

**American Recovery and  
Reinvestment Act of 2009  
Internal Control Pilot Project**

**State of Colorado**

**Financial Audit  
Fiscal Year Ended June 30, 2009**



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November 20, 2009

Members of the Legislative Audit Committee:

This report contains the results of a compliance audit of the State of Colorado's Child Care and Development Program Cluster and the Research and Development Grant Cluster. The audit was conducted pursuant to Section 2-3-103, C.R.S. which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Department of Human Services, Colorado State University, and the Colorado School of Mines.

# TABLE OF CONTENTS

	<b>PAGE</b>
<b>Purpose and Scope .....</b>	<b>1</b>
<b>Interim Communications Letter.....</b>	<b>5</b>
<b>Department of Human Services.....</b>	<b>7</b>
<b>Department of Higher Education.....</b>	<b>27</b>
<b>APPENDIX .....</b>	<b>A-1</b>

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# American Recovery and Reinvestment Act of 2009 Internal Control Pilot Project

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## Purpose and Scope

Enacted in response to a significant slowdown in the American economy and increased unemployment nationwide, the federal American Reinvestment and Recovery Act (Recovery Act) became law in February 2009. According to Public Law 111-5, the Recovery Act's purpose is to:

- preserve and create jobs and promote economic recovery,
- assist those most impacted by the recession,
- provide investments needed to increase economic efficiency by spurring technological advances in science and health,
- invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits, and
- stabilize state and local government budgets, to minimize and avoid reductions in essential services.

The Recovery Act is expected to direct approximately \$787 billion in federal funds toward the American economy primarily over the next several years. To meet the commitment to provide an unprecedented level of transparency and accountability over how funds are invested, the federal Office of Management and Budget (OMB) has issued guidance for implementation of the Recovery Act. As part of this guidance, OMB expanded audit requirements for entities that receive Recovery Act funds.

OMB is responsible for establishing federal requirements for the implementation of the Single Audit Act of 1984, as amended. The Single Audit Act requires that each state, local government, or nonprofit organization that expends \$500,000 a year in federal awards must have a Single Audit conducted for that year subject to applicable requirements. Each year OMB issues the Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations: Compliance Supplement*, prescribing requirements for auditing major federal programs and the internal controls over these programs. Annually the Colorado Office of the State Auditor (OSA) issues the State of Colorado *Statewide Single Audit Report* on the State's compliance with these requirements. Federal law requires that Single Audit reports be submitted to the federal government no later than nine months after the end of the grant recipient's fiscal year. The OSA submitted the State's

Fiscal Year 2008 *Statewide Single Audit Report* in February 2009, or within eight months of the State's fiscal year end on June 30, 2008.

In August 2009 OMB designated programs receiving funding under the Recovery Act as higher risk and issued additional guidance specific to the audit of these programs. This high-risk designation will affect the scope of the audits conducted for the period in which Colorado expends Recovery Act funds, beginning in Fiscal Year 2009. OMB also encouraged the auditor to report before the nine month Single Audit deadline to management or those charged with governance any significant deficiencies or material weaknesses (these terms are defined in the Interim Communications Section of this report) in programs receiving Recovery Act funding. OMB formalized this early-reporting process by establishing the Internal Control Pilot Project (Pilot Project) in the fall of 2009. Participation in the Pilot Project was available to all non-federal entities expending Recovery Act dollars, including all 50 states, with the goal of at least 10 states volunteering. Colorado was one of 14 states that volunteered to participate in the Pilot Project.

The Pilot Project requires that the State Auditor report on the results of the Single Audit work for at least two federal programs, which the auditor has selected from a list of 11 federally-designated programs. Audit work must be completed by November 30, 2009, and the auditor is required to issue a report to management and those charged with governance by December 31, 2009. This is three months earlier than the nine-month deadline under the Single Audit Act.

This report is issued as part of the OSA's participation in the Pilot Project and contains the results of our work on the two programs we selected for reporting under the Pilot Program.

## Pilot Project Requirements

The Pilot Project requires the OSA to select two federal programs to include in the early reporting, specifies the audit work required for the reporting, and defines the required communications that must be included in the report. The following bullets describe our selection of programs, the audit requirements performed, and required communications.

- **Federal Programs Selected.** We selected the Child Care and Development Program Cluster (Program), administered by the Department of Human Services (Department), and the Research and Development Cluster, administered by several Colorado higher education institutions.

In Fiscal Year 2009 the State spent approximately \$91 million in federal Program funds on program activities, which included \$10.7 million in Recovery Act funds. The State also spent approximately \$588.8 million

in federal Research and Development Cluster funds on program activities. The following three higher education institutions spent approximately \$587 million, which represents 99.7 percent of the total Research and Development Cluster expenditures for Fiscal Year 2009:

- University of Colorado, approximately \$405.5 million, including \$296,900 of Recovery Act funding.
  - Colorado State University, approximately \$156.6 million, including \$87,500 of Recovery Act funding.
  - Colorado School of Mines, approximately \$24.9 million (no Recovery Act funding).
- **Specific audit work required.** OMB has defined 14 compliance requirement areas for testing under the Single Audit Act and identifies which requirements are to be tested for each program. For the Pilot Project, OMB has required that six of the 14 requirements be tested by the November 30, 2009, deadline. Our audit covers all applicable compliance requirements for the two selected programs.
  - **Required communications.** The Pilot Project requires that participating entities provide an interim communication to management or those charged with governance of significant deficiencies and material weaknesses identified in the audit of the two selected programs. This communication can be found in the following section.

The control deficiencies and significant deficiencies identified in this report will also be included in the State of Colorado *Statewide Single Audit Report*, to be released in February 2010.

# **Interim Communications**

The following is the required interim communications report under the OMB Pilot Project.





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November 20, 2009

Members of the Legislative Audit Committee:

This communication is provided pursuant to the parameters of the 2009 Office of Management and Budget (OMB) Pilot Project. Such Project requires auditors of entities that volunteer for the Project to issue, in writing, an early communication of significant deficiencies and material weaknesses in internal control over compliance for certain federal programs with federal programs having expenditures of American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5) funding at an interim date, prior to the completion of the Fiscal Year 2009 compliance audit for the State of Colorado. Accordingly, this communication is based on our audit procedures performed through November 20, 2009, an interim period. Because we have not completed our compliance audit for Fiscal Year 2009, additional significant deficiencies and material weaknesses may be identified and communicated in our final report on compliance and internal control over compliance issued to meet the reporting requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

In planning and performing our audit procedures through November 20, 2009 of the Child Care and Development Program Cluster and the Research and Development Cluster, we are considering the State of Colorado's (State) compliance with the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Davis Bacon (Research and Development Cluster only), Eligibility (Child Care and Development Program Cluster only), Equipment and Real Property Management, Matching Level of Effort/Earmarking, Period of Availability of Federal Funds, Procurement and Suspension and Debarment, Real Property Acquisition/Relocation Assistance (Research and Development Cluster only), Program Income, Reporting, Subrecipient Monitoring, and Special Tests and Provisions as described in OMB Circular A-133 *Compliance Supplement* for the year ended June 30, 2009. We are considering the State's internal control over compliance with the requirements described above that could have a direct and material effect on the Child Care and Development Program Cluster and the Research and Development Cluster in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration of internal control over compliance is for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, based on the audit procedures performed through November 20, 2009 we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A **control deficiency** in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. We consider recommendations 1, 2, 8, 9, and 10 control deficiencies.

A **significant deficiency** is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider recommendations 3, 4, 5, 6, and 7 significant deficiencies.

A **material weakness** is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not note matters involving the internal controls over compliance during our audit that we consider to be material weaknesses.

The State's responses to our findings are described below the recommendation. We did not audit the State's responses and, accordingly, we express no opinion on them.

This interim communication is intended solely for the information and use of the Legislative Audit Committee, management, specified legislative or regulatory bodies, 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. However, upon release by the Legislative Audit Committee this report is a public document.

