City Council, the Auditor, the audit committee, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 5, 2006,
except for the Schedule of Expenditures
of Federal Awards, which is as of June 26, 2006

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Expenditures of Federal Awards

Year ended December 31, 2005

<u>Federal grantor program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Pass-through identifying number (if applicable)</u>	<u>2005 Expenditures</u>
Department of Agriculture:			
Pass-through Colorado Department of Human Services:			
Food Stamps (n)	10.551	(a)	\$ 65,347,612
State Administrative Matching Grants for Food Stamp Program	10.561	(a)	3,957,380
Subtotal Food Stamps Cluster			<u>69,304,992</u>
Total Department of Agriculture			<u>69,304,992</u>
Department of Commerce:			
Economic Adjustment Assistance	11.307		308,908
Total Department of Commerce			<u>308,908</u>
Department of Housing and Urban Development:			
Community Development Block Grants (CDBG)/Entitlement Grants	14.218		13,994,326
Emergency Shelter Grants Program	14.231		353,538
Shelter Plus Care	14.238		1,887,708
HOME Investment Partnership Program	14.239		4,294,725
Housing Opportunities for Persons with AIDS	14.241		1,335,734
Community Development Block Grants/Brownfields:			
Economic Development Initiative	14.246		1,544,279
Community Development Block Grants – Section 108 Loan Guarantees (HUD Section 108)	14.248		1,254,744
Lead Based Paint Hazard Control in Privately Owned Housing	14.900		552,785
Total Department of Housing and Urban Development			<u>25,217,839</u>
Department of the Interior:			
Urban Park and Recreation Recovery Program	15.919		235,243
Total Department of the Interior			<u>235,243</u>

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Expenditures of Federal Awards

Year ended December 31, 2005

<u>Federal grantor program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Pass-through identifying number (if applicable)</u>	<u>2005 Expenditures</u>
Department of Justice:			
High Intensity Drug Trafficking Area (HIDTA)/Property Confiscation	16.000		\$ 1,208,316
Pass-through Colorado Department of Local Affairs:			
Urban Areas Security Initiative	16.011	5EM72717 5EM72917U	6,675,485
Pass-through Colorado Department of Human Services:			
Offender Reentry Program	16.202	PO#OE IKA NCAM0500019	24,967
Pass-through Colorado Department of Criminal Justice:			
Juvenile Accountability Incentive Block Grant	16.523	22-JB-L-2-7 22-JB-L-2-7	380,712
Pass-through Colorado Department of Criminal Justice:			
Juvenile Justice and Delinquency Prevention-Allocation to States	16.540	24-JD-10-18	51,000
Pass-through Colorado Department of Criminal Justice:			
National Criminal History Improvement Program (NCHIP)	16.554	20-RU-15b-27-1	14,117
Justice Research and Development Project Grants	16.560		377,465
Pass-through Colorado Department of Public Safety:			
Crime Laboratory Improvement – Combined Offender DNA Index System:			
Backlog Reduction	16.564	2003-DN-BX-K101	43,712
Pass-through Colorado Division of Criminal Justice Office of Victims of Crime – USDOJ-VOCA:			
Crime Victim Assistance	16.575	24-VA-2-10	25,600

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Expenditures of Federal Awards

Year ended December 31, 2005

<u>Federal grantor program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Pass-through identifying number (if applicable)</u>	<u>2005 Expenditures</u>
Pass-through Colorado Division of Criminal Justice: Byrne Formula Grant Program	16.579	24-DB-04-47-1 24-DB-15a-58-3 24-DB-15a-42-2 24-DB-04-11-3 24-DB-04-12-1 24-DB-15a-52-1 24-DB-07a-45-2 22-CH-15B6-1	\$ 512,777
Edward Byrne Memorial State and Local Law Enforcement Assistance: Discretionary Grants Programs	16.580		109,266
Crime Victim Assistance/Discretionary Grant	16.582		13,959
Pass-through Colorado Department of Safety: Drug Court Discretionary Grant Program	16.585	2004-DC-BX-0050	171,661
Pass-through Colorado Division of Criminal Justice – Office for Victims Crime USDOJ – VAWA: Violence Against Women Formula Grant	16.588	23-VW-2-47 24-VW-2-47 22-VW-2-47	137,453
Grant to Encourage Arrest Policies and Enforcement of Protection Orders	16.590		89,244
Local Law Enforcement Block Grants Program	16.592		99,210
State Criminal Alien Assistance Program	16.606		950,665
Bulletproof Vest Partnership Program	16.607		30,909

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Expenditures of Federal Awards

Year ended December 31, 2005

<u>Federal grantor program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Pass-through identifying number (if applicable)</u>	<u>2005 Expenditures</u>
Pass-through Colorado Division of Criminal Justice – PSN: Community Prosecution and Project Safe Neighborhoods	16.609	23-CP-01-1-1 23-CP-01-101-2 23-CP-04-111-1	\$ 501,988
Public Safety Partnership and Community Policing Grants	16.710		<u>170,605</u>
Total Department of Justice			<u>11,589,111</u>
Department of Labor:			
Pass-through Colorado Department of Local Affairs Division of Local Government	17.000	PO NAA 05000000234	5,000
Pass-through Colorado Department of Labor and Employment: Employment Service	17.207	04 KAA 0004 05 KAA 0004 06 KAA 0004	1,588,386
One-Stop Career Initiative	17.257		390,808
Pass-through Colorado Department of Labor and Employment: WIA Adult Program	17.258	02 KAA 0002 04 KAA 0004 05 KAA 0004 06 KAA 0004	1,499,608
Pass-through Colorado Department of Labor and Employment: WIA Youth Activities	17.259	04 KAA 0004 05 KAA 0004 06 KAA 0004	1,871,272

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Expenditures of Federal Awards

Year ended December 31, 2005

<u>Federal grantor program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Pass-through identifying number (if applicable)</u>	<u>2005 Expenditures</u>
Pass-through Colorado Department of Labor and Employment: WIA Dislocated Workers	17.260	01 KAA 0004 03 KAA 0004 04 KAA 0004 05 KAA 0004 06 KAA 0004 05WF02DC PO NAA 05WF08DC PO NAA 05WF16DC	\$ 2,906,632
Subtotal WIA Cluster			<hr/> 6,668,320 <hr/>
Pass-through Colorado Department of Labor and Employment: Employment and Training Administration Pilots, Demonstrations and Research Projects	17.261	02 KAA 0004	9,786
Youth Opportunity Grants	17.263		1,563,670
Pass-through Colorado Department of Local Affairs/Office of Workforce Development and the Colorado Workforce Development Council:			
Work Incentives Grants	17.266	L5DPNDC	195,853
Incentive Grants – WIA Section 503	17.267	04 KAA 0004	23,088
Pass-through Colorado Department of Labor and Employment: Disabled Veterans’ Outreach Program (DVOP)	17.801	05 KAA 0004 06 KAA 0004	46,687
Pass-through Colorado Department of Labor and Employment: Local Veterans’ Employment Representative Program	17.804	05 KAA 0004 06 KAA 0004	18,937

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Expenditures of Federal Awards

Year ended December 31, 2005

<u>Federal grantor program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Pass-through identifying number (if applicable)</u>	<u>2005 Expenditures</u>
Homeless Veterans Reintegration Project	17.805		\$ 246,839
Subtotal Employment Services Cluster			<u>312,463</u>
Total Department of Labor			<u>10,366,566</u>
Department of Transportation:			
Airport Improvement Program	20.106		13,777,944
Pass-through Colorado Department of Transportation:			
Highway Planning and Construction	20.205		4,040,315
		12557	
		13281	
		13850	
		13651	
		12560	
		14171	
		14128	
		14015	
		14170	
		13953	
		20024	
		14413	
		14441	
		14412	
		14494	
		14442	
		14674	
		14853	
		14807	
		15232	

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Expenditures of Federal Awards

Year ended December 31, 2005

<u>Federal grantor program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Pass-through identifying number (if applicable)</u>	<u>2005 Expenditures</u>
		13666	
Total Department of Transportation			\$ 17,818,259
National Foundation on the Arts and the Humanities:			
Promotion of the Arts – Leadership Initiatives	45.026		10,000
Promotion of the Humanities – Division of Preservation and Access	45.149		40,710
Museum for America Grants	45.301		28,916
State Library Program	45.313		21,142
Total National Foundation on the Arts and the Humanities			100,768
Environmental Protection Agency:			
Surveys Studies, Investigations Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034		161,853
Pass-through the Colorado Department of Public Health and Environment:			
Performance Partnerships Grants	66.605	OE FEA HAZ 05000014 OE FEA HAZ 06000011	21,636
Surveys, Studies, Investigations, and Special Purpose Grants	66.606		22,916
Protection of Children and Older Adults (Elderly) from Environmental Health Risks	66.609		27,688
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802		263,541
Total Environmental Protection Agency			497,634

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Expenditures of Federal Awards

Year ended December 31, 2005

<u>Federal grantor program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Pass-through identifying number (if applicable)</u>	<u>2005 Expenditures</u>
Department of Energy:			
Pass-through Colorado Department of Local Affairs/Division of Emergency Management:			
State Energy Program	83.552	4EM78917	\$ <u>63,254</u>
Total Department of Energy			<u>63,254</u>
Department of Health and Human Services:			
Pass-through Denver Regional Council of Governments:			
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	93.044	EX03073 EX04090 EX05034 EX05027	164,718
Pass-through Colorado Department of Human Services:			
Special Programs for the Aging – Title IV and Title II – Discretionary Projects	93.048	(a)	160,034
Pass-through Colorado Non Profit Development:			
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (Seed)	93.104	GHS5SM52927	6,074
Pass-through Colorado Department of Public Health and Environment:			
Injury Prevention and Control Research and State and Community Based Programs	93.136	PC FLA PPG05000010 PC FLA PPG06000012	5,150
Consolidated Knowledge Development and Application (KD&A) Program	93.230		373,060

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Expenditures of Federal Awards

Year ended December 31, 2005

Federal grantor program title	Catalog of federal domestic assistance number	Pass-through identifying number (if applicable)	2005 Expenditures
Pass-through Colorado Department of Human Services: Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243	OE IHM NC050000038 2003-DN-BX-K101	\$ 224,653
Drug-Free Communities Support Program Grants	93.276		68,374
Pass-through Colorado Department of Public Health and Environment: Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	OE FHA EP106000014 OE FHA EP105000027	17,601
Pass-through Colorado Department of Human Services: Promoting Safe and Stable Families	93.556	(a) PO IHA CWSX0401241 04 IHA 00240	489,674
Pass-through Colorado Department of Human Services: Temporary Assistance for Needy Families	93.558	(a)	16,768,192
Pass-through Colorado Department of Human Services: Child Support Enforcement	93.563	(a)	9,187,736
Child Support Enforcement Research	93.564	(a)	299,111
Pass-through Colorado Department of Human Services: Refugee and Entrant Assistance – State Administered Programs	93.566	(a)	45,952
Pass-through Colorado Department of Human Services: Low-Income Home Energy Assistance	93.568	(a)	4,255,599
Pass-through Colorado Department of Labor and Employment: Community Services Block Grant	93.569	KCS4012 L5CSBG13	835,065

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Expenditures of Federal Awards

Year ended December 31, 2005

Federal grantor program title	Catalog of federal domestic assistance number	Pass-through identifying number (if applicable)	2005 Expenditures
Pass-through Colorado Department of Labor and Employment: Community Services Block Grant Discretionary Awards – Community Food and Nutrition	93.571	OEX0007911	\$ 12,149
Pass-through Colorado Department of Human Services: Child Care Resource Development Block Grant	93.575	(a) 03 IHA CFCC0303101518 05-IHA CCLC0501114 OE IHA CCLC0600011	4,921,217
Pass-through Colorado Department of Human Services: Refugee and Entrant Assistance – Targeted Assistance Grants	93.584	03 IHA 00425	338,379
Urban Enterprise Community	93.585	G-9501-CO-ECUR	8,579
Pass-through Colorado Department of Human Services: Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	(a)	5,822,818
Head Start	93.600		7,848,989
Pass-through Colorado Department of Human Services: Adoption Incentive Payments	93.603	OE IHA CWS 05000010	32,989
Pass-through Colorado Department of Human Services: Child Welfare Services – State Grants	93.645	(a)	686,424
Pass-through Colorado Department of Human Services: Foster Care – Title IV – E	93.658	(a)	11,240,467
Pass-through Colorado Department of Human Services: Adoption Assistance	93.659	(a)	4,397,924
Pass-through Colorado Department of Human Services: Social Services Block Grant	93.667	(a)	9,890,120

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Expenditures of Federal Awards

Year ended December 31, 2005

<u>Federal grantor program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Pass-through identifying number (if applicable)</u>	<u>2005 Expenditures</u>
Pass-through Colorado Department of Human Services: Chafee Foster Care Independent Living	93.674	(a)	\$ 217,325
Pass-through Colorado Department of Human Services: Medical Assistance Program	93.778	(a)	8,315,253
HIV Emergency Relief Project Grants	93.914		4,688,183
Pass-through Colorado Department of Public Health and Environment: HIV Care Formula Grants	93.917	FHA 05-00283 FHA 04-00278	<u>410,854</u>
Total Department of Health and Human Services			<u>91,732,663</u>
Corporation for National & Community Services: Pass-through Governor's Commission on Community Support: Americorps	94.006	04AC045838 SBCCOE#413	<u>225,856</u>
Total Corporation for National & Community Services			<u>225,856</u>
Department of Homeland Security: Transportation Security Administration DTSA20-03-A-01854	97.000		18,009,829
Pass-through Colorado Department of Public Affairs-Division of Emergency Management: State Domestic Preparedness Equipment Support Program	97.004/16.007	5EM72187C	58,011
Pass-through Colorado Department of Local Affairs: Urban Areas Security Initiatives	97.008/16.011	53M75717U	7,007,720
Emergency Food And Shelter National Board Program	97.024/83.523		25,000

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Expenditures of Federal Awards

Year ended December 31, 2005

<u>Federal grantor program title</u>	<u>Catalog of federal domestic assistance number</u>	<u>Pass-through identifying number (if applicable)</u>	<u>2005 Expenditures</u>
Pass-through Colorado Department of Public Affairs – Division of Emergency Management: Homeland Security Grant Program	97.067	5EM72517 5EM75517 53M72517X	\$ 217,276
Pass-through Colorado Department of Public Affairs – Division of Emergency Management: Law Enforcement Terrorism Prevention Program	97.074	5EM75517	<u>12,071</u>
Total Department of Homeland Security			<u>25,329,907</u>
Total Federal Expenditures			\$ <u><u>252,791,000</u></u>

(n) Noncash federal award

(a) No pass-through identifying number available as program is funded through state allocation

See accompanying notes to Schedule of Expenditures of Federal Awards.

