



**CITY AND COUNTY OF DENVER, COLORADO**

OMB Circular A-133 Report

Year ended December 31, 2004

**CITY AND COUNTY OF DENVER, COLORADO**

OMB Circular A-133 Report  
Year ended December 31, 2004

**Table of Contents**

	<b>Page</b>
Independent Auditors' 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 <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, 2004	8
Notes to Schedule of Expenditures of Federal Awards	16
Schedule of Findings and Questioned Costs	19



KPMG LLP  
Suite 2700  
707 Seventeenth Street  
Denver, CO 80202

**Independent Auditors' 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***

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, 2004, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 27, 2005, which included a reference to the reports of other auditors. Our report also included an explanatory paragraph discussing the City's implementation during 2004 of the provisions of GASB Statements No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*; No. 46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; and the provisions of GASB Technical Bulletin No. 2004-02, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*. 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 & 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 initiate, record, process, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-01 through 04-09.

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 basic 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 items 04-01 through 04-04 and 04-09 to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's basic 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 basic 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. During our audit, we noted an instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as item 04-09.

We also noted certain additional matters that we reported to management of the City in a separate letter dated July 27, 2005.

\* \* \* \* \*

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**

July 27, 2005, except for item 04-09,  
which is as of April 14, 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, 2004. 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 received \$1,953,233 in federal awards which is not included in the Schedule of Expenditures of Federal Awards during the year ended December 31, 2004. 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*.

Except as discussed in the following paragraph, 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.

We were unable to obtain sufficient documentation supporting the compliance of the City’s Commodity Supplemental Food Program (CFDA No. 10.565) and Emergency Food Assistance Program (CFDA Nos. 10.568 and 10.569) regarding eligibility and special tests and provisions as described in items 04-13 and 04-14, respectively; and Child Support Enforcement (CFDA No. 93.563) regarding special tests and provisions, as described in item 04-32 nor were we able to satisfy ourselves as to the City’s compliance with those requirements by other auditing procedures.

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).

<b>CFDA No.</b>	<b>Program</b>	<b>Compliance Requirement</b>	<b>Type of Opinion</b>	<b>Finding Number</b>
93.558	Temporary Assistance for Needy Families	Eligibility and Allowability – Pre-CBMS	Adverse	04-27
93.558	Temporary Assistance for Needy Families	Eligibility and Allowability – Post-CBMS	Adverse	04-28
93.558	Temporary Assistance for Needy Families	Special Tests and Provisions	Adverse	04-29
93.558	Temporary Assistance for Needy Families	Allowability and Eligibility	Adverse	04-30
93.558	Temporary Assistance for Needy Families	Allowability	Adverse	04-31
93.778	Medical Assistance Program	Eligibility	Adverse	04-39

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 listed in the chart below. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those federal programs.

<b>CFDA No.</b>	<b>Program</b>	<b>Compliance Requirement</b>	<b>Type of Opinion</b>	<b>Finding Number</b>
10.565	Commodity Supplemental Food Program	Special Tests and Provisions	Qualification	04-11
10.565 and 10.568/10.569	Commodity Supplemental Food Program and Emergency Food Assistance Program	Reporting	Qualification	04-12

<b>CFDA No.</b>	<b>Program</b>	<b>Compliance Requirement</b>	<b>Type of Opinion</b>	<b>Finding Number</b>
10.565 and 10.568/10.569	Commodity Supplemental Food Program and Emergency Food Assistance Program	Allowability	Qualification	04-15
10.568/10.569	Emergency Food Assistance Program	Subrecipient Monitoring	Qualification	04-16
14.238	Shelter Plus Care	Subrecipient Monitoring	Qualification	04-21
14.239	Home Investment Partnerships Program	Subrecipient Monitoring	Qualification	04-22
14.248	Community Development Block Grants - Section 108 Loan Guarantees	Reporting	Qualification	04-23
17.263	Youth Opportunity Grants	Reporting	Qualification	04-26
93.575/93.596	Child Care Cluster	Allowability and Eligibility	Qualification	04-30
93.563 and 93.575 and 93.596	Child Support Enforcement and Child Care Cluster	Allowability	Qualification	04-31
93.563	Child Support Enforcement	Special Tests and Provisions	Qualification	04-34
93.575/ 93.596	Child Care Cluster	Eligibility and Allowability	Qualification	04-35
93.645/ 93.658	Child Welfare Services - State Grants and Foster Care - Title IV-E	Eligibility and Allowability	Qualification	04-36
93.645/ 93.658	Child Welfare Services - State Grants and Foster Care - Title IV-E	Special Tests and Provisions	Qualification	04-37
93.659	Adoption Assistance	Allowability and Eligibility	Qualification	04-38
97.008/ 16.011	Urban Areas Security Initiative	Allowability	Qualification	04-41

Also, in our opinion, except for the effects of noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the City's compliance with the requirements of the Commodity Supplemental Foods Program (CFDA No. 10.565), and Emergency Food Assistance Program (CFDA Nos. 10.568 and 10.569) regarding eligibility and special tests and provisions; and Child Support Enforcement (CFDA No. 93.563) regarding special tests and provisions and 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, 2004 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 04-10, 04-18, 04-19, and 04-24.

### **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 04-10 through 04-12 and 04-15 through 04-41.

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 04-11, 04-12, 04-15 through 04-23, 04-26 through 04-32, 04-34 through 04-39, and 04-41 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, 2004, and have issued our report thereon dated July 27, 2005 which included a reference to the reports of other auditors. Our report included an explanatory paragraph discussing the City's implementation during 2004 of the provisions of GASB Statements No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*; No. 46, *Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; and the provisions of GASB Technical Bulletin No. 2004-02, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing*

*Employers.* 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.

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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

April 14, 2006,  
except for the Schedule of Expenditures  
of Federal Awards which is as of July 27, 2005

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Expenditures of Federal Awards

Year ended December 31, 2004

<b>Federal grantor program title</b>	<b>Catalog of Federal Domestic Assistance number</b>	<b>Pass-through identifying number (if applicable)</b>	<b>Expenditures</b>
<b>Department of Agriculture:</b>			
Pass-through Colorado Department of Human Services:			
Food Stamps (n)	10.551	(a)	\$ 52,879,381
State Administrative Matching Grants for Food Stamp Program:	10.561	(a)	5,585,526
Subtotal Food Stamps Cluster			<u>58,464,907</u>
Pass-through Colorado Department of Human Services:			
Commodity Supplemental Food Program (n)	10.565	(a)	1,697,666
Commodity Supplemental Food Program Administration	10.565	(a)	504,228
Subtotal Commodity Supplemental Food Program			<u>2,201,894</u>
Pass-through Colorado Department of Human Services:			
Emergency Food Assistance Program (Administrative Costs)	10.568	(a)	74,372
Emergency Food Assistance Program (Food Commodities) (n)	10.569	(a)	532,020
Subtotal Emergency Food Assistance Program			<u>606,392</u>
<b>Total Department of Agriculture</b>			<u>61,273,193</u>
<b>Department of Commerce:</b>			
Economic Adjustment Assistance – Public Works and Economic Development	11.307		103,060
<b>Total Department of Commerce</b>			<u>103,060</u>
<b>Department of Housing and Urban Development:</b>			
Community Development Block Grants (CDBG)/Entitlement Grant	14.218		15,020,229
Community Development Block Grants (CDBG)/Skyline Settlement Dollar	14.218		1,745,016
Subtotal CDBG/Entitlement Grants			<u>16,765,245</u>
Rental Housing Rehabilitation	14.230		610,065
Emergency Shelter Grants Program	14.231		458,533
Shelter Plus Care	14.238		1,558,954
Home Investment Partnerships Program	14.239		3,333,351
Housing Opportunities for Persons with AIDS	14.241		1,543,232
Community Development Block Grants/Brownfield:			
Economic Development Initiative	14.246		27,889
Community Development Block Grants – Section 108 Loan Guarantee: (HUD Section 108)	14.248		7,198,868
Lead-Based Paint Hazard Control In Privately Owned Housing	14.900		385,578
<b>Total Department of Housing and Urban Development</b>			<u>31,881,715</u>
(n) Noncash federal award			
(a) No pass-through identifying number available as program is funded through state allocation			

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Expenditures of Federal Awards

Year ended December 31, 2004

<b>Federal grantor program title</b>	<b>Catalog of Federal Domestic Assistance number</b>	<b>Pass-through identifying number (if applicable)</b>	<b>Expenditures</b>
<b>Department of Interior:</b>			
Urban Park and Recreation Recovery Program	15.919		\$ 499,743
Rivers, Trails, and Conservation Assistance	15.921		30,000
<b>Total Department of Interior</b>			<u>529,743</u>
<b>Department of Justice:</b>			
High-Intensity Drug Trafficking Area (HIDTA)/Property Confiscation	16.000		1,224,165
Pass-through Colorado Department of Local Affairs Division of Local Government: Local Domestic Preparedness Equipment Support Program	16.007	ZEM74617	10,010
Pass-through Colorado Department of Public Safety: Urban Areas Security Initiative	16.011	OPS03EU317, 04-UASI-DENVER	3,210,228
Pass-through Colorado Department of Human Services: Offender Reentry Program	16.202	PO#OE IKA NCAM0500019	18,455
Pass-through Colorado Department of Criminal Justice: Juvenile Accountability Incentive Block Grants	16.523	21-JB-1-27, 22-JB-L-2-7, 23-JB-L-2-7	547,901
Pass-through Colorado Department of Public Safety: Crime Laboratory Improvement – Combined Offender DNA Index System Backlog Reduction	16.564	2003-DN-BX-K101	386,808
Pass-through Colorado Department of Criminal Justice: Crime Victim Assistance	16.575	23-VA-2-215	25,600
Pass-through Colorado Division of Criminal Justice: Byrne Formula Grant Program	16.579	22-CH-15b-6-2	36,330
Pass-through Colorado Department of Public Safety: Byrne Formula Grant Program	16.579	23-DB-13-47-3, 24-DB-07A-45-2, 22-DB-15a-58-1, 23-DB-15A-42-1, 23-DB-04-59-4, 23-DB-04-11-2, 23-DB-04-19-4, 23-DB-15a-58-2, 24-DB-04-47-1, 24-DB-15a-58-3, 24-DB-15a-42-2,	627,575

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Expenditures of Federal Awards

Year ended December 31, 2004

<b>Federal grantor program title</b>	<b>Catalog of Federal Domestic Assistance number</b>	<b>Pass-through identifying number (if applicable)</b>	<b>Expenditures</b>
Pass-through Colorado Department of Human Services: Byrne Formula Grant Program	16.579	24-DB-04-11-3	\$ 14,624
Subtotal Byrne Formula Grant Program			<u>678,529</u>
Crime Victim Assistance/Discretionary Grant	16.582		65,062
Pass-through Colorado Division of Criminal Justice: Violence Against Women Formula Grant	16.588	22-VW-2-47, 23-VW-2-47	66,038
Grant to Encourage Arrest Policies and Enforcement of Protection Orders	16.590		248,780
Local Law Enforcement Block Grants Program	16.592		793,615
State Criminal Alien Assistance Program	16.606		997,382
Bulletproof Vest Partnership Program	16.607		23,450
Pass-through Colorado Division of Criminal Justice: Community Prosecution and Project Safe Neighborhoods	16.609	23-CP-01-1-1	428,054
Public Safety Partnership and Community Policing Grants	16.710		<u>13,929</u>
<b>Total Department of Justice</b>			<u>8,738,006</u>
<b>Department of Labor:</b>			
Pass-through Colorado Department of Labor and Employment			
Employment Service	17.207	04 KAA 0004, 05 KAA 0004	1,077,738
Disabled Veterans' Outreach Program (DVOP)	17.801	04 KAA 0004, 05 KAA 0004	40,037
Local Veterans' Employment Representative Program	17.804	04 KAA 0004, 05 KAA 0004	<u>12,565</u>
Subtotal Employment Services Cluster			<u>1,130,340</u>
Pass-through Colorado Department of Labor and Employment: Welfare to Work Grants to States and Localities	17.253	02 KAA 0025	177,788
One-Stop Career Initiative	17.257		34,090

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Expenditures of Federal Awards

Year ended December 31, 2004

<b>Federal grantor program title</b>	<b>Catalog of Federal Domestic Assistance number</b>	<b>Pass-through identifying number (if applicable)</b>	<b>Expenditures</b>
Pass-through Colorado Department of Labor and Employment:			
WIA Adult Program	17.258	03 KAA 0004,	\$ 2,746,132
WIA Youth Activities	17.259	04 KAA 0004,	2,000,116
WIA Dislocated Workers	17.260	05 KAA 0004	1,746,634
Subtotal WIA Cluster			<u>6,492,882</u>
Pass-through Colorado Department of Labor and Employment:			
Employment and Training Administration Pilots, Demonstration and Research Projects	17.261	02 KAA 0004	33,826
Youth Opportunity Grants	17.263		3,768,083
Pass-through Department of Local Affairs:			
Work Incentives Grants	17.266	J3WIG030DC, L5DPNDC	66,378
Pass-through Colorado Department of Labor and Employment:			
Veterans' Employment Program	17.802	04 KAA 0004	7,660
Homeless Veterans Reintegration Project	17.805		220,616
<b>Total Department of Labor</b>			<u>11,931,663</u>
<b>Department of Transportation:</b>			
Airport Improvement Program	20.106		12,999,695
Pass-through Colorado Department of Transportation:			
Highway Planning and Construction	20.205	11993, 12557, 12298, 13281, 13850, 13161, 13651, 13620, 12560, 14171, 14128, 14015, 14170, 13953, 20024, 14413, 14441, 14412, 14494, 14442, 14674, 14853	3,850,654
<b>Total Department of Transportation</b>			<u>16,850,349</u>