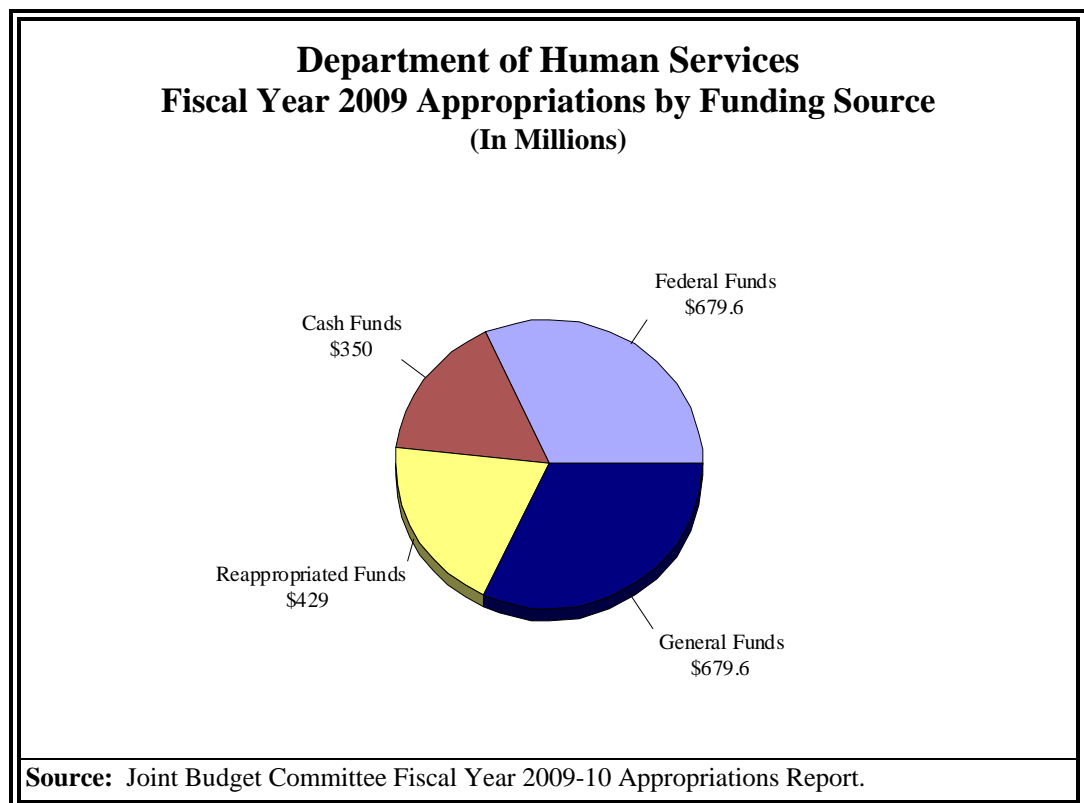
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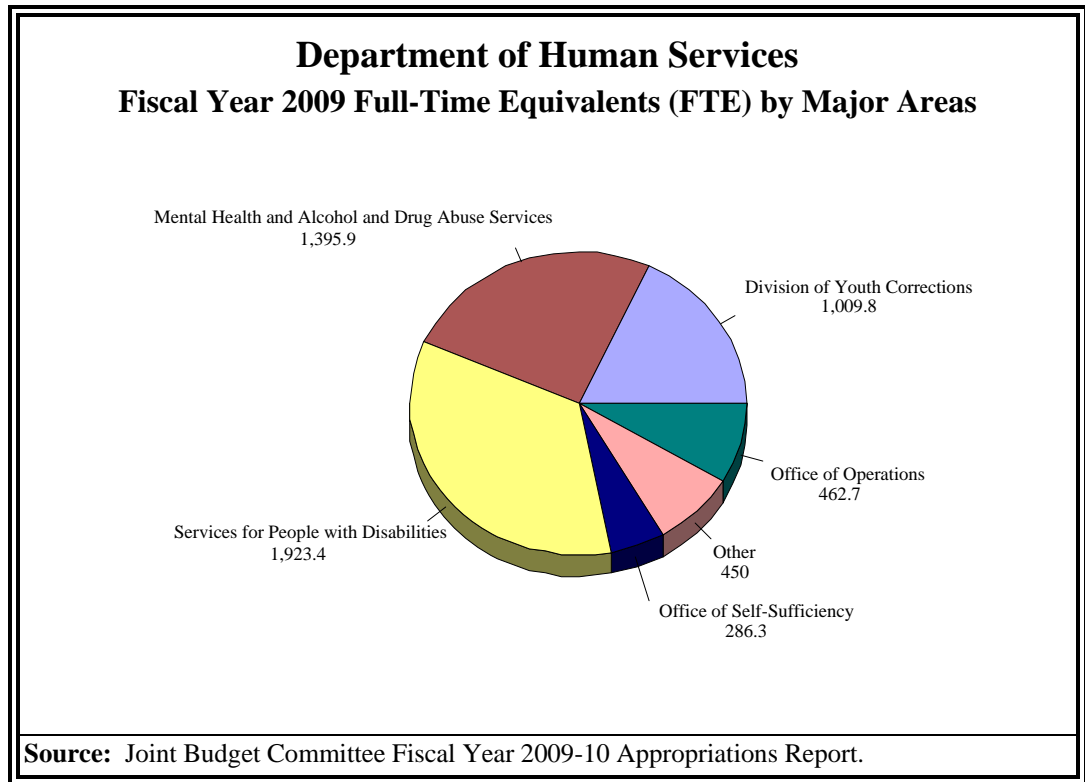
# Department of Human Services

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## Introduction

The Department of Human Services (DHS) is solely responsible, by statute, for administering, managing, and overseeing the delivery of the State's public assistance and welfare programs throughout Colorado. Most of these programs are administered through local county or district departments of human/social services. The Department also manages and directly administers programs in the areas of developmental disabilities, mental health, nursing homes, and youth corrections. In Fiscal Year 2009 the Department was appropriated approximately \$2.1 billion and nearly 5,500 full-time equivalent staff, or FTE. The following charts show the appropriations by funding source and FTE by major areas within the Department for Fiscal Year 2009:





## Child Care and Development Program Cluster Overview

The Child Care and Development Program Cluster (Program) (CFDA Nos. 93.575-Child Care and Development Block Grant, 93.596-Child Care Mandatory and Matching Funds of the Child Care and Development Fund, and Recovery Act 93.713-American Recovery and Reinvestment Act Child Care and Development Block Grant) was enacted through the child care programs under Title IV-A of the Social Security Act. The objective of the Program is to provide financial assistance to states to increase the availability, affordability and quality of child care services for low-income families where the parents are working or attending training or educational programs. In addition, federal law designed the Program to:

- Allow each state maximum flexibility in developing child care programs and policies that best suit the needs of the children and parents within the state.
- Empower working parents to make their own decisions about the child care that best suits their family's needs.
- Encourage states to provide consumer education and information to help parents make informed child care decisions.

- Assist states to provide child care to parents trying to achieve independence from public assistance.
- Assist states in implementing child care provider health, safety, licensing and regulatory standards.

In Colorado, the federal Program is used to fund the Colorado Child Care Assistance Program (CCCAP), which is supervised by the Division of Child Care at the Department of Human Services (Department) and administered by the county departments of human/social services. In Fiscal Year 2009, federal grants to Colorado for the Program totaled approximately \$87.7 million, including \$24.3 million awarded through the American Recovery and Reinvestment Act (Recovery Act), enacted in February 2009. The CCCAP also received a federally-approved transfer of Temporary Assistance for Needy Families (TANF) funds of \$29.9 million. In Fiscal Year 2009, the Department spent approximately \$91 million in Program funds, which included \$10.7 million in Recovery Act funds, on program activities.

During our Fiscal Year 2008 audit of the Department, we identified control and significant deficiencies in the Department's internal controls over compliance with federal guidelines for the Program. Based on our Fiscal Year 2009 audit, we conclude that the Department needs to continue to strengthen the program's controls over compliance. Our findings are discussed in detail below.

## **Case File Documentation**

Approximately 23,500 families received subsidized child care under the CCCAP program in Fiscal Year 2009. The average monthly benefit was \$654 per household. The counties are responsible for determining families' eligibility for CCCAP child care assistance. To qualify for a CCCAP child care subsidy, a family must submit documents verifying information such as (1) the children in the household receiving subsidized care are U.S. citizens; (2) the household's gross income is equal to or less than the county income ceiling and/or 85 percent of the median state income for a family of the same size; (3) the family resides in the county; and (4) the parents are engaged in "eligible activities" such as employment, job search or training. Copies of these documents are to be maintained in the family's CCCAP files at the county.

Eligible families receive child care services that are paid for jointly—by CCCAP and the families. The payments go directly to child care providers, who receive an agreed-upon pay rate that is based on various market factors, including, but not limited to, local economies and/or the availability of child care, in the counties where the provider operates. CCCAP's share of payments to providers typically ranges from approximately \$1 to \$2,150 per month, per household.

A family's share of the monthly payment, called the "parental fee," is calculated on a sliding scale, based on factors such as the family's income, work schedule, and corresponding child care needs. The monthly parental fee can range from \$0 to \$906. In some cases, the county may determine that paying a parental fee would cause a financial hardship to the family and waive the fee. Both the CCCAP share and the parental fee are based on the family's gross household income.

During our Fiscal Year 2009 audit, we reviewed 40 active CCCAP case files to determine whether they contained the required documents to support eligibility (i.e., children's proof of U.S. citizenship, family income, county of residence, and eligible activities). Of the 40 case files, 3 (about 7.5 percent) lacked at least one of the documents required to support the family's eligibility for a CCCAP subsidy. The resulting questioned costs totaled \$11,460.

- The first case file lacked nearly all the required eligibility documents, including those necessary to verify the household income, the family's county of residence, and the eligible activities engaged in by the parents. This family received \$10,753 in child care subsidies during Fiscal Year 2009.
- The second case file lacked evidence that the children receiving subsidized care were U.S. citizens. This family received \$227 in child care subsidies during Fiscal Year 2009.
- The third case file lacked documentation of the household income and the U.S. citizenship for the children receiving care. This family received \$480 in child care subsidies during Fiscal Year 2009.

In all three cases, Department and county officials were unable to locate the documentation following our discussions with them.

Although the Department currently monitors the counties and provides training programs for them, the documentation deficiencies we identified—and the associated questioned costs—indicate a need for continued Departmental scrutiny. Without the required documentation, the Department cannot ensure that only eligible households are receiving child care subsidies.

(CFDA Nos. 93.575, 93.596, 93.713; Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, and American Recovery and Reinvestment Act Child Care and Development Block Grant; Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, Subrecipient Monitoring. Classification of Finding: Control Deficiency.)

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## **Recommendation No. 1:**

The Department of Human Services should ensure, through continued monitoring and training, that the counties are obtaining and maintaining in the case files all the documents required to demonstrate families' eligibility for Child Care and Development Program Cluster subsidies under the Colorado Child Care Assistance Program.