CITY AND COUNTY OF DENVER, COLORADO

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2005

(1) General

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the primary government of the City and County of Denver, Colorado (the City). The City's reporting entity is defined in note I-A in the City's basic financial statements for the year ended December 31, 2005. The schedule does not include the \$2,471,747 in federal awards expended by Denver Urban Renewal Authority (DURA) because the discretely presented component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The information in the accompanying schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The schedule of expenditures of federal awards includes federally funded projects received directly from federal agencies, and the federal amount of pass-through awards received by the City through the State of Colorado or other nonfederal entities.

(2) Basis of Accounting

Governmental funds and proprietary funds account for the City's federal grant activity. Expenditures in the schedule of expenditures of federal awards are recognized on the modified accrual basis when they become a demand on current available financial resources and eligibility requirements are met, or on the accrual basis at the time liabilities are incurred and all eligibility requirements are met, depending on the basis of accounting used by the respective fund. The City's summary of significant accounting policies is presented in note I in the City's basic financial statements.

(3) Human Services Programs

The City's Department of Human Services operates several federally funded human services programs where benefits are provided to qualified citizens. The benefit distribution method consists of participants receiving benefits, including food stamps, using a state-maintained electronic banking card (EBT) instead of City cash disbursements. The Colorado Department of Human Services provided total EBT authorizations to qualified citizens in the City in the amount of approximately \$160,264,000. The revenue and expenditures associated with these federal programs are not recognized in the City's basic financial statements.

(4) State Information Technology System

On August 24, 2004, the State implemented the new Colorado Benefits Management System (CBMS), which consolidated legacy systems into one system and also incorporated a rules engine for determining eligibility and calculating and issuing benefit payments. As a result, the counties and the State split eligibility determination functions for certain federal Human Services' programs under CBMS. Counties are responsible for data collection from applicants and data entry of applicable information into CBMS. Concurrently, the State maintains the computer system supporting the eligibility determination process and pays the benefits to the participants. The actual eligibility and payment determinations became the State's responsibility utilizing CBMS, effective August 24, 2004.

CITY AND COUNTY OF DENVER, COLORADO

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2005

(5) Revolving Loan Funds

The City has certain revolving loan funds, which were originally financed with federal awards through the Community Development Block Grant Program. The outstanding balances of these loan funds (in thousands) at December 31, 2005 are as follows:

Neighborhood Development Loans	\$ 1,907,000
Economic Development Loans	49,225,000
Housing Development Loans	<u>80,109,000</u>
	131,241,000
Less allowances for uncollectibles	<u>(38,285,000)</u>
Notes receivable, net	<u><u>\$ 92,956,000</u></u>

(6) Subrecipients

Of the federal expenditures presented in the accompanying schedule of expenditures of federal awards, the City provided federal awards to subrecipients as follows:

<u>Program title</u>	<u>Federal CFDA number</u>	<u>Amount provided to subrecipients</u>
State Administrative Matching Grants for Food Stamp Program	10.561	\$ 66,111
Community Development Block Grants (CDBG)/ Entitlement Grants	14.218	2,787,855
Emergency Shelter Grants Program	14.231	263,051
Shelter Plus Care	14.238	1,713,773
HOME Investment Partnership Program	14.239	540,178
Housing Opportunities for Persons with AIDS	14.241	1,066,085
Lead-Based Paint Hazard Control in Privately Owned Housing	14.900	552,785
Offender Reentry Program	16.202	8,375
Juvenile Justice and Delinquency Prevention – Allocation to States	16.540	51,000
Byrne Formula Grant Program	16.579	421,299
Drug Court Discretionary Grant Program	16.585	110,427
Local Law Enforcement Block Grants Program	16.592	15,000
One-Stop Career Initiative	17.257	351,759

CITY AND COUNTY OF DENVER, COLORADO

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2005

Program title	Federal CFDA number	Amount provided to subrecipients
Workforce Investment Act Cluster	17.258/17.259/17.260	\$ 1,610,702
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261	8,447
Youth Opportunity Grants	17.263	407,261
Incentive Grants – WIA Section 503	17.267	22,182
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers Aging Program Cluster	93.044	8,628
Consolidated Knowledge Development and Application (KD&A) Program	93.230	336,022
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243	203,074
Drug-Free Communities Support Program Grants	93.276	34,976
Promoting Safe and Stable Families	93.556	266,109
Temporary Assistance for Needy Families	93.558	2,126,251
Community Services Block Grant	93.569	679,023
Child Care Resource Development Block Grant	93.575	405,625
Refugee and Entrant Assistance – Targeted Assistance Grants	93.584	130,000
Urban Enterprise Community	93.585	8,579
Head Start	93.600	6,962,719
HIV Emergency Relief Project Grants	93.914	4,372,032
HIV Care Formula Grants	93.917	374,965
State Domestic Preparedness Equipment Support Program	97.004/16.007	58,011
Total awards provided to subrecipients		\$ <u><u>25,962,304</u></u>

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section I – Summary of Auditors’ Results

Year ended December 31, 2005

- A. The type of report issued on the basic financial statements: **Unqualified Opinion**
- B. Reportable conditions in internal control disclosed by the audit of the basic financial statements: **Yes**
Material weaknesses: **Yes**
- C. Noncompliance which is material to the basic financial statements: **No; however, we disclosed another matter in the report on compliance and other matters and on internal control over financial reporting based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*.**
- D. Reportable conditions in internal control over major programs: **Yes**
Material weaknesses: **Yes**
- E. The type of report issued on compliance for major programs:

<u>CFDA numbers</u>	<u>Name of federal program or cluster</u>	<u>Type of opinion</u>
10.551/10.561	Food Stamp Cluster	Qualification
14.218	Community Development Block Grants/Entitlement Grants	Unqualified
14.238	Shelter Plus Care	Qualification
14.239	Home Investment Partnerships Program	Unqualified
14.248	Community Development Block Grants – Section 108 Loan Guarantees	Qualification
16.606	State Criminal Alien Assistance Program	Unqualified
17.263	Youth Opportunity Grants	Qualification
20.205	Highway Planning and Construction	Unqualified
93.558	Temporary Assistance for Needy Families	Adverse
93.563	Child Support Enforcement	Qualification
93.575/93.596	Child Care Cluster	Qualification
93.645	Child Welfare Services – State Grants	Qualification
93.658	Foster Care – Title IV – E	Qualification
93.659	Adoption Assistance	Qualification
93.778	Medical Assistance Program	Adverse
97.008/16.011	Urban Areas Security Initiatives	Qualification

- F. Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: **Yes**
- G. Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- H. Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No**

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section II – Basic Financial Statements Findings and Questioned Costs

Year ended December 31, 2005

Material Weakness

No. 05-01 **Need for Improved Accounting and Reporting of Capital Assets**

Criteria: The City is a large and complex municipality with a significant amount of capital assets, including construction in progress (CIP) and infrastructure. The City prepares financial statements to reflect its financial position and results of operations and cash flows. These financial statements are presented in the City's Comprehensive Annual Financial Report, and debt offering documents, when applicable. Many users rely on the information provided in these financial statements. The City should have systems of internal accounting control which provide for proper accounting and financial reporting for capital assets. Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, provides guidance on recording and reporting capital assets.

Condition: The City, including its Airport System and Wastewater enterprise funds, did not have adequate policies, procedures, and internal controls in place to ensure capital assets were fairly stated in its financial statements.

Context: During test work, we noted the following weaknesses in the internal control structure over the capital asset accounting function:

City-wide

- The City did not properly record infrastructure assets including proper identification of all traffic signals for capitalization and accurate capitalization of bridge, street, and alley costs. The City posted adjustments of approximately \$15 million to correct these errors.
- The City did not have an adequate process to record streets donated by developers in the year the City accepted the streets.
- The City did not have a process in place to evaluate capitalization of assets funded by the Wastewater Management enterprise fund.
- The City incorrectly posted budget journal entries to CIP, which erroneously decreased this account. An adjustment of \$1.1 million was made to correct this error.
- Our expenditure testing identified certain amounts recorded in Special Revenue Funds, specifically Theaters and Arenas, that were not properly capitalized. Based on this error, the City identified other Special Revenue Fund monies for the Art Museum that had not been properly capitalized. As a result, an adjustment was made for \$19 million to correct this error.
- The City did not identify approximately \$10 million of CIP that should have been reclassified to buildings as the projects were completed and placed in service. An adjustment was made to correct this error.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section II – Basic Financial Statements Findings and Questioned Costs

Year ended December 31, 2005

- The City included certain land improvements totaling \$1.7 million that are depreciable assets in a nondepreciable asset category.

Airport System

- As of December 31, 2005, the Airport System did not reconcile its capital asset subsystem (subsystem) balances to the balances reported in the general ledger system. As a result, an audit adjustment was recorded for approximately \$26.6 million to increase capital asset balances. In addition, depreciation expense and the related accumulated depreciation were adjusted by \$3.1 million in order to correct those balances.
- During 2006, the Airport System implemented a new capital asset subsystem. When performing the system change testing, the Airport System noted a difference in depreciation expense of \$8.8 million as it related to betterments between the new system and the legacy system. The Airport System presumed the new system was calculating the depreciation correctly; therefore, they booked the \$8.8 million difference as a post-closing audit adjustment. Yet, during fieldwork, we noted that the legacy system was correct and this entry should not have been made. Therefore, the \$8.8 million post-closing adjustment had to be reversed.
- During 2005, the Airport System noted certain assets recorded within the general ledger system that no longer existed. Upon further investigation, it was noted that the assets had been replaced in 2003 and should have been removed from the books at that point in time. As a result, the remaining net book value of these assets of \$6.6 million was removed in 2005.
- Certain CIP projects that were transferred from CIP to depreciable categories during 2005 were in fact placed into service in prior years. By not placing projects into depreciable categories on a timely basis, depreciation expense was understated in previous years. The Airport recorded \$1.1 million in additional depreciation expense in 2005 to correct this error.

Wastewater Management

- As of December 31, 2005, Wastewater Management did not reconcile its capital asset subsystem (subsystem) balances to the balances reported in the general ledger system. As a result, in order to correct the balances in the general ledger system, audit adjustments were recorded for approximately \$382,000 to add additional assets and for \$924,000 to remove disposed assets to correct the capital asset balances on the general ledger. In addition, depreciation expense and the related accumulated depreciation were adjusted by \$868,000 and \$793,000, respectively, in order to correct those balances.
- The Collection Infrastructure System currently does not allow Wastewater Management to monitor the system to determine which portions have been replaced, if any. Currently, additions are made to the system without consideration if the new

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section II – Basic Financial Statements Findings and Questioned Costs

Year ended December 31, 2005

addition is replacing a portion of the system that still has a balance on the books, or if it is a new addition to the collection system. Per discussion with the controller, he is not aware of any major replacement projects; yet, as infrastructure begins to age, the need for replacement of a portion of the system should become more frequent.

Cause: The City has not developed and implemented policies, procedures, and controls to ensure capital assets are properly recorded in the financial statements.

Effect: Audit adjustments were posted by the City, Airport System, and Wastewater Management to correct capital asset balances.

Recommendation: The City should develop and implement policies and procedures and related controls within its agencies, including the Department of Public Works, Airport System, Wastewater Management, and other City agencies to ensure capital assets are fairly stated and properly reported in the financial statements. These City controls should include appropriate reviews of infrastructure and CIP balances to ensure proper accounting and financial reporting.

The Airport System should strengthen its controls over the capital asset accounting function by establishing a reconciliation of its capital asset subsystem to the general ledger system; a review of the remaining useful lives when betterments are added to preexisting assets; a formal review procedure of the projects within the CIP account; and a review of new major capital additions to determine if the new asset is replacing a previous asset.

Wastewater Management should reconcile its capital asset subsystem to the general ledger system and ensure all necessary reconciling entries are recorded timely and any differences between the two systems are promptly investigated and resolved. Wastewater Management should also implement a system which allows it to track additions to the Collection Infrastructure System by an easily identifiable unit. When a new significant capital addition is made to the collection system, a review should be performed to determine if the new addition is replacing a previous unit of the Collection Infrastructure System. This review should include: (1) determining if the addition is replacing an existing unit of the system; (2) verifying that the existing unit, once replaced, has been removed (including accumulated depreciation) from the capital asset subsystem and general ledger, and (3) verifying that this process is performed timely and accurately.

*Views of
Responsible
Officials and
Planned
Corrective Action:*

City-wide

The City agrees with the comment. The City will develop and implement a fiscal accountability rule and procedures for capital assets by October 31, 2006. The rule and procedures will include controls to ensure the accuracy of the balances, regular communication between program management and financial staff, a quarterly review of the infrastructure and CIP, and regular adjustments as necessary.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section II – Basic Financial Statements Findings and Questioned Costs

Year ended December 31, 2005

Denver International Airport

Denver International Airport management agrees with the comment. They have strengthened the control over the capital asset accounting function by establishing a reconciliation of the capital assets subsystem to the general ledger. The Airport is in the process of upgrading the accounting system that will increase controls. The Airport implemented a policy in 2004 to review and record all CIP and was caught up in the first quarter of 2005 and will continue to review the new major capital additions to determine if the asset is replacing an existing asset. The Airport will increase staff training related to fixed assets accounting.

Wastewater Management

Wastewater Management agrees with the comment. During 2005, Wastewater Management implemented a new fixed asset subsystem. The timing of bringing this system online at year end, in conjunction with problems associated with the City's upgrade to its financial software, interfered with Wastewater Management performing its capital asset subsystem reconciliation in its usual timely manner. This is not expected to be the case in future periods and a subsystem to general ledger reconciliation will be performed on a timely basis.