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Expenditures of Federal Awards

Year ended December 31, 2004

<b>Federal grantor program title</b>	<b>Catalog of Federal Domestic Assistance number</b>	<b>Pass-through identifying number (if applicable)</b>	<b>Expenditures</b>
<b>National Foundation on the Arts and the Humanities:</b>			
Promotion of the Humanities – Division of Preservation and Access	45.149		\$ 22,632
Museum for America Grants	45.301		27,916
<b>Total National Foundation on the Arts and the Humanities</b>			<b>50,548</b>
<b>Environmental Protection Agency:</b>			
Surveys, Studies, Investigations Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034		38,988
Pass-through Colorado Department of Public Health and Environment: Performance Partnership Grants	66.605	01 FFA 00929	24,601
Surveys, Studies, Investigations, and Special Purpose Grants	66.606		47,883
Protection of Children and Older Adults (Elderly) from: Environmental Health Risks	66.609		20,821
Pass-through Project Resources Inc: Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	204014.01-PO34	71,199
Brownfield Pilots Cooperative Agreements	66.811		16,836
<b>Total Environmental Protection Agency</b>			<b>220,328</b>
<b>Federal Emergency Management Agency:</b>			
Emergency Food and Shelter National Board Program Cluster	83.523		25,000
Pass-through Colorado Office of Energy and Management Conservation: Emergency Management Performance Grants Program Cluster	83.552	3EM71917	20,904
Assistance to Firefighters Grant Program Cluster	83.554		98,349
<b>Total Federal Emergency Management Agency</b>			<b>144,253</b>
<b>Department of Health and Human Services:</b>			
Pass-through Denver Regional Council of Governments Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers Aging Program Cluster	93.044	EX03073, EX04005	307,437
Pass-through Colorado Nonprofit Development Center: Comprehensive Community Mental Health Services for Childrer with Serious Emotional Disturbances (SED)	93.104	6H55SM5297	9,059

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Expenditures of Federal Awards

Year ended December 31, 2004

<b>Federal grantor program title</b>	<b>Catalog of Federal Domestic Assistance number</b>	<b>Pass-through identifying number (if applicable)</b>	<b>Expenditures</b>
Pass-through Colorado Department of Public Health and Environment Injury Prevention and Control Research and State and Community-Based Programs	93.136	RX FLA PPG04000210	\$ 3,025
Health Program for Toxic Substances and Disease Registry	93.161		8,782
Consolidated Knowledge Development and Application (KD&A) Program	93.230		607,833
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243		333,628
Drug-Free Communities Support Program Grants	93.276		3,568
Pass-through Colorado Department of Public Health and Environment Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	RX FFA CPD04000025, 0E-FHA-EPI05000027	10,584
Pass-through Colorado Department of Human Services: Promoting Safe and Stable Families	93.556	PO IHA CWSXO401240	643,226
Pass-through Colorado Department of Human Services: Temporary Assistance for Needy Families	93.558	(a)	21,117,628
Pass-through Colorado Department of Human Services: Child Support Enforcement	93.563	(a)	7,721,118
Pass-through Colorado Department of Human Services: Refugee and Entrant Assistance – State-Administered Programs	93.566	(a)	44,087
Pass-through Colorado Department of Human Services: Low-Income Home Energy Assistance	93.568	(a)	3,086,284
Pass-through Colorado Department of Local Affairs: Community Services Block Grant	93.569	KCS4012, KCS3012	1,146,785
Pass-through Colorado Department of Local Affairs: Community Services Block Grant Discretionary Awards – Community Food and Nutrition	93.571	F4CFN03205	11,740
Pass-through Colorado Department of Human Services: Child Care and Development Block Grant	93.575	(a)	1,226,565
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	03-IHA CFCC030101518	10,667,771
Subtotal Child Care Cluster			<u>11,894,336</u>

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

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Expenditures of Federal Awards

Year ended December 31, 2004

<b>Federal grantor program title</b>	<b>Catalog of Federal Domestic Assistance number</b>	<b>Pass-through identifying number (if applicable)</b>	<b>Expenditures</b>
Pass-through Colorado Department of Human Services-Division of Refugee Services:			
Refugee and Entrant Assistance – Targeted Assistance Grants	93.584	03IHA 00425	\$ 351,568
Pass-through Colorado Department of Human Services:			
Urban Enterprise Community	93.585	G-9501-CO-ECUR	641,043
Head Start	93.600		7,844,999
Pass-through Colorado Department of Human Services:			
Child Welfare Services – State Grants	93.645	(a)	723,964
Pass-through Colorado Department of Human Services:			
Foster Care-Title IV-E	93.658	(a)	9,102,447
Pass-through Colorado Department of Human Services:			
Adoption Assistance	93.659	(a)	4,639,515
Pass-through Colorado Department of Human Services:			
Social Services Block Grant	93.667	(a)	5,381,841
Pass-through Colorado Department of Human Services:			
Chafee Foster Care Independent Living	93.674	(a)	162,163
Pass-through Colorado Department of Health Care Policy and Finance:			
Medical Assistance Program	93.778	(a)	3,731,764
Pass-through Colorado Department of Human Services:			
Medical Assistance Program	93.778	(a)	6,140,130
Subtotal Medical Assistance Program			<u>9,871,894</u>
HIV Emergency Relief Project Grants	93.914		4,250,282
Pass-through Colorado Department of Public Health and Environment:			
HIV Care Formula Grants	93.917	03 FHA 00191, 02 FHA 00190	972,255
<b>Total Department of Health and Human Services</b>			<u>90,891,091</u>
<b>Corporation for National &amp; Community Service:</b>			
Pass-through State of Colorado Governor’s Commission on National and Community Service:			
AmeriCorps	94.006	03AC034378, 04AC045838	\$ 79,746
<b>Total Corporation for National &amp; Community Service</b>			<u>79,746</u>

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

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Expenditures of Federal Awards

Year ended December 31, 2004

<b>Federal grantor program title</b>	<b>Catalog of Federal Domestic Assistance number</b>	<b>Pass-through identifying number (if applicable)</b>	<b>Expenditures</b>
<b>Department of Homeland Security:</b>			
Transportation Security Administration DTSA 20-03-A-01854	97.000		\$ 29,083,624
Transportation Security Administration Explosives Detection Canine Team Program	97.072		240,500
Pass-through Colorado Department of Public Affairs – Division of Emergency Management State Domestic Preparedness Equipment Support Program	97.004	5EM72187C	1,989
Pass-through Colorado Department of Public Affairs – Division of Emergency Management: Urban Areas Security Initiatives	97.008	04-UASI-DENVER	13,649
Pass-through Colorado Department of Public Affairs – Division of Emergency Management: Homeland Security Grant Program	97.067	5EM72817C	38,494
<b>Total Department of Homeland Security</b>			<u>29,378,256</u>
<b>Total federal expenditures</b>			<u>\$ 252,071,951</u>

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, 2004

#### (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, 2004. The schedule does not include the \$1,953,233 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-C 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 \$151,189,000. The revenue and expenditures associated with these federal programs are not recognized in the City's basic financial statements.

#### (4) State Information Technology System

In prior years, the counties in Colorado used an array of state-owned and maintained information technology systems to document eligibility data for various Human Services federal programs. These technology systems included the Client Oriented Information Network (COIN), the Colorado Automated Food Assistance System (CAFSS), the Colorado Automated Client Tracking Information System (CACTIS), the Colorado Employment First (CEF), the Colorado Adult Protection Systems (CAPS), and the Child Health Plan Plus (CHP+). On August 24, 2004, the State implemented the new Colorado Benefits Management System (CBMS), which consolidated these 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

**CITY AND COUNTY OF DENVER, COLORADO**

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2004

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.

**(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, 2004 are as follows:

Neighborhood Development Loans	\$ 2,104,000
Economic Development Loans	49,333,000
Housing Development Loans	<u>81,962,000</u>
	133,399,000
Less allowances for uncollectibles	<u>(45,159,000)</u>
Notes receivable, net	<u><u>\$ 88,240,000</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	\$ 65,015
Community Development Block Grant	14.218	3,176,038
Rental Housing Rehabilitation	14.230	90,403
Emergency Shelter Grants Program	14.231	335,837
Shelter Plus Care	14.238	1,558,954
HOME Investment Partnerships Program	14.239	596,964
Housing Opportunities for Persons with AIDS	14.241	1,502,663
Lead-Based Paint Hazard Control in Privately Owned Housing	14.900	385,578
Rivers, Trails, and Conservation Assistance	15.921	30,000
Offender Reentry Program	16.202	16,257
Byrne Formula Grant Program	16.579	289,216
Local Law Enforcement Block Grant Program	16.592	30,000
Welfare to Work Grants to States and Localities	17.253	6,348
One-Stop Career Initiative	17.257	29,830

**CITY AND COUNTY OF DENVER, COLORADO**

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2004

<u>Program title</u>	<u>Federal CFDA number</u>	<u>Amount provided to subrecipients</u>
Workforce Investment Act Cluster	17.258/17.259/17.260	\$ 1,718,210
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261	12,788
Youth Opportunity Grants	17.263	1,604,782
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers Aging Program Cluster	93.044	139,377
Consolidated Knowledge Development and Application (KD&A) Program	93.230	380,844
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243	259,680
Temporary Assistance for Needy Families	93.558	1,989,253
Community Services Block Grant	93.569	874,330
Community Services Block Grant Discretionary Awards – Community Food and Nutrition	93.571	11,740
Refugee and Entrant Assistance – Targeted Assistance Grants	93.584	130,000
Urban Enterprise Community	93.585	453,388
Head Start	93.600	4,922,170
HIV Emergency Relief Project Grant	93.914	3,967,759
HIV Care Formula Grants	93.917	923,395
State Domestic Preparedness Equipment Support Program	97.004	1,989
Total awards provided to subrecipients		\$ <u><u>25,502,808</u></u>

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section I – Summary of Auditors’ Results

Year ended December 31, 2004

- 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	Unqualified
10.565	Commodity Supplemental Food Program	Scope limitation, Qualification
10.568/10.569	Emergency Food Assistance Program Cluster	Scope limitation, Qualification
14.218	Community Development Block Grants/Entitlement Grants	Qualification
14.238	Shelter Plus Care	Qualification
14.239	Home Investment Partnerships Program	Qualification
14.248	Community Development Block Grants – Section 108 Loan Guarantees (HUD Section 108)	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	Scope limitation, 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
97.000	Transportation Security Administration DTSA 20-03-A-01854	Unqualified
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, 2004

**Material Weaknesses**

**No. 04-01            Component Unit Evaluation**

*Criteria:* Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* (GASB Nos. 14 and 39) established standards for defining and reporting on the financial reporting entity. The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

*Condition:* The City does not have an adequate process to evaluate potential component units under GASB Nos. 14 and 39 and to reassess component units when there are significant changes in entity agreements, operations, and component unit activity.

*Questioned Costs:* Not applicable

*Context:* In 2005, the City performed a GASB No. 14 analysis that concluded that the Denver Convention Center Hotel Authority (Authority) should have been reported as a blended component unit of the City as of December 31, 2003. As a result, the City restated its 2003 financial statements for approximately \$375,000,000. The City also did not have accurate component unit evaluations for the Civic Center Office Building, Inc. and the Denver Capital Leasing Corporation.

*Cause:* The City did not have an adequate process in place to identify and evaluate potential component units.

*Effect:* The City's financial statements were restated for the component unit evaluation.

*Recommendation:* The City should develop and implement a process to identify and evaluate potential component units. In addition, a process should be established to monitor component unit activity and to reassess reporting evaluations in a timely manner when changes occur.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the comment. The Controller and the Auditor's Office have implemented changes through the Financial Review Committee to identify and evaluate potential component units by: 1) working with the City Attorney's Office to determine all new entities that may be component units, and 2) requiring additional or new information be submitted by the existing component units on an annual basis to evaluate any changes in their component unit analysis.

*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, 2004

#### **No. 04-02 Office of Economic Development Loans**

*Criteria:* The City's Office of Economic Development (OED) manages loan programs, which are funded in part by federal grants, to make loans to qualified recipients. Both program and fiscal personnel are responsible for accounting and financial reporting of these loan programs. Internal controls, which include a quality control review of loan files and a review of significant journal entries made to loan balances are critical to ensuring loan activity is accurately recorded.

*Condition:* There were inadequate controls over the OED's loan processes to ensure loan activity was properly reflected in the City's financial statements. We noted weaknesses in communications between program and fiscal staff, lack of supporting documentation for recorded loan balances, and lack of adequate management review of significant journal entries made to loan balances and the allowance for forgivable loans and doubtful accounts.