### **Department of Human Services Response:**

Agree. Implementation Date: October 2009, with full implementation by November 2010.

The Department of Human Services will be completing a monthly improper authorization audit on a random sample of files (as per the federal improper authorizations directive), beginning October 2009. As part of this audit we will ensure that all verification documents are in the files to ensure the family's eligibility for Child Care and Development Program Cluster subsidies. For those counties who had findings due to missing verification, the Division of Child Care will work with the Audit Division to request reimbursement of the questioned costs to be added back into the Program funds for the Child Care Program. The CHATS replacement system, which will be fully implemented by November 2010, has controls built into it for workers to verify documentation needed for all cases and reports to identify exceptions for supervisor and state review.

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## **Compliance with Federal Earmarking**

On occasion, Congress "earmarks" funds for federal programs requiring that they be used only for certain purposes. For example, through the Federal Fiscal Year 2008 Appropriations Act, Congress directed that a "substantial portion" of the Child Care and Development Program Cluster funds be used to provide assistance to low-income working families that meet certain criteria. These criteria include that families must not be receiving assistance under the TANF program and that families must be attempting, through work activities, to transition off of temporary assistance programs.

As the recipient of federal funds, the Department is responsible for being aware of and ensuring compliance with all requirements, including earmarks, related to the administration of federal grant funds. During our Fiscal Year 2009 audit, we requested verification from the Department that it had complied with the 2008

earmark for Child Care and Development Program Cluster funds. First, Department officials reported they were unaware of the requirement. The Department also reported that it was not possible to quantify the dollar amounts expended or the number of cases that qualified for the requirement.

Following discussions with program staff, the Department was able to demonstrate that this requirement had been met. The Department uses the Child Care Automated Tracking System (CHATS) to track eligible clients and benefits paid. Based on data in CHATS, the percentage of clients who receive child care assistance and who also receive TANF benefits is tracked on a monthly basis. This tracking has occurred since Fiscal Year 2001 because the Department is required to track TANF cases in order to comply with other federal requirements.

The Fiscal Year 2009 report demonstrates that 13.7 percent of all child care assistance dollars were paid to households that were also receiving TANF assistance. The requirement that a “substantial portion” of funds be used to provide assistance to low income, working families who do not receive TANF payments has therefore been met because the remaining 86.3 percent of payments was made on behalf of households that met the Congressional directive.

While the Department has satisfactorily demonstrated that it is in compliance with the requirement, the Department had not identified nor monitored this requirement. As a result, we determined that the Department lacks adequate procedures for identifying and monitoring federal requirements and earmarks pertaining to the expenditures of federal grant funds. The Department risks incurring federal sanctions for noncompliance if it does not comply with program specific federal requirements. Knowledge of requirements and periodic and routine monitoring are important to ensure that requirements are met.

(CFDA Nos. 93.575, 93.596, 93.713; Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, and American Recovery and Reinvestment Act Child Care and Development Block Grant; Matching, Level of Effort, Earmarking. Classification of Finding: Control Deficiency.)

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## **Recommendation No. 2:**

The Department of Human Services should ensure that it has procedures in place to identify and monitor federal earmarking requirements related to Child Care and Development Program Cluster funds and makes use of the mechanisms it has in place to track and report compliance.



## Department of Human Services Response:

Agree. Implementation date: November 2009.

The Department is now aware of the 2008 Appropriations Act requirement that a “substantial portion” of Child Care and Development Program Cluster monies must be used to provide assistance to low-income working families that meet certain criteria. These criteria include that families must not be receiving assistance under the Temporary Assistance for Needy Families (TANF) program and that families must be attempting, through work activities, to transition off of temporary assistance programs. The Department has the capacity to track funding specific to TANF and non-TANF families and demonstrate that a substantial portion is being spent on non-TANF families.

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## Preparation of the Exhibit K

The Department uses the State’s standard form—the Exhibit K—to report its fiscal year expenditures of federal awards. The Department submits the Exhibit K to the Office of the State Controller, which uses it to prepare the statewide Schedule of Expenditures of Federal Awards (SEFA)—an annual report required by the federal Office of Management and Budget’s *Circular A-133*. For Fiscal Year 2009, the Department administered 70 federal programs and reported federal award expenditures of approximately \$1.2 billion, which represents 14 percent of the total reported on the statewide SEFA.

The Recovery Act added two reporting requirements that affected the Child Care and Development Program Cluster (Program). First, additional federal funds expended that are authorized for the Program are to be tracked and reported separately from non-Recovery Act federal funds. In addition, the Recovery Act funds spent for the Program are to be reported using a new Catalog of Federal Domestic Assistance (CFDA) number (CFDA No. 93.713), as directed by the U.S. Department of Health and Human Services. No other programs administered by the Department are required to use a new CFDA number for the Recovery Act funds for Fiscal Year 2009.

In our Fiscal Year 2006, 2007, and 2008 audits, we found that the Department had difficulties accurately preparing the Exhibit K. In our Fiscal Year 2009 audit, we found that while the Department has significantly improved its process for preparing the Exhibit K, it continues to have problems. The Department submitted the Fiscal Year 2009 Exhibit K to the Office of the State Controller three weeks late. In addition, we found the following errors on the Exhibit K:

- The Recovery Act expenditures for six programs, including the Program, were not reported separately.
- The Recovery Act expenditures for the Program were not reported using the new CFDA number; rather, they were included with the non-Recovery Act federal expenditures.
- The beginning balances for 11 programs did not match the ending balances from the Fiscal Year 2008 Exhibit K. There was no explanation for the differences.
- The amount reported as direct receipts of federal funds for one program was calculated incorrectly.

After we notified the Department of these errors, staff corrected the errors and submitted a revised Exhibit K to the Office of the State Controller.

In addition to the errors noted above, the Department did not consistently classify expenditures for all programs on the Exhibit K supporting documentation. Specifically, for some programs, expenditures to counties were classified as “sub-recipient expenditures,” while for other programs, the same type of expenditures were classified as “direct expenditures.” Because these two classifications are combined on the statewide schedule of expenditures, the inconsistency did not require another Exhibit K revision. Nonetheless, to avoid the risk of more significant errors, the Department should consistently classify expenditures for all programs in the supporting documentation for the Exhibit K.

The errors on the Exhibit K and the supporting documentation occurred because the Department does not have written procedures for preparing the Exhibit K and the supporting documentation. Additionally, the Department did not detect or correct the errors prior to submitting the Exhibit K to the Office of the State Controller because the Department does not have an adequate supervisory review process in place. Further, although the Department provided training to staff responsible for preparing the Exhibit K and the supporting documentation during Fiscal Year 2009, the training did not include the guidance necessary to ensure compliance with the additional requirements of the Recovery Act and consistent preparation of supporting documentation.

The lack of written procedures, supervisory review, and adequate training increases the potential for errors in the Department’s Exhibit K. Because the Department is responsible for such a large portion of the total federal funds spent by the State, an error on the Department’s Exhibit K could materially misstate the statewide SEFA.

(CFDA Nos. 93.575, 93.596, 93.713; Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, and American Recovery and Reinvestment Act Child Care and

Development Block Grant; Special Tests and Provisions; Classification of Finding: Significant Deficiency.)

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### **Recommendation No. 3:**

The Department of Human Services should improve controls over the preparation of the Exhibit K and supporting documentation by:

- a. Developing formal, written procedures for preparing the Exhibit K and related supporting documentation.
- b. Ensuring adequate supervisory review of the Exhibit K and supporting documentation.
- c. Continuing to provide training to staff who prepare the Exhibit K and the supporting documentation.

### **Department of Human Services Response:**

Agree. Implementation date: September 15, 2010.

- a. This year the Department revised the manner in which the Exhibit K is prepared. A formal, written procedure manual is already under development to expedite next year's preparation of the Exhibit.
  - b. A new supervisor was responsible for the review of the Exhibit K and therefore was not fully cognizant of all aspects needing review. In the future the Department will assure the Exhibit is adequately reviewed by the supervisor.
  - c. Enhanced training has already taken place for those responsible for preparing the supporting documentation for the Exhibit K. The supporting documentation will be reviewed on a quarterly basis and those needing additional training will receive individual and targeted instruction. The person preparing the Exhibit will work with the Office of the State Controller in furthering his understanding and ability to prepare the exhibit accurately.
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## Overrides of Eligibility Determinations

Eligibility determinations for CCCAP are completed automatically in the Department's CHATS database based on data entry from county caseworkers. The ability of CHATS to automatically determine eligibility can be a control for preventing fraud and errors. However, CHATS also allows caseworkers to override the system's eligibility determinations. Accordingly, the Department must have compensating controls in place to ensure that overrides are appropriate.

During our Fiscal Year 2008 audit, we found that neither the Department nor the counties had adequate controls in place to ensure that overrides are justified and occur only with supervisory approval. For example, the Department did not have a report on cases that had been overridden, which made it difficult for the Department and counties to track overrides or related trends and follow up on any anomalies.

Although Department staff said during our Fiscal Year 2008 audit that county caseworkers should be documenting the reasons for overrides, neither Department regulations nor the Department's policy manual at the time required counties to perform supervisory reviews of overrides or maintain any documentation related to overrides. We visited nine counties during our Fiscal Year 2008 audit and found that they had varying policies for documenting and approving overrides, which ranged from no oversight or documentation to having technicians add notes explaining the override in CHATS.