Wastewater Management will work with the City GIS department to define a realistic "easily identifiable unit" and determine the completeness of the collection system infrastructure captured in the GIS database. Wastewater Management will develop procedures to review completed projects for the purpose of identifying deletions to the Collection Infrastructure System and determining quantities and book values to be deleted.

Contact Person: Beth Machann, Controller

Other reportable conditions, all of which have been discussed with the appropriate members of management, are summarized as follows:

Reportable Conditions

No. 05-02 Accounting and Financial Reporting

Criteria: The City Auditor's Office prepares a Comprehensive Annual Financial Report (CAFR) to reflect its financial position, results of operations, and to provide other relevant financial information to its constituents. The City should have systems of internal accounting control which provides for an adequate management review of its financial reporting process.

Condition: While the City implemented a management review process of its annual financial statements, the process did not identify certain errors in the City's trial balances and CAFR, including unreconciled or inaccurate financial statements, footnotes, and schedules.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section II – Basic Financial Statements Findings and Questioned Costs

Year ended December 31, 2005

Context:

During our 2005 audit, we noted the following:

- The CAFR was not prepared in a timely manner to allow for effective review by parties independent of the preparer. Specifically, we noted that the CAFR reviewed by the controller and by Treasury was not complete to allow for an effective review. The CAFR did not include complete government-wide financial statements as well as Management's Discussion and Analysis.
- The City audit began in March 2006. The City informed us that as of March 10, 2006 its books and records were closed except for normal year-end accrual adjustments such as legal and workers' compensation. However, subsequent to March 10, 2006, the City recorded 25 adjustments varying from \$100,000 to \$100 million. These adjustments exclude those of Denver International Airport, Wastewater Management, Environmental Services, and Deferred Compensation. Certain entries were identified by the City and others were identified by KPMG.
- The City does not have a regular process in place to adequately explain variances in financial statements line items year over year.
- Reconciliation analyses of capital assets and due from other governments and intergovernmental revenue were not completed in a timely manner. As a result, the City recorded adjustments after March 10, 2006 for capital assets in excess of \$120 million (approximately \$100 million was a reclass from construction work in progress to buildings) and \$23 million for intergovernmental revenue.
- Donated bridges were not properly recorded in the government-wide financial statements and in the reconciliation to the fund-level statements. An adjustment was made for \$32 million to correct this error.
- Timely reconciliations of the payroll and accounts payable warrant accounts and the payroll agency fund were not completed.
- The City did not properly evaluate the compensated absences accrual for employees with leave in excess of the maximum hours allowed. Portions of the accrued sick leave for policemen was recorded in both compensated absences and the payroll accrual. The City did not correct the error of \$1 million.
- The legal liability was not properly recorded based on the attorney response. An adjustment was made for \$900,000.
- Restricted net assets for E-911 monies were not properly identified and a reclassification of net assets was made for \$10 million. Restricted net assets for capital projects were not properly identified. Also, a reserved fund balance reclassification for \$74 million was not made for notes receivable.
- The reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds to the Statement of Activities was not complete and accurate. The City made adjustments for notes payable, principle retirement on

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section II – Basic Financial Statements Findings and Questioned Costs

Year ended December 31, 2005

bonds, donations of capital assets, and capital outlay to properly reflect the reconciliation. The City could not completely reconcile capital outlay expenditures to the reconciliation.

- The Fire and Police Pension Association (FPPA) retirement contribution in the notes to the financial statements was not updated from the 2004 figure. An adjustment to the notes to the financial statements was made. The City also did not properly record the FPPA contribution and expense in the proper fund. An adjustment was made to record this activity in a Special Revenue fund instead of an Agency fund.
- The Budgetary Comparison Schedule for the General Fund did not reconcile to the financial statements. The City adjusted the schedule.
- The major fund analysis was not properly updated. The City's analysis indicated that the Excise Tax Revenue Fund was a major fund. However, the City's analysis erroneously included proceeds from the bond refunding transaction. This analysis was not reviewed by someone independent of the preparer.
- Various other differences in the financial statements and notes were identified and corrected by the City.

Cause: In November 2005, the City upgraded its PeopleSoft system. This upgrade required various accounting and financial reporting resources that were not fully available to the CAFR and closing process. Also, there was not an adequate and timely management review process over the financial statements.

Effect: Failure to ensure adequate management review of the annual report could result in errors in financial reporting. Several changes and adjustments were made to the financial statements.

Recommendation: The City should improve its financial reporting to:

- Prepare financial statements and account reconciliations in a timely manner.
- Develop and implement accounting and financial reporting policies and procedures, including relevant management review of key financial information.
- Develop and implement the use of a financial reporting checklist that incorporates applicable accounting and reporting standards.
- Implement controls over the year-end closing process to ensure responsibilities are adhered to and completed in accordance with the City's closing plan.
- Develop and implement a financial reporting tie-out process for the CAFR such as a financial statement binder that cross references to supporting documentation and a reference guide that reminds reviewers of financial statement relationships.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section II – Basic Financial Statements Findings and Questioned Costs

Year ended December 31, 2005

- Assign responsible persons to prepare and review aspects of the CAFR and individuals who are responsible for reviewing the complete CAFR.
- Require key management personnel, including departments and agencies to certify that their portions of the CAFR is accurate, complete, and fairly presented, and take responsibility for maintaining and evaluating “disclosure controls and procedures.”

*Views of
Responsible
Officials and
Planned
Corrective Action:*

The City agrees with the comment. City management takes financial reporting very seriously and has made significant progress in producing the Comprehensive Annual Financial Report when compared to past years. The City has a legally required annual reporting deadline of July 31, as established by state law, and has never missed this deadline. Coordination with the City agencies involved in providing information necessary for the CAFR was noticeably improved due to the regular meeting of the Financial Reporting Committee and having a City controller in place for the entire process. In addition, agencies were required to submit a Year-End Reporting Package that began assigning accountability and awareness on the importance of accurate financial reporting. The City established strict deadlines including an internal review; unfortunately, these deadlines were not always met due to certain unforeseen circumstances, which included:

- Separate reports of individual funds were not complete (see other findings in this management letter); the last such report was not final until mid-June.
- Staff resources that normally would have been working on the CAFR had to be diverted to work on issues related to the City’s recent PeopleSoft upgrade.

The Auditor’s Office and the City controller will work jointly to establish a mid-year close process, enhance its reporting processes, and ensure a timeline for an internal review.

Contact Person: Beth Machann, Controller

No. 05-03 Deferred Compensation Fund Financial Reporting

Criteria: The City prepares financial statements for its Deferred Compensation Plan (the Plan) to reflect its financial position. These financial statements are presented in the Deferred Compensation Plan Trust Fund Report and the City’s Comprehensive Annual Financial Report. Many users rely on the information provided in these financial statements. The City should have systems of internal accounting control which provide for preparation of the report and adequate management review to provide effective financial reporting.

Condition: The City did not have an adequate financial reporting process in place to prepare the 2005 Plan financial statements, including a proper and timely review of the 2005 Plan activity to ensure it was properly compiled in the year-end financial statements. The City obtains Plan statements at the end of the fiscal year from its Plan administrators and relies on these Plan

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section II – Basic Financial Statements Findings and Questioned Costs

Year ended December 31, 2005

administrators and the external auditors to assist in drafting the financial statements. Also, the City does not review detail from the Plan statements and was unable to properly classify certain investment activity.

Context:

During our audit, we noted:

- The City did not have an adequate financial reporting process in place to timely obtain Plan statements and compile the Plan financial statements. The City did not have a proper understanding of the Plan statements necessary in order to prepare the 2005 financial statements.
- The City did not exclude certain investments held as annuity contracts from the Statement of Net Assets of the Plan. An adjustment of \$5.3 million was made to properly reflect Plan assets.

Cause:

The City did not have an adequate financial reporting process for the Plan.

Effect:

The City was not able to provide a timely draft of the 2005 Plan financial statements. Also, adjustments were made to the Plan financial statements.

Recommendation:

The City should develop and implement procedures over financial reporting for the Plan. Specifically, the City should:

- Clearly define accounting and financial reporting roles, including responsibility for reviewing Plan financial statements.
- Ensure those responsible for financial reporting receive proper training and applicable authoritative guidance.
- Develop and implement accounting and financial reporting policies and procedures, including a financial reporting checklist, and relevant management review of key financial reports and unusual/infrequent transactions.
- Improve communication between Plan administrators and those responsible for financial reporting.

*Views of
Responsible
Officials and
Planned*

The City agrees with the comment. The City will develop and implement procedures related to the Plan report, including receipt of complete financial records from the Plan administrators, a financial reporting checklist, and management review of the report.

Corrective Action:

Contact Person:

Beth Machann, Controller

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section II – Basic Financial Statements Findings and Questioned Costs

Year ended December 31, 2005

No. 05-04

Environmental Services Financial Reporting

- Criteria:* The Department of Environmental Health (the Department) prepares financial statements to reflect its financial position, changes in financial position, and cash flows. These financial statements are presented in the Environmental Services Enterprise Fund Report and the City’s Comprehensive Annual Financial Report. Many users rely on the information provided in these financial statements. The Department should have systems of internal accounting control which provide for segregation of duties and adequate management review to provide effective financial reporting.
- Condition:* The Department did not have an adequate management review of its 2005 annual Environmental Services financial statements after audit adjustments were made to the basic financial statements. Environmental Services did review the first draft of its report.
- Context:* During our audit, we noted that the Department did not have an adequate management review of the Environmental Services financial statements after audit adjustments were made. Certain discrepancies were noted in the financial statements, including balances in Management’s Discussions and Analysis and footnotes that did not agree to the basic financial statements. There were errors in the classification of net assets in the basic financial statements. Also, certain footnotes were not updated for 2005 activity.
- Cause:* Management’s Discussion and Analysis and footnotes to the financial statements were not updated to reflect the adjustments made to the basic financial statements as a result of our audit. Also, a review of changes to the financial statements was not performed by someone independent of the preparer.
- Effect:* Failure to update adjustments throughout the financial statements and lack of adequate management review of the financial statements could result in errors or irregularities in financial reporting.
- Recommendation:* The Department and the City should develop and implement review procedures over the Environmental Services Fund financial reporting.
- Views of Responsible Officials and Planned Corrective Action:* The Department of Environmental Health agrees with the comment. The Department and the City will develop and implement review procedures covering the Environmental Services Enterprise Fund financial reporting by September 30, 2006. Prior to submitting revised financial statements for this fund and its accompanying notes to the auditors, the Department’s controller will send them to the Division director (subject matter) and the City controller (numbers) for review.
- Contact Person:* Beth Machann, Controller

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section II – Basic Financial Statements Findings and Questioned Costs

Year ended December 31, 2005

No. 05-05 Wastewater Management Enterprise Fund (Wastewater Management) Financial Reporting

Criteria: Wastewater Management prepares its financial statements to reflect its financial position, results of operations, and cash flows. Wastewater Management should have systems of internal accounting control which provides for proper preparation of the financial statements and adequate management review to provide effective financial reporting.

Condition: Due to an illness in the family of the controller, Wastewater Management did not have adequate resources with requisite technical expertise to prepare its financial statements and facilitate an audit process. Wastewater Management also did not have a management review of its annual financial statements.

Context: During our review of the Wastewater Management’s financial statements, we noted there was no review performed by anyone other than the preparer. In addition, during the course of the audit, the controller was absent due to an illness in the family. During his absence, there was no other Wastewater Management employee that was knowledgeable of the complete financial reporting process. Therefore, the financial reporting process was delayed until the return of the controller. In addition, several audit issues could not be resolved by the Wastewater Management employees during the controller’s absence.

Cause: Wastewater Management did not have adequate resources with requisite technical expertise to prepare its financial statements and facilitate an audit process. In addition, an adequate process was not in place that allowed for a review of the financial statements once prepared.

Effect: Wastewater Management recorded adjustments to its financial statements and note disclosures.

Recommendation: Wastewater Management should educate one of its employees, other than the controller, of the financial reporting and audit processes. This person should assist the controller in his duties during the year so that this employee could perform such duties if the controller was absent. In addition, the controller should train this employee to prepare the annual financial statements.

Once the annual financial statements are prepared, the controller (or, if prepared by the controller, someone knowledgeable of the financial reporting process) should perform a review of the financial statements upon completion. This review should include:

- Ensuring amounts reported are consistent throughout Management’s Discussion and Analysis, the financial statements, and the notes to the financial statements
- Performing an analytical review of balances, requesting explanations for unusual or significant fluctuations from the prior year
- Ensuring any new technical literature has been properly implemented

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section II – Basic Financial Statements Findings and Questioned Costs

Year ended December 31, 2005

- Reviewing cash flow analysis to ensure correctly prepared
- Other procedures to ensure financial reporting package is complete and accurate

*Views of
Responsible
Officials and
Planned
Corrective Action:*

The City agrees with the comment. It should be noted that the facilitation of the audit process was hampered by a series of setbacks associated with the City’s implementation of a major upgrade to its financial software during the fourth quarter of 2005. Wastewater Management will make an effort to more fully involve the senior accountants who report directly to the agency controller in the year-end closing process and report preparation. Additionally, procedures will be developed to provide an additional level of Wastewater Management review of the financial statements.

Contact Person: Beth Machann, Controller

No. 05-06 Accounting for Debt Transactions

Criteria: The City has over \$1 billion of long-term obligations in its governmental activities and over \$4 billion of long-term obligations in its business-type activities. The City utilizes its Debt Management System to track its obligations and record activity in the general ledger. GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, establishes standards of accounting and financial reporting for current refundings and advance refundings resulting in defeasances of debt reported by proprietary activities.

Condition: The City did properly record a principal payment in the general ledger and apply GASB Statement No. 23 to its excise tax refunding issuance.

Context: During our debt test work, we noted the following exceptions:

- The City did not post a \$14,360,000 certificate of participation (COP) principal payment to the general ledger. The amount was posted to Treasury’s Debt Management System (DMS). An audit adjustment was made to correct this.
- The City did not calculate and record a deferred gain on its excise tax refunding transactions in 2005. An audit adjustment for \$3.1 million was posted to correct this error.