*Questioned Costs:* Not applicable

*Context:* During our 2004 audit, we noted the following:

- Eight of 63 instances in which beginning loan balances were not supported by documentation within the loan file
- Six of 63 instances in which year-end loan balances were not supported by documentation within the loan file
- 68 total instances, as identified by the OED, in which borrowers' principal payments were not posted to the general ledger
- The City did not properly record a payable to the Department of Housing and Urban Development for Section 108 loans. As a result, the City restated its 2003 financial statements for \$21,000,000.
- The OED did not properly calculate and review the allowance for doubtful accounts. The City originally reduced its notes receivable allowance for doubtful accounts by approximately \$13,000,000 due to a reassessment on Annual Cash Flow (contingent payment) loans. However, this adjustment was not properly reviewed and approved by Economic Development management. Subsequent to management review, an adjustment was made to reverse the original allowance adjustment. We also noted an allowance on one loan was recorded in two different funds.

*Cause:* The OED did not have adequate policies and procedures in place to ensure loan activity was properly reflected in the City's financial statements. Also, there was inadequate communication between OED's program and fiscal divisions and lack of proper review of significant adjustments made to loan balances.

*Effect:* The City's notes receivable balance was adjusted.

**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, 2004

*Recommendation:* The Office of Economic Development has written formal loan policies and procedures for 2005, which include guidance on loan processing, maintenance of loan documentation, loan collections, and calculation of the allowance for uncollectible loans. The City should ensure the OED's policies and procedures are adequate to address the conditions noted above and are implemented. The OED should also continue to review comprehensively each of its loan files at least once per year. Finally, the OED should improve communication between program and fiscal divisions.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the comment. The City, and more specifically the Office of Economic Development (OED), is committed to excellence in management of its loan portfolio. The OED has taken the following steps to address the deficiencies identified:

1. Established a Loan Policy Review Committee comprised of program, fiscal, and compliance staff. The Committee's mission is to standardize management of the Division of Housing and Neighborhood Development (DHND) commercial and housing loan portfolios by developing consistent policies and procedures to ensure compliance with all applicable laws, rules, and regulations. The Committee and the OED management have developed and adopted the following policies:
  - a. Loan Document Management Policy
  - b. Loan Collection Policy
  - c. Loan Workout Policy
  - d. Policy for the Calculation of Uncollectible Debt Allowance and Loan Charge-Offs

These policies include the requirement that all changes/adjustments to the financial system must be reviewed and approved by the DHND Director. They also require quarterly discussions between program and fiscal staff to assess the status of loans and make recommendations for changes. The Loan Policy Review Committee will monitor implementation of these policies and continue to address concerns identified through ongoing internal and external reviews. The Committee will also serve as the vehicle to improve communications between OED's program and fiscal staff.

2. Completed a comprehensive review of all 797 active loans in the portfolios to ensure that all relevant financial and payment information is captured correctly in the subsidiary ledgers as well as in the primary City financial system. The results from the review will guide the Loan Policy Review Committee in identifying additional areas where new or changed policies and procedures are necessary.
3. Filled the senior financial analyst position, which focuses on ensuring that the OED's financial information is accurately reconciled and properly documented and reported in the City's financial system.

**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, 2004

In addition, the OED will better define staff qualifications, roles, and responsibilities, and develop an accountability system for the overall loan program and loan portfolio management.

*Contact Person:* Beth Machann, Controller

**No. 04-03 Revenue Recognition**

*Criteria:* The City has various sources of revenue including taxes, intergovernmental, charges for services, fines and forfeitures, and fees. GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, provides revenue recognition guidance for local governments. In accordance with OMB Circular A-133, the City is responsible for preparing the Schedule of Expenditures of Federal Awards (SEFA), which reports the total expenditures for each federal program. The City is also responsible for reconciling the SEFA to its financial statements.

*Condition:* During our audit, we noted the following:

- The City did not have adequate policies and procedures to ensure proper application of GASB Statement No. 33 and revenue recognition principles.
- The City also did not have adequate policies and procedures to ensure certain amounts due to the City were supported and collectible.
- The City also did not have adequate policies and procedures to ensure revenue recognition is proper. The City prepared its SEFA as well as the reconciliation of the SEFA to the financial statements; however, we noted certain errors in the SEFA and unreconciled variances between the SEFA and financial statements. These variances were resolved through the audit process.

*Questioned Costs:* Not applicable

*Context:* The City did not properly recognize revenue in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. We noted several errors in revenue recognition, which resulted in an adjustment of \$25,000,000 to the financial statements. This amount had been recorded as deferred revenue but should have been recognized as revenue in prior years.

The City could not support certain long-term receivables recorded as well as its allowance methodologies. Specifically we noted the following:

- The City has \$7,450,000 in parking fines recorded as accounts receivable. This amount is supported by third-party reports. However, the City could not support its allowance on these receivables of \$6,900,000.
- The County Court could not provide supporting documentation to \$6 million of receivables and its collection rate of 40% used in the allowance calculation.

**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, 2004

- The Denver Public Library could not provide supporting documentation to its collection rate of 50% used in the allowance calculation.
- The Fire Department could not provide supporting documentation to \$300,000 of receivables and allowance of \$244,000.
- Theaters and Arenas did not calculate its allowance for doubtful accounts properly. The allowance was overstated by approximately \$700,000.

The City identified variances between the SEFA and the financial statement but did not resolve these differences in an accurate and timely manner. Specifically, the City noted a reconciling item of \$60,000,000 between the SEFA and the Human Services Fund intergovernmental revenue but did not resolve the variance. This variance was investigated and resolved during the audit process. The SEFA reconciliation identified errors in revenue recognition from prior years; however, the City did not evaluate these errors against prior year net assets. Certain errors were identified on the SEFA for CFDA numbers and expenditure amounts.

*Cause:* The City does have adequate policies and procedures in place to ensure the revenue recognition is proper and that the SEFA is accurate and reconciled to the financial statements in an accurate and timely manner. City personnel have also not received proper training on SEFA preparation and reconciliation.

*Effect:* The City’s financials statements and the SEFA were adjusted.

*Recommendation:* The City should implement policies and procedures to ensure revenue is properly recognized. The City also should ensure the SEFA is accurate and complete and the schedule is properly reconciled to the financial statements, and variances are resolved in a timely manner.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the comment. The City will assure that the recording of all sources of revenue is in compliance with GAAP and all legal guidelines. In addition, we are currently working on Fiscal Accountability Rules that will be substantially complete by the end of 2005.

A policy on revenue recognition in accordance with GASB No. 33 will be of the highest priority and should be completed by September 30, 2005. We will work with agencies to make sure they understand the policy and how to apply it.

A policy on receivables and the allowances will also be completed by September 30, 2005. The Controller will work with all agencies responsible for collecting revenue to assure that all receivables and allowances are properly supported and recorded in the financial statements. Specific attention will be given to Parking Management, County Court, Denver Public Library, Fire Department, and Theaters and Arenas.

**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, 2004

The Controller will work with the Auditor’s Office to ensure that the SEFA is accurate and complete and is reconciled to the financial statements. Agencies responsible for federal dollars will be required to provide reconciled documentation to the Auditor’s Office in a timely manner so that all issues can be resolved.

*Contact Person:* Beth Machann, Controller

**No. 04-04 Denver International Airport Accounting and Financial Reporting**

*Criteria:* The Airport System prepares financial statements to reflect its financial position and results of operations and cash flows. These financial statements are presented in the Airport System’s Annual Report, 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 Airport System should have systems of internal accounting control that provide for segregation of duties and adequate management review to provide effective financial reporting.

*Condition:* The Airport System did not have an adequate management review process of its 2004 annual financial statements. Also, we noted that material transactions related to capital assets were recorded in the current year that related to transactions initiated in the prior year. There was not a proper and timely review of the 2004 transactions to ensure they were properly accounted for. Lastly, we noted certain missing disclosures and errors in the classifications of net assets.

*Questioned Costs:* Not applicable

*Context:* During our audit, we noted:

- The Airport System did not have an adequate management review of the financial reporting process. Certain errors were noted in the annual financial statements that were not detected by the Airport System, including illogical discussion in the management’s discussion and analysis, statements not adding correctly, missing required disclosures, and errors in the classification of net assets.
- The Airport System began disposal of certain components of the DCV baggage system during 2003. The disposal of these assets was not recorded until 2004; thus, the Airport System did not remove these assets from its general ledger in a timely manner. In addition, the Airport System did not properly evaluate the value of the disposal of the components of the baggage system and the effects on the system as a whole. As a result, an audit adjustment of approximately \$18,000,000 was made.
- Certain components of the DCV baggage system were not in use as of December 31, 2004. GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB No. 42), was implemented during 2004. The Airport System did not address the effects of GASB No. 42 on the

**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, 2004

components not in use in a timely manner. Once addressed, a clear documentation of the current status of these components and planned use of these components were not fully documented.

*Cause:* A review of the financial statements was not performed by someone at least one level higher than the preparers in a timely manner. In addition, certain disclosure requirements were unknown to the preparers. Lastly, management did not address timely the disposal of components of the baggage system and the effects of GASB 42 implementation on remaining pieces of the baggage system not in use.

*Effect:* The City’s financials statements were adjusted

*Recommendation:* The Airport System should develop and implement review procedures over financial reporting. The Airport System should also:

- Clearly define accounting and financial reporting roles within the Airport System, including responsibility for reviewing the financial statements.
- Ensure adequate resources (both number and skillset) are directed to key operational areas for accounting and financial reporting.
- Ensure those responsible for financial reporting receive proper training and applicable literature resources.
- 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.
- Continue to improve communication between finance and program personnel to ensure operations activity is properly accounted for.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the comment. Denver International Airport does have a management review process; however, this process was not performed in the audit year. In the future, the Airport Finance Department will ensure that financial reporting review procedures will be implemented timely and by appropriate airport management personnel. The Airport Finance Department will also ensure that roles will be defined in the review process, adequate resources will be available, and the proper training and applicable literature resources are available to all included in the airport’s accounting and financial reporting functions.

*Contact Person:* Beth Machann, Controller

**Reportable Conditions**

**No. 04-05 Accounting and Financial Reporting**

*Criteria:* The City prepares a Comprehensive Annual Financial (CAFR) report to reflect its financial position and results of operations. The City should have systems of internal accounting control that provide for segregation of duties and adequate management review to provide

**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, 2004

effective financial reporting. Also, Article 10, Section 20 of the Colorado Constitution imposes certain requirements on the City including establishment of an emergency reserve, which is to be used for declared emergencies only. The City is required to reserve 3% or more of its fiscal year spending excluding bonded debt service.

*Condition:* The City did not have an adequate management review process of its annual financial statements. We also noted certain errors in capital assets and classification of net assets and fund balances.

*Questioned Costs:* Not applicable

*Context:* During our audit, we noted:

- The City did not have an adequate management review of the financial reporting process. Certain errors were noted in the annual financial report that were not detected by the City including unusual balances, unreconciled or inaccurate financial statements, footnotes, and schedules.
- The City did not evaluate the impact of approximately \$16,000,000 of capital asset corrections as well as other miscellaneous corrections on the prior-year beginning balances.
- The City did not properly record \$4,000,000 of land in the Environmental Services Enterprise Fund.
- The City did not properly record depreciation on assets placed in service in 2004 for completed CIP and capital leases.
- The calculation of invested in capital assets net of related debt did not properly reflect unspent bond proceeds.
- The City did not properly evaluate the presentation of restricted net assets.
- The City did not record \$18,000,000 of reserve for encumbrances in the Other Capital Projects funds.
- The City did not properly calculate the emergency reserve, which resulted in a total adjustment of \$143,000.
- Detail supporting schedules for the emergency reserve did not agree to the summary schedules used in the calculation; certain revenues were duplicated in the Trust and Agency Funds supporting schedules; Special Assessment revenues were inappropriately included in the emergency reserve calculation; and certain revenues were not properly classified between federal and state, and therefore, were not properly included in the emergency reserve calculation.

## 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, 2004

*Cause:* The City’s financial reporting process is spread across a number of departments, and there was not an adequate management review process over the financial statements. Several changes were made to the CAFR, and those changes were not accurately reflected in each of the statements and footnotes. The City also did not have an adequate understanding of net asset or fund balance classification.

*Effect:* Failure to ensure adequate management review of the annual report could result in errors or irregularities in financial reporting.

*Recommendation:* The City should develop and implement procedures over financial reporting. The City should also:

- Clearly define accounting and financial reporting roles within the City, including responsibility for reviewing the financial statements.
- Ensure adequate resources (both number and skillset) are directed to key operational areas for accounting and financial reporting.
- Recruit qualified certified public accountants to operate in key accounting and finance positions.
- Clarify role and responsibility of the controller in relation to financial reporting and addressing internal control issues city wide.
- Develop and implement accounting and financial reporting policies and procedures, including relevant management review of key financial reports.
- Develop and implement the use of a financial reporting checklist that incorporates applicable accounting and reporting standards.
- Assign responsible persons for preparing and reviewing aspects of the CAFR and individuals who are responsible for reviewing the complete CAFR.
- Require key management personnel to certify that the CAFR is accurate, complete, and fairly presented and take responsibility for maintaining and evaluating “disclosure controls and procedures.”
- Continue to improve communication between finance and program personnel.
- Ensure the emergency reserve is properly calculated and reviewed by a person with an adequate understanding of the law and City operations.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the comment. The Mayor created the Office of the Controller and hired a controller in July 2005. The controller’s role is defined in Executive Order No. 7, and a few of the responsibilities include establishing, monitoring and enforcing city-wide financial policies and internal controls, improving the skill level of financial staff throughout the city, and assuring compliance with GASB and GAAP, as well as other applicable guidance.