During our Fiscal Year 2009 audit, the Department reported that it had begun drafting rules to specify the acceptable reasons for eligibility overrides and the documentation that counties must maintain to support the overrides. However, the Department had not implemented the rules by the end of our audit. The Department also reported during our Fiscal Year 2009 audit that it had received initial approval to hire two additional staff to monitor the use of overrides at the county level. However, the Department did not hire the two staff because of the hiring freeze put into effect by the Governor in September 2008. Finally, the Department reported during our Fiscal Year 2009 audit that it has the ability to run ad hoc reports to monitor overrides. However, the Department has not run these reports because it has been unable to hire new monitoring staff. We did not find evidence that the Department has developed an interim strategy for accomplishing the monitoring with existing staff.

The lack of adequate controls over CCCAP eligibility overrides significantly increases the risk of fraud, errors, and irregularities that could result in ineligible families' improperly receiving CCCAP subsidies and in the federal government disallowing associated CCCAP expenditures. The Department must ensure that

controls exist to ensure that overrides are appropriate and abuses or errors are detected and prevented.

(CFDA Nos. 93.575 and 93.713; Child Care and Development Block Grant, American Recovery and Reinvestment Act Child Care and Development Block Grant; Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, Subrecipient Monitoring. Classification of Finding: Significant Deficiency.)

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### **Recommendation No. 4:**

The Department of Human Services should improve controls related to manual overrides of Colorado Child Care Assistance Program eligibility determinations within CHATS by:

- a. Completing the drafting and implementation of rules governing the acceptable reasons for overrides and documentation required at the counties to support them.
- b. Monitoring overrides through the use of reports that identify state and county trends and irregularities, and ensuring proper follow-up.

### **Department of Human Services Response:**

- a. Agree. Implementation date: April 1, 2010.

The Department will promulgate and implement rules that govern the acceptable reasons for overrides and documentation required at the counties to support them.

- b. Agree. Implementation date: October 2009.

The Department will monitor overrides through the use of reports that identify state and county trends and irregularities, and ensuring proper follow-up. This will be done by state staff as well as working with county supervising staff for follow-up.

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## **Provider Payments**

Child care providers bill counties on a monthly basis for child care provided to families receiving CCCAP subsidies. Several steps exist to ensure that counties'

payments to these providers are accurate and in compliance with federal and state requirements. First, a county caseworker authorizes the days of the week and the number of hours for which children can receive care based upon the parents' scheduled participation in eligible activities (e.g., working or attending educational or job training programs). For example, counties only authorize part-time child care if the parents are working part-time. Second, the provider submits a bill to the county at the end of the month for the care provided, and the county compares that bill to the amount of care authorized for that month. This comparison ensures that the provider is not billing for more care than was authorized. Third, the county verifies that the rate charged by the provider matches the rate listed in the provider's contract. Finally, counties review attendance documentation from randomly selected providers each month to verify that providers are only billing counties for the actual days on which units of care were provided.

Since 2003, several state and federal studies have reviewed different parts of the counties' processes for paying CCCAP providers. During our Fiscal Year 2008 audit, we reviewed the results of all of these studies and found that counties have lacked adequate controls over the provider payment process. Some of these control weaknesses have persisted since 2003. Through our review of the studies and our site visits to nine counties, we identified areas for improvement in two areas: authorizations and provider attendance documentation.

## **Authorizations**

Once a child is determined eligible for a CCCAP subsidy, a county case worker authorizes child care for certain days of the week and certain amounts of time on those days. The authorizations should be based on the parents' scheduled participation in eligible activities to ensure that children receive CCCAP services only when needed. Over-authorizing care (i.e., authorizing more care than is justified by the parents' schedules) increases the opportunity for fraud or abuse associated within the program. Additionally, payments to providers for child care that was either not needed or not provided is subject to federal disallowances and recoveries.

A Department study in 2003 recommended that care only be authorized based on the parents' schedules, thereby reducing the potential for providers to over-bill and be paid for care not provided. However, we noted during our Fiscal Year 2008 audit that case reviews performed by the Department since August 2006 found that in nearly 38 percent of the cases examined, care was not authorized based upon the clients' needs, as reflected by their schedules.

Our Fiscal Year 2008 audit recommended that the Department strengthen its policies related to authorizing child care through CCCAP. During our Fiscal Year

2009 audit, the Department reported that it had drafted rules to clarify that counties should authorize only the amount of child care needed by CCCAP families based on their schedule of eligible activities. However, the Department had not implemented these rules by the end of our Fiscal Year 2009 audit. We also recommended in our Fiscal Year 2008 audit that the Department work with counties to improve the counties' internal control systems to ensure proper CCCAP case management, such as by requiring counties to conduct additional case file reviews. During our Fiscal Year 2009 audit, the Department reported that the review requirement would be implemented upon the Department's implementation of the aforementioned rules clarifying that counties should authorize only the amount of care needed by CCCAP families.

(CFDA Nos. 93.575 and 93.713; Child Care and Development Block Grant, American Recovery and Reinvestment Act Child Care and Development Block Grant; Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Subrecipient Monitoring. Classification of Finding: Significant Deficiency.)

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### **Recommendation No. 5:**

The Department of Human Services should ensure that county departments of human/social services properly authorize child care for Colorado Child Care Assistance Program (CCCAP) participants by:

- a. Promulgating rules to clarify that counties shall authorize only the amount of child care needed by CCCAP families based on their schedule of eligible activities.
- b. Working with the counties to improve their internal control systems, such as requiring counties to conduct monthly CCCAP case file reviews to identify errors in their case management and their causes and require corrective actions to prevent future errors.

### **Department of Human Services Response:**

- a. Agree. Implementation date: April 1, 2010.

The Department will promulgate and implement rules to clarify that counties shall authorize only the amount of child care needed by Child Care and Development Program Cluster families based on their schedule of eligible activities.

- b. Agree. Implementation date: April 1, 2010.

The Department will promulgate and implement rules that require counties to improve internal controls including conducting case file reviews to identify errors in their case management and their causes and requiring corrective actions to prevent future errors.

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## **Provider Attendance Sheets**

Department regulations require CCCAP providers to maintain attendance records that note the child's time of arrival and departure for each day of care. Regulations also require that these records be signed by the person authorized to drop off or pick up the child, such as the child's parent. Thus, these records document the time, dates, and units of care actually provided to children and can be used by counties to verify provider bills. We noted during our Fiscal Year 2008 audit that previous Department and federal studies had found that attendance documentation was not always adequate to support the bills submitted by providers.

Department regulations require counties to “complete at least a random monthly review of sign in/out sheets received from the provider compared to the billing sheets submitted.” These random monthly reviews help ensure providers are billing only for care actually provided. During our Fiscal Year 2008 audit, we found that only five of nine counties sampled conducted the random monthly reviews on a regular basis. We also found that these five counties reviewed different types of providers (e.g., some counties reviewed only licensed facilities) and used different sample sizes for their reviews. Of the other four counties, two conducted reviews when workers suspected problems with specific providers, one had discontinued its reviews, and the other never reviewed provider attendance sheets.

At the time of our Fiscal Year 2008 audit, Department regulations did not specify how counties should conduct these reviews. Our Fiscal Year 2008 audit recommended that the Department offer direction on the number or percent and types of providers that counties should review each month. We also recommended that the Department revise its regulations to require that counties review provider attendance sheets primarily on a risk basis rather than randomly. Even so, the Department should continue to require that counties conduct some reviews of randomly selected providers, to ensure that all providers have some chance of being selected.

During our Fiscal Year 2009 audit, we found that the Department had begun drafting rules to improve oversight of provider attendance sheets but had not



implemented these rules. The Department should complete and implement the new rules to provide direction to the counties on reviewing provider attendance sheets.

(CFDA Nos. 93.575 and 93.713; Child Care and Development Block Grant, American Recovery and Reinvestment Act Child Care and Development Block Grant; Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Subrecipient Monitoring. Classification of Finding: Significant Deficiency.)

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### **Recommendation No. 6:**

The Department of Human Services should improve the review of Colorado Child Care Assistance Program provider attendance records by county departments of human/social services by:

- a. Providing guidance to the counties on how to select samples of providers' attendance sheets for review.
- b. Revising Department regulations to require that counties implement a risk-based approach for conducting the reviews. Counties should continue to include a random element to ensure that all providers have a chance of being selected for review.

### **Department of Human Services Response:**

- a. Agree. Implementation date: May 1, 2010.

The Department will give guidance to counties on how to select providers' attendance sheets for review through an agency letter. The agency letter will be drafted after the passage of rule related to implementing a risk-based approach for reviews and will include information on the full review process.

- b. Agree. Implementation date: April 1, 2010.

The Department will promulgate and implement rules that require counties to implement a risk-based approach for conducting the reviews.

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## Quality Initiatives

Federal rules require states to spend at least 4 percent of their Child Care and Development Program Cluster (Program) allocation on activities or services that improve the quality and availability of child care in the state. During our Fiscal Year 2008 audit, the Department spent about \$4 million at the state level on quality initiatives. In addition to the statewide quality initiatives, Department policy at the time of our Fiscal Year 2008 audit allowed counties to spend funds transferred from their TANF reserves and/or up to 10 percent of their Program allocation on activities to improve the quality of child care. We found during our Fiscal Year 2008 audit that county expenditures on quality initiatives had steadily increased, from about \$300,000 by 13 counties in Fiscal Year 2004 to about \$4.8 million by 37 counties in Fiscal Year 2008.

