



**JEFFERSON COUNTY, COLORADO**

OMB Circular A-133 Report

December 31, 2004

(With Independent Auditors' Reports Thereon)

# JEFFERSON COUNTY, COLORADO

## Table of Contents

	<b>Page</b>
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards	3
Schedule of Expenditures of Federal Awards	7
Notes to Schedule of Expenditures of Federal Awards	10
Schedule of Findings and Questioned Costs	12



KPMG LLP  
Suite 2700  
707 Seventeenth Street  
Denver, CO 80202

**Independent Auditors' Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Basic Financial Statements  
Performed in Accordance with *Government Auditing Standards***

The Board of County Commissioners  
Jefferson County, Colorado:

We have audited the basic financial statements of the governmental activities, the business-type activity, the discretely presented component units, each major fund, and the aggregate remaining fund information of Jefferson, Colorado (the County) as of and for the year ended December 31, 2004, and have issued our report thereon dated February 17, 2006. Our report contained an explanatory paragraph discussing that the County restated its net assets and fund balances as of December 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment could adversely affect the County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 04-01.

A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We consider item 04-01 described above to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the County Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 17, 2006



KPMG LLP  
Suite 2700  
707 Seventeenth Street  
Denver, CO 80202

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

The Board of County Commissioners  
Jefferson County, Colorado:

**Compliance**

We have audited the compliance of Jefferson County, Colorado (the County) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

We were unable to obtain sufficient documentation supporting the compliance of the County with the Temporary Assistance for Needy Families program (CFDA No. 93.558) regarding special tests for the Income Eligibility and Verification System (IEVS), as described in item 04-24, or with the Child Support Enforcement program (CFDA No. 93.563) regarding special tests for interstate cases as described in item 04-25, in the accompanying schedule of findings and questioned costs, nor were we able to satisfy ourselves as to the County's compliance with those requirements by other auditing procedures.

As listed in the chart below and described in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with certain compliance requirements that are applicable to Food Stamp Cluster, Community Development Block Grant, HOME, Temporary Assistance for Needy Families, and Medical Assistance Program. Compliance with such requirements is necessary, in our opinion, for the County to comply with requirements applicable to those major federal programs. In our opinion, because of the effects of the noncompliance, the County did not comply in all material respects with the

requirements regarding Food Stamp Cluster (CFDA No. 10.551/10.661), Community Development Block Grant (CFDA No. 14.218), HOME (CFDA No. 14.239), Temporary Assistance for Needy Families (CFDA No. 93.558), and the Medical Assistance Program (CFDA No. 93.778)

<b>CFDA No.</b>	<b>Program</b>	<b>Compliance requirement</b>	<b>Type of opinion</b>	<b>Finding number</b>
10.551/10.661	Food Stamp Cluster	Reporting and Special tests	Adverse	04-06
14.218/14.239	Community Development Block Grant/HOME	Allowable costs and Cash management	Adverse	04-07
14.218/14.239	Community Development Block Grant/HOME	Allowable costs	Adverse	04-08
14.218	Community Development Block Grant	Reporting	Adverse	04-09
14.218/14.239	Community Development Block Grant/HOME	Cash management	Adverse	04-10
14.218	Community Development Block Grant	Davis-Bacon	Adverse	04-11
14.218	Community Development Block Grant	Earmarking	Adverse	04-12
14.218/14.239	Community Development Block Grant/HOME	Suspension and debarment	Adverse	04-13
14.218/14.239	Community Development Block Grant/HOME	Subrecipient monitoring	Adverse	04-14
14.218	Community Development Block Grant	Special tests – citizen participation	Adverse	04-15
14.218	Community Development Block Grant	Special tests – HUD approval of RROF	Adverse	04-16
14.218	Community Development Block Grant	Special tests – environmental review	Adverse	04-17
14.218	Community Development Block Grant	Special tests – rehabilitation	Adverse	04-18
14.239	HOME	Matching and earmarking	Adverse	04-19
93.558	Temporary Assistance for Needy Families	Eligibility and Allowable costs	Adverse	04-22
93.778	Medical Assistance Program	Allowable costs	Adverse	04-28
93.778	Medical Assistance Program	Eligibility	Adverse	04-35