Cause: The City did not have proper controls over accounting and financial reporting of its long-term obligations.

Effect: The City recorded adjustments to properly reflect its long-term obligations in the general ledger and apply generally accepted accounting principles.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section II – Basic Financial Statements Findings and Questioned Costs

Year ended December 31, 2005

Recommendation: The City should implement procedures to ensure accounting principles are properly implemented for refunding debt issuances and ensure principal payments are properly posted to the general ledger throughout the year.

Views of Responsible Officials and Planned Corrective Action: The City agrees with the comment. The City did record the \$14,360,000 COP principal payment as an expenditure in the general ledger; however, the City did not post the payment in the long-term debt group of accounts. The City did not identify the omission of this payment from the general long-term debt group of accounts prior to the auditor’s test work. In addition, the City understands that GASB Statement No. 34 requires governmental funds to report deferred gains/losses on debt refundings. Calculations of deferred gains/losses will be performed on future refunding transactions, then amortized and recorded in the general ledger.

The City will develop written procedures to accurately and timely record and subsequently reconcile outstanding liabilities as maintained on Treasury’s debt management software (DBC) to the general ledger and, if appropriate, to an external trustee/paying agent. For example, the outstanding principal balances for COPs will be reconciled to Trustee balances. The outstanding principal balances for variable-rate issues will be reconciled to Paying Agent Records. The outstanding principal balances for fixed-rate issues will be reconciled to the Bloomberg database. In addition to periodic reconciliations during the year as warranted, final reconciliations will be completed no later than the year-end close.

In addition to the reconciliation of outstanding payments of principal and interest, the City’s written procedures will require the reconciliation of additions and deletions of long-term liabilities resulting from the execution of new transactions to ensure that the information in DBC reconciles to the general ledger and has been properly recorded in a complete, accurate, and timely manner.

The City’s written policies will require the review and sign-off on debt-related journal entries and subsequent reconciliations by the appropriate management staff in the Treasury Division.

Contact Person: Beth Machann, Controller

No. 05-07 Weaknesses in Information Technology General Controls

Criteria: General controls are policies and procedures that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. General controls commonly include controls over data center and network operations; system software acquisition and maintenance; access security; and application system acquisition, development, and maintenance.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section II – Basic Financial Statements Findings and Questioned Costs

Year ended December 31, 2005

Condition: We noted conditions that indicated weaknesses in the City’s information technology general controls, including logical and physical access controls, program and system change controls, program development and acquisition controls, and computer operation controls, including backup and recovery and problem management. We also noted a lack of periodic review of application, data center and system access, of network, application and system security settings (e.g., system password configurations, use of generic IDs, etc.), and removal of terminated employees’ system and application access.

Context: Certain conditions we noted during our audit included the following:

- There were inadequate controls over implementation of information technology security policies, which may impact the integrity and availability of system and application resources.
- There were inadequate controls over logging, monitoring, and reporting security activity which may result in a failure to detect and address potential violations in a timely manner to reduce the risk of unauthorized/inappropriate access to the organization’s relevant financial reporting systems, applications, or data.
- There were inadequate controls over user account administration, reviews of appropriateness of access, and segregation of duties, which may result in inappropriate or fraudulent access to programs and data.
- There were inadequate controls over program changes which may cause unauthorized, inappropriate, or inaccurate changes in the systems that support financial reportings, which may impact the completeness and accuracy of data, and may diminish the reliance on automated/application-level controls supporting business processes.
- There were inadequate controls relating to backup and recovery, which may impact the completeness, accuracy, and availability of data, and may impact the availability of systems that support financial reporting.
- There were inadequate controls to ensure that system problems that could have an impact on the financial reporting process are identified and resolved in a timely manner that may impact the completeness, accuracy, and availability of data and may impact the availability of systems that support processes relating to financial reporting.

Cause: The City has not developed procedures and related controls to ensure compliance with Information Technology (IT) policies across applications, systems, data centers, and departments.

Effect: Failure to ensure adequate general controls are in place and operating effectively could impact proper operation of, and appropriate access to, information systems.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section II – Basic Financial Statements Findings and Questioned Costs

Year ended December 31, 2005

Recommendation: The City should continue to develop and implement standard general IT control policies and procedures throughout its departments and agencies for each system, data center, and application that are used in financial reporting processes or support financial reporting systems. The City should also develop and implement procedures to ensure individual departments and agencies are complying with minimum general IT control requirements.

Views of Responsible Officials and Planned Corrective Action: The City agrees with the comment. The findings provided a confirmation of the issues brought to light during the city-wide Technology Services consolidation initiative. Technology Services has made tremendous gains in the past 24 months by taking a decentralized and fractured technology environment and building it into a centralized service oriented organization with a focus on professionalism, accountability, and product delivery.

The city-wide Technology Services consolidation initiative has provided a foundation for implementing best practice standards across the enterprise and continues producing risk reduction benefits. This important initiative has allowed us to bring many decentralized IT entities into close scrutiny, and on a daily basis we are discovering opportunities for process and efficiency improvement. We are now beginning to realize new abilities for enterprise program development, unified organizational policy, improved internal controls, and economies of scale.

The Chief Information Officer has assigned a project manager from the Program Management Office to develop a project plan outlining the remediation steps necessary to address each of the audit conditions noted. The plan will be in place by August 15, 2006 and will spawn individual project plans for the more complex issues.

We are currently undergoing the second recruitment cycle for an Information Technology Security Manager, and hope to secure approval for a Director of Applications by July 15, 2006. The IT Security Manager will be responsible for populating our Operations Manual with the appropriate security policies and procedures to reduce our risk around network and application security. The Enterprise Resource Planning System (ERPS) team is evaluating the security model and business process for defining and applying security access. The Director of Applications will be responsible for documenting the Software Development Life Cycle (SDLC) in our environment and adding that documentation to the Operations Manual. In addition, the Director of Applications will continue to improve our organizational maturity as measured through a maturity model approach. These improvements will include change management, problem resolution, and build/buy decision matrices. The operations teams will work closely with the new Director of Applications to align their service delivery model with the application development and delivery processes. The operations team has also requested a position to be responsible for data center management and access policies and procedures. This person will also implement a change request and change management process related to the data centers.

Contact Person: Beth Machann, Controller

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section II – Basic Financial Statements Findings and Questioned Costs

Year ended December 31, 2005

Other Matter

No. 05-08 Old Age Pension and Aid for Needy and Disabled State Programs

Type of Finding: Other Matter

Grant No.: Not applicable

Criteria: The Colorado Department of Human Services establishes eligibility criteria for the Old Age Pension and Aid for Needy and Disabled State programs.

Condition: The City’s Department of Human Services did not have adequate controls over eligibility determination and monitoring for the Old Age Pension and Aid for Needy and Disabled State Programs.

Questioned Costs: \$100,000 over a number of years (as determined by the City’s preliminary investigation).

Context: During the prior year audit, the City disclosed to us that an internal Department of Human Services investigation determined that an employee allegedly manipulated eligibility data, which resulted in former welfare recipients receiving benefit payments from the Old Age Pension and Aid for Needy and Disabled State Programs. During portions of 2004 and 2005, the employee allegedly issued benefits payments to persons who should not have received benefits and also to people who were deceased. These benefits payments allegedly were paid to the employee.

Effect: By not implementing adequate controls over eligibility and monitoring, the Department of Human Services could have incorrectly approved ineligible applicants and allowed benefit payments to be made to a City employee.

Cause: The City did not have adequate procedures and controls to ensure benefits were paid to eligible persons.

Recommendations: We recommend the Department of Human Services work with the State to evaluate and strengthen its current processes and controls for reviewing and monitoring eligibility determinations and related benefit payments.

Views of Responsible Officials and Planned Corrective Action: The City agrees with the finding. The City has taken a number of steps in response to this finding: 1) an internal fraud hotline was activated in February 2006; 2) data analysts are being hired to help in reviewing reports from CBMS to detect anomalies; 3) a department-wide fraud policy was finalized on July 12, 2006; 4) effective April 1, 2006, a quality assurance administrator was hired, and other quality assurance staff are in the process of being hired, all for the purpose of reviewing and monitoring eligibility determination and benefit payments.

In addition, the Department of Human Services will implement a reorganization in 2007 creating a new division to focus on this and other related findings. This new division of Performance Improvement and Accountability will have components that address quality

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section II – Basic Financial Statements Findings and Questioned Costs

Year ended December 31, 2005

control, quality improvement, internal audit, data analysis, document management, and privacy across all program areas. The Department of Human Services, under this reorganization, will focus on process improvement and continuous improvement for services delivered to clients.

Contact Person: Valerie Brooks, Deputy Manager

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

No. 05-09 **Food Stamps Cluster – CFDA Nos. 10.551/10.561**
Compliance Requirement: Reporting
Pass-through Colorado Department of Human Services
Grant No.: Not applicable
Type of finding: Internal control (reportable condition) and compliance (material non-compliance and qualification)

Criteria: Office of Management and Budget (OMB) No. 0584-0080 requires each issuance reconciliation point to account for benefits issued during a report period. The City must complete form FS-46 Food Stamp Program Issuance Reconciliation Report (FS-46 report) on a monthly basis and submit it to the State by the 15th of the following month.

Condition: The City does not have adequate procedures in place over the FS-46 report to ensure that the data is accurate and complete.

Questioned Costs: Not applicable.

Context: Throughout 2005, the State Colorado Benefits Management System (CBMS) did not provide the proper reports for the preparation of the FS-46 report by the City. In lieu of these reports, the City used ad hoc daily participation issuance reports from the CBMS system and modified them and sent them to the State. Although these reports were sent, they did not contain accurate information for the FS-46 reporting standard as verbally notified from the State in June 2005.

Effect: Correct information was not submitted to the State in the FS-46 report, resulting in inaccurate reporting information available to the federal agency as a result of CBMS not being able to produce the needed information.

Cause: The City was affected by the implementation of CBMS, as the system did not provide the needed reports to support the FS-46 report, and no State Food Assistance employee was able to provide information as to which reports were adequate for use in preparing the FS-46 report.

Recommendation: As CBMS did not provide accurate reports for the FS-46 report to be prepared, the City should obtain guidance from the State regarding the appropriate procedure on the preparation of the FS-46 report.

Views of Responsible Officials and Planned Corrective Actions: The Department of Human Services agrees with this finding. This was an original finding from the Management Evaluation review that was completed February 2006.

The Colorado Department of Human Services has provided verbal information to Denver Human Services, indicating that the FS-46 report will no longer be required for monthly submission, recognizing that CBMS does not provide accurate information with which to complete the report, and recognizing that the State does not use the FS-46 report in their

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

preparation of the required federal Food Stamps issuance reports. The State will issue an Agency Letter providing guidance and instructions to counties, with an effective date. Denver Human Services will continue to submit the FS-46 report until that letter is issued, and will seek additional guidance from the State, as necessary.

In addition, the Department of Human Services will implement a reorganization in 2007 creating a new division to focus on this and other related findings. This new division of Performance Improvement and Accountability will have components that address quality control, quality improvement, internal audit, data analysis, document management, and privacy across all program areas. The Department of Human Services, under this reorganization, will focus on process improvement and continuous improvement for services delivered to clients.

Contact: Toni M. Rozanski, Quality Improvement Manager

No. 05-10 **Child Welfare Services – CFDA No. 93.645**
Foster Care – Title IV-E – CFDA No. 93.658
Temporary Assistance for Needy Families – CFDA No. 93.558
Child Support Enforcement – CFDA No. 93.563
Child Care Cluster – CFDA Nos. 93.575 and 93.596
Urban Areas Security Initiative – CFDA No. 97.008/16.011

Compliance Requirement: Suspension and Debarment

Pass-through Colorado Department of Human Services

Grant No.: Urban Areas Security Initiative Grant No: 53M75717U. All others, not applicable.

Type of finding: Internal control (reportable condition and material weakness)

Criteria: Per the OMB Circular A-133 Compliance Supplement, non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of \$25,000 and all nonprocurement transactions (i.e. subawards to subrecipients). Contractors receiving individual awards for \$25,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred. The nonfederal entities may rely upon the certification unless it knows that the certification is erroneous. Nonfederal entities may, but are not required to, check for suspended and debarred parties which are listed in the List of Parties Excluded from Federal Procurement or Nonprocurement Programs, issued by the General Services Administration (GSA).

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

Condition: The City did not inquire about or obtain the suspension and debarment certifications for all of their providers/vendors expending over \$25,000 until late 2005. Per discussion with the City officials, they became aware of the suspension and debarment requirements in August 2005 and remediated the problem upon learning of the requirement.

Questioned Costs: None

Context: In performing our testwork, we noted the following:

- For the Foster Care/Child Welfare program, out of 20 contracts tested, there was one instance in which documentation could not be produced to support that either the subrecipient certified they were not suspended or debarred or that City verified the suprecipient was not suspended or debarred. Subsequent review during the audit indicated none of the 20 providers/vendors tested were suspended or debarred.
- For the Urban Areas Security Initiative program, there were 15 vendors with expenditures greater than \$25,000. Per discussion with the City Purchasing Department, they became aware of the suspension and debarment requirements for vendors with expenditures greater than \$25,000 in August 2005 and remediated the problem upon learning of the requirement. Subsequent review during the audit indicated none of the four tested were suspended or debarred.
- For all of the remaining programs, out of nine contracts tested, there were five which were procured through the City Purchasing Department and no documentation could be produced to support that either the vendor certified they were not suspended or debarred or that City verified the vendor was not suspended or debarred. Subsequent review during the audit indicated none of the nine were suspended or debarred.

Effect: By not obtaining the appropriate certifications or not reviewing the List of Parties Excluded from Federal Procurement or Nonprocurement Programs, the City may make payments to parties that are suspended or debarred from receiving federally funded contracts.

Recommendation: We recommend that the City create formal agreements with each provider/vendor, which includes a standard clause certifying that the provider/vendor is not suspended or debarred, as well as review the GSA listing to ensure compliance is maintained.

Views of Responsible Officials and Planned Corrective Actions: The City agrees with the comment and, as noted above, implemented procedures in August 2005 to ensure language is included in contracts and purchase orders certifying that the contractor/subrecipient is not suspended or debarred. In addition, the City will review the GSA listing to ensure compliance.