Federal regulations describe quality activities as those that (1) provide comprehensive consumer education to parents and the public, (2) increase parental choice, and (3) improve the quality and availability of child care. Department policy further defines acceptable uses of quality initiative funds to include child care capacity building, increasing child care resource and referral services, child care provider grants, provider training and recruitment, and minor remodeling of child care facilities.

During our Fiscal Year 2008 audit, we reviewed a sample of 72 quality initiative expenditures by three counties totaling about \$577,000 in Fiscal Years 2006 through 2008. We identified concerns with questioned costs, lack of consistent grant processes, and use of funds for administrative expenses that have continued in Fiscal Year 2009, as described below.

**Questioned costs.** Of the 72 transactions we tested in Fiscal Year 2008, 14 (19 percent) included questioned costs. These costs totaled about \$83,000 (14 percent) of the approximately \$577,000 tested and included a transaction in which quality initiative funds were used to pay costs related to a Head Start conference. We questioned whether paying the expenses of another program such as Head Start was an appropriate use of these funds. During our Fiscal Year 2009 audit, we found that the Department instituted a risk-based system for monitoring county quality initiative expenditures and ensuring that these expenditures are allowable, reasonable, and supported by adequate documentation. However, we also found during our Fiscal Year 2009 audit that the Department has not clarified whether using quality initiative funds to pay for the expenses of other programs such as Head Start is appropriate.

Our Fiscal Year 2008 audit also identified problems with a large quality initiative transaction in Denver County. Specifically, Denver County could not provide supporting documentation for a transaction totaling about \$2.8 million. Denver

County provided invoices totaling about \$4.2 million but was unable to reconcile these invoices to the \$2.8 million transaction we requested. As a result, we were unable to test the appropriateness of this transaction during our Fiscal Year 2008 audit and considered it to be a potential questioned cost. We recommended during our Fiscal Year 2008 audit that the Department should conduct a detailed audit of this transaction to determine if Denver County had complied with all applicable requirements. During our Fiscal Year 2009 audit, we also found that the Department had not yet completed an audit of the questionable \$2.8 million transaction identified at Denver County.

As noted previously, Department policy provides a specific list of uses for county quality initiative spending. The Department has also provided counties with informal written guidance on the allowability of certain types of expenditures. During our Fiscal Year 2008 audit, we found this guidance was more general than the Department's policy, in part because it provided a list of allowable activities that includes "any other activities that are consistent with the intent of the [Child Care and Development Program Cluster]." The broadness of the Department's informal guidance weakens assurances that counties will spend quality initiative funds appropriately or strategically to meet program goals. We recommended in our Fiscal Year 2008 audit that the Department should clarify requirements for quality initiative spending by ensuring that counties comply with current Department policy. During our Fiscal Year 2009 audit, we found that the Department still has not ensured that its guidance given to the counties on the allowability of types of quality initiative expenditures reflects current Department policy and federal requirements.

**Lack of formal grant process.** During our Fiscal Year 2008 audit, we found that one of the three counties for which we tested transactions did not have a formal grant program to distribute quality initiative funds to providers. Rather, the county used quality initiative funds to pay for operating costs at its county-owned child care center without giving other private providers in the county the chance to apply for these funds, giving the appearance of favoritism and impropriety. Although the Department does not specifically require counties to distribute funds to providers through grants, a formal grant process provides greater assurance that all providers have an opportunity to apply for and receive funds. A formal process also provides greater transparency and accountability, reducing the risk of fraud and abuse. We recommended in our Fiscal Year 2008 audit that the Department should require counties to establish formal grant processes if they are distributing quality initiative funds to child care providers. During our Fiscal Year 2009 audit, we found that the Department still does not require that counties establish a formal grant process for distributing quality initiative funds.

**Use of quality initiative funds for administrative expenses.** Department policy does not include county administration as an allowable use of quality initiative

funds. During our Fiscal Year 2008 audit, we found that one county allowed a subrecipient to use 5 percent of the quality initiative funding it received from the county to pay for administrative expenses up to \$127,500. In addition, we found one instance in which the same subrecipient subgranted some of these funds to another entity and allowed that entity to also charge 5 percent for administrative expenses. We were concerned during our Fiscal Year 2008 audit about allowing subgrantees of the quality initiative funding to use those funds for administrative expenses because it reduces the funds available for improving the quality of child care in the state. We recommended in our Fiscal Year 2008 audit that the Department clarify whether administrative expenses are an allowable use of quality initiative funds. We found during our Fiscal Year 2009 audit that the Department has not provided this clarification.

Without improved oversight of county quality initiative spending, the Department cannot ensure that these funds are being used effectively and efficiently to improve the quality of child care in the state. Misuse of these funds could also result in federal recoveries of unallowable costs.

(CFDA Nos. 93.575 and 93.713; Child Care and Development Block Grant, American Recovery and Reinvestment Act Child Care and Development Block Grant; Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Subrecipient Monitoring. Classification of Finding: Significant Deficiency.)

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## **Recommendation No. 7:**

The Department of Human Services should improve its oversight of quality initiative spending for the Colorado Child Care Assistance Program by county departments of human/social services:

- a. Auditing the \$2.8 million transaction we identified as a potential questioned cost to ensure that the expenditure was made in accordance with all applicable requirements.
- b. Requiring counties to institute formal grant processes for distributing quality initiative funds to child care providers and reviewing the counties' grant processes to ensure that counties distribute and monitor funds appropriately.
- c. Ensuring that its guidance to counties on the allowability of types of quality initiative expenditures reflects current Department policy and federal requirements.

- d. Clarifying whether administrative expenses and paying for the expenses of other programs such as Head Start are appropriate uses of county quality initiative funds and, if so, establishing limits for such expenses.

### **Department of Human Services Response:**

- a. Agree. Implementation date: December 15, 2009.

The Division of Child Care is still in the process of finalizing the audit of the \$2.8 million transaction. Denver Human Services has until November 24, 2009, to provide any additional documentation related to currently questioned costs. The final report will be issued by December 15, 2009.

- b. Agree. Implementation date: January 31, 2010.

Additional guidance will be issued through the release of a new agency letter, which is currently in clearance. This agency letter establishes parameters for the distribution of quality initiative funds to child care providers, as well as the oversight that is assumed by the county. As the originating agency, the Department has also outlined a “risk-based” tiered model as a review methodology. This model was implemented in the 4th quarter of Fiscal Year 2008-09.

- c. Agree. Implementation date: December 15, 2009.

The process for Departmental approval of the use of TANF reserves for quality initiatives has been also redefined through an agency letter and the updated request form. Both forms include a list of allowable and excluded activities. Additionally, each request now includes a scope of work which is reviewed prior to approval. The scope of work, as well as mandatory quarterly reporting documents, is compared to the documentation submitted during the course of an audit to ensure that both federal and state policies have been followed.

- d. Agree. Implementation date: January 31, 2010.

Additional guidance will be issued through the release of a new agency letter, which is currently in clearance. This agency letter issues guidelines on administrative charging and the use of funds to subsidize other federally funded programs.

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**Human Services  
Colorado Child Care Assistance Program  
Prior Recommendations  
Significant Deficiencies  
Not Remediated by the Department  
As of June 30, 2009**

The following recommendations relating to internal control deficiencies classified as significant deficiencies were communicated to the Department in previous years and have not yet been remediated as of June 30, 2009.

<b>Report and Rec. No.</b>	<b>Recommendation/ Classification</b>	<b>Implementation Date Provided by Department</b>
2008 Single Audit Rec. No. 95	Eligibility Determination Overrides <i>Significant Deficiency</i>	a. [1] b. July 2009 c. July 2009 d. August 2010 e. [1] f. [2]
2008 Single Audit Rec. No. 96	Oversight of County Expenditures <i>Significant Deficiency</i>	a. [1] b. [1] c. July 2009 d. July 2009
2008 Single Audit Rec. No. 98	Provider Attendance Sheets <i>Significant Deficiency</i>	a. July 2009 b. [1] c. [1]
2008 Single Audit Rec. No. 99	County-Owned Child Care Centers <i>Significant Deficiency</i>	a. July 2009 b. [2] c. July 2009

<sup>[1]</sup> A current year audit recommendation has been written to address this part of the original recommendation.

<sup>[2]</sup> This part of the recommendation has been implemented, partially implemented, or is no longer applicable.

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# Department of Higher Education

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## Introduction

The Department of Higher Education was established under Section 24-1-114, C.R.S., and includes all public higher education institutions in the state. State public institutions of higher education are governed by an individual board or trustees. Specifically, for the two institutions included in this report, they are overseen as follows:

- **Board of Governors of the Colorado State University System**  
Colorado State University  
Colorado State University – Pueblo  
Colorado State University – Global Campus
- **Trustees of the Colorado School of Mines**  
Colorado School of Mines

## Colorado State University

In 1870, the Territorial Council and House of Representatives of the Territory of Colorado created the Agricultural College of Colorado (College). When the Territory became a state in 1876, the College was placed under the governance of the State Board of Agriculture.

The College began admitting its first students in 1879. It was also designated that year as Colorado's land-grant college and recipient of federal endowment support under the Morrill Act of 1862. Subsequent federal legislation led to the establishment of the Agricultural Experiment Station and the Extension Services of the College.

State legislation also made the College responsible for the Colorado State Forest Service. Following several name changes, the College became Colorado State University in 1957.