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

<u>CFDA No.</u>	<u>Program</u>	<u>Compliance requirement</u>	<u>Type of opinion</u>	<u>Finding number</u>
93.563/93.568	Child Support Enforcement/LEAP	Allowable costs	Qualification	04-28
93.600	Head Start	Allowable costs	Qualification	04-30
93.600	Head Start	Reporting	Qualification	04-34
97.004	Preparedness Equipment Support Cluster	Procurement	Qualification	04-36

Also, in our opinion, except for the effects of noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the County's compliance with the requirements of the Temporary Assistance for Needy Families program (CFDA No. 93.558) regarding special tests for the Income Eligibility and Verification System and Child Support Enforcement program (CFDA No. 93.563) regarding special tests for interstate cases, and except for the noncompliance described in the preceding chart, the County complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004 other than the Food Stamp Cluster, Community Development Block Grant, HOME, Temporary Assistance for Needy Families, and Medical Assistance Program. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 04-02, 04-21, 04-27, 04-31, 04-32, 04-37, and 04-39.

### **Internal Control over Compliance**

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-02 through 04-20, and 04-22 through 04-39.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that

might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 04-02 through 04-20, 04-22 through 04-37, and 04-39 to be material weaknesses.

#### **Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of and for the year ended December 31, 2004, and have issued our report thereon dated February 17, 2006. Our report included an explanatory paragraph discussing that the County restated its net assets and fund balances as of December 31, 2003. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the County Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

February 17, 2006

**JEFFERSON COUNTY, COLORADO**  
Schedule of Expenditures of Federal Awards  
December 31, 2004

	<u>CFDA number</u>	<u>Pass-through identifying number</u>	<u>Expenditures</u>
Department of Agriculture:			
Pass-through Colorado Department of Human Services:			
Food Stamps (n)	10.551		\$ 17,372,973
State Administrative Matching Grants for Food Stamp Program	10.561		<u>1,097,882</u>
Subtotal Food Stamp Cluster			<u>18,470,855</u>
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	WIC0200280	4,071,563
Special Supplemental Nutrition Program for Women, Infants, and Children (n)			<u>948,792</u>
Subtotal Special Supplemental Nutrition Program for Women, Infants, and Children			<u>5,020,355</u>
Child and Adult Care Food Program	10.558		145,039
Emergency Food Assistance Program (Administrative Costs)	10.568		37,412
Emergency Food Assistance Program (n)	10.569		<u>173,665</u>
Subtotal Emergency Food Assistance Cluster			<u>211,077</u>
Pass-through Colorado State Forest Service:			
Cooperative Forestry Assistance	10.664		<u>144,163</u>
Total Department of Agriculture			<u>23,991,489</u>
Department of Housing and Urban Development:			
Direct Funding:			
Community Development Block Grants/Entitlement and Small Cities Cluster	14.218		931,346
HOME Investment Partnerships Program	14.239		<u>703,788</u>
Total Department of Housing and Urban Development			<u>1,635,134</u>
Department of the Interior:			
Direct Funding:			
National Fire Plan – Wildland Urban Interface Community Fire Assistance	15.228		<u>2,095</u>
Total Department of the Interior			<u>2,095</u>
Department of Justice:			
Direct Funding:			
Department of Justice – HIDTA	16.000		71,792
Juvenile Accountability Incentive Block Grants	16.523		312,420
Juvenile Justice and Delinquency Prevention – Allocation to States	16.540		398,337
Pass-through Colorado Dept. of Public Safety/Division of Criminal Justice: Crime Victim Assistance	16.575		35,660
Direct Funding:			
Byrne Formula Grant Program	16.579		154,911
Pass-through Colorado Dept. of Public Safety/Division of Criminal Justice: Violence Against Women Formula Grants	16.588		84,797
Direct Funding:			
Public Safety Partnership and Community Policing Grants	16.710		<u>1,656</u>
Total Department of Justice			<u>1,059,573</u>
Department of Labor:			
Pass-through Colorado Department of Labor and Employment: Reed Act	17.000		185,699