Contact: Beth Machann, Controller

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

No. 05-11

**Child Welfare Services – CFDA No. 93.645
Foster Care – Title IV-E – CFDA No. 93.658**

Compliance Requirement: Eligibility and Activities Allowed/Allowable Costs

Pass-through Colorado Department of Human Services

Grant No.: Not applicable

Type of finding: Internal control (reportable condition and material weakness) and compliance (material noncompliance and qualification)

Criteria:

Documentation supporting eligibility should exist and a process should be in place to maintain such documentation in client files. Documentation should support that the City met the requirements of the program, including reviewing the Family Services Plan for each case in conjunction with the caseworker and supervisor every 90 calendar days (State Staff Manual Volume 7: §7.301.3 Family Services Plan Review and Updates).

Condition:

Documentation to support eligibility and allowable costs related to the above requirements was missing in certain Child Welfare/Foster Care case files.

Context:

We inspected 50 case files for evidence of four Family Services Plan Reviews occurring every 90 days or less, Court Reviews (same as a Family Service Plan Review), or a six-month Administrative Review conducted by the State, which can substitute for a Family Service Plan Review or Court Review. Upon inspection of the 50 case files, we noted the following exceptions:

- 14 instances in which the case file was reviewed during each of the quarters in 2005; however, because of the timing of those reviews, a period of more than 90 days passed before a review was conducted.
- Eight instances in which case file contained no documentation for one or more Family Service Plan Reviews, Court Reviews, or Administrative Reviews.
- Eight instances in which the reviews were not signed and dated by the caseworker and supervisor.

Questioned Costs:

Unknown

Effect:

Unallowable costs can be incurred when documentation does not exist to support eligibility. By not obtaining proper documentation and conducting supervisory reviews within the 90-day timeframe, documentation may not exist to support eligibility and unallowable costs may be incurred.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

Cause: The City did not have adequate procedures to ensure eligibility determinations are proper and that costs are allowable.

Recommendation: We recommend that the City establish the necessary internal control tracking and monitoring mechanisms to ensure the review process is operating effectively.

Views of Responsible Officials and Planned Corrective Actions: The Department of Human Services agrees with this finding. This has also been a finding in previous audits. Volume VII regulations allow Court Reports and Administrative Review Findings to substitute for 90-day reviews but the department has little control over when these are scheduled, which makes it difficult for the timing of the 90-day reviews. The Family & Children’s Division will institute a computerized tracking system to assist supervisors with compliance. Additionally, the division may seek a waiver from State Human Services to allow Team Decision making meetings to substitute for 90-day reviews, which will alleviate duplicate work for staff and still meet the regulatory requirements.

In addition, the Department of Human Services will implement a reorganization in 2007 creating a new division to focus on this and other related findings. This new division of Performance Improvement and Accountability will have components that address quality control, quality improvement, internal audit, data analysis, document management, and privacy across all program areas. The Department of Human Services, under this reorganization, will focus on process improvement and continuous improvement for services delivered to clients.

Contact: Allan Pollack, Director of Family and Children’s Services

**No. 05-12 Child Welfare Services – State Grants – CFDA No. 93.645
Foster Care – Title IV-E – CFDA No. 93.658**

Compliance Requirement: Special Tests and Provisions

Pass-through Colorado Department of Human Services

Grant No.: Not applicable

Type of finding: Internal control (reportable condition and material weakness) and compliance (material noncompliance and qualification)

Criteria: Per the Department of Human Services Staff Manual, Section 7.000.6, County Responsibilities, the county department shall ensure that all experienced social caseworkers who work with children, youth, and families complete at least six hours of ongoing in-service training per year. Further, the county department shall ensure that all

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

newly hired social caseworkers who work with children, youth, and families complete 60 hours of in-service training within the first four months of hire, wherein in-service training must be started during the first month of hire.

Condition: The City did not monitor whether its caseworkers completed the required training and certain caseworkers did not meet the minimum ongoing training requirement.

Questioned Costs: Not applicable.

Context: Of 50 caseworkers tested, we noted the following:

- Ten instances in which the employee did not attend any trainings in 2005
- Three instances in which the employee attended less than six hours of training during 2005

Effect: Caseworkers who are not properly trained increase the risk of errors in eligibility determinations and a lower quality of service to program participants.

Cause: The City did not have adequate procedures in place to ensure caseworkers are properly trained.

Recommendation: The City should develop a system to monitor the amount of annual training attended by caseworkers to ensure caseworkers are in compliance with State regulations.

Views of Responsible Officials and Planned Corrective Action: The Department of Human Services agrees with this finding. This has also been a finding in previous audits. Starting in 2006, the Family & Children’s Division began a computerized tracking system for the mandatory training hours. Quarterly reports are sent to supervisors and administrators that detail staff training hours to date so that plans can be instituted for compliance.

Contact Person: Allan Pollack, Director of Family and Children’s Services

No. 05-13 Shelter Plus Care – CFDA No. 14.238

Compliance Requirement: Subrecipient monitoring

Direct Funding from Department of Housing and Urban Development

Grant No: CO 01XC3-0367, CO 01C30-3019, CO 01C20-3016, CO 00C97-0311

Type of finding: Internal control (reportable condition and material weakness) and Compliance (material noncompliance and qualification).

Criteria: The City, as a pass-through entity, is responsible for ensuring that subrecipients expend awards in accordance with applicable laws, regulations, and provisions of contracts or grants and that data provided to the City and the federal granting agency is accurate and

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

valid. Therefore, the City must establish and implement procedures for the ongoing monitoring of their Shelter Plus Care operations to ensure these operations effectively comply with federal regulations. The City is required to monitor subrecipient activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with grant requirements and expends the funds for authorized purposes within the program.

Condition:

Although the Shelter Plus Care grant administrator conducts annual site visits for all four subrecipients and 10 shelters within the program and receives OMB Circular A-133 reports for each of its subrecipients, sufficient documentation supporting the monitoring process is not maintained to provide adequate evidence that controls are adequate and that they address the appropriate compliance requirements. Prior to September 2005, the monitoring process was primarily informal and verbal in nature. Beginning in September 2005, the City began documenting their monitoring process. There is a site visit checklist used by the grant administrator during the annual site visits; however, prior to September 2005, this checklist was not completed to document the results of the visit. Further, for all of 2005, there is no documentation of any testwork performed at the site visit or of any follow-up related to results of the site visits.

The City obtains copies of subrecipient OMB Circular A-133 reports, but the timing of the OMB Circular A-133 report is toward the end of the year, when additional funding is being requested. The OMB Circular A-133 report is not received by the City upon receipt from the subrecipient. Additionally, there is no review of these reports for findings specific to the Shelter Plus Care program nor is there any follow-up on findings, if any. We noted there were no findings in 2005 related to the City's Shelter Plus Care program.

Adequate procedures and site visits were not in place to document and ensure that subrecipients are administering federal awards in compliance with federal requirements as they apply to:

- Allowable costs and activities
- Eligibility
- Matching, level of effort, and earmarking
- Special tests and provisions for rent reasonableness, housing quality standards, and project-based rental assistance

Questioned Costs: None

Context: The City did not maintain adequate documentation of subrecipient monitoring for the program. Additionally, we tested all four subrecipient OMB Circular A-133 reports, noting none of the reports were readily available by the City, as the reports had not been received by the City. As such, none of the reports had been reviewed.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

Effect: The City was not able to adequately support monitoring of subrecipients for the grant funds paid to ensure that funds were specifically used for authorized purposes within the program.

Cause: The City did not have adequate procedures over subrecipient monitoring.

Recommendation: The City should strengthen monitoring procedures and the documentation thereof over subrecipients receiving funds for the Shelter Plus Care program as follows:

- Perform site visits and other monitoring procedures throughout the year to monitor the activities of subrecipients, as necessary, to ensure that federal awards are used for authorized purposes.
- Document results of site visits and other monitoring procedures. This documentation should include review of subrecipient internal control procedures and related testing to ensure eligibility, matching, level of effort, earmarking, and special tests and provisions for rent reasonableness, housing quality standards, and project-based rental assistance requirements for the program are in place.
- Document findings, recommendations, and related follow-up activity.
- Document review of the OMB Circular A-133 reports from each subrecipient and related follow-up if findings related to the program are noted.
- The City should consider timing when identifying procedures to be evaluated to ensure that the entire grant period is adequately monitored throughout the fiscal year as funds are disbursed. The OMB Circular A-133 reports should be received and reviewed by the City when the report is available to the subrecipients.

Views of Responsible Officials and Planned Corrective Action: The Department of Human Services agrees with this finding. Denver Human Services is committed to conducting program site visits and program monitoring a minimum of twice during each project year. The Department will strengthen its fiscal monitoring procedures and the documentation thereof over subrecipients receiving funds for the Shelter Plus Care program as follows:

- Will perform fiscal monitoring site visits of each subrecipient throughout the year to ensure that federal awards are used for authorized purposes.
- Will document results of fiscal site visits and other monitoring procedures. The documentation will include (at a minimum) review of subrecipient internal control procedures and related testing to ensure that expenditures are valid, reasonable, and allowable under the program rules and regulations.
- Will document results of program site visits and monitoring to include program internal control procedures and testing.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

- Will document findings and recommendations resulting from each program and fiscal monitoring site visit. Follow-up communication will include specific description of findings, recommendations, and requirement for subrecipient to respond to changes in policy and implementation. Staff will review to ensure required modifications are accomplished.
- Will perform related follow-up activity resulting from each fiscal monitoring site visit.
- Will implement a tracking and monitoring process related to OMB Circular A-133 audit reports for subrecipients to ensure that audit reports are requested and received within a reasonable time after the report is available to the subrecipients.
- Will document review of the OMB Circular A-133 audit reports from each subrecipient and related follow-up, if findings related to the program are noted.

Contact Person: Ben Levek, Grant Administrator

No. 05-14 Home Investment Partnerships Program (HOME) – CFDA No. 14.239

Compliance Requirement: Subrecipient monitoring

Direct Funding from Department of Housing and Urban Development

Grant No.: B-05-MC-08-0204

Type of finding: Internal control (reportable condition) and compliance (noncompliance)

Criteria: The City, as pass-through entity, is responsible for ensuring that subrecipients expend awards in accordance with applicable laws, regulations, and provisions of contracts or grants and that data provided to the City and the federal granting agency is accurate and valid. Therefore, the City must establish and implement procedures for the ongoing monitoring of the HOME program operations to ensure that these operations effectively implement federal regulations. The City is required to monitor subrecipient activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with grant requirements and expends the funds for authorized purposes within the program.

Condition: Adequate procedures and site visits were not in place to document and ensure that subrecipients were administering federal awards as they apply to during-the-award monitoring. Although the City reviewed every expenditure submitted for reimbursement by their subrecipients, the City did not monitor the subrecipients for other applicable OMB Circular A-133 requirements through reporting, site visits, regular contact, or other means

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

to provide reasonable assurance that the subrecipient administered federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements, and that performance goals were achieved.

Questioned Costs: None

Context: In performing our testwork, we could not obtain adequate documentation supporting the monitoring process during fiscal year 2005. However, during the audit process we noted that the monitoring process was implemented during fiscal year 2006. In addition, it was brought to our attention that a new program manager was hired in December 2005 and a Senior Accountant was hired in February 2006 to perform site visits on each subrecipient and to conduct financial monitoring of their accounting systems. Further, Vipheatra Dana, Accounting Supervisor, is responsible for overseeing the fiscal monitoring of the subrecipients.

Effect: Subrecipients may not be in compliance with OMB Circular A-133 compliance requirements.

Cause: The City did not have proper processes in place to monitor the subrecipients for all applicable OMB Circular A-133 compliance requirements in fiscal year 2005.

Recommendation: We recommend that the City follow through with their implementation with a formal monitoring policy that will include the following:

- Documentation of the results of site visits. This documentation should include a review of subrecipient internal control procedures and related testing to ensure all applicable OMB Circular A-133 requirements for the program are in place
- Documentation of findings, recommendations, and related follow-up activity

Views of Responsible Officials and Planned Corrective Action: The City agrees with the comment. A monitoring process and procedures for regular contact and site visits were implemented in January 2006.

Contact Persons: Stephanie Adams, Compliance Manager and OMB Circular A-133 reviews
Vipheatra Dana, Accounting Supervisor

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

No. 05-15 **Community Development Block Grants – Section 108 Loan Guarantees (HUD Section 108) – CFDA No. 14.248**

Compliance Requirement: Reporting

Direct funding from Department of Housing and Urban Development

Grant No.: B-01-MC-08-0005, B-01-MC-08-0005A, B-96-MC-08-0005A, B-95-MC-08-0005, and B-93-MC-08-0005

Type of finding: Internal control (reportable condition and material weakness) compliance (material noncompliance and qualification)

Criteria: Recipients of federal funds have certain reporting requirements that must be met to ensure that use of the funds are monitored and properly reported at the federal level. Per the City’s HUD agreement, part 6(b), “the Borrower, shall by the fifteenth day of each month, provide the Secretary with a written statement showing the balance of funds in the Loan Repayment Account and the deposits and withdrawals of all funds in such account during the preceding calendar month and a statement identifying the obligations and their assignments in the Loan Repayment Investment Account.”

Condition: Required monthly reports were not prepared or submitted to HUD for the months of January through March 2005.

Questioned Costs: Not applicable.

Context: The City did not comply with the monthly reporting requirements specified in its loan agreements with HUD for the months of January through March 2005.

Effect: HUD is not able to monitor the use of federal funds and ensure accurate recordkeeping and reporting.

Cause: City personnel were not reviewing the contracts to become aware of the requirements and they were not establishing policies and controls to ensure compliance.

Recommendation: The City began preparing and submitting these required reports in April 2005. The City should continue to review their grant agreements to ensure that all required reports are submitted on a timely basis.

Views of Responsible Officials and Planned Corrective Action: The City agrees with this comment. The City began submitting the required reports to Housing and Urban Development in April 2005 on a monthly basis.