The following comment was prepared by the public accounting firm of BKD, LLP, which performed Fiscal Year 2009 audit work at Colorado State University.

## **Reporting (Research and Development Grant Cluster): Colorado State University**

OMB *Circular A-133* (OMB A-133) sets forth standards for consistency and uniformity among federal agencies for the audit of non-federal entities expending federal awards. According to OMB A-133, the University is responsible, among other requirements, for identifying all federal programs for which the University had expenditures during the year. Federal award and program identification should include, as applicable, the Catalog of Federal Domestic Assistance (CFDA) title and number, award number and year, name of the federal agency, and name of the pass through entity, if applicable. The University provides this information on the Exhibit K and submits the information to the Office of the State Controller who then prepares the Schedule of Expenditures of Federal Awards (SEFA) for the State of Colorado.

Colorado State University receives funding from the Department of Health and Human Service's National Institute of Health. The University receives notices of awards for each budget period, which includes the funding source by CFDA number. During Fiscal Year 2009, CSU received approximately \$10 million for Allergy, Immunology and Transplantation Research under CFDA No. 93.855.

We found during our Fiscal Year 2009 audit that CSU's reporting of Allergy, Immunology and Transplantation Research expenditures on its preliminary Exhibit K was inconsistent with the CSU's award document from the Department of Health and Human Services. Specifically, CSU reported expenditures under CFDA 93.856, which is for Microbiology and Infectious Diseases Research. During the course of the grant, the CFDA number for the award was originally CFDA number 93.856 and was changed by the U.S. Department of Health and Human Services to CFDA number 93.855 as stated in the notice of award for budget period four. The University did not contact the federal grant awarding agency to determine the reason for and appropriateness of the change in CFDA number until the end of Fiscal Year 2009 when we brought the discrepancy to its attention. Upon discussion with the federal grant awarding agency, it was noted that the CFDA number did change to 93.855. Further, because the University did not contact the grantor in a timely manner, it did not communicate the change of the CFDA number to its subrecipients. The incorrect reporting on the preliminary Exhibit K resulted from not investigating the CFDA grant number discrepancy in a timely manner. By reporting incorrect information on the Exhibit K, the State of Colorado might include inaccurate information on its statewide SEFA.

(CFDA No. 93.855; Allergy, Immunology and Transplantation Research; Reporting. Classification of Finding: Control Deficiency.)



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## **Recommendation No. 8:**

Colorado State University should ensure that discrepancies in federal grant information are investigated and addressed on a timely basis. Furthermore, any required changes should also be communicated timely to subrecipients. Differences in the CFDA number should be discussed by CSU and the awarding agency to resolve the discrepancy in a timely manner.

### **Colorado State University System Response:**

Agree. Implementation date: September 2009.

At the time of the initial award the CFDA noted in the Notice of Grant Award (NGA) was 93.856. In 2006 the National Institute of Allergies and Infectious Disease (NIAID) combined the two numbers—93.856 and 93.855—and began using 93.855 exclusively. When the incremental NGA was awarded the CFDA number changed to 93.855 but was not referenced as a change in the NGA. Unfortunately, since changes in CFDA numbers do not often occur in the middle of a project cycle, the change was not caught and noted in the CSU system. The change has been noted in the most recent project and is being reported correctly on the final Exhibit K. It should be noted that the expenditures were appropriately reported to the awarding institute and that the SEFA was not materially misstated.

A procedure will be developed and communicated to Sponsored Programs (SP) staff regarding the importance of checking each Notice of Grant Award, not just the initial ones, to assure the correct CFDA number is being used.

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## **Colorado School of Mines**

The Colorado School of Mines (School) was founded on February 9, 1874. The School came under state control with statehood in 1876. The first diploma was granted in 1882. The authority under which the School operates is Article 41 of Title 23, C.R.S.

The Board of Trustees is the governing body of the School and is composed of seven members appointed by the Governor, with consent of the Senate, for four-year terms and one nonvoting student member elected by the student body.

The primary emphasis of the School is engineering and science education and research.

The following comment was prepared by the public accounting firm of BKD, LLP, which performed Fiscal Year 2009 audit work at the Colorado School of Mines.

### **Procurement, Suspension, and Debarment (Research and Development Grant Cluster)**

Federal suspension and debarment rules, as outlined in OMB Circular A-133 *Compliance Supplement*, state that non-federal entities are prohibited from contracting with or making subawards under covered transactions (procurement contracts for goods and services equal to or in excess of \$25,000) to parties that are suspended or debarred or whose principals are suspended or debarred by the federal government. Suspensions are temporary actions that may last up to one year and may be based on indictments, information or adequate evidence involving environmental crimes, contract fraud, embezzlement, theft, forgery, bribery, poor performance, non-performance, or false statements. Debarments result in the imposition of a set period of time on a case-by-case basis and may be based on convictions, civil judgments or fact-based cases involving environmental crimes, contract fraud, embezzlement, theft, forgery, bribery, poor performance, non-performance or false statements as well as other causes. Suspension and debarment actions protect the government from doing business with individuals/companies/recipients who pose a business risk to the government. When a non-federal entity enters into a covered transaction in excess of \$25,000 with an entity, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration, collecting a certification from the entity or adding a clause or condition to the covered transaction with the entity.

The School was not performing suspension and debarment verification procedures required for covered transactions to determine that contracting entities were not suspended or debarred. This was also a finding in the audit for the Fiscal Year Ended June 30, 2008. The auditors recommended that the School verify and document that entities are not suspended or debarred from contracting work involving federal funds. The School agreed with the recommendation and indicated that its subaward and subcontracts would include a certification clause that requires the subrecipients to certify that they are not on the debarred or suspended list prior to execution of a subaward or subcontract.

During the Fiscal Year 2009 audit we found the School has not consistently used the proper subcontract agreement template to certify that subrecipients are not suspended or debarred. We noted during our testing of suspension and debarment that for three out of the six subcontract agreements reviewed, the School failed to certify that the subrecipients had not been suspended or debarred. Two of the

exceptions related to subcontract agreements that were entered into prior to the certification clause being added to the standard federal subcontract agreement template used by the School, and one error related to the use of a non-federal subcontract agreement template. Upon further review, the School determined that during Fiscal Year 2009, a total of eight subcontract agreements with expenditures of \$711,600 did not include a certification clause by the School that subrecipients had not been suspended or debarred.

Failure to perform required suspension and debarment certification procedures might result in the School procuring goods or services from an entity that has been suspended or debarred, thereby exposing it to increased business risk and potential federal disallowances.

(See Appendix A, Colorado School of Mines, for listing of applicable CFDA Nos.; Research and Development Cluster; Procurement, Suspension, and Debarment. Classification of Finding: Control Deficiency.)

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### **Recommendation No. 9:**

The Colorado School of Mines should use the *EPLS* system to verify subrecipients (subcontracts and vendors) have not been suspended or debarred and obtain amendments to all subcontract agreements entered into prior to the addition of the certification clause in the standard federal subcontract agreement template. Furthermore, the School should implement policies and procedures to ensure the proper subcontract agreement template is being used going forward.

### **Colorado School of Mines Response:**

Agree. Implementation date: July 1, 2009.

The School reviewed the *EPLS* system for the eight subcontracts in question and determined that none of the subrecipients were debarred or suspended. In addition, the School obtained amendments for the addition of the certification clause to all subcontract agreements in effect during Fiscal Year 2009. The School has implemented the use of the Federal Demonstration Partnership (FDP) subaward form for subawards under federal grants that include the certification clause. The School's template for contract funded subcontracts contains the certification clause. In addition, the School has added the certification clause to its non-federal and interagency agreement templates. Furthermore, the School will document its review of the *EPLS* system for all subcontracts regardless of the source of funds.

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## **Reporting and Matching, Level of Effort and Earmarking - Supervisory Review (Research and Development Cluster)**

We noted during our testing of grant setups (i.e., project summary sheets) used to review matching requirements and testing of financial reports that one out of seven project summary sheets and eight out of 26 financial reports lacked evidence of a secondary review. The eight financial report exceptions were comprised of two Financial Status Reports and six Federal Cash Transactions Reports.

To strengthen internal control procedures over the administration of grants, the School should include a secondary review of financial documents, specifically financial reports which are required to be submitted under the terms of the grant and internally maintained project summary sheets used to assure proper set-up of matching requirements. Each review should be performed and documented by an individual who is independent of the preparer, possesses sufficient knowledge of reporting and matching requirements, and has access to the documentation used to prepare the documents.

The exceptions noted above resulted from lack of documentation indicating reviews had been performed; however School personnel represented that reviews had been conducted.

Failure to review project summary sheets for proper matching requirements and financial reports for accuracy could result in grant terms not being met and inaccurate reporting information to awarding agencies. Documentation of review and approval is important to provide evidence that the approval control function is operating as designed.

(See Appendix A, Colorado School of Mines, for listing of applicable CFDA Nos.; Research and Development Cluster; Matching, Level of Effort, Earmarking, Reporting. Classification of Finding: Control Deficiency.)

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### **Recommendation No. 10:**

The Colorado School of Mines should assure that its existing review policies are strictly adhered to for documenting supervisory review of project summary sheets and financial reports for federally funded projects.

## **Colorado School of Mines Response**

Agree. Implementation date: July 1, 2009.

The Director reviews and documents his review on all new project summary sheets. The project summary sheet noted was reviewed, however that review was not documented. The Director will ensure that his review is documented.