**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, 2004

In 2004, a Financial Reporting Committee was established. This committee involves all agencies related to financial reporting. The committee will develop checklists by October 31, 2005 related to the review of different aspects of the reporting process, including the component units, separately audited agencies, and the emergency reserves and assign specific individuals to these areas. In addition, the Auditor’s Office and the Controller will review the complete CAFR. These individuals will be required to document reviews in writing.

The City is working with Career Service to recruit qualified certified employees to ensure the skillset of those in key financial positions.

The City will continue to review the ledger throughout the year correcting errors and unusual balances.

*Contact Person:* Beth Machann, Controller

**No. 04-06      Journal Entries**

*Criteria:* The City should have systems of internal accounting control that provide for segregation of duties and adequate authorization and record-keeping procedures to provide effective accounting control over assets, liabilities, revenues, and expenditures.

*Condition:* Personnel within the City Auditor’s Office create and post journal vouchers without secondary review prior to posting to the general ledger. We also noted journal vouchers that did not have adequate documentation to support the entry made.

*Questioned Costs:* Not applicable

*Context:* We tested 89 journal vouchers, including post-closing entries and noted 19 were not approved by someone other than the preparer. We also noted seven of these journal entries did not have proper documentation.

*Cause:* The City has not ensured that management review of journal vouchers, by a person independent of the preparer, is performed and adequate supporting documentation is included with the entry.

*Effect:* Failure to review and approve journal entries could result in errors or irregularities in financial reporting. Failure to provide adequate supporting documentation does not allow the reviewer to perform a substantive review which may prevent or detect errors.

*Recommendation:* The City should ensure journal vouchers are reviewed and approved by a person other than the preparer prior to posting to the general ledger. The individual should have sufficient knowledge to perform the review. The City should also ensure adequate supporting documentation is included with each journal voucher.

**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, 2004

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the comment. All entries found by the auditors were correct and appropriate. In August 2005, the Auditor’s Office notified all agencies that all journal vouchers must have approval by someone other than the preparer and that sufficient documentation to support the entry is required. A journal voucher fiscal accountability rule will be adopted during 2005 to that effect as well.

*Contact Person:* Beth Machann, Controller

**No. 04-07 Wastewater Management Construction-in-Progress**

*Criteria:* Wastewater Management has a number of ongoing capital projects. Included in the capitalized cost is certain payroll and interest costs. Wastewater Management should have processes in place to accurately account for capital assets. The most significant component of capital assets for Wastewater Management is the collection systems (both storm and sanitary sewer infrastructure). This caption represents both new construction as well as improvements to the storm and sewer systems. While projects are under construction, expenditures for the projects are classified as construction-in-progress. Once the projects are substantially completed, the amounts are reclassified as collections systems and depreciated over the expected useful life.

*Condition:* Wastewater Management did not have adequate policies and procedures for its accounting of construction-in-progress.

*Questioned Costs:* Not applicable

*Context:* During our audit, we noted the following related to the construction-in-progress account:

- Wastewater Management does not have a process for reconciling the construction-in-progress balance within the general ledger to supporting documentation, sub-ledger, or other support for the projects in progress. As a result of the audit, Wastewater Management performed a thorough review of the construction-in-progress account and recorded an adjustment resulting in a net increase to construction-in-progress of approximately \$3,400,000.
- Wastewater Management does not have a mechanism in place to prevent employees from charging time to closed construction projects. As a result, approximately \$24,000 in payroll costs was capitalized to closed construction projects in 2004.
- Wastewater Management does not have an appropriate accounting policy regarding the capitalization of bond interest into the construction-in-progress account, nor does it have an effective oversight function to ensure the proper application of accounting principles in relation to bond interest capitalization. The lack of effective controls over the selection and application of bond interest capitalization policy resulted in an overstatement of construction-in-progress of approximately \$1,700,000 over the

**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, 2004

three-year period ended December 31, 2004. As a result of the audit, Wastewater Management recorded an entry to reduce the construction-in-progress balance and increase interest expense.

*Cause:* Wastewater Management did not have adequate policies and procedures over construction in progress.

*Effect:* As a result of the control deficiencies identified, the net adjustments to construction in progress totaled approximately \$1,700,000.

*Recommendation:* Wastewater Management should:

- Design and implement controls to ensure a sufficient subsidiary ledger is maintained for construction-in-progress accounts and that the associated subsidiary ledger is reconciled to the general ledger on a routine basis.
- Design and implement controls to ensure employee time cannot be charged to closed construction projects.
- Design and implement controls to ensure accounting policy regarding bond interest capitalization is properly selected and that such policy is implemented and reviewed by appropriate levels of management.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the comment. A subsidiary ledger will be created by September 30, 2005 for construction-in-progress accounts. The responsibility for maintaining the associated subsidiary ledger will be assigned to an appropriate member of the Wastewater Management accounting services section. Reconciling the associated subsidiary ledger to the general ledger will be incorporated into Wastewater Management’s monthly procedures.

Appropriate personnel will be identified and assigned the task of reviewing capital salary charges for accuracy by October 31, 2005.

Financial Accounting Standard No. 34 has been reviewed, and procedures have been designed to properly capitalize bond interest. Responsibilities for performing and reviewing this computation will be assigned to provide for review by appropriate levels of management by October 31, 2005.

*Contact Person:* Beth Machann, Controller

**No. 04-08 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, 2004

*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, computer operation control, including backup and recovery and problem management, and end-user computing (spreadsheet) controls. We also noted 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 of terminated employee listing from HR to system and application access.

*Questioned Costs:* Not applicable

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

- The City did not have procedures to ensure compliance (i.e., monitoring) with IT policies across applications, systems, data centers, and departments.
- The City has not developed or documented formal procedures requiring the periodic review of user access to systems, applications, or data centers.
- The City has not developed or documented formal procedures for granting, modifying, and terminating physical access to the data centers.
- The City does not have a policy in place related to problem management to ensure all IT problems are tracked, reported, and resolved in a consistent, timely manner.
- Four terminated employees were found to have active access to the PeopleSoft application. User Access Request forms for terminated employees are not being forwarded to IT in a timely manner, so that the user’s access can be terminated.
- The City does not conduct periodic user access reviews for the PeopleSoft application (Financial/HR).

*Cause:* The City has not developed procedures to ensure compliance with 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 information systems.

*Recommendation:* The City should 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 procedure to ensure individual departments and agencies are complying with minimum general IT control requirements.

**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, 2004

*Views of  
Responsible  
Officials and  
Planned  
Corrective Action:*

The City agrees with the comment. In fact, the Technology Services management team found the same issues the auditors have noted and have a thorough plan to address these issues.

In March 2004, Mayor Hickenlooper appointed a chief information officer for the City and County of Denver and set the following goals:

- Improve customer service through unified standards and support
- Reduce technology cost of ownership
- Streamline technology project process

The following areas for improvement were found:

- Organizational improvements; defined business process, performance indicators, and a technology assessment
- Software development/support improvements; software development processes, consistent change management, application portfolio management, database consolidation, enterprise environment, and an enterprise content management solution
- Operational improvements; server consolidation, optimize the SAN/NAS allocation; security improvements, disaster recovery, reduction of downtime, and improve facility utilization

The following actions were taken:

- Developed policies and procedures and internal business processes
- Established key performance indicators
- Assessed technology and development of enterprise architecture
- Agreed to follow the Microsoft Solutions Framework to develop software and support structure and processes
- Developed a database consolidation plan
- Developed a PeopleSoft roadmap for the future
- Consolidated servers
- Updated the acceptable use policy and procedures
- Updated the approach to security within PeopleSoft
- Reassigned personnel to be accountable for data center management and security
- Developed disaster recovery policies and procedures

**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, 2004

Our goal is to complete our operations manual and conduct training for employees on the manual on a regular basis, and we believe in doing so, we will address the concerns noted.

*Contact Person:* Beth Machann, Controller

**Other Matters**

**No. 04-09 Old Age Pension and Aid for Needy and Disabled State Programs**

*Type of Finding: Internal control (reportable condition and material weakness) and compliance (noncompliance)*

*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 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 programs.

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

*Context:* During our 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 Aid for Needy and Disabled and Old Age Pension programs. 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.

**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, 2004

*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 is being drafted and should be finalized by May 31, 2006; 4) effective April 1, 2006, a quality assurance administrator has been 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.

*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, 2004

**No. 04-10 Food Stamps Cluster – CFDA Nos. 10.551/10.561**

*Type of Compliance Requirement: Reporting*

*Pass-through Colorado Department of Human Services*

*Grant No.: Not applicable*

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

*Criteria:* Office of Management and Budget (OMB) No. 0584-0080; the Food Stamp Issuance Reconciliation Report, 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 on a monthly basis and submit it to the State by the 15th of the following month. Additionally, the Colorado Department of Human Services has established procedures requiring that Monthly Inventory Card Reconciliations (EBTCard-6), and EBT Bulk Inventory Reports and Destruction Logs for EBT Cards (EBTCard-7) reports be collected and available for inspection by the State at any time.

*Condition:* Although the City does complete and retain the Bulk Inventory Reports and Destruction Logs for EBT Cards (EBTCard-7) reports and Monthly Inventory Card Reconciliations (EBTCard-6), the City does not have adequate controls in place to ensure that the reports and reconciliations are reviewed, and that there is evidence of the review. Also, the City does not have formal procedures in place over the FS-46 report to ensure that the data is accurate and complete.

*Questioned Costs:* Not applicable

*Context:* We noted that the FS-46 reports were submitted for the months of January through December for 2004. For the months of September through December, the State Colorado Benefits Management System (CBMS) did not provide the proper reports in order for the preparation of the FS-46 report. 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. Additionally, an error of \$54 was detected in the March 2004 submission.

*Effect:* Although FS-46 reports were submitted to the State during the last four months of 2004, there was the possibility that information on the reports may not have been accurate, possibly resulting in inaccurate reporting information available to the federal agency.

*Cause:* The City was affected by the implementation of CBMS, which did not allow for the generation of an FS-46 report in the same manner as the past. In addition, the City has not established adequate control procedures to ensure that the other required reports are reviewed and that there is evidence of the review.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Recommendation:* The City should consider the changes necessary for completing the FS-46 reports utilizing the information available under CBMS including developing formal review procedures to ensure the CBMS information used in the FS-46 reports is accurate and complete. The City must also ensure the Destruction logs for EBT (EBTCard-7), Bulk Inventory Reports, and monthly Inventory Card Reconciliations (EBTCard-6) are reviewed and that there is evidence of the review.

*Views of Responsible Officials and Planned Corrective Action:* The City believes that adequate controls are in place to ensure that supporting documents for the EBT card inventory are reviewed for accuracy and approved by a supervisor. The missing control is limited to supervisory verification that the supporting documentation is maintained in the designated document storage area, so that it is available for possible State inspection. The supervisory verification has been in effect since November 2005. The City has already added this step to the monthly reporting procedures that are already in place. All reports and supporting documentation are, in fact, available for State inspection and in the designated document storage area; no reports or documentation was missing for the audit.

*Contact Person:* June Allen, Director of Financial Services

**No. 04-11 Commodity Supplemental Food Program (CSFP) – CFDA No. 10.565**

*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:* Distributing agencies must have appropriate controls over receiving, storing, and distributing commodities. Failure to maintain adequate records may be considered prima facie evidence of improper distribution or loss of donated foods, and the entity is liable for the value of the food or replacement of the food in-kind. Discrepancies and known deficiencies should be resolved immediately.

*Condition:* Procedures need to be performed at all times to ensure there is a quality review of inventory reporting to ensure inventory data, entered and tracked in the database, equals amounts supported by physical inventory records.

*Questioned Costs:* None.

*Context:* During the performance of our testing of inventory, we noted variances in counts (per the count sheets and FNS 153 reports) for each of the nine months tested between the physical inventory count and amounts supported by the commodity records. We noted variances that were explained as receiving errors, data entries, misidentification of commodities when received, missing entries for damaged goods, computer errors for the over or underissuance

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

of a commodity, a system failure to show changes in the shopping list inventory, incorrect receipts into EFAP vs. CSFP inventory, changes in delivery procedures, client refusal to accept commodities, and client misappropriation of commodities.

*Effect:* The number and variability of explanations for the variances indicate inconsistencies in the processing of commodities received, lack of understanding, and review of data record-keeping (i.e., large adjustments in one month are revised and reversed the following month) and lack of safeguarding of commodities for distribution.

*Cause:* The City does not have adequate procedures over receiving, storing, and distributing commodities.

*Recommendation:* Not applicable as program is no longer run by the City. Program responsibilities were transferred to the State on September 30, 2004.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the finding as stated. Since the department no longer operates the program, no further corrective measure will be taken.

*Contact Person:* Jay Morein, Director of Business Management

**No. 04-12 Commodity Supplemental Food Program (CSFP) – CFDA No. 10.565  
Emergency Food Assistance Program (EFAP) – CFDA Nos. 10.568 and 10.569**

*Compliance Requirement: Reporting*

*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:* OMB Circular A-133 requires the grant recipient to have sufficient internal controls in place to ensure that reporting is accurate and complete. In addition, based on the terms specified in the grant contract, the grant recipient is required to accurately complete and submit a Quarterly Financial Report each quarter.