Contact Person: Vipheatra Dana, Accounting Supervisor, Office of Economic Development

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

No. 05-16	Community Development Block Grants – Section 108 Loan Guarantees (HUD Section 108) – CFDA No. 14.248
	<i>Compliance Requirement: Cash management</i>
	<i>Direct Funding from Department of Housing and Urban Development</i>
	<i>Grant No.: B-01-MC-08-0005, B-01-MC-08-0005A, B-96-MC-08-0005A, B-95-MC-08-0005, and B-93-MC-08-0005</i>
	<i>Type of finding: Internal control (reportable condition and material weakness) and compliance (material noncompliance and qualification)</i>
<i>Criteria:</i>	As a recipient of Housing and Urban Development (HUD) Section 108 funds, cash, and investment management is a key business process of the City, critical to ensuring federal resources are adequately safeguarded and available to fund applicable projects. The City is required to invest excess funds in certain investment accounts if the balance of the excess funds exceeds \$100,000 for more than three business days.
<i>Condition:</i>	The City does not monitor the balance of its accounts to ensure funds in excess of \$100,000 are transferred to an investment account within three business days.
<i>Questioned Costs:</i>	Unknown
<i>Context:</i>	During our testwork over cash management, we noted that the City did not meet cash management requirements set forth in its loan agreements with HUD for three out of four of its bank accounts.
<i>Effect:</i>	Lack of adequate review of account balances could lead to loss of resources.
<i>Cause:</i>	The City did not have adequate procedures in place to monitor and transfer excess funds over \$100,000 to appropriate investment accounts.
<i>Recommendation:</i>	The City should implement a process to monitor cash balances for all the HUD Section 108 cash accounts and make appropriate transfers within three business days when funds exceed \$100,000.
<i>Views of Responsible Officials and Planned Corrective Action:</i>	The City agrees with the comment. The City has established a procedure to monitor the accounts to ensure compliance. In addition, the City is working with several banking institutions to find an account service that would automatically transfer funds into appropriate investment vehicles upon reaching the \$100,000 threshold.
<i>Contact Person:</i>	Vipheatra Dana, Accounting Supervisor, Office of Economic Development Laura Quintano, Senior Financial Management Analyst, Office of Economic Development

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

No. 05-17

Youth Opportunity Grants – CFDA No. 17.263

Compliance Requirement: Reporting

Direct Funding from Department of Labor (DOL)

Grant No.: AZ10127-0060

Type of finding: Internal control (reportable condition and material weakness) and compliance (material noncompliance and qualification)

Criteria: Recipients of federal funds have certain reporting requirements that must be met to ensure that use of the funds are monitored and properly reported at the federal level. Per the OMB Circular A-133 Compliance Supplement, the City is required to submit the report *ETA-9087, Youth Opportunity Quarterly Program Progress Report*.

Condition: Required quarterly reports were not prepared or submitted to the DOL during 2005.

Questioned Costs: Not applicable

Context: The City did not comply with the quarterly reporting requirements specified in the OMB Circular A-133 Compliance Supplement.

Effect: The DOL was not able to ensure accurate recordkeeping and reporting.

Cause: City personnel were not reviewing the OMB Circular A-133 Compliance Supplement to become aware of the program compliance requirements and they were not establishing policies and controls to ensure compliance.

Recommendation: The City should establish and implement proper controls and policies to ensure that reporting requirements are met and necessary reports are provided to the DOL in a timely fashion.

Views of Responsible Officials and Planned Corrective Action: The City agrees with the comment and has established proper controls and policies to ensure that the reporting requirements are met and necessary reports are provided to the DOL.

Corrective Action:

Contact Person: Jeff Fitzgerald, Operations Administrator

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

No. 05-18

Temporary Assistance for Needy Families (TANF) – CFDA No. 93.558

Compliance Requirement: Eligibility and Activities Allowed/Allowable Costs

Pass-through Colorado Department of Human Services

Grant No.: Not applicable

Type of finding: Internal control (reportable condition and material weakness) and compliance (material noncompliance and adverse)

Criteria:

The City is required to have sufficient internal controls in place to ensure that all required information regarding to the TANF case is correctly entered into the Colorado Benefit Management System (CBMS) so that proper eligibility determinations can be made by CBMS. Additionally, OMB Cost Circular A-87 requires that expenditures be supported by proper documentation. Lastly, information entered into CBMS must be supported by documentation in the file.

Condition:

The City did not implement adequate controls over the input of data into CBMS to ensure that eligibility is determined by CBMS based on complete and accurate data.

Questioned Costs:

Questioned costs are unknown as CBMS determines the monthly cash assistance benefit payments and the changes in payments due to the exceptions below cannot be determined.

Context:

We tested 25 case files for eligibility for the year ended December 31, 2005 and noted the following:

- Three cases in which redetermination form was received, but not marked as such in CBMS
- One instance of a redetermination form not being processed in CBMS timely
- Two cases with required school attendance records missing
- One instance with incomplete data entered into CBMS
- One instance with benefit payments issued after the case had been closed
- Three cases with required personal identification documentation missing
- One instance with information on application not entered into CBMS
- Six cases with one or more eligibility periods not covered by Individual Responsibility Contracts (IRC)
- Four cases with one or more Monthly Status Reports (MSR) missing
- One instance with an unsupported supplemental payment
- One instance with an address incorrectly entered into CBMS

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

- One instance with IRCs missing required language
- One instance of a child receiving TANF at the same time as Supplemental Security Income (SSI)
- Three cases with missing redetermination information
- Three cases with missing immunization records
- One instance with missing assessment form
- One instance with an exception related to the state diversion policy
- One case with participant not eligible for aid during certain periods of 2005, but received payments during this period
- Two cases with eligibility not determined within the required timeframe from the application date
- Two cases where updated information per redetermination forms was not entered into CBMS
- Two cases where application information did not agree to CBMS

Effect: By not implementing adequate controls over data input, the State's CBMS system may be determining eligibility based on incorrect or incomplete data, data could be entered that is not supported with information contained in the case file, and the ultimate benefit paid may be for the wrong amount. Additionally, not having appropriate controls in place regarding the input of payments allows the opportunity for payments that are either for incorrect amounts or not in accordance with City policy.

Cause: The City did not implement adequate internal controls to ensure 1) proper information was entered into CBMS, 2) IRCs and MSRs were being obtained for the period of benefits, and 3) eligibility was being determined in a timely basis. In certain instances, the exception was caused by CBMS, not the City. Lastly, the City received conflicting information from the Colorado Department of Human Services compared to the Office of the State Auditor's A-133 audit regarding the extent of hard copy supporting documentation required to be maintained by the City in the CBMS environment. The ongoing dialog between the City, Colorado Department of Human Services, and the Office of the State Auditor is expected to lead to an agency letter to address this conflict which is anticipated to be issued in the near future.

Recommendation: We recommend that the City implement data review procedures that require program supervisors to perform reviews of case files and retain records of the reviews. The records should include the file type, caseworker, date of review, and applicable review notes and follow up on questions as applicable. In addition, the City should develop a formal policy regarding information to be obtained and retained in the case file. Finally, the City should implement policies governing the input and authorization of supportive payments.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

*Views of
Responsible
Officials and
Planned
Corrective Action:*

The City agrees with this finding and, as stated, the department did receive conflicting information with respect to documentation required to be maintained in case comments. An agency letter is expected in the near future to clarify and define policies and procedures for counties pertaining to documents to be retained in the case files. Upon receipt of specific direction from the State on this matter, an internal policy will be drafted and implemented, and quality assurance reviews will be adjusted.

The department implemented case review and documentation policies to ensure third-party review expectations are clearly defined to workers and supervisors.

Effective September 5, 2006, the department implemented the separation of the case management functions from the eligibility determination. This decision supports the department's efforts to increase compliance of case management and eligibility functions.

In addition, the Department of Human Services will implement a reorganization in 2007 creating a new division to focus on this and other related findings. This new division of Performance Improvement and Accountability will have components that address quality control, quality improvement, internal audit, data analysis, document management, and privacy across all program areas. The Department of Human Services, under this reorganization, will focus on process improvement and continuous improvement for services delivered to clients.

Contact Person: Toni M. Rozanski, Quality Improvement Manager

No. 05-19 Temporary Assistance for Needy Families (TANF) – CFDA No. 93.558

Compliance Requirement: Special Tests and Provisions – Income Eligibility Verification System (IEVS)

Pass-through Colorado Department of Human Services

Grant No.: Not applicable

Type of finding: Internal control (reportable condition and material weakness) and compliance (material noncompliance and adverse)

Criteria:

The City is required to have adequate controls in place to ensure that the IEVS is properly included in the eligibility determination process. The Colorado Department of Human Services Staff Manual, Volume 3, Section 3.100, regulations require the City to perform the following procedures, among other things, in relation to:

- At initial application and redetermination, all applicants shall be notified through written statement provided on the application that information through IEVS will be requested and used and shall be verified through sources when discrepancies are found by the agency that might affect the assistance unit's eligibility and level of benefits.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

- All information obtained through the IEVS system should be retained or documented in the case record.
- Counties shall report the results of the verification in accordance with reporting requirements established by the state department for the IEVS.
- The County department is required to act upon information received from the Colorado IEVS within 45 days of the receipt of such information. All information obtained from IEVS, other than social security income, shall be considered unverified and subject to verification by the County office.
- All income shall be verified through the IEVS. Assistance shall not be denied, delayed, or discontinued pending receipt of information requested through IEVS if other evidence establishes the individual’s eligibility for assistance.

The IEVS application was operational from July through December 2005. The City should have been compliant with the above regulations during this time period.

Condition: IEVS was not utilized as required during 2005.

Questioned Cost: Not applicable.

Context: No information was available to test as the City was not aware that IEVS was operational beginning in July 2005.

Effect: By not using IEVS or documenting the use of IEVS, participants may have income that may make them ineligible for benefits or benefits may be overpaid to participants.

Cause: During 2004, the State noted that the IEVS module within CBMS was not functioning correctly. The module was temporarily suspended as a result. In July 2005, IEVS functionality was resumed; yet, the State did not adequately inform the City that IEVS was operational. In addition, during 2005, the City was receiving an average of 150,000 case alerts a month, making it impractical for the City to act upon the information being received.

Recommendation: The City should develop and implement a consistent process that would consider the applicable regulations, including the maintenance of appropriate documentation, the required documentation of case alerts, and a step requiring that the supervisors provide their cleared case alerts report to a centralized location and person. In addition, the City should consult with the State regarding the large number of case alerts still being received in 2006.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

Views of Responsible Officials and Planned Corrective Action: The County is developing an internal pilot at the Department of Human Services to address this comment by the end of 2006. The pilot would seek to identify the causes of the alerts with a more careful analysis of cases. The department is looking to determine how to coordinate with the State to alleviate the large number of alerts that come to Denver. By January 1, 2007, the department expects to have a full implementation plan for a new process.

Contact Person: Toni M. Rozanski, Quality Improvement Manager

**No. 05-20 Temporary Assistance for Needy Families – CFDA No. 93.558
Child Support Enforcement – CFDA No. 93.563
Child Care Cluster – CFDA Nos. 93.575 and 93.596**

Compliance Requirement: Activities Allowed/Allowable Costs

Pass-through Colorado Department of Human Services

Grant No.: Not applicable

Type of finding: Temporary Assistance for Needy Families, Internal control (reportable condition) and compliance (noncompliance, but other findings included herein result in an adverse opinion over this program)

Type of finding: Child Support Enforcement and Child Care Cluster, Internal control (reportable condition) and compliance (noncompliance, but other findings included herein result in a qualification)

Criteria: Per State of Colorado Agency Letter ABA-98-2-A, *Coding of Positions in APPLS for Welfare Reform and Cost Allocation*, there are three acceptable methods for reporting personnel costs. They are 1) 100% direct to a program; 2) 100% time reporting; and 3) Random Moment Sampling (RMS) cost pools. In order to qualify for application of the 100% direct methodology, a person must work primarily in one program, and a certification must be completed every six months and be signed by the employee's supervisor. For 100% time reporting, employees must record their time in one-hour increments each day. If an employee works on several programs, they must be included in a cost pool and distributed to the various programs through random moment sampling performed by the State.

Condition: A weakness in the City's internal control structure allowed for instances of noncompliance to occur. One of those controls was that a supervisor reviews a payroll certification listing to ensure that all employees on that list should be charged 100% to a program; yet, we noted that the report being reviewed included employees whose time was not being charged 100% to a program.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

Questioned Costs: \$48,694 was charged to the Child Care program, \$5,400 was charged to the TANF program, and \$13,026 was charged to the Child Support Enforcement program. Being that 100% time reporting was not performed, questioned costs cannot be determined.

Context: We tested nine employees for the Child Care program, 25 employees for the Child Support Enforcement Program, and seven employees for the TANF program and noted the following:

- One instance out of nine employees selected from the Child Care program in which the employee was charged 80% to the Child Care pool and 20% to the TANF pool; however, there was no 100% time reporting performed to support the actual time worked on each program.
- One instance out of 25 employees selected from the Child Support Enforcement program in which the employee provided common support to all Department of Human Services programs until retirement in April 2005. Yet, 100% of her separation payments were charged to the Child Support Enforcement pool in error.
- One instance out of 25 employees selected from the Child Support Enforcement Program in which the employee's time was tracked and charged using 100% time reporting; however, she was erroneously included on the June and November 2005 payroll certification listings. The review of this listing did not catch this error.
- One instance out of seven employees selected from the TANF program in which the employee's time was tracked and charged using 100% time reporting; however, he was erroneously included on the November 2005 payroll certification listing. The review of this listing did not catch this error.

Effect: Some programs may be incorrectly charged based on the utilization of employees in various programs.

Cause: Weaknesses in the internal controls implemented over this compliance requirement lead to instances of noncompliance.