Financial Status and Federal Cash Transaction reports are prepared by the fiscal manager and reviewed by the billing specialist. The billing specialist will ensure documentation of her review by reviewing the reports on a monthly basis.

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## APPENDIX A

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### FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirement / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
<b>Department of Human Services</b>						
1	11	Ensure, through continued monitoring and training, the counties are obtaining and maintaining in the case file all the documents required to demonstrate families' eligibility for Child Care and Development Program cluster subsidies under the Colorado Child Care Assistance Program.	93.575, 93.596, 93.713 (A)(B)(E)(M) HHS	Agree	10/2009 with full implementation 11/2010	Leslie Bulicz (303) 866-4556
2	12	Ensure that it has procedures in place to identify and monitor federal earmarking requirements related to Child Care and Development Program cluster funds and makes use of the mechanisms it currently has in place to track and report on compliance.	93.575, 93.596, 93.713 (G) HHS	Agree	11/2009	Leslie Bulicz (303) 866-4556
3	15	Improve controls over the preparation of the Exhibit K and supporting documentation by (a) developing formal, written procedures preparing the Exhibit K and related supporting documentation; (b) ensuring adequate supervisory review of the Exhibit K and supporting documentation; and (c) continuing to provide training to staff who prepare the Exhibit K and the supporting documentation.	93.575, 93.596, 93.713 (N) HHS	Agree	9/2010	Dick Taylor (303) 866-2732

## FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirement / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
4	17	Improve controls related to manual overrides of eligibility determinations for Colorado Child Care Assistance Program eligibility determinations within CHATS by (a) completing the drafting and implementation of rules governing the acceptable reasons for overrides and documentation required at the counties to support them and ( b) monitoring overrides through the use of reports that identify state and county trends and irregularities, and ensuring proper follow-up.	93.575 (A)(B)(E)(M) HHS	Agree	a. 4/ 2010 b. 10/ 2009	Leslie Bulicz (303) 866-4556
5	19	Ensure that county department of human/social services properly authorized child care for the Colorado Child Care Assistance Program (CCCAP) participants by (a) promulgating rules to clarify that counties shall authorize only the amount of child care needed by CCCAP families based on their schedule of eligible activities and (b) working with the counties to improve their internal control systems, such as requiring counties to conduct monthly CCCAP case file reviews to identify errors in their case management and their causes and require corrective actions to prevent future errors.	93.575 (A)(B)(M) HHS	Agree	4/2010	Leslie Bulicz (303) 866-4556
6	21	Improve the review of Colorado Child Care Assistance Program provider attendance records by county departments of human/social services by (a) providing guidance to the counties on how to select samples of providers' attendance sheets for review and (b) revising Department regulations to require that counties implement a risk-based approach for conducting the reviews. Counties should continue to include random elements to ensure that all providers have a change of being selected for review.	93.575 (A)(B)(M) HHS	Agree	a. 5/2010 b. 4/ 2010	Leslie Bulicz (303) 866-4556

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## FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirement / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
7	24	Improve its oversight of quality initiative spending by county departments of human/social services by (a) auditing the \$2.8 million transaction we identified as a potential questioned cost to ensure that the expenditure was made in accordance with all applicable requirements; (b) requiring counties to institute formal grant processes for distributing quality initiative funds to child care providers and reviewing the counties' grant processes to ensure that counties distribute and monitor funds appropriately; (c) ensuring that its guidance to counties on the allowability to types of quality initiative expenditures reflects current Department policy and federal requirements; and (d) clarifying whether administrative expenses and paying for the expenses of other programs like Head Start are appropriate uses of county quality initiative funds and, if so, establishing limits for such expenses.	93.575 (A)(B)(M) HHS	Agree	a. 12/2009 b. 1/2010 c. 12/2009 d. 1/2010	Leslie Bulicz (303) 866-4556
<b>Department of Higher Education</b>						
<b>Colorado State University</b>						
8	29	Ensure that discrepancies in federal grant information are investigated and addressed on a timely basis. Furthermore, any required changes should also be communicated timely to subrecipients. Differences in the CFDA number should be discussed by CSU and the awarding agency to resolved	93.855 (L) HHS	Agree	9/2009	Laura Streit (970)491-2389
<b>Colorado School of Mines</b>						
9	31	Use the <i>EPLS</i> system to verify subrecipients (subcontracts and vendors) have not been suspended or debarred and obtain amendments	12.14442, 12.80305, 47.041, 66.5322009,	Agree	7/2009	Jinous Lari (303)273-3262



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## FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirement / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
		to all subcontract agreements entered into prior to the addition of the certification clause in the standard federal subcontract agreement template. Furthermore, the School should implement policies and procedures to ensure the proper subcontract agreement template is being used going forward.	66.606, 81.114940, 81.36101, 81.403684, 81.4300065909, 81.4300065924, 81.53084, 81.6854461, 81.72949, 81.75542, 81.79048, 10.001 / 10.2004-35102-14802, 10.206 / 10.2006- 35504-16618, 11.302 / 11.05-87-04411, 11.431 / 11.5549, 11.609 / 11.70NANB8H8090, 11.609 / 11.70NANB9H9058, 11.IPA 0903, 12.1050.04-OTH- 001/CSM, 12.1130070- 179180, 12.2006-343, 12.300 / 12.N00014-02- 1-0234, 12.300 / 12.N00014-02-1-0665, 12.300 / 12.N00014-05- 1-0339, 12.300 / 12.N00014-06-1-0207, 12.300 / 12.N00014-06- 1-0544, 12.300 / 12.N00014-08-1-0539, 12.431 / 12.203198.SU2, 12.431			

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## FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirement / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
			/ 12.DAAD19-03-1- 0292, 12.431 / 12.PO#1021P- 0000022153, 12.431 / 12.W911NF-06-1-0223, 12.431 / 12.W911NF- 06-1-0311, 12.431 / 12.W911NF-06-1-0350, 12.431 / 12.W911NF- 07-1-0134, 12.431 / 12.W911NF-07-1-025- 8, 12.431 / 12.W911NF- 07-1-0478, 12.431 / 12.W911NF-08-1-0292, 12.431 / 12.W912HQ- 04-C-0040, 12.431 / 12.WF911NF-04-1- 0169, 12.800 / 12.1040, 12.800 / 12.30940, 12.800 / 12.31265, 12.800 / 12.CSM-07.01, 12.800 / 12.FA8650-07- C-2741, 12.800 / 12.FA8750-06-1-0001, 12.800 / 12.FA9550-06- 1-0548, 12.800 / 12.FA9550-07-0026, 12.800 / 12.FA9550-07- 01-0550, 12.800 / 12.FA9550-08-1-0007,			

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## FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirement / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
			12.800 / 12.non-given, 12.800 / 12.R-8196-G1, 12.910 / 12.FA9453-07- 1-0202, 12.CLKSN- 67188, 12.CSM-07.02, 12.CSM-09.01, 12.DET-PO-09-120, 12.non-given, 12.PO No. 05-197, 12.PO286959/J.O.1266 56.0100, 12.S- 29000.51, 12.Service Order No. 452652, 12.TF39-POLAR 081- 0812, 12.Unknown, 12.W15QKN-08-P- 0528, 12.W81XWH-07- C-0061, 12.W912HQ- 06-C-0018, 12.W912HQ-08-0030, 12.W912HQ-08-P0035, 12.W912HQ-08-P- 0055, 12.W912HQ-09- C-0018, 12.W912HZ- 08-C0057, 12.W912HZ-09-P-0163, 15.2314125S01, 15.504 / 15.0106CT39654, 15.504 / 15.M08PX20049/00100			

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## FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirement / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
			0447, 15.808 / 15.07ERAG0010, 15.808 / 15.08CRAG0019, 15.808 / 15.G09AC00085, 15.923 / 15.20118 INITIAL 2006, 15.CMK00000003, 15.CMK16060016, 15.G09AC00132, 15.M08PX20245, 20.DTFH61-07-H- 00036, 20.DTPH56-07- T-000009, 20.DTPH56- 08-T-000014, 20.HR 21-09, 43.001 / 43.NNG05GL52H, 43.002 / 43.NNA06CB64G, 43.002 / 43.NNC8-238, 43.002 / 43.NNJ06AH15G, 43.002 / 43.PO#110110, 43.002 / 43.S- 00000167, 43.07- 0241S, 43.09-0257S, 43.2502.001, 43.699021X, 43.PO7100034985,			

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## FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirement / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
			43.Unknown, 43.ZTCoSM012209- DUST/NNX09C, 47.000 / 47.DMR- 0746086, 47.041 / 47.4101- 20587/CBET074275, 47.041 / 47.618380, 47.041 / 47.BES- 0628282, 47.041 / 47.CBET-0731319, 47.041 / 47.CBET- 0828649, 47.041 / 47.CBET-0829043, 47.041 / 47.CMMI- 0700869, 47.041 / 47.CMMI-0729114, 47.041 / 47.CMMI- 0825592, 47.041 / 47.CMMI-0826323, 47.041 / 47.CMMI- 0855918, 47.041 / 47.CMS-0408150, 47.041 / 47.CR-19459- 477587, 47.041 / 47.CTS-0419204, 47.041 / 47.CTS- 0626226, 47.041 / 47.DMI-0547649, 47.041 / 47.DUE-			