*Condition:* During the period of January 1, 2004 to September 30, 2004 (upon closure of the CSFP and EFAP programs), the City submitted three quarterly reports. However, the third quarter report was inaccurate and incomplete due to exclusion of relevant quarterly expenditures.

*Questioned Costs:* None.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Context:* The City is required to report all expenditures incurred through the CSFP and EFAP programs on a quarterly basis in its Quarterly Report. During 2004, the City neglected to include all of the expenditures incurred under the two programs for the third quarter. As such, the third quarter report is incomplete and inaccurate (i.e., expenditures are understated as a result of the omissions).

*Effect:* The City does not submit accurate and complete quarterly expenditures in its quarterly reports. As such, expenditures could be misstated. However, the City is only reimbursed a predetermined amount by the State for the CSFP and EFAP programs. The City continually incurs more expenditures than it is reimbursed for; therefore, the inaccurate and incompleteness of the quarterly expenditure reports does not affect the amount of money reimbursed to the City (i.e., does not affect the expenditure amount stated on the SEFA).

*Cause:* The City does not have adequate procedures over reporting.

*Recommendation:* Not applicable as program is no longer run by the City. Program responsibilities were transferred to the State on September 30, 2004.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the finding as stated. Since the department no longer operates the program, no further corrective measure will be taken.

*Contact Person:* Jay Morein, Director of Business Management

**No. 04-13      Commodity Supplemental Food Program (CSFP) – CFDA No. 10.565  
Emergency Food Assistance Program (EFAP) – CFDA Nos. 10.568 and 10.569**

*Compliance Requirement: Eligibility*

*Pass-through Colorado Department of Human Services*

*Grant No.: Not applicable*

*Type of finding: Scope limitation*

*Criteria:* CSFP eligibility is determined based on 7 CFR 247.7. All certification data used as part of the eligibility determination is to be documented on a certification form.

EFAP eligibility for receipt of commodities for household use is determined by applying income eligibility criteria established by the State agency (7 CFR 251.5(b)). These criteria are approved in advance by FNS as part of the State agency’s distribution plan (7 CFR 251.6(a)).

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Condition:* The City transferred the CSFP and EFAP programs to the State of Colorado (the State) as of September 30, 2004, thus records were not available for audit.

*Questioned Costs:* Unknown.

*Context:* The City is required to maintain participant files as a part of the CSFP and EFAP programs. The participant files were transferred to the State at the time of transition of CSFP and EFAP to the State effective September 30, 2004. Because of the manner in which the files are maintained, we were not able to determine if the participant was part of the programs prior to or subsequent to the transfer of the programs on September 30, 2004. In addition, the files are no longer in the possession of the City.

*Effect:* We were unable to perform procedures over the eligibility requirements for the CSFP and EFAP programs.

*Cause:* The City does not have adequate procedures over eligibility determination.

*Recommendation:* Not applicable as program is no longer run by the City. Program responsibilities were transferred to the State on September 30, 2004.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the finding as stated. Since the department no longer operates the program, no further corrective measure will be taken.

*Contact Person:* Jay Morein, Director of Business Management

**No. 04-14 Commodity Supplemental Food Program (CSFP) – CFDA No. 10.565  
Emergency Food Assistance Program (EFAP) – CFDA Nos. 10.568 and 10.569**

*Compliance Requirement: Special Tests*

*Pass-through Colorado Department of Human Services*

*Grant No.: Not applicable*

*Type of finding: Scope limitation*

*Criteria:* For CSFP, the distributing agency must have appropriate controls over receiving, storing, and distributing commodities. Inventories must be performed monthly. Commodities must be stored in appropriate conditions to prevent damage. Storing facilities must be kept clean. 7 CFR 250.14 contains the requirements for the storage and inventory of commodities.

For EFAP, accurate and complete records shall be maintained with respect to the receipt, distribution/use, and inventory of donated foods, including end products processed from donated foods. Failure to maintain records required by 7 CFR section 250.16 shall be

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

considered prima facie evidence of improper distribution or loss of donated foods, and the agency, processor, or entity is liable for the value of the food or replacement of the food in kind (7 CFR sections 250.16(a)(6) and 250.15(c)).

For EFAP, distributing and recipient agencies shall take a physical inventory of all storage facilities. Such inventory shall be reconciled annually with the storage facility's inventory records and maintained on file by the agency that contracted with or maintained the storage facility. Corrective action shall be taken immediately on all deficiencies and inventory discrepancies and the results of the corrective action forwarded to the distributing agency (7 CFR section 250.14(e)).

*Condition:* The City transferred the CSFP and EFAP programs to the State of Colorado (the State) as of September 30, 2004, thus records were not available for audit.

*Questioned Costs:* Unknown

*Context:* The commodities were transferred to the State at time of transition of CSFP and EFAP programs to the State effective September 30, 2004.

We could not perform procedures over the special tests for commodity storage and year-end physical inventory counts since the commodities are no longer in the City's possession, and the City could not provide count sheets for the physical inventory counts for June 2004.

*Effect:* We were unable to perform procedures over the special test requirements for commodity storage or observe physical inventory counts of commodities for the CSFP and EFAP programs.

*Cause:* The City does not have adequate procedures over receiving, storing, and distributing commodities.

*Recommendation:* Not applicable as program is no longer run by the City. Program responsibilities were transferred to the State on September 30, 2004.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the finding as stated. Since the department no longer operates the program, no further corrective measure will be taken.

*Corrective Action:*

*Contact Person:* Jay Morein, Director of Business Management

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

**No. 04-15      Commodity Supplemental Food Program (CSFP) – CFDA No. 10.565  
Emergency Food Assistance Program (EFAP) – CFDA Nos. 10.568 and 10.569**

*Compliance Requirement: 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:* OMB Circular A-87 Attachment B paragraphs 11(h)(3), 11(h)(4), and 11(h)(5) stipulates that, where employees are expected to work solely on a single federal award or cost objective, charges for their salaries will be supported by periodic certifications. For employees charging all of their time to one federal award, these certifications must be prepared at least semi-annually. For employees working on multiple activities or cost objectives, a distribution of their salaries will be supported by personnel activity reports or equivalent documentation. These reports must be prepared at least monthly and must coincide with one or more pay period.

*Condition:* Payroll charges were not supported by proper contemporaneous documentation for employees working solely on one federal award and for those dividing their time between multiple activities or cost objectives.

*Questioned Costs:* None

*Context:* Discussions were held with City Human Services Financial Services personnel, program managers, and administrators in regards to the payroll certification requirement. Throughout 2004, the City did not obtain or provide appropriate personnel activity reports or equivalent documentation to properly support allocation of personnel costs among the programs.

*Effect:* The City is not in compliance with OMB Circular A-87 for properly validating payroll costs for a federal program.

*Cause:* The City does not have adequate procedures in place to ensure employees are properly certifying their payroll.

*Recommendation:* Not applicable as program is no longer run by the City. Program responsibilities were transferred to the State on September 30, 2004.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the findings as stated. Since the department no longer operates the program, no further corrective measures will be taken.

*Contact Person:* Jay Morein, Director of Business Management

**No. 04-16 Emergency Food Assistance Program (EFAP) – CFDA Nos. 10.568 and 10.569**

*Compliance Requirement:* Subrecipient monitoring

*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:* In accordance with federal regulations, a pass-through entity is responsible for ensuring subrecipients are complying with program requirements, including ensuring that required audits are performed and that subrecipients have an adequate corrective plan in place to address any audit findings. The pass-through entity is also required to communicate the Catalog of Federal Domestic Assistance (CFDA) number of the prime agreement to the subrecipient, the title of the program, and the awarding federal agency. Additionally, contracts must include language relating to the OMB Circular A-133 requirements.

*Condition:* The City is not adequately reviewing the activities of the subrecipients as required and is lacking appropriate procedures to identify situations in which there is material noncompliance with program regulations.

*Questioned Costs:* Unknown.

*Context:* We discussed and reviewed the documentation completed by subrecipients of the EFAP program noting that the documentation was inadequate as it did not identify the program as federal, did not appropriately communicate the responsibilities of the subrecipient, and did not inform the subrecipients of the regulations inherent to the program.

Discussions with City personnel revealed the City was not:

- Effectively communicating grant specifications and regulations to the subrecipients
- Reviewing eligibility determinations made by the subrecipients
- Visiting the premises or conducting site visits to ensure that food was properly stored and accounted for

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

- Reviewing the participation reports in enough detail to identify any errors or misuse of the commodities
- Requesting and reviewing OMB Circular A-133 audit reports for the subrecipients

*Effect:* The subrecipient may not be aware of all of the necessary requirements and regulations associated with federal programs and may be administering the program in a manner inconsistent with the applicable rules and regulations.

*Cause:* The City does not have adequate procedures in place over subrecipient monitoring.

*Recommendation:* Not applicable as program is no longer run by the City. Program responsibilities were transferred to the State on September 30, 2004.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the finding. Stated draft procedures to improve documentation by subrecipients were in progress before the program was returned to the State. Since the department no longer operates the program, no further corrective measures will be taken.

*Contact Person:*

Jay Morein, Director of Business Management

**No. 04-17      Emergency Food Assistance Program (EFAP) – CFDA Nos. 10.568 and 10.569**

**Youth Opportunity Grants – CFDA No. 17.263**

**Highway Planning and Construction – CFDA No. 20.205**

**Child Care Cluster – CFDA Nos. 93.575 and 93.596**

**Child Welfare Services – State Grants – CFDA No. 93.645**

**Foster Care – Title IV-E – CFDA No. 93.658**

**Urban Areas Security Initiative – CFDA No. 97.008/16.011**

*Compliance Requirement: Suspension and Debarment*

*Pass-through Colorado Department of Human Services*

*Grant No.: Emergency Food Assistance Program, Child Care Development Fund Cluster, Child Welfare and Foster Care – Not applicable; Youth Opportunity Grant – A210127-0060; Highway Planning and Construction – Urban Areas Security Initiative – 52032UASI – 03.-05, 52OUASI-04-05*

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

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

- Criteria:* Per the OMB A-133 Compliance Supplement, nonfederal 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 that are listed in the *List of Parties Excluded from Federal Procurement or Nonprocurement Programs*, issued by the General Services Administration (GSA).
- Condition:* The City did not inquire about or obtain the suspension and debarment certifications for their vendors or subrecipients who received in excess of \$25,000 in federal funds. However, in the Foster Care/Child Welfare Program, out of 15 contracts inspected, five contained suspension and debarment language. We noted those contracts containing the suspension and debarment clauses were titled “Core Service Agreements.” As such, the noncore service agreements did not have the proper language. In total, there was a 66% error rate in Foster Care/Child Welfare, which indicates the control is not operating effectively.
- Questioned Costs:* None
- Context:* Documentation could not be produced that either the subrecipients or vendors certified as to suspension or debarment, nor was documentation retained that suggested City personnel verified that subrecipients or vendors were not suspended or debarred. However, procedures were performed by us to determine if the subrecipients or vendors tested were considered excluded parties; none were determined as such.
- Effect:* By not obtaining the appropriate certifications and 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.
- Cause:* The City does not have adequate procedures over suspension and debarment.
- Recommendation:* We recommend that the City create formal agreements with each provider/vendor that includes a standard clause certifying that the provider/vendor is not suspended or debarred, as well as reviewing the GSA listing to ensure compliance is maintained.

*Emergency Food Assistance Program*

Not applicable as program is no longer run by the City. Program responsibilities were transferred to the State on September 30, 2004.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Views of Responsible Officials and Planned Corrective Action:* The City agrees and has put two processes in place to address the comment. The Director of Purchasing implemented a new policy in late September 2005 that directed buyers to access the EPLS Web site for information on vendor suspension and debarment status when a requisition involving federal dollars is received. The EPLS search results are to be printed out and become part of the file for that Purchase Order. Supervisors review a percentage of Purchase Order files to ensure compliance with all City Purchasing policies. In addition, the City Attorney’s Office currently includes language on suspension and debarment in all HUD-funded contracts, and effective January 1, 2006, will include similar language for all contracts involving federal funds.

*Contact Person:* Beth Machann, City Controller

**No. 04-18 Community Development Block Grants/Entitlement Grants – CFDA No. 14.218**

*Compliance Requirement: Activities Allowed/Allowable Costs*

*Direct Funding from Department of Housing and Urban Development*

*Grant No.: B-05-MC-08-0005*

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

*Criteria:* OMB Circular A-87 requires periodic certifications for employees who work solely on a single federal program. The certifications must be prepared at least semi-annually and should be signed by the employee or a supervisory official having firsthand knowledge of the work performed by the employee.

*Condition:* There was no certification for two employees who worked solely on a single federal program. However, subsequent to identification of this finding, a certification from program management confirming that these two program staff worked solely on this grant program was obtained and reviewed by us.

*Questioned Costs:* None, due to the fact that the certifications that support payroll costs charged to the grant were obtained during the audit.

*Context:* Management was unable to locate approved time certifications for two of the nine employees selected for testwork.

*Effect:* Periodic certifications are an employee’s representation that they have worked on a federal program. Lack of certifications may result in employee salaries not charged to the proper programs.

*Cause:* Time certifications were not maintained or filed as support for compliance with this requirement.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Recommendation:* We recommend management maintain the support for the certifications signed by the employees' supervisors.