Recommendation: The City should further strengthen controls to ensure they are in compliance with Colorado Agency Letter ABA-98-2-A, *Coding of Positions in APPLS for Welfare Reform and Cost Allocation*. These controls should include a review of final separation payments upon an employee's retirement to ensure these payments are charged to the correct programs. Finally, the City should train those supervisors performing the 100% direct charge review to search for errors within the report they are certifying.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

*Views of
Responsible
Officials and
Planned
Corrective Action:*

The Department of Human Services agrees with this finding. The Department will further strengthen controls to ensure that they are in compliance with Colorado Agency Letter ABA-98-2-A, (Coding of Positions in APPLS for Welfare Reform and Cost Allocation), by implementing additional supervisory review and approval processes for 100% of final separation payments upon an employee's separation from employment to ensure that the payments are charged to the correct program(s). The supervisory review and approval process will also extend to sampling and auditing of the regular employee payroll for verification of charging to correct program(s). The 100% direct charge certification procedure will be revised to include more explicit instructions for the managers completing that review and certification. It will also include a manager-level review and approval process upon completion and submission to the Financial Services Division of Denver Human Services.

Contact Person: June Allen, Director of Financial Services

No. 05-21 Child Support Enforcement – CFDA No. 93.563

Compliance Requirement: Special Tests and Provisions

Pass-through Colorado Department of Human Services

Grant No.: None

Type of finding: Internal control (reportable condition and material weakness) and compliance (material noncompliance and qualification)

Criteria:

Establishment of Paternity – The State IV-D agency must attempt to establish paternity and a support obligation for children born out of wedlock. The State IV-D agency must establish a support obligation when paternity is not an issue. These services must be provided for any child in cases referred to the IV-D agency or to individuals applying for services under 45 CFR section 302.33 for whom paternity or a support obligation had not been established (45 CFR sections 303.4 and 303.5). These services must be provided within the time frames specified in 45 CFR sections 303.3(b)(3) and (b)(5), 303.3(c), and 303.4(d).

Enforcement of Obligations – For all cases referred to the IV-D agency or applying for services under 45 CFR 302.33 in which an obligation to support and the amount of the obligation has been established, the agency must maintain a system for: (a) monitoring compliance with the support obligation; (b) identifying on the date the parent fails to make payments in an amount equal to support payable for one month, or an earlier date in accordance with State law, those cases in which there is a failure to comply with the support obligation; and (c) enforcing the obligation. To enforce the obligation, the agency must initiate income withholding, if required by and in accordance with 45 CFR section 303.100, and initiate any other enforcement action, unless service of process is necessary,

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

within 30 calendar days of identification of the delinquency or other support-related noncompliance, or location of the absent parent, whichever occurs later. If service of process is necessary, service must be completed and enforcement action taken within 60 calendar days of identification of the delinquency or other noncompliance, or the location of the absent parent, whichever occurs later. If service of process is unsuccessful, unsuccessful attempts must be documented and meet the State's guidelines defining diligent efforts. If enforcement attempts are unsuccessful, the agency should determine when it would be appropriate to take an enforcement action in the future and take it at that time (45 CFR section 303.6). Optional enforcement techniques available for use by the State are found at 45 CFR sections 303.71, 303.73, and 303.104.

Medical Support – The County must attempt to secure medical support information, and establish and enforce medical support obligations for all individuals eligible for services under 45 CFR section 302.33. Specifically, the State IV-D agency must determine whether the custodial parent and child have satisfactory health insurance other than Medicaid. If not, the agency must petition the court or administrative authority to include medical support in the form of health insurance coverage in all new or modified orders for support. The agency is also required to establish written criteria to identify cases not included above where there is a high potential for obtaining medical support based on: (a) available evidence that health insurance may be available to the absent parent at reasonable cost and (b) facts (as defined by the State) that are sufficient to warrant modification of an existing support order to include health insurance coverage for dependent children. For cases meeting the established criteria, the agency shall petition the court or administrative authority to modify support orders to include medical support in the form of health insurance coverage (45 CFR sections 303.31 (b)(1)-(4)).

For non-TANF cases, the agency shall petition for medical support when the eligible individual is a Medicaid recipient or with consent of the individual if not a Medicaid recipient (45 CFR section 303.31(c)).

In cases where medical support is ordered, the agency is required to verify that it was obtained. If it was not obtained, the agency should take steps to enforce the health insurance coverage required by the support order, unless it determines that health insurance was not available to the absent parent at reasonable cost (45 CFR section 303.31(b)(7)).

The agency shall inform the Medicaid agency when a new or modified order for child support includes medical support and shall provide information to the custodial parent concerning the health insurance policy secured under any order (45 CFR sections 303.31(b)(5) and (6)).

Interstate Cases – The State IV-D agency must provide the appropriate child support services needed for interstate cases (cases in which the child and custodial parent live in one state and the responsible relative lives in another state), establish an interstate central registry responsible for receiving, distributing, and responding to inquiries on all incoming interstate IV-D cases, and meet required time frames pertaining to provision of interstate

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

services. The case requiring action may be an initiating interstate case (a case sent to another state to take action on the initiating state's behalf) or a responding interstate case (a request by another state to provide child support services or information only). Specific time frame requirements for responding and initiating interstate cases are at 45 CFR sections 303.7(a) and 303.7(b)(2), (4), (5), and (6), respectively (45 CFR sections 302.36 and 303.7).

- **Interstate, Initiating** – Recipients must provide the IV-D agency or central registry in the responding state with any requested additional information or notify the responding state when the information will be provided within 30 calendar days of receipt of the request for information by submitting an updated form or a computer-generated replica in the same format and containing the same information, and any necessary additional documentation (CFR 303.7(b)(4)).
- **Interstate, Responding** – Within 75 calendar days of receipt of an Interstate Child Support Enforcement Transmittal Form, and documentation from its interstate central registry, the IV-D agency must provide location services or submit a request for information to the initiating state in accordance with 45 CFR 303.7c4. Additionally, the IV-D agency must notify the IV-D agency in the initiating state within 10 working days of receipt of new information on a case by submitting an updated form or a computer-generated replica in the same format and containing the same information.

Condition:

For all of the above Special Tests, although there appears to be some level of controls present, there were no formalized and documented controls in place. As a result, the controls may not be effective to ensure material compliance with the above regulations. In addition, for interstate, initiating cases, requests for information received from other states were discarded once fulfilled by technicians without always being documented in the Automated Child Support Enforcement System (ASCES). Therefore, as the documentation is not maintained in all instances, the population against which this requirement must be applied cannot be defined. As a result, we were unable to test for compliance.

Questioned Costs:

Not applicable.

Context:

Establishment of Paternity – The following instances of noncompliance were noted:

- Two out of 50 cases did not provide paternity and support obligations within the required time frame.

Enforcement of Obligations – The following instances of noncompliance were noted:

- Two out of 50 cases in which enforcement actions were not initiated in the required time frame.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

Medical Support – The following instances of noncompliance were noted:

- One out of 50 cases did not have determination of whether the custodial parent had satisfactory health insurance other than Medicaid.
- Seven out of 50 cases did not have the medical support obligation contained in the court order enforced.

Interstate, Initiating – When requests for information were received from other states, the requests were fulfilled by technicians and then the letters are discarded without always being documented in the ASCES. As the documentation is not maintained in all instances, the population against which this requirement must be applied cannot be defined. As a result, we were unable to test for compliance.

Interstate, Responding – The following instances of noncompliance were noted:

- Three out of 50 cases did not meet the 75 day time frame to begin location services or request information.
- Six out of 50 cases did not meet the 10 working days time frame to notify the initiating state of new information pertaining to the case.

Effect: Some cases were not in compliance with the above federal guidelines. In addition, we were unable to perform procedures over Interstate, Initiating cases.

Cause: The City did not have formal, written documented controls in place to ensure cases were being processed properly and within the time frames required.

Recommendation: The City should establish more formal controls, with appropriate documentation, to monitor client files for compliance and ensure they are completed timely within federal guidelines.

Views of Responsible Officials and Planned Corrective Action: The City agrees with the findings and has implemented a case review process for supervisors and managers to monitor case processing for the establishment of paternity, enforcement of obligations and medical support. Supervisors will randomly select cases on each Technician’s caseload to conduct reviews to ensure the timeliness of case processing. Additionally, the system generated reports will be worked by staff monitoring their caseloads, the worked reports will be turned into the supervisor at the close of each month. Supervisors will submit the completed reports to the team Operating Section Manager for review. Operating Section Managers will monitor Intake staff case listing and Referral List for timely case processing initiating paternity cases.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

The City will follow similar procedures for the Interstate, Responding, and will provide training to staff on when ACSES automatically notifies another State of new information and when they will have to do so manually. However, the City has a concern about the reliability of ACSES to function in this capacity. The State of Colorado has not provided guidance what is considered “new information” that is to be shared with other jurisdictions.

Contact Person: Elizabeth Calvert, Director of Child Support Enforcement

No. 05-22 **Child Care Cluster – CFDA Nos. 93.575 and 93.596**

Compliance Requirement: Eligibility and Activities Allowed/Allowable Costs

Pass-through Colorado Department of Human Services

Grant No.: Not applicable

Type of finding: Internal control (reportable condition and material weakness) and compliance (material noncompliance and qualification)

Criteria: The City should have processes and controls in place to ensure payments are made for eligible child care participants including retaining documentation that supports the eligibility determination and the benefits disbursed as stipulated in the Colorado Department of Human Services Staff Manual, Volume 3, Section 3.900 and 3.912, respectively, and establishing administrative controls to assure that purchased services meet the following minimum standards:

Monthly review of child’s monthly attendance record shall be submitted by the provider. If the review indicates:

- Unexplained and/or frequent or consistent absences, the county department shall take action to correct the problem or terminate the placement
- That the provider may have submitted an inaccurate report of attendance, the county department shall contact the provider and client to resolve the inaccuracy
- That either the client or the provider has attempted to defraud the program or receive benefits to which he/she is not entitled, the county department shall report that information to the appropriate legal authority as set forth in Section 3.820

Condition: Adequate procedures and controls are not in place to ensure participants are initially determined eligible and remain eligible to receive program benefits including monitoring of participant attendance. In addition, eligibility determinations are not adequately documented and documentation is not filed in a timely manner. Finally, review of attendance/provider billings was ineffective.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

Questioned Costs: Known questioned costs were \$17,296 in overpayments and \$74 in underpayments. This was calculated by determining the difference between the amount that should have been paid to the provider based on participant and provider eligibility, child attendance reports, and calculation of the parental fee deduction, compared to the amount that was actually paid. The error rate based on the number of exceptions found in the 50 cases tested was 56%. The error rate based on actual questioned cost to total dollars tested was 9.4% for overpayments and 0.04% for underpayments.

Context: The City has a compliance team that reviews child care cases each month to ensure compliance with applicable regulations. We tested 50 case reviews and noted that the compliance team identified errors; however, once the cases were reviewed, in 32 instances there was no evidence that errors were corrected and the cases were re-reviewed. In addition, we were unable to inspect any evidence that review results were sent to the trainer as outlined in City Human Services policy.

The following specific exceptions related to participant eligibility were noted across seven of the 50 case files tested:

- One instance in which part 1 of the Temporary Assistance for Needy Families (TANF) application was not included in the participant file.
- One instance in which neither part 1 nor part 2 of TANF application was included in the participant file.
- One instance in which the birth certificate of the participant was not in the participant file.
- Three instances in which one or more monthly status reports were not in the participant's TANF file.
- One instance in which the child's current immunization records were not included in the participant file.
- One instance in which the participant's income was calculated incorrectly.

The following specific exceptions related to provider eligibility were noted across 3 of the 50 case files tested:

- One instance in which the provider's fiscal agreement could not be located for period selected.
- One instance in which the provider was paid the accreditation rate when the support for the accreditation in the provider file had expired.
- One instance in which the provider's daily rate exceeded the City allowed daily rate.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

The following specific exceptions related to allowability were noted across 18 of the 50 case files tested:

- Three instances in which the provider charged more or less days than were authorized in the Child Care Automated Tracking System (CHATS).
- Eleven instances in which the parental fees calculated by CHATS and assessed by the technician were incorrect; therefore, the provider was paid the wrong amount on their billing.
- Four instances in which the parental fee calculated by CHATS was correct; however, the fee assessed by the technician was incorrect; therefore, the provider was paid the wrong amount on their billing.
- One instance in which whereby the parental fee calculated by CHATS was incorrect, but although the technician assessed the correct amount it was manually overridden on the billing in error; therefore, the provider was paid the wrong amount.

Effect: The City may not have adequate documentation to support eligibility determinations and payments made to child care providers, which may increase the City’s risk of making improper payments on behalf of ineligible children. Further, the City may not identify inconsistent billings from a provider who is submitting incorrect billings or when a client has had a change in circumstances that will impact their benefits.

Cause: There was a lack of standardized procedures to ensure consistent case file documentation, as well as a lack of adequate supervisory monitoring, and documentation of review and follow-up participant attendance monitoring of the case files.

Recommendation: The City should evaluate its current process for appropriateness under the applicable regulations and make changes as needed. Procedures for obtaining, completing, reviewing, and maintaining eligibility and attendance monitoring documents should be strengthened. The City should implement an organization wide document management program that will safeguard all required eligibility information. Such a program should be designed to track case files, ensure all required documentation is present and filed in a timely manner, and documentation of case reviews and follow-up by supervisors is maintained.

Views of Responsible Officials and Planned Corrective Action: The City agrees with this finding. Effective March 2006, the department outsourced the child care eligibility determination activities. In April 2006, the department hired a quality assurance administrator who, collectively with the QI team, has developed child care case file review procedures. Also, the department has continued throughout all of calendar year 2005 to monitor child care providers for attendance and will re-review a sample of the child care file reviews.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

The entity to which child care eligibility was outsourced will be monitored as a subrecipient and is responsible for determining eligibility, case maintenance, and case reviews.

In addition, the Department of Human Services will implement a reorganization in 2007 creating a new division to focus on this and other related findings. This new division of Performance Improvement and Accountability will have components that address quality control, quality improvement, internal audit, data analysis, document management, and privacy across all program areas. The Department of Human Services, under this reorganization, will focus on process improvement and continuous improvement for services delivered to clients.

Contact Person: Toni Rozanski, Quality Improvement Manager

No. 05-23 Adoption Assistance – CFDA No. 93.659

Compliance Requirement: Activities Allowed/Allowable Costs and Eligibility

Pass-through Colorado Department of Human Services

Grant No.: Not applicable

Type of finding: Internal control (reportable condition and material weakness) and compliance (material noncompliance and qualification)

Criteria: As stipulated in the Colorado Department of Human Services staff manual, the Department of Human Services is required to retain documentation that supports disbursements made under the Adoption Assistance program. In addition, adoption subsidy payments cannot exceed the foster care maintenance payment the child would have received in a foster home (42 USC 673(a)(3)) less \$20 monthly respite payments.