**JEFFERSON COUNTY, COLORADO**  
Schedule of Expenditures of Federal Awards  
December 31, 2004

	<b>CFDA number</b>	<b>Pass-through identifying number</b>	<b>Expenditures</b>
Pass-through Colorado Department of Labor and Employment:			
Employment Service	17.207		\$ 1,105,609
Disabled Veterans' Outreach Program (DVOP)	17.801		5,234
Local Veterans' Employment Representative Program	17.804		1,479
Subtotal Employment Services Cluster			<u>1,112,322</u>
Welfare-to-Work Grants to States and Localities	17.253		10,851
WIA Adult Program	17.258		538,745
WIA Youth Activities	17.259		312,911
WIA Dislocated Workers	17.260		786,487
Subtotal Workforce Investment Act (WIA)			<u>1,638,143</u>
Employment and Training Administration Pilots, Demonstrations and Research Projects	17.261		408,034
Work Incentives Grant	17.266		28,577
Total Department of Labor			<u>3,383,626</u>
Department of Transportation:			
Direct Funding:			
Airport Improvement Program	20.106		2,868,043
Total Department of Transportation			<u>2,868,043</u>
Environmental Protection Agency:			
Pass-through Colorado Department of Health & Environment:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	CPD04000006	5,900
Nonpoint Source Implementation Grants	66.460	WQC0400323	36,989
Performance Partnership Grants	66.605	HAZ04000024	6,169
Surveys, Studies, Investigations and Special Purpose Grants	66.606		7,137
Total Environmental Protection Agency			<u>56,195</u>
Federal Emergency Management Administration:			
Pass-through Colorado Department of Emergency Management:			
Cost Share Grant Federal Emergency Management	83.000		66,723
Hazard Mitigation Cluster	83.548		8,843
Total Federal Emergency Management Administration			<u>75,566</u>
Department of Health and Human Services:			
Pass-through Colorado Department of Human Services:			
Department of Health and Human Services	93.000		25,404
Pass-Through Colorado Department of Health and Environment:			
Family-Planning Services	93.217	FPP0200010, FPP0400009, FPP05000011	246,606
Immunization Grants	93.268	FHA0400173, IMM04000029, IMM04000034, IMM04000049, IMM05000007	80,685
Immunization Grants (n)	93.268		150,852

**JEFFERSON COUNTY, COLORADO**  
Schedule of Expenditures of Federal Awards  
December 31, 2004

	<u>CFDA number</u>	<u>Pass-through identifying number</u>	<u>Expenditures</u>
Pass-through Colorado Department of Health and Environment: Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	PPG0400106, PPG0300209, PPG04000140, EPI0000207, EPI0400228, CPD04000021, EPI0400097, EPI04000292, EPI0500092, EPI0400264, EPI0500144	\$ 598,690
Pass-through Colorado Department of Human Services: Temporary Assistance for Needy Families	93.558		7,257,691
Child Support Enforcement	93.563		2,156,300
Low-Income Home Energy Assistance	93.568		1,759,436
Child Care and Development Block Grant	93.575		1,233,138
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		<u>2,323,006</u>
Subtotal Child Care Cluster			<u>3,556,144</u>
Direct Funding: Head Start	93.600		2,736,940
Pass-through Colorado Department of Human Services: Child Welfare Services-State Grants	93.645		337,672
Foster Care-Title IV-E	93.658		3,526,458
Adoption Assistance	93.659		1,298,834
Social Services Block Grant	93.667		2,068,272
CHAFEE Foster Care Independence Program	93.674		139,665
Medical Assistance Program: Medicaid Cluster	93.778	EPS0100185	4,951,876
Pass-through Colorado Department of Health and Environment: HIV Prevention Activities-Health Department-Based	93.940	EPI04000258	5,440
Pass-through Health Care Policy and Finance: Block Grants for Prevention and Treatment of Substance Abuse	93.959		117,202
Pass-through Colorado Department of Local Affairs: Community Services Block Grant	93.569		334,649
Pass-through Colorado Department of Health and Environment: Preventive Health Services-Sexually Transmitted Diseases Control Grants	93.977	EPI04000079	14,053
Preventive Health and Health Services Block Grant	93.991	OLL04000386	52,153
Maternal and Child Health Services Block Grant to the States	93.994	MCH0200535, MCH0500194, HCP0100792, PRN0400006, PRN04000008	309,694
Total Department of Health and Human Services			<u>31,724,716</u>
Department of Homeland Security: Pass-through Colorado Department of Emergency Management: State Domestic Preparedness Equipment Support Cluster	97.004		<u>5,941,043</u>
Total Department of Homeland Security			<u>5,941,043</u>
Total federal expenditures			<u>\$ 70,737,480</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