*Views of Responsible Officials and Planned Corrective Action:* The Office of Economic Development concurs with this finding. The Accounting Supervisor will monitor the certifications to ensure all employees working 100% on a direct federal grant will complete the certification semi-annually beginning June 30, 2005.

*Contact Person:* Vipheatra Dana, Accounting Supervisor

**No. 04-19 Community Development Block Grants/Entitlement Grants – CFDA No. 14.218**

*Compliance Requirement: Program Income*

*Direct Funding from Department of Housing and Urban Development*

*Grant No.: B-05-MC-08-0005*

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

*Criteria:* 24 CFR requires grantees to have a servicing system in effect which assures that loans are properly authorized, receivables are properly established, earned income is properly recorded and used, and write-offs of uncollectible amounts are properly authorized.

*Condition:* The loan servicing system in place at the City did not detect errors in recorded loan balances.

*Questioned Costs:* None

*Context:* Although management has a reconciliation process in place, we found in some instances, the notes receivable balances did not reconcile to the original note contracts, and borrowers' principal payments were not posted to the general ledger. The City also restated their 2003 financial statements because a payable to HUD was not properly recorded. See Material Weakness No. 04-02 in Section II – Basic Financial Statement Findings and Questioned Costs.

*Effect:* The City was not in compliance with the program income requirement of having a proper loan servicing system in place to track loan activity.

*Cause:* The City did not have adequate policies and procedures in place to ensure that loan activity was properly recorded.

*Recommendation:* The City should ensure that its loan servicing system and related process and controls meet HUD program requirements.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Views of Responsible Officials and Planned Corrective Action:* The Office of Economic Development concurs with this finding. The agency has initiated a complete review of all of its loans and will reconcile the balances to the loan servicing systems. The agency will also develop a Loan Policy Review Committee to develop policies and procedures to manage the loan portfolio. Expected completion date is August 30, 2005.

*Contact Person:* Chiquita McGowin, Finance Manager

**No. 04-20 Community Development Block Grants/Entitlement Grants – CFDA No. 14.218**

*Compliance Requirement: Period of Availability*

*Direct Funding from Department of Housing and Urban Development*

*Grant No.: B-05-MC-08-0005*

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

*Criteria:* Per OMB Circular A-133, the grant recipient is required to have sufficient internal controls in place to ensure that funds undisbursed at year-end are less than 1.5 times the grant amount for its current program year.

*Condition:* Management was unable to provide support for its supervisory review of expenditures for 8 out of 12 months.

*Questioned Costs:* None

*Context:* On a monthly basis, management reviews year-to-date expenditure detail to ensure that the undisbursed funds at year-end are less than 1.5 times the entitlement grant for the current year. Management was only able to locate support for this review for four months out of the year.

*Effect:* The program may not be on track to meet this requirement, and it will not be detected on timely basis.

*Cause:* There were no procedures in place to maintain the support for management's review of expenditures.

*Recommendation:* We recommend management implement controls to ensure the support for the monthly reviews they perform are maintained.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Views of Responsible Officials and Planned Corrective Action:* The Office of Economic Development concurs with this finding. During 2004, the Accounting Supervisor responsible for the HUD grants left the City. As a result, we were unable to find the documentation of his review for this compliance requirement. Effective immediately, the new Accounting Supervisor and /or his designee will signoff on the monthly reports as documentation of their review. Expected completion date is March 31, 2005.

*Contact Person:* Vipheatra Dana, Accounting Supervisor

**No. 04-21 Shelter Plus Care – CFDA No. 14.238**

*Compliance Requirement: Subrecipient monitoring*

*Direct Funding from Department of Housing and Urban Development*

*Grant No.: CO01C203014, CO01C203015, CO0C203016, CO01C203001, CO01XC30367*

*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 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. The monitoring process is primarily informal and verbal in nature. There is a site visit checklist used by the grant administrator during the annual site visits; however, this checklist is not completed to document the results of the visit, nor is there any documentation of follow-up related to results of the site visits. The City obtains copies of subrecipient OMB Circular A-133 reports, but 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. Adequate procedures and site visits are 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

## CITY AND COUNTY OF DENVER, COLORADO

### Schedule of Findings and Questioned Costs

#### Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

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

*Questioned Costs:* Unknown

*Context:* The City does not maintain adequate documentation of subrecipient monitoring for the program.

*Effect:* The City is 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 does 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:

- Review expenditure source documentation, at least over a minimum scope, to ensure that expenditures are for allowable costs and activities. This includes obtaining payroll certifications in accordance with the applicable OMB cost circular for any payroll expenditures charged to the program. The City began requiring subrecipients to submit program expense documentation for administrative expenses when requesting reimbursement effective in April 2004; however, this process was not in place for the entire year.
- Perform site visits more often than annually to monitor the activities of subrecipients, as necessary, to ensure that federal awards are used for authorized purposes.
- Document results of site visits. 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.

Additionally, 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.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the finding, as stated, and effective August 2005 has initiated a formal Shelter Plus Care monitoring program to ensure sub-grantee compliance with program rules and regulations. This includes a minimum of two annual on-site reviews and closer scrutiny of sub-grantee practices.

*Contact Person:* Ben Levek, Grant Administrator

**No. 04-22 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 material weakness) and compliance (material noncompliance and qualification)*

*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 are not in place to document and ensure that subrecipients are administering federal awards as they apply to:

- During-the-Award-Monitoring – Although the City reviews every expenditure submitted for reimbursement by their subrecipients, the City is not monitoring the subrecipients for other applicable OMB Circular A-133 requirements through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements, and that performance goals are achieved.
- Subrecipient Audits – Although the City obtains copies of their subrecipients’ Single Audits, the City is not ensuring that their subrecipients take timely and appropriate corrective action on findings specific to the HOME program.

*Questioned Costs:* None

*Context:* In performing our testwork, we could not obtain sufficient documentation supporting the monitoring process.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

- Effect:* Subrecipients may not comply with OMB Circular A-133 compliance requirements.
- Cause:* The City does not have proper processes in place to monitor the subrecipients for all applicable OMB Circular A-133 compliance requirements.
- Recommendation:* We recommend that the City implement a formal monitoring policy to 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
  - Documentation of the review of the OMB Circular A-133 reports from each subrecipient and related follow-up of findings related to the program

*Views of Responsible Officials and Planned Corrective Action:* The Office of Economic Development concurs with this finding. During 2005, the Division of Housing and Neighborhood Development (DHND) compliance manager retired and a replacement was not hired until the end of 2005. DHND is currently developing a work plan for monitoring that will include policies and procedures for formal documentation of monitoring site visits, findings and recommendations. Additionally, program staff will conduct site visits while projects are underway and a procedure for documenting these site visits will also be established. We anticipate that policies and procedures will be drafted by September 30, 2006. We have also combined the A-133 audit reviews of our subrecipients under a single person and the Accounting Supervisor will monitor to ensure that the reviews and follow-up occurs in a timely manner. Expected completion date is June 30, 2006.

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

**No. 04-23 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

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

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 during 2004.

*Questioned Costs:* Not applicable.

*Context:* The City did not comply with the monthly reporting requirements specified in its loan agreements with HUD.

*Effect:* HUD is not able to ensure accurate record-keeping and reporting.

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

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

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with this finding. The agency has reviewed the loan agreement and outlined all of its reporting requirements. The agency has added this requirement to its reporting schedule and will establish a central review process to ensure all reporting requirements are met, effective September 30, 2005.

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

**No. 04-24      Community Development Block Grant – Section 108 Loan Guarantees (HUD Section 108) – CFDA No. 14.248**

*Compliance Requirement: Cash management*

*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 compliance (noncompliance)*

*Criteria:* As a recipient of Housing and Urban Development (HUD) 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.

*Condition:* 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.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Questioned Costs:* None

*Context:* During our testwork over cash management, we noted that, at one time out of 12 periods tested during the year, the City did not meet cash management requirements set forth in its loan agreements with HUD for its Housing and Neighborhood Development Services (H&NDS) Loan Guaranty bank account.

*Effect:* Lack of adequate review of account balances could lead to loss of resources.

*Cause:* The City does not have adequate procedures in place to monitor and transfer excess funds over \$100,000 to appropriate investment accounts.

*Recommendation:* The City should implement a process to monitor cash balances for all the Section 108 cash accounts and make appropriate transfers within three business days when funds exceed \$100,000.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with this finding. During 2004, funds in excess of \$100,000 remained in the account due to an imminent repayment to HUD. The payment dates were sometimes more than three days after the balance was above \$100,000. The OED Accounting Supervisor will monitor the accounts to ensure that funds in excess of \$100,000 do not exceed the three-day limit. This will be completed by December 31, 2005.

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

**No. 04-25 State Criminal Alien Assistance Program (SCAAP) – CFDA No. 16.606**

*Compliance Requirement: Eligibility*

*Direct Funding from Department of Justice*

*Grant No.:* 2004-AP-BX-0042

*Type of finding: Internal control (Reportable condition)*

*Criteria:* Per OMB Circular A-133, the grant recipient is required to have sufficient internal controls in place to ensure that funds are only expended for eligible participants.

*Condition:* There is no review process performed within the City to verify the accuracy of the data input into the system and submitted to Justice Benefits International (JBI) and Office of Justice Programs (OJP).

*Questioned Costs:* None

*Context:* We noted that there are no independent reviews performed and documented over the applicant data entered into the system.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Effect:* There is the potential that incorrect data could be recorded, therefore, the City could receive monies from the SCAAP program to which it is not entitled.

*Cause:* There are no formal review processes in place to review inmate data.

*Recommendation:* We recommend that the City implement a review procedure over eligibility that requires an independent review of each participant application prior to submission for reimbursement from the Department of Justice.

*Views of Responsible Officials and Planned Corrective Action:* The inmate data file is currently subject to three reviews. First, it is generated from a City computer program that screens for all eligible applicants. Then it is checked by JBI, and then finally it is audited by the Justice Department before an award is made. Based on the recommendation of the Auditor, the Denver Sheriff Department will begin sample testing the file after it is received by JBI to ensure compliance and to offer a fourth review of the inmate file.

*Contact Person:* Dale Noland, Senior Accountant, Denver Sheriff Department

*Auditors' Addendum:*

KPMG noted that there are multiple reviews of the inmate data file; however, these reviews are performed by parties external to the City. Federal regulations require the City to have its own internal controls to ensure that funds are only expended for eligible participants.

**No. 04-26 Youth Opportunity Grants – CFDA No. 17.263**

*Compliance Requirement: Reporting*

*Direct Funding from Department of Labor*

*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 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 Department of Labor (DOL) during 2004.

*Questioned Costs:* Not applicable

*Context:* The City did not comply with the quarterly reporting requirements specified in the grant agreement.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Effect:* The DOL is not able to ensure accurate record-keeping and reporting.

*Cause:* City personnel are not reviewing the Compliance Supplement to become aware of the program compliance requirements, and they are 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 this finding. In September 2004, the Youth Services leadership role transitioned to a new manager. Unfortunately, during this transition, the Youth Opportunity quarterly narrative inadvertently fell through the cracks. In response to this issue, as of December 31, 2005, the Youth Services Manager meets with and provides the Assistant Director of Operations a monthly update that includes a review of all monthly and quarterly reports.

*Contact Person:* Beth Howdsen, Youth Services Manager

**No. 04-27 Temporary Assistance for Needy Families (TANF) – CFDA No. 93.558**

*Compliance Requirement: Eligibility and Activities Allowed/Allowable Costs – Pre-CBMS*

*Pass-through Colorado Department of Human Services*

*Grant No.: Not applicable*

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

*Criteria:* The City is required to have sufficient internal controls in place to ensure that eligibility is determined in accordance with the specific requirements in the Colorado Department of Human Services' Staff Manual, Volume 3. Section 3.600 requires the City to perform the following procedures, among other things, in order to support a participant's program eligibility determination:

- Reassess the eligibility of all existing participants every 12 months.
- Complete an Individual Responsibility Contract (IRC) for all program participants, which focuses on matters relating to securing and maintaining training, education, or work.
- On a monthly basis, participants must complete the Monthly Status Reports (MSRs), which details income earned, household composition, and other specific essential elements of eligibility.

## CITY AND COUNTY OF DENVER, COLORADO

### Schedule of Findings and Questioned Costs

#### Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

- Upon determination that an individual is eligible for assistance, the County must perform an initial assessment of skills, prior work experience, and employability of each recipient who is at least 18 years of age, who has not completed high school (or the equivalent) and who (between the age of 16 and 18) is not attending a secondary school. This assessment must be completed within 30 days of application.
- Obtain evidence of current immunization for children.

*Conditions:* Adequate procedures are not in place to ensure participants are eligible to receive program benefits and that related costs are allowable and for the correct amount. Additionally, the case review process was not in place for the whole year due to the implementation of CBMS. Caseworkers (technicians) do not consistently acquire and maintain necessary documentation from each applicant to appropriately determine eligibility based on the applicant's representations, nor do they consistently document in the file which information they deemed questionable. The City relies heavily on the participants to notify the City if payments appear incorrect. However, this would primarily serve to identify underpayments rather than over-payments due to ineligibility.

*Questioned Costs:* Known questioned costs of \$8,616 in overpayments and \$397 in underpayments – calculated as amounts related to each instance of noncompliance discussed below for payments that should not have been provided due to lack of supportive documentation for the payment or for eligibility in the case file.