Condition: Based on our review of the case files, it was determined that documentation and/or approval required to support subsidy payments to adoptive parents were not maintained in the file. In addition, we noted certain monthly subsidies being paid did not agree to the Subsidized Adoption Agreement in the file or the payment was above the maximum monthly amount.

Questioned Costs: Known questioned costs include \$1,320 in overpayments and \$960 in underpayments. This was calculated by determining the difference between the amount agreed upon in the Adoption Review Form and the amount actually paid plus respite payments made. The error rate based on the number of exceptions found in the 50 cases tested was 12%. The error rate based on actual questioned costs to total dollars tested was 5.2% for overpayments and 3.8% for underpayments.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

- Context:* We reviewed 50 case files, noting the following exceptions:
- One instance in which the Adoption Subsidy Agreement was not signed by the program director.
 - One instance in which there was no monthly subsidy detailed in the Subsidized Adoption Agreement; therefore, the monthly subsidy being paid could not be supported by the agreement.
 - Two instances in which the amount paid to the adoptive parent did not equal to the amount agreed upon in the Adoption Subsidy Agreement.
 - One instance in which there was a change in the monthly subsidy amount, but no Adoption Subsidy Agreement to support the change in payment.
 - One instance in which a child was previously in the Foster Care program and, when adopted, the monthly subsidy being paid to the parent was not adjusted to remove the monthly \$20 respite payment.
- Effect:* Subsidy payments to adoptive parents were made without adequate or properly approved documentation. In addition, a recipient was receiving more than the maximum allowed by the regulations.
- Cause:* The City did not have adequate procedures in place to ensure adoption disbursements are properly made.
- Recommendation:* We recommend that the City evaluate and strengthen its current process for obtaining, completing, reviewing, and maintaining documentation related to eligibility and allowability. The City should implement an organization wide document management program that will safeguard all required information. Such a program should be designed to track case files, ensure all required documentation is present, and facilitate a review of cases. In addition, the City should perform a review of the file subsequent to a change in subsidy payment to ensure adoptive parents are actually paid the amount agreed upon. This review should ensure monthly payments are at least \$20 less than the maximum foster care subsidy.
- Views of Responsible Officials and Planned Corrective Action:* The Department of Human Services agrees with this finding. This has also been a finding in previous audits.
- The Adoption Subsidy Unit has just completed a review of all 1,700 adoption subsidy cases and adjusted the rates through contract negotiations with the families to ensure that the \$0.66 per day respite amount allowed in foster care has been removed from the adoption subsidy payment. We have also renegotiated subsidy contract amounts that created an automatic age increase by the Trails computer system so that no increases in rates will occur without a negotiated contract in place.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

- The review of cases has also included close scrutiny of adoption subsidy contracts to insure that all required signatures are present on the adoption subsidy contracts. All contracts now go through a review of three people when entered into the Trails system to insure that proper signatures are present and the correct rates have been entered.
- The Adoption Subsidy Unit has also instituted a process to check actual payment disbursements to the provider EBT accounts with the contracts on all new cases and any cases in which there has been a rate change. Additionally, twice per year we will check the entire payroll report for one month against all existing contracts for accuracy.

In addition, the Department of Human Services will implement a reorganization in 2007 creating a new division to focus on this and other related findings. This new division of Performance Improvement and Accountability will have components that address quality control, quality improvement, internal audit, data analysis, document management, and privacy across all program areas. The Department of Human Services, under this reorganization, will focus on process improvement and continuous improvement for services delivered to clients.

Contact Person: Allan Pollack, Director of Family and Children’s Services

No. 05-24 Medical Assistance Program – CFDA No. 93.778

Compliance Requirement: Eligibility

Pass-through Colorado Department of Human Services

Grant No.: Not applicable

Type of finding: Internal control (reportable condition and material weakness) and compliance (material noncompliance and adverse)

Criteria: The City is required to have sufficient internal controls in place to ensure that all required information regarding each potential Medicaid case is correctly entered into the Colorado Benefit Management System (CBMS) so that proper eligibility determinations can be made by CBMS. In addition, information entered into CBMS must be supported by documentation in the file.

Condition: The City does not have procedures adequately enforced over the input of data into CBMS to ensure eligibility is determined by CBMS based on complete and accurate data.

Questioned Costs: Unknown

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

Context:

We tested 27 case files for eligibility and noted the following:

- One instance in which a child's social security number was not properly input into CBMS.
- One instance in which a case was retroactively closed on 1/31/05, but client still received benefits throughout 2005.
- One instance in which benefits were received throughout 2005 and a redetermination should have been performed and was not.
- One instance in which redetermination was not processed timely.
- One instance in which either the application was not processed within 45 days or it could not be determined if the application was processed within the 45 days.
- One instance in which the application did not include required initials of the client.
- One instance in which the client was incorrectly categorized as 4-Month Extended.
- One instance in which the necessary information to be eligible for Adult Medicaid was not included in file, including proof of a social security number and proof of Colorado address.
- One instance in which refugee's birth information was obtained from a passport (as noted from CBMS), however, a copy of the passport was not included in the file.
- Three instances in which the income verification was performed, but information not input into CBMS or not input correctly.
- One instance in which verification of income amounts was not in the file or was not performed.
- One instance in which the step-father was incorrectly entered into CBMS as the child's father.

Effect:

By not implementing adequate controls over data input, the State's CBMS system may be determining eligibility based on incorrect or incomplete data or data could be entered that is not supported with information contained in the case file. Ultimately, by not having the appropriate controls in place regarding the input into CBMS, benefits could be provided to ineligible applicants or denied to eligible applicants.

Cause:

The City did not implement adequate internal controls to ensure proper information was entered into CBMS or that information entered into CBMS was properly supported by information included in the case file.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

Recommendation: We recommend that the City enforce eligibility review procedures that require case supervisors to perform reviews and retain records of the review over a representative sample. This review should include an examination of the sample files for completeness and should ensure that the information within CBMS is properly supported by information in each case file. Once a case file review is complete, proper follow-up procedures should be performed to ensure any discrepancies, inaccuracies, or missing information noted are properly resolved. The documentation of this review should include the file type, the date of review, and applicable review notes, follow-up procedures performed, and should provide adequate coverage of the caseloads across all technicians.

Views of Responsible Officials and Planned Corrective Action: The City agrees with this finding as written. A quality assurance administrator was hired and a team of program quality assurance technicians was established who collectively are developing policies and procedures addressing the Medicaid case file requirements, as well as assisting in the mandated case file reviews as a result of new documentation and case review policies. The Department of Human Services will implement a reorganization in 2007 creating a new division to focus on this and other related findings. This new division of Performance Improvement and Accountability will have components that address quality control, quality improvement, internal audit, data analysis, document management, and privacy across all program areas. The Department of Human Services, under this reorganization, will focus on process improvement and continuous improvement for services delivered to clients.

The new documentation policy requires supervisors review a random selection of cases assigned to their subordinate staff. The reviews are targeted to specific areas identified by the Quality Improvement team. Additionally, beginning June 1, 2006 all supervisors are required to conduct reviews of staff work and provide documentation to validate their activities.

Contact Person: Toni Rozanski, Quality Improvement Manager

No. 05-25 Urban Areas Security Initiative – CFDA No. 97.008/16.011

Compliance Requirement: Activities Allowed/Allowable Costs

Pass-through Colorado Department of Public Affairs – Division of Emergency Management

Grant No.: 53M75717U

Type of finding: Internal control (reportable condition)

Criteria: Per the OMB Circular A-133 Compliance Supplement, nonfederal entities are required to monitor expenditures for allowable activities and allowable costs.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

Condition: The City attends meetings with the Urban Area Working Group throughout the year to discuss plans for purchases and the allowable activities and costs therein. However, these purchase requisitions were not signed off by qualified program management to indicate their review of purchase requisitions in determining the allowability of activities and costs during the purchase requisition process.

Questioned Cost: None

Context: Per discussion with the program management and review of purchase requisitions, we noted that program management were reviewing purchase requisitions but did not sign off on these purchase requisitions as indication of their review and approval of allowability of activities and costs during the purchase requisition process. They began signing off on these in August 2005, therefore, it was not effective for the entire year. Subsequent testwork completed during the audit indicated that all items we tested were in compliance with federal guidelines for allowable activities and costs.

Effect: Purchase requisitions may be entered into the purchasing system that have not been reviewed and signed off by program management for allowable activities and allowable costs.

Cause: The City did not have controls in place for the entire year to formally review and sign off on purchase requisitions to ensure all purchase requisitions have been reviewed for allowable activities and allowable costs.

Recommendation: We recommend that the City have qualified program management personnel sign off on purchase requisitions to ensure that all purchase requisitions have been reviewed and approved for allowable activities and costs. To address this finding, management has instituted a review and sign-off process by qualified program management prospectively going forward.

Views of Responsible Officials and Planned Corrective Action: The City agrees with the comment and, as noted above, program management began signing off on the purchase requisitions in August 2005.

Contact Person: Martin Flahive, Special Assistant to the Manager of Safety

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

- No. 05-26** **Urban Areas Security Initiative – CFDA No. 97.008/16.011**
Compliance Requirement: Activities Allowed/Allowable Costs
Pass-through Colorado Department of Public Affairs – Division of Emergency Management
Grant No.: 53M75717U
Type of finding: Internal control (reportable condition) and compliance (material noncompliance and qualification)
- Criteria:* OMB Circular A-87 specifically stipulates that when employees work on multiple activities or cost objectives, a distribution of their salaries must be supported by personnel activity reports unless a statistical sampling system or other substitute system has been approved by the cognizant federal agency. Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries must be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semiannually and should be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.
- Condition:* We noted that payroll charges were not supported by the proper contemporaneous documentation and/or certification for the entire 2005 fiscal year. However, a certification from the program director confirming that each of the five staff of the program worked solely on this grant program was obtained and reviewed by KPMG subsequent to identification of this finding.
- Questioned Cost:* None due to the fact that subsequent certifications support the payroll costs charged to the grant.
- Context:* During the performance of the payroll allowability testing, the salaries and benefits of the five staff who worked solely on this federal award were not supported by periodic certifications that they worked 100% on the program.
- Effect:* The program is not in compliance with OMB Circular A-87 for properly validating payroll costs for a federal program.
- Cause:* Management was unaware of the requirements to adequately support payroll charges to federal programs on a semiannual basis.
- Recommendation:* We recommend that management prepare certifications for employees who work on a single federal award to be completed at least semiannually and signed by the employee or the employee's direct supervisor. To address this finding, management will be modifying payroll timesheets submitted and signed by both the employee and supervisor to include language certifying the employee worked 100% on the UASI program.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

Views of Responsible Officials and Planned Corrective Action: The City agrees with the comment. Payroll timesheets have been modified to include certification that the employee worked 100% on the program.

Contact Person: Martin Flahive, Special Assistant to the Manager of Safety

No. 05-27 Food Stamps Cluster – CFDA Nos. 10.551/10.561

Compliance Requirement: Special Test and Provisions: Issuance Document Security

Pass-through Colorado Department of Human Services

Grant No.: Not applicable

Type of finding: Internal control (reportable condition) and compliance (noncompliance)

Criteria: Security measures outlined in Colorado Electronic Benefit Transfer Bulletin, Volume 4, Number 3, require at least two people not from the card issuance staff to destroy the cards, record the cards that have been destroyed, and sign the Destruction Logs for EBT Cards (EBTCARD-7) report.

Condition: The destruction of EBT Cards was performed by issuance staff, and, at one site, the destruction was not being witnessed.

Questioned Cost: Not applicable.

Context: We reviewed six months of destruction logs from all three issuance sites (18 selections in total), noting each destruction log evidenced the destruction was performed and/or witnessed by issuance staff. Additionally, we noted three selections where there was no evidence of a witness to the destruction.

Effect: There was a lapse in security protocols which involved a lack of segregation of duties as the EBT cards were being destroyed by issuance staff instead of a supervisor.

Cause: The City did not have adequate controls in place to ensure that EBT cards were being properly destroyed by nonissuance staff.

Recommendation: Each EBT Card issuance site should implement procedures to ensure the destruction of cards is completed and witnessed by two nonissuance staff members.

Questioned Cost: Not applicable.

CITY AND COUNTY OF DENVER, COLORADO

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2005

- Context:* We reviewed six months of destruction logs from all three issuance sites (18 selections in total), noting each destruction log evidenced the destruction was performed and/or witnessed by issuance staff. Additionally, we noted three selections where there was no evidence of a witness to the destruction.
- Effect:* There was a lapse in security protocols which involved a lack of segregation of duties as the EBT cards were being destroyed by issuance staff instead of a supervisor.
- Cause:* The City did not have adequate controls in place to ensure that EBT cards were being properly destroyed by nonissuance staff.
- Recommendation:* Each EBT Card issuance site should implement procedures to ensure the destruction of cards is completed and witnessed by two nonissuance staff members.
- Views of Responsible Officials and Planned Corrective Action:* The Department of Human Services agrees with this finding. This was an original finding from the Management Evaluation review that was completed February 2006.
- Denver Human Services Family and Adult Division established a written policy/procedure effective February 1, 2006, The Electronic Benefits Transfer (Quest) Authorization Procedure was implemented that adequately identifies the EBT destruction process as follows:
- The issuance Supervisor will log and destroy cards on a weekly basis.
 - A nonissuance worker will witness the destruction and sign off on the destruction log.
 - Destruction logs will be sent to the DDHS Financial Services Division on a monthly basis.
- In addition, the Department of Human Services will implement a reorganization in 2007 creating a new division to focus on this and other related findings. This new division of Performance Improvement and Accountability will have components that address quality control, quality improvement, internal audit, data analysis, document management, and privacy across all program areas. The Department of Human Services, under this reorganization, will focus on process improvement and continuous improvement for services delivered to clients.
- Contact Person:* Toni M. Rozanski, Quality Improvement Manager