## JEFFERSON COUNTY, COLORADO

### Notes to Schedule of Expenditures of Federal Awards

December 31, 2004

#### (1) Basis of Preparation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the primary government of Jefferson County, Colorado and the County's component units (the County). The County's reporting entity is defined in note 1(a) in the County's basic financial statements for the year ended December 31, 2004. The information in the accompanying schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from the amounts presented in, or used in, the preparation of the basic financial statements. The schedule of expenditures of federal awards includes federally funded projects received directly from federal agencies, and the federal amount of pass-through awards received by the County through the State of Colorado or other nonfederal entities.

Governmental fund types account for the County's federal grant activity, except for the Airport Improvement Program. In governmental fund types, expenditures are recognized on the modified accrual basis – when they become a demand on current available financial resources. Airport Improvement Program expenditures are recognized on the accrual basis – when the liability has been incurred. The County's summary of significant accounting policies is presented in note 1 in the County's basic financial statements.

#### (2) CFDA and Contract Numbers

Federal CFDA numbers are from the Catalog of Federal Domestic Assistance published by the Office of Management and Budget and the General Services Administration.

#### (3) Human Services Programs

The Human Services Department operates several federally funded human services programs where benefits are provided to qualified citizens. The benefit distribution method consists of participants receiving benefits, including food stamps, using a state-maintained electronic banking card – electronic benefit transfer (EBT) – instead of County cash disbursements. The Colorado Department of Human Services provided total EBT authorizations to qualified residents in the County in the amount of \$35,009,792. The revenues and expenditures associated with those federal programs are not recognized in the County's basic financial statements.

**JEFFERSON COUNTY, COLORADO**

Notes to Schedule of Expenditures of Federal Awards

December 31, 2004

**(4) Subrecipients**

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

Department of Housing and Urban Development:	
Community Development Block Grants/Entitlement Grants (CFDA No. 14.218)	\$ 520,950
HOME Investment Partnerships Program (CFDA No. 14.239)	618,529
Department of Justice:	
Juvenile Accountability Incentive Block Grants (CFDA No. 16.523)	24,624
Byrne Formula Grant Program (CFDA No. 16.579)	154,911
Department of Health and Human Services:	
Community Development Block Grant (CFDA No. 93.569)	260,413
Social Services Block Grant (CFDA No. 93.667)	84,633
Community Food and Nutrition (CFDA No. 93.571)	4,700
Total	<u>\$ 1,668,760</u>

**(5) State Information Technology System**

In prior years, the Counties in Colorado used an array of state-owned and maintained information technology systems to document eligibility data for various Human Services federal programs. These technology systems included the Client-Oriented Information Network (COIN), the Colorado Automated Food Assistance System (CAFSS), the Colorado Automated Client Tracking Information System (CACTIS), the Colorado Employment First (CEF), the Colorado Adult Protection Systems (CAPS), and the Child Health Plan Plus (CHP+). On August 24, 2004, the State implemented the Colorado Benefits Management System (CBMS) which consolidated these legacy systems into one system and also incorporated a rules engine for determining eligibility and calculating and issuing benefit payments. As a result, the counties and the State split eligibility determination functions for certain federal programs under CBMS. Counties are responsible for data collection from applicants and data entry of applicable information into CBMS. Concurrently, the State maintains the computer system supporting the eligibility determination process and pays the benefits to the participants. The actual eligibility and payment determinations became the State's responsibility utilizing CBMS, effective August 24, 2004.