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## FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirement / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
			0630888, 47.041 / 47.ECCS-0725752, 47.041 / 47.ECCS- 0757956, 47.041 / 47.ECCS-0847964, 47.041 / 47.ECS- 0134130, 47.041 / 47.ECS-0134132, 47.041 / 47.EEC- 0529777, 47.041 / 47.EEC-0550169, 47.041 / 47.EEC- 0819106, 47.041 / 47.ES-I0623808, 47.041 / 47.IIP-0855797, 47.041 / 47.PO#051- 0564, 47.041 / 47.PO#05I-0564, 47.049 / 47.44- G6A63809/PO#80907, 47.049 / 47.CHE- 0515521, 47.049 / 47.CNS-0720875, 47.049 / 47.DMR 0606054, 47.049 / 47.DMR-0606054, 47.049 / 47.DMR- 0702351, 47.049 / 47.DMR-0820518, 47.049 / 47.DMS-			

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## FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirement / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
			0453600, 47.049 / 47.DMS-0539176, 47.049 / 47.DMS- 0621118, 47.049 / 47.DMS-0724715, 47.049 / 47.DMS- 0724717, 47.049 / 47.PHY-0420357, 47.049 / 47.PHY- 0547845, 47.050 / 47.EAR-0337379, 47.050 / 47.EAR- 0609595, 47.050 / 47.EAR-0720257, 47.050 / 47.EAR- 0733782, 47.050 / 47.EAR-0749035, 47.050 / 47.OCE- 0551715, 47.050 / 47.S958312/4-20488, 47.070 / 47.CCF- 0830320, 47.070 / 47.CCF-0830783, 47.070 / 47.CNS 0634278, 47.070 / 47.CNS-0435376, 47.070 / 47.CNS- 0634278, 47.070 / 47.CNS-0702875, 47.070 / 47.CNS-			

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## FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirement / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
			0722415, 47.070 / 47.CNS-0738102, 47.070 / 47.CNS- 0739233, 47.070 / 47.CNS-0824670, 47.071-0405, 47.074 / 47.624789, 47.074 / 47.DBI-0454686, 47.074 / 47.DBI- 0852868, 47.074 / 47.DEB 0614350, 47.075 / 47.19459- 477347, 47.075 / 47.GN0002275, 47.076 / 47.080336Z2, 47.076 / 47.21P133-02, 47.076 / 47.4101-19739, 47.076 / 47.DGE 0638719, 47.076 / 47.DGE- 0231611, 47.076 / 47.DGE-0531499, 47.076 / 47.DGE- 0638719, 47.076 / 47.DGE-0801692, 47.076 / 47.DUE- 0341127, 47.076 / 47.DUE-0517528., 47.076 / 47.DUE- 0532684, 47.076 / 47.DUE-071775,			

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## FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirement / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
			47.076 / 47.DUE- 0717751, 47.076 / 47.DUE-0814788, 47.076 / 47.ESI- 0227558, 47.076 / 47.NSF NO.ESI- 0227558, 47.076 / 47.P00527, 47.079 / 47.OISE-0106665, 47.44- G6A63809/PO8000809 07, 47.EAR-0716153, 47.OCE-0809351, 47.Unknown, 66.034 / 66.PG08-67099-01, 66.500 / 66.EP08H001132, 66.509 / 66.RD- 83153001-1, 66.509 / 66.RD-833332401-01, 66.606 / 66.4-Dec-06, 66.606 / 66.DEC14U06, 66.606 / 66.DEC1R06, 66.X-83085101, 77.006 / 77.NRC-38-08-923, 77.008 / 77.NRC-38-08- 954, 81.049 / 81.4150, 81.049 / 81.DE-FG02- 04ER54775, 81.049 / 81.DE-FG02-			

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## FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirement / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
			05ER46242, 81.049 / 81.DE-FG02-			
			06ER15778, 81.049 / 81.DE-FG02-			
			06ER64233, 81.049 / 81.DE-FG02-			
			07ER15841, 81.049 / 81.DE-FG02-			
			07ER46397, 81.049 / 81.DE-FG02-			
			07ER64419, 81.049 / 81.DE-FG02-			
			07ER64423, 81.049 / 81.DE-FG02-			
			08ER646559, 81.049 / 81.DE-FG02-			
			93ER14363, 81.049 / 81.DE-FG02-			
			93ER40789, 81.049 / 81.UF-EIES-0804021-			
			CSM, 81.06C733F, 81.07-004426-CSM-1, 81.07122-09, 81.07122-			
			12, 81.07122-14, 81.07122-15, 81.087 / 81.17GC00000022			
			UNR-07-1, 81.087 / 81.DE-FG36-			
			06GO16032, 81.089 / 81.DE-GF36-			

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## FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirement / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
			08G018195, 81.089 / 81.DE-NT0005202, 81.089 / 81.DE- NT0005663, 81.089 / 81.DE-NT0005672, 81.089 / 81.DE- NT0006554, 81.112 / 81.PO S1063876, 81.121 / 81.DE-FC07- 051D14648, 81.121 / 81.DE-FG07- 07ID14849, 81.121 / 81.R8895- G3/DPO#25000161, 81.2006- 3434300048178, 81.24498-001-06 2A, 81.47291-001-07, 81.47501-001-07, 81.52533-001-07, 81.72337-001-09, 81.799171L, 81.9- 99001-3, 81.AFT-8- 88533-01, 81.B570356, 81.B575251, 81.B580449, 81.B581603, 81.B583018, 81.BSU NO. 130G106009, 81.CSM 08-02,			

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## FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirement / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
			81.CSM-08.01, 81.DE-AF26-06NT03205, 81.DE-FC26-07NT43054, 81.DE-FC36-07G017053, 81.DE-FG02-05ER15739, 81.DE-FG36-05GO15093, 81.DE-FG36-08GO88100, 81.DE-NT0005202, 81.EP23677, 81.GL033-RGF0211, 81.KN6007286, 81.KXEA-3-33607-19, 81.KXEA-3-33607-21, 81.KXEA-3-33607-22, 81.KXEA-3-33607-24, 81.KXEA-3-33607-25, 81.KXEA-3-33607-26, 81.KXEA-3-33607-27, 81.KXEA-3-33607-29, 81.KXEA-3-33607-30, 81.KXEA-3-33607-32, 81.KXEA-3-33607-33, 81.KXEA-3-33607-34, 81.KXEA-3-33607-35, 81.KXEA-3-33607-36, 81.KXEA-3-33607-37, 81.KXEA-3-33607-38,			

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## FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirement / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
			81.KXEA-3-33607-40, 81.KXEA-3-33607-41, 81.KXEA-3-33607-42, 81.NEV-7-77395-01, 81.non-given, 81.PO 187325, 81.PO 865963/A0344, 81.PO# 187179, 81.PO# MIEI38374/IPA Carol, 81.PO#173797, 81.PO#A0344/814697, 81.PO6013555, 81.R130-8S-1228, 81.Subcontract No. 0895, 81.Unknown, 81.USMMM258U9, 81.W-31-109-ENG-38, 81.XEA-5-44245-01, 81.XEA-5-44245- 01/MOD 8, 81.XEA-5- 44245-01/Mod 8, 81.XEE-9-99409-01, 81.XEJ-9-88037-01, 81.ZDJ-7-77605-02, 81.ZFH-9-88673-01, 81.ZFT-8-88517-01, 81.ZFT-8-88565-01, 81.ZFW-9-99114-01, 84.116 / 84.P116B040030,			

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## FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirement / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
			84.200 / 84.P200A060133, 84.200 / 84.P200A070503, 93.006 / 93.1 R01 OH008709-01, 93.211- 2009-M- 29867/DUNS:01, 93.214-2009-M- 28824/Duns010, 93.254-2008-M-27036- DUNS 01, 93.262 / 93.1R01 OH007493- 01A2, 93.262 / 93.1R01OH009612-01, 93.262 / 93.1-R25- OH003819-01, 93.263 / 93.214-2008-M-25560, 93.286 / 93.PO 10255091, 93.846 / 93.19165-S1 (I) USDA, DOC, DOD, HUD, DOI, DOT, NASA, NSF, EPA, DOE, ED, HHS			

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## FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirement / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
10	32	Assure that its existing review policies are strictly adhered to for documenting supervisory review of project summary sheets and financial reports for federally funded projects.	See applicable CFDA Nos. included for Rec. No. 9 (G)(L) USDA, DOC, DOD, HUD, DOI, DOT, NASA, NSF, EPA, DOE, ED, HHS	Agree	7/2009	Jinous Lari (303)273-3262

## **Compliance Requirements**

- (A) Activities Allowed or Unallowed
- (B) Allowable Costs/Cost Principles
- (C) Cash Management
- (D) Davis-Bacon Act
- (E) Eligibility
- (F) Equipment and Real Property Management
- (G) Matching, Level of Effort, Earmarking
- (H) Period of Availability of Federal Funds
- (I) Procurement, Suspension, and Debarment
- (J) Program Income
- (K) Real Property Acquisition and Relocation Assistance
- (L) Reporting
- (M) Subrecipient Monitoring
- (N) Special Tests and Provisions

## **Federal Entities**

- DOC - Department of Commerce
- DOD - Department of Defense
- DOE - Department of Energy
- DOI - Department of the Interior
- DOT - Department of Transportation
- ED - Department of Education
- EPA - Environmental Protection Agency
- HHS - Department of Health and Human Services
- HUD - Department of Housing and Urban Development
- NASA - National Aeronautics and Space Administration
- NSF - National Science Foundation
- USDA - United States Department of Agriculture



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