*Context:* We reviewed 45 case (participant) files for the period of January through August 2004 and noted the following exceptions:

- Three instances where no immunization records were in the file, or the records did not appear current
- Five instances where the application did not appear approved within the 45-day time limit
- Five instances of the client's payment being incorrectly calculated based on the information in the case file
- One instance of a missing MSR
- Three instances of the IRC missing for a period of time

*Effect:* By not obtaining the required completed documents and performing required functions while continuing to provide program benefits to participants, the City may not be in compliance with key elements of the TANF program; and payments could be made to ineligible participants or for unallowable costs and activities.

*Cause:* There is a lack of implementation of standardized procedures to ensure consistent case file documentation. In addition, there was not adequate supervisory monitoring and review of the case files over an appropriate sample on an appropriate basis.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Recommendation:* The City should establish control procedures that monitor the quality and consistency of client files and documentation obtained. Supervisors should review a representative sample of cases for all case workers each month, and ensure that all corrections are properly addressed. Supportive and diversion payments should be reviewed and approved, and such approval should be documented.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the finding. On April 3, 2006, The City hired a quality assurance administrator, and is in the process of hiring quality assurance technicians, who collectively will be developing policies and procedures addressing TANF case file requirements, as well as conducting reviews for purposes of monitoring for compliance. Additionally, all supervisors' performance plans will be amended by May 31, 2006, to require that they conduct reviews of staff work, and provide supporting documentation to validate. Further, the Division of Family & Adult Services has adopted a policy requiring monthly supervisory reviews of randomly selected case files of each of their subordinate staff.

*Contact Person:* Valerie Brooks, Deputy Manager

**No. 04-28 Temporary Assistance for Needy Families (TANF) – CFDA No. 93.558**

*Compliance Requirement: Eligibility and Activities Allowed/Allowable Costs – Post-CBMS*

*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. In addition, information entered into CBMS must be supported by documentation in the file.

*Condition:* The City has not implemented 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:* Known questioned costs of \$1,081 – calculated as all of the supportive payments that were verified as errors or the purpose of the payment could not be determined.

Monthly Cash Assistance: Unknown as the system (CBMS) determines the monthly cash assistance benefit payment, and the change in payment due to the exceptions below cannot be determined.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Context:* We tested 15 case files for eligibility for the period of August 25, 2004 to December 31, 2004, and noted the following:

- Seven cases that included one or more instances of the verification information not being in the file
- Six cases with one or more instances of the application/redetermination information not agreeing to CBMS
- One instance of a missing Individual Responsibility Contract
- One instance in which the source of information was incorrectly noted in CBMS
- Four cases with one or more instances of the application/redetermination information not agreeing to CBMS
- One instance of a redetermination not being completed timely
- One instance of the file missing the recorded immunizations or the information in CBMS did not agree to the file in relation to immunization records
- Seven cases had one or more instances of the case file containing a CBMS printout regarding a supportive payment with no other documentation of why the payment was made
- Six cases with one instance of the case file where there was no documentation of the supportive payment in the case file (CBMS or other)
- Three cases with instances of supportive payments for which the reason for the payment or how the payment was determined was missing
- Two instances of the supportive payment not agreeing to policies or regulations
- Two instances of a payment apparently made by CBMS, without City authorization

*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 county policy.

*Cause:* 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 post-CBMS environment. The City did not implement adequate internal controls to ensure proper information was entered into CBMS or that supportive payments were made for the correct amount in accordance with City policies. In certain instances, the exception was caused by CBMS, not the City.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*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, case worker, 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.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the finding. As was stated, the department did receive conflicting information with respect to documentation required to be maintained in case records. In their response to the Office of the State Auditor, the Colorado Department of Human Services indicated that by August 1, 2006, it would issue an agency letter clarifying and defining policies and procedures for counties pertaining to documents to be retained in case files. Denver Human Services will await the receipt of specific direction from the State on this matter. Upon receipt of the agency letter from the state, an internal policy will be drafted and implemented, and quality assurance reviews will be conducted, to assure future compliance.

*Contact Person:* Valerie Brooks, Deputy Manager

**No. 04-29 Temporary Assistance for Needy Families (TANF) – CFDA No. 93.558**

*Compliance Requirement: Special Tests over the 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 Income Eligibility Verification System (IEVS) is properly included in the eligibility determination process. From January through August, the Colorado Department of Human Services Staff Manual, Volume 3, Section 3.100, regulations require the county 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.
- 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 Income and Eligibility Verification System (IEVS).

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

- 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 Income and Eligibility Verification (IEVS) system. 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.

- Condition:* Adequate procedures are not in place to document that IEVS is used as prescribed and applied to all participants, and the utilization of the system is not consistently and adequately documented.
- Questioned Cost:* Not applicable.
- Context:* We obtained a sample of the February, May, and August IEVS hit reports and reviewed supporting documentation regarding the clearing of the hits to determine whether the hits were properly addressed. In this sample, we noted the following:
- Eight instances when the requested reports could not be provided
  - For two supervisors, we received no reports
  - For the reports received, six instances of the action taken not being adequately documented
- Effect:* By not having adequate controls to ensure IEVS information is being adequately considered or 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. Additionally, we were unable to perform procedures over the entire population.
- Cause:* The City's document retention policy requires it to maintain IEVS reports for one year. Due to the timing of the audit, certain IEVS reports were not available. However, certain reports were available which indicate a lack of standardized procedures to ensure consistent case file documentation.
- Recommendation:* If the IEVS requirement remains the responsibility of the City, it should develop and implement a consistent process that would consider the applicable regulations, including the maintenance of appropriate documentation, the required documentation of hits, and a step requiring that the supervisors provide their cleared hits report to a centralized location and person.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the finding. The City acknowledges that it did not retain the IEVS reports. Such record retention is neither required by federal or state rule, and county policy dictates that the reports only be kept for one year. No corrective action will be required since post-CBMS, the IEVS match is automatically handled through CBMS interfaces.

*Contact Person:* Valerie Brooks, Deputy Manager

**No. 04-30 Human Services Grant Documentation – Temporary Assistance for Needy Families (TANF) – CFDA No. 93.558 and Child Care Cluster CFDA No. 93.575/93.596**

*Compliance Requirement: Activities Allowed/Allowable Costs and Eligibility*

*Pass-through Colorado Department of Human Services*

*Grant No.: Not applicable*

*Type of finding: Temporary Assistance for Needy Families, Internal control (reportable condition and material weakness) and compliance (material noncompliance and adverse)*

*Type of Finding Child Care Cluster: Internal control (reportable condition and material weakness) and compliance (material noncompliance and qualification)*

*Criteria:* In accordance with Colorado Department of Human Services’ Staff Manual, Volume 3, the City’s Department of Human Services (DDHS) is required to obtain signed and dated applications, as well as specific client documentation for the initial determination and continuation of eligibility.

*Condition:* DDHS performed a roundtable review (pre-audit) of the case files selected by KPMG for audit prior to the audit sample being provided to us. In addition, DDHS performed monthly roundtable reviews of case files for the Temporary Assistance for Needy Families (TANF) program and all the case files (entire population) for the Child Care program. The roundtable reviews were performed to ensure that all necessary eligibility documentation was in the case file. However, during the course of the audit, it came to our attention that certain eligibility documentation was subsequently either added to the file after the file was selected for audit or missing required client signatures were obtained or documented after the file was selected for audit. Consequently, DDHS performed a review of all 60 TANF case files for notation of changes made to dates, signatures, or required documentation.

*Questioned Costs:* We tested a total of 60 TANF case files totaling \$115,525 in benefit payments. As DDHS performed a roundtable review on 45 cases, and we are unable to determine the extent of changes made to those files, the total benefit payments of \$107,000 are questioned costs. We are unable to extrapolate the extent of this issue to the population of TANF case files. We tested a total of 60 Child Care case files totaling \$18,693 in benefit payments. Again, we are unable to extrapolate the extent of this issue to the population of Child Care case files.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Context:* During the performance of our testing of case files for Child Care and TANF, we noted the following:

- One instance in which one page of an application for the Child Care program was signed subsequent to benefits being granted and was backdated to reflect the date of benefit approval rather than the current date of when the application was signed by the participant
- One instance in which a 2005 immunization record, for the TANF program, was copied, altered to reflect a date received in 2004, and then inserted into the 2004 case file selected by KPMG for audit

During the performance of our review of the investigative review and roundtable review reports performed by the City on the 60 TANF case files, we noted the following:

- Six instances in which the roundtable review documentation could not be provided; therefore, KPMG could not determine if any changes were made
- Five instances in which document dates or signatures were changed and initialed by client; however, the handwriting did not appear to be that of the client
- Ten instances in which document dates were changed but were not initialed by the client
- One instance in which DDHS noted missing documentation during their investigative review that appeared to be subsequently added
- Three instances in which DDHS noted missing documentation during their investigative review that was not noted as missing during our testing; however, we were unable to determine if documentation was subsequently added or was overlooked during the review

We are unable to determine if other similar instances of revisions made to documentation occurred in the populations of case files selected for audit by KPMG.

*Effect:* As a result of the process used by DDHS for roundtable reviews of case files prior to turning the files over for audit, we were unable to accurately determine what documentation, if any, was added and the extent of changes made to documentation that may affect DDHS' compliance with specific eligibility and allowability requirements for these programs. However, based on the procedures performed, eligibility did not appear to be improperly granted. Depending on potential alterations made, the accuracy of the amount of benefit payments may also be in question.

*Cause:* DDHS does not have formal policies or procedures in place to address how corrections should be made and documented to TANF and Child Care case files when missing or incomplete eligibility documents are identified.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Recommendation:* DDHS must develop formal procedures and related controls to ensure that all required eligibility and allowability documentation and client signatures are obtained in a timely manner and are properly maintained in accordance with program compliance requirements. This should include formal training for caseworkers responsible for obtaining and maintaining documentation. Furthermore, DDHS should develop formal procedures and related controls to address how corrections should be made and documented to TANF and Child Care case files when missing or incomplete eligibility documents are identified, including dating of documents and obtaining client signatures and missing information/documents after benefits have been granted.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the finding. The department has worked extensively across all program areas and at all levels in the organization on this matter. Formal policies have been drafted and implemented and supervisory training occurred April 19, 2006. The DDHS Employee Handbook has been revised to include a section addressing this, as well, with copies distributed to all employees during the month of April 2006, and made available to staff electronically on April 1, 2006. Also, a quality assurance administrator and quality assurance staff members have been, or are being hired, who will conduct reviews and monitor for compliance.

*Contact Person:* Valerie Brooks, Deputy Manager

**No. 04-31**      **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 material weakness) and compliance (material noncompliance and adverse)*

*Type of finding: Child Support Enforcement and Child Care Cluster, Internal control (reportable condition and material weakness) and compliance (material noncompliance and qualification)*

*Criteria:* Per OMB Circular A-87, “Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.”

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Condition:* The City did not have documentation semi-annually of time certifications for 2004. Upon request of time certification logs, we received time logs dated November 24, 2004, as well as logs for the March 2004 timeframe that were signed on June 23, 2005. While the logs may be accurate, they were not completed in the required timeframe.

*Questioned Costs:* Not applicable

*Context:* If individuals have not been appropriately and timely certified, potential errors would not be detected in a timely manner to allow for correction of the errors.

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

*Cause:* Controls are not in place to ensure that time certifications are completed in a timely manner.

*Recommendation:* The City should establish and implement processes and controls to ensure time certifications are prepared in a timely manner and maintained.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the finding as stated, that one of the semi-monthly periods was overlooked for certification. The department has taken steps to assure that timely semi-annual certifications are completed, and is now in compliance.

*Contact Person:* Jay Morein, Director of Business Management

**No. 04-32 Child Support Enforcement – CFDA No. 93.563**

*Compliance Requirement: Special Tests*

*Pass-through Colorado Department of Human Services*

*Grant No.: None*

*Type of finding: Internal Control (reportable condition and material weakness) and scope limitation*

*Criteria:* 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 303.7b4).

*Condition:* When status requests are received from other states, the requests are fulfilled by technicians and then the letters are discarded without always being documented in the Automated Support Child Enforcement System (ASCES). As the documentation is not maintained in all instances, the population against which this requirement must be applied cannot be defined.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Questioned Costs:* Not applicable

*Context:* The City is unable to ensure that all information requests are addressed as some documentation is not always kept. We are unable to determine how often this occurs.

*Effect:* Required responses to requests for information from a responding state may not be fulfilled in the proper time frame or at all. A late response or a lack of response may cause a case to be mishandled. We were unable to perform procedures over these special test requirements for the CSE program.

*Cause:* There are no controls procedures in place to ensure that all requests for information from other states are adequately acted upon and subsequently documented in the client files.

*Recommendation:* The City should establish and implement controls to monitor that all requests are appropriately addressed and ensure all communications with other states are adequately documented in the client files.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees that they presently do not have comprehensive controls in place to monitor all instances where information requests are received from responding states, to ensure that timely and accurate responses are provided. However-due to various communication methods that these information requests involve (written, email, phone call, etc.), there are concerns relative to the cost effectiveness of such controls. The Division of Child Support Enforcement will implement enhanced monitoring and control measures by October 1, 2005 related to incoming written requests from responding states.

*Contact Person:* Elizabeth Calvert, Director of Child Support Enforcement

**No. 04-33 Child Support Enforcement – CFDA No. 93.563**

*Compliance Requirement: Special Tests*

*Pass-through Colorado Department of Human Services*

*Grant No.: Not Applicable*

*Type of finding: Internal control (reportable condition)*

*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).