**JEFFERSON COUNTY, COLORADO**  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2004

**(I) Summary of Auditors' Results**

- A. The type of report issued on the basic financial statements: **Unqualified opinion**
- B. Reportable conditions in internal control disclosed by the audit of the basic financial statements: **Yes**  
Material weaknesses: **Yes**
- C. Noncompliance which is material to the basic financial statements: **No**
- D. Reportable conditions in internal control over major programs: **Yes**  
Material weaknesses: **Yes**
- E. The type of report issued on compliance for major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>	<u>Type of Opinion</u>
10.551/10.561	Food Stamp Cluster	Adverse
14.218	Community Development Block Grant/Entitlement and Small Cities Cluster	Adverse
14.239	HOME Investment Partnerships Program	Adverse
20.106	Airport Improvement Program	Unqualified
93.558	Temporary Assistance for Needy Families (TANF)	Adverse, scope limitation
93.563	Child Support Enforcement (CSE)	Qualification, scope limitation
93.568	Low-Income Home Energy Assistance (LEAP)	Qualification
93.600	Head Start	Qualification
93.778	Medical Assistance Program: Medicaid Cluster	Adverse
97.004	State Domestic Preparedness Equipment Support Cluster	Qualification

- F. Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **Yes**

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

G. Major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.551/10.561	Food Stamp Cluster
14.218	Community Development Block Grant/Entitlement and Small Cities Cluster
14.239	HOME Investment Partnerships Program
20.106	Airport Improvement Program
93.558	Temporary Assistance for Needy Families (TANF)
93.563	Child Support Enforcement (CSE)
93.568	Low-Income Home Energy Assistance (LEAP)
93.600	Head Start
93.778	Medical Assistance Program: Medicaid Cluster
97.004	State Domestic Preparedness Equipment Support Cluster

H. Dollar threshold used to distinguish between Type A and Type B programs: **\$2,122,124**

I. Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: **No**

**JEFFERSON COUNTY, COLORADO**  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2004

**Section II – Basic Financial Statement Findings and Questioned Costs**

**No. 04-01                      Financial Reporting**

*Criteria:*                      The County prepares an annual Comprehensive Annual Financial Report (CAFR) which includes a financial section to reflect its financial position, changes in financial position, and cash flows, where applicable. The County should have systems of internal control which provides for proper segregation of duties, safeguarding of assets, reconciliations of accounts, and appropriate management reviews to ensure effective financial reporting.

*Condition:*                      Significant errors were noted in the financial statements and related note disclosures that included errors in amounts presented and/or disclosed, presentation of statements and note disclosures that were not in accordance with generally accepted accounting principles, and errors in consistency and formatting throughout the report.

*Questioned Costs:*                      None.

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

The CAFR for the year ended December 31, 2003 had material errors relating to the following. Several of these items resulted in restatements to the December 31, 2003 beginning balances in the 2004 CAFR.

- Capitalization of donated land in the amount of \$3 million
- Inappropriate recognition of a \$6.1 million gain on a land swap transaction
- Capitalization of items that do not meet the definition of capital assets for \$200,000 in the Airport Fund
- Capitalization of library books for \$12.6 million
- Inappropriate identification of the ownership of capital assets resulting in entries ranging from \$20,000 to \$735,000
- Inaccurate calculation of depreciation based on in-service dates, salvage value, and useful lives as well as the adjustments related to changes in estimates and correction of errors
- Misapplication of the County's vacation policy and exclusion of appropriate benefits and taxes for \$2.1 million in the governmental activities; \$18,000 in Airport; \$189,000 in Library and Health; \$33,000 in the Internal Service Funds
- Improper capitalization of bond issuance costs in the amount of \$705,000
- Improper revenue recognition in Health for \$418,000
- Inappropriate billing of rented space to the General Fund from the Open Space Fund in the amount of \$812,000
- Improper revenue recognition in accordance with Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, for \$3.9 million in the Human Services Fund

## JEFFERSON COUNTY, COLORADO

### Schedule of Findings and Questioned Costs

Year ended December 31, 2004

In the financial statements for the year ended December 31, 2004, we noted errors relating to:

- Misapplication of GASB Statement No. 14, *The Financial Reporting Entity*, and Statement No. 39, *Determining Whether Certain Organizations are Component Units*, in determining the financial reporting entity and evaluation of component units
- Inappropriate classification of net assets in multiple funds and an inability to identify restricted assets
- Misapplication and miscalculation of fair value adjustments for investments for approximately \$700,000
- Inappropriate revenue recognition related to grant funds for \$325,000
- Misclassification of interest receivable as pooled cash of \$1.8 million
- Misallocation of interest income among the funds resulting in reclassifications from \$1,000 to \$50,000 per fund
- Misallocation of telephone expenditures for approximately \$100,000 across all of the County's funds
- Inappropriate consideration of the availability concept as it relates to revenue for \$167,000
- Inability to record revenue and receivable transactions in the same fund resulting in errors to receivables, revenue and pooled cash. The errors noted were for \$512,000, \$1.4 million; \$416,000 and \$1.7 million, respectively.
- Inappropriate classification of receivables in the amount of \$5.9 million
- Misinterpretation and overall lack of knowledge relating to self-insurance liabilities, the accounting for revenues, the liability for unreported claims, and the accounting for the activity in the related Internal Service Funds. Errors noted related to the double-accruing for claims, estimating a liability for unreported claims on coverage that the County was already insured for, and the inappropriate recognition of revenue relating to favorable claim development. Adjustments recorded for revenues and expenses recognized for programs that were not self-insured were \$9.1 million, unreported claims were \$1.1 million in the Employee Benefits Fund and \$695,000 in the Workers' Compensation Fund, reclassifications for favorable development for \$292,000 in the Employee Benefits Fund and \$409,000 in the Self-Insurance Fund; and eliminations for double-accruing in the amounts of \$487,000 and \$185,000
- Misapplication of the County's vacation policy and exclusion of appropriate benefits and taxes for \$525,000 in the Governmental Activities; \$28,000 in the Airport Fund; \$110,000 in the Library and Health Funds; and, \$7,000 in the Internal Service Funds
- Inability to identify matured compensated absences in the amount of \$61,000 in the General Fund; \$18,000 in the Patrol Fund and \$13,000 in the Health Fund
- Improper revenue recognition in accordance with GASB Statement No. 33 for \$253,000 in Human Services

## JEFFERSON COUNTY, COLORADO

### Schedule of Findings and Questioned Costs

Year ended December 31, 2004

- Improper recognition of expenses incurred at year-end in amounts ranging from \$2,000 to \$357,000
- Misclassification of functional expenditures in the amount of \$2 million
- Double-counting of revenues and expenditures relating to retirement in the amount of \$8.4 million
- Inappropriate capitalization of equipment rental costs used to create infrastructure and charged by an Internal Service Fund on assets already capitalized in the amount of \$903,000
- Inappropriate capitalization of settlement costs in the amount of \$355,000
- Misallocation of 2004 funds into a fund that did not exist until 2005 and was initially excluded from the CAFR in the amount of \$170,000
- Inappropriate classification of long-term receivables in the Governmental Activities section for \$1.85 million
- Inappropriate classification of assets purchased which were not to be used in operations for \$1.0 million
- Inappropriate billing of rented space to the General Fund from Open Space in the amount of \$555,000
- Inappropriate netting of property tax revenues and urban renewal expenses in the amounts of \$1.3 million for the General Fund, \$189,000 for Road and Bridge; \$67,000 for Human Services, \$184,000 for aggregate remaining information, and \$236,000 for Library
- Inappropriate revenue recognition in the amounts of \$94,000, \$43,000, and \$95,000, the recording of an accrual and actual amounts for the same transactions in the amount of \$1.6 million in revenue and \$294,000 in expense; the double-counting of revenue and expenditures for \$304,000, and the misreporting of expense as revenue for \$351,000, all relating to Human Services grants
- Misclassifications of transfers as non-departmental funding
- Exclusion of payroll expense accruals for hourly employees due to the fact that the County is not following a uniform policy regarding when time is entered and paid for hourly employees in the amount of \$55,000
- The first full draft of the CAFR took nearly 12 months to complete.
- Inconsistent treatment and classification of grant and taxes receivables
- Footnote disclosures that did not agree to amounts presented in the financial statements
- Reconciliations that did not agree to the government-wide statements
- Schedules that did not add properly or agree to the financial statements
- Presentation that was not consistent with the prior years or within the statements themselves; and formatting which was inconsistent with generally accepted accounting principles

The items above were corrected by the County prior to issuance of the 2004 CAFR.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

*Effect:* The financial statements were materially misstated and the County's processes did not identify the errors. There was a material weakness in internal control over the County's financial reporting process. These items were subsequently corrected by the County prior to issuance of the 2004 CAFR.