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

**Enforcement of Support Obligations** – For all cases referred to the IV-D agency or applying for services under 45 CFR section 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, 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’s are found at 45 CFR sections 303.71, 303.73, and 303.104.

**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 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).

*Condition:* The program supervisors review technician exception reports; however, there was no formal documentation of follow-up on these cases after they were given to technicians for correction. We noted that cases may be dropped from some reports due to the case aging. Further, without a formalized and documented control in place, technicians may not be responding to cases within the required time frames if a supervisor misses a case on a report.

*Questioned Costs:* Not applicable

*Context:* Although there appears to be some level of controls present to ensure compliance with the above listed Special Tests, these controls have not been implemented in a formal manner. Consequently, the controls may not be effective.

*Effect:* Some cases may be out of compliance with the above federal guidelines.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Cause:* The City does not have a formal, written documented control in place to ensure cases are 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 that they presently do not have comprehensive controls in place to monitor all instances where information requests are received from responding states, to ensure that timely and accurate responses are provided. However, due to various communication methods that these information requests involve (written, e-mail, phone call, etc.), there are concerns relative to the cost effectiveness of such controls. The Division of Child Support Enforcement will implement enhanced monitoring and control measures by October 1, 2005 related to incoming written requests from responding states.

*Contact Person:* Elizabeth Calvert, Director of Child Support Enforcement

**No. 04-34 Child Support Enforcement – CFDA No. 93.563**

*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:* The City 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 IVD 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)).

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

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)).

*Condition:* Although there does appear to be some level of controls in place, the procedures are not formally written or documented, which may result in noncompliance. The City did not issue medical insurance requests to noncustodial workplaces even though the workplaces had been identified for medical insurance enforcement in some cases. This was evident on the enforcement screen in ASCES where wage withholding was displayed and no medical requests were issued. In addition, no other information was present in the CHRON screens or judicial database for these cases. This lack of information was caused by either technicians not enforcing the court order or due to the lack of documentation created by the technicians.

Additionally, the City did not inform the custodial parent of medical insurance when it was obtained. The CHRON screen did not document that notification of the custodial parent had taken place.

*Questioned Costs:* Not applicable

*Context:* The following instances of noncompliance were noted:

- Two out of 35 cases did not have the medical support obligation contained in the Court Order enforced.
- Six out of 35 cases which had secured medical support insurance did not notify the custodial parent that insurance had been obtained.

*Effect:* Some cases may be out of compliance with the above federal guidelines with regards to enforcing medical support obligations.

*Cause:* The City does not have formal procedures that are adequately documented to ensure medical insurance support enforcement is carried out and to ensure custodial parents are notified of medical insurance that has been obtained.

*Recommendation:* The City should establish and implement a formal control that is properly documented to ensure medical insurance support enforcement is completed and followed up on timely and that custodial parents are notified when medical insurance is obtained.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Views of Responsible Officials and Planned Corrective Action:* The City agrees that there have not been complete controls in place to ensure the appropriate enforcement or documentation of medical support on all required cases. The State Office of Child Support Enforcement has recognized the need to improve the process of medical support enforcement, and will soon be providing additional ACSES screen functionality, reports, training, etc. The Division of Child Support Enforcement will implement further formal procedures and monitoring controls by October 1, 2005. Once the additional functionality is provided, the Division will revisit the procedures and controls.

*Contact Person:* Elizabeth Calvert, Director of Child Support Enforcement

**No. 04-35 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 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.

*Questioned Costs:* \$7,629 in overpayments and \$571 in 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, 2004

- Context:* There was limited but ineffective attendance monitoring for the first half of 2004, which was discontinued entirely until December 2004 due to the restructuring within DDHS. Further, DDHS has a compliance team that reviews child-care cases each month to ensure compliance with applicable regulations. The compliance team identified errors; however, once the cases were reviewed, there was no evidence of the review in the first six months of 2004 or 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 11 specific exceptions were noted across 8 of the 60 case files tested (some exceptions may be within the same case files):
- Three instances whereby the parental fee was calculated incorrectly
  - Three instances whereby the client was employed under TANF and no fee assessed; no explanation was included in the file.
  - One instance whereby the mother was ineligible because she made more than the 185% of FPL
  - Two instances such that no birth certificate was located in the file for the child were unable to verify age of the child and, therefore, could not calculate proper fees
  - Two instances whereby the current immunization record for the redetermination applications was not located in the file
- 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 is 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.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the finding. Effective March 2006, the department outsourced the child-care eligibility determination activities. On April 3, 2006, the department hired a quality assurance administrator, and is in the process of hiring quality assurance technicians, who collectively will be developing policies and procedures addressing child-care case file requirements, as well as conducting reviews of the contractor’s eligibility case files for purposes of monitoring for compliance. Also, the department had continued throughout all of calendar year 2005 to monitor child-care providers for attendance.

*Contact Person:* Valerie Brooks, Deputy Manager

**No. 04-36 Child Welfare Services – State Grants – 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 and allowability 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 some cases.

*Questioned Costs:* None.

*Context:* We inspected 40 case files, for evidence of four Family Service Plan Reviews occurring every 90 days or less, Court Reviews (same as 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 case files, we noted the following exceptions:

- Three instances in which the case file was reviewed during each of the quarters in 2004; however, because of the timing of those reviews, a period of more than 90 days passed before a review was conducted.
- Five instances in which the case file contained no documentation for one or more Family Service Plan Reviews Court Reviews or Administrative Reviews during 2004

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*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 time frame, documentation may not exist to support eligibility and unallowable costs may be incurred.

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

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

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the finding as stated. By June 1, 2006, an internal tracking system will be implemented to alert supervisors and caseworkers that a 90-day review is due on a certain date. Volume VII requires that four 90-day supervisory reviews be conducted for all children participating as a child in an open case. The regulation allows a court hearing to substitute for a 90-day supervisory review and an administrative review conducted by the State Department of Human Services every six months of continuous out-of-home placement. The Court sets review hearings every six months pursuant to the Colorado Children’s Code. The agency does not have control over the timing of the two reviews conducted by the State and the Administrative Review Division, so consequently there are occasions when the reviews are more frequent than 90-days or less frequent than 90-days. The high number of children assigned to caseworkers often precludes them from conducting additional reviews to ensure that all 90-day time frames have been met because this would mean performing six reviews per child per year. This condition would not result in unallowable costs because the Denver Juvenile Court does not allow the Department to move children or close cases without a court order; so even if all reviews were conducted timely, no change in the case plans could be made at the time of the review.

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

**No. 04-37      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.

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

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

*Questioned Costs:* Not applicable.

*Context:* Of 25 caseworkers tested, we noted the following:

- Two caseworkers did not attend training during 2004.
- 14 caseworkers attended less than six hours of training during 2004.

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

*Cause:* The City does 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 City agrees with the finding as stated. Beginning November 2005, the Family & Children's Services Division will submit to the Human Resources section documents supporting the completion of the training, and the Human Resources section will assume responsibility for recording and filing the documents in the employee files. Additionally, by April 1, 2006, the Family and Children's Services Division will have access and training to update the Human Resources training database to allow for better tracking.

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

**No. 04-38 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.

*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.

*Questioned Costs:* None

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Context:* We reviewed 40 case files, noting the following exceptions:

- Five cases in which the Adoption Agreement or Renewal Adoption Agreement had expired and a new agreement was not negotiated and approved for all or part of the year. Payments made in 2004 during the period no current contract was in place related to these cases were \$15,377.
- Three cases in which appropriate approval signatures were not obtained on the Adoption Agreement, Renewal Adoption Agreement, and/or Annual or Triennial Review
- One case in which the Summary and Application for Adoption was not properly approved (i.e., signed) by the County Director.

*Effect:* Subsidy payments to adoptive parents were made without adequate or properly approved documentation.

*Cause:* The City does 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.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the finding as stated. By March 2006, nearly all of the gaps in contract terms will have been resolved. It is estimated that the remainder, roughly 25, will be renegotiated over the subsequent year. A comprehensive review of 1,700 adoption cases has taken two years to complete. There were five cases in which the Adoption Agreement or Renewal Adoption Agreement was not negotiated and approved for all or part of the year. The State does not allow the country to discontinue adoption subsidy payments because of an expired contract, even when the agency has well-documented efforts to negotiate a new contract with the provider.

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

**No. 04-39 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)*

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

*Criteria:* The City is required to have sufficient internal controls in place to ensure that eligibility is properly determined so that ineligible applicants do not receive Medicaid benefits and eligible applicants do qualify for Medicaid benefits. Initial and continuing Medicaid eligibility is determined by specific income eligibility requirements in the Colorado Staff Manual, Volume 8.

*Condition:* The City does not have procedures adequately enforced to ensure proper determinations of Medicaid eligibility are made.

*Questioned Costs:* Unknown

*Context:* The City policy requires supervisors to perform monthly reviews of technician cases to ensure that they have properly determined eligibility. The cases are selected randomly, and there is no record of the cases reviewed. Therefore, it is not possible to determine the actual number of Medicaid cases reviewed. This control does not provide a consistent methodology to allow for adequate coverage, representative sampling and proper monitoring of the files that have been reviewed, and the control could not be relied upon for eligibility determinations for the year ended December 31, 2004.

We tested 61 case files for eligibility and noted the following:

- Two instances in which an undocumented pregnant mother receiving Medicaid under Volume 8.101.53 was not timely discontinued. This exception was the result of lack of timely state policy guidance.
- Five instances in which redeterminations were completed late or not at all. Volume 8.100.71 requires a redetermination be performed every 12 months with verification of information that has changed.
- Two instances in which the client received Medicaid benefits but was not categorically eligible as defined by 8.100.52 to be receiving such benefits.
- One instance in which a client, who had previously been sanctioned for lying about the composition of the household, reapplied for aid, but the household composition was not verified. Per Volume 8.105.5(8), additional verification should be provided if information is found to be questionable on the basis of fact.
- Eight instances in which the client's application was not processed within the appropriate time frame. Per Volume 8.100.27, a client's application must be processed within 45 days of receipt.
- Two instances in which a client's case was closed before a redetermination was performed. The closures were related to the CBMS system conversion.
- Four instances in which eligibility compliance requirements could not be tested because the file was either incomplete or not accessible

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

- One case in which a client’s case was closed by the technician prior to a redetermination being performed. Per agency letter dated August 1, 2003, under no circumstances is a Medicaid case closed without completion of a redetermination for all possible categories of eligibility.
- One case in which the client’s aid coverage was started one month prior to when their eligibility for such aid began
- Two instances in which a client file did not contain evidence of income verification
- One instance in which the client was properly denied benefits but continued to receive payments throughout the year as a result of CBMS conversion issues

*Effect:* By not implementing adequate controls over eligibility, the City could have incorrectly approved ineligible applicants or denied eligible applicants.

*Cause:* The City did not enforce adequate internal control to ensure proper eligibility determinations were made. Also, in 2004, the State implemented CBMS which caused some of the exceptions.

*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. The records should include the file type, the date of review, and applicable review notes, and should provide adequate coverage of the caseloads across all technicians.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the finding. On April 3, 2006, the department hired a quality assurance administrator, and is in the process of hiring quality assurance technicians, who collectively will be developing policies and procedures addressing Medicaid case file requirements, as well as conducting reviews for purposes of monitoring for compliance. Additionally, supervisor’s performance plans will be amended by May 31, 2006, to require that they conduct reviews of staff work, and provide supporting documentation to validate. Further, the Division of Family & Adult Services has adopted a policy requiring monthly supervisory reviews of randomly selected case files of each of their subordinate staff.

*Contact Person:* Valerie Brooks, Deputy Manager

**No. 04-40 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.: 52032UASI-03-05, S2043UASI-04-05*

*Type of finding: Internal control (reportable condition)*

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

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

*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 Costs:* None.

*Context:* Per discussion with the program management and review of purchase requisitions, we noted that program management was reviewing purchase requisitions but did not sign off on these purchase requisitions. 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 does not have controls in place 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 they have been reviewed and approved for allowable activities and costs.

*Views of Responsible Officials and Planned Corrective Action:* The City agrees with the comment and in September 2005 will begin having program sign off on all purchases.

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

**No. 04-41 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.:* S2032UASI-03-05, 52043UASI-04-05

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

**CITY AND COUNTY OF DENVER, COLORADO**

Schedule of Findings and Questioned Costs

Section III – Federal Award Findings and Questioned Costs

Year ended December 31, 2004

- 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 first-hand 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. However, a certification from the program director confirming that each of the four staff of the program worked solely on this grant program was obtained and reviewed by us subsequent to identification of this reportable condition.
- Questioned Costs:* None due to the fact that timesheets support payroll costs charged to the grant
- Context:* During the performance of the payroll allowability testing, the salaries and benefits of the four 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 certify payroll charges to federal programs on a semiannual basis.
- Recommendation:* We recommend that management prepare certifications at least semi-annually for employees who work on a single federal award. The certifications should be signed by the employee or the employee's direct supervisor.
- Views of Responsible Officials and Planned Corrective Action:* The City agrees with the comment. A certification will be signed in September 2005. In addition, the payroll timesheet has been modified to include the certification.
- Contact Person:* Martin Flahive, Special Assistant to the Manager of Safety