*Cause:* The County's financial reporting process is shared by many County agencies. The County's system is decentralized and appears to lack an overall basic accounting policy foundation and an adequate management review of the financial statements themselves. In the reviews that do occur, the information obtained is insufficient to identify material errors. The responsibility for developing and communicating the policies and the ability to enforce those policies does not exist. Additionally, there does not appear to be adequate communication or interaction between departments and agencies to ensure that the financial statements are materially correct.

*Recommendation:* We recommend that the County establish, implement, and enforce basic accounting policies. Additionally, we recommend that the County develop a financial reporting structure in which the accounting department understands what the amounts in each of the funds represent and implements a review process so that the accounting department can identify when material errors exist. We further recommend that the County evaluate the knowledge base and credentials of individuals in key financial reporting roles and evaluate whether the responsibilities assigned are properly matched with the individuals' capabilities and skill levels.

*Management's  
Response:*

The County made sweeping changes in its financial organization after the seating of the new Board of County Commissioners (BCC) in January 2005. The BCC began with the removal of the finance director and elimination of the Finance Department. The office of Internal Auditor was created in 2005, reporting directly to the BCC per the guidelines of the Government Finance Officers Association of the United States and Canada (GFOA). Staff was hired and an ongoing audit program was commenced immediately.

Both the Accounting Director and the Financial Control Director left the County and the two divisions were merged as a single division with the Department of Support Services. A new Accounting Director with over 25 years of financial reporting experience with the State of Colorado, including preparation of the State's Comprehensive Annual Financial Report, was hired in September of 2005. He is a certified public accountant (CPA) with an active license to practice in Colorado.

The Accounting Division was reorganized and a Reporting and Analysis Section (R&A) was created, headed by a CPA with extensive JD Edwards system and public auditing experience. A Grant Accountant with a graduate degree in business with an emphasis in accounting was added to the R&A staff, as well as another accountant in 2006 who has both local government CAFR preparation and JD Edwards experience. An additional staff person was hired in the Accounting Operations Section to increase review and reconciliation of the County's accounts.

## JEFFERSON COUNTY, COLORADO

### Schedule of Findings and Questioned Costs

Year ended December 31, 2004

The Jefferson County Department of Human Services (JCHS) reorganized its Business Office to include five accounting staff and hired a CPA to head that accounting group. The County's Division of Accounting and the JCHS now work closely together on issues affecting funding and accounting in JCHS.

The Accounting Division began a formal communication process with the fiscal staff of the various county departments through its Accounting Alerts program and on-site visits by R&A staff. These communications are issued to inform and educate department fiscal staff on procedures and policies of the Accounting Division. The Alerts are also posted on the Division's Web site and are indexed there for easy reference.

The staff of R&A and the fiscal staff of JCHS have taken various courses on cost allocation plans and governmental accounting and reporting to improve their knowledge of the governmental financial reporting environment. Responsibility for cost allocation was shifted from the Budget Office to R&A at the beginning of 2006.

*As regards the 2003 CAFR restatements:*

Agree in part. Disagree in part.

We agree that the County should have capitalized the bond interest cost, accrued a compensated absence liability for the additional expenses related to taxes and other benefits on employee's vacation and sick leave accruals at year-end, and other similar items.

We disagree that these items show a lack of internal control. Many of these items are related to reporting of government-wide activity required by the Governmental Accounting Standard Board's (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government* and GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The County implemented these statements in 2002. GASB 33 and GASB 34 were radical departures from previous reporting standards and were even nicknamed the "Big Bang" by many in the accounting profession.

The profession anticipated that it would take several years for these standards to be fully integrated in everyone's financial reporting policies. In fact, GASB had to issue Statement No. 37, *An Amendment of GASB Statements No. 21 and No. 34*, to make corrections to its own previous statements. Thus, generally accepted accounting principles (GAAP) are not completely determined in this area and are somewhat dependent on professional judgment. Our 2003 auditors, Grant Thornton & Co., did not want to restate the 2003 CAFR as they believe it to be materially correct as issued, including the non-capitalization of the library collection.

## JEFFERSON COUNTY, COLORADO

### Schedule of Findings and Questioned Costs

Year ended December 31, 2004

The County is of the opinion that many of these items could have been corrected through the 2004 operating statement since they did not effect the fund statements with the exception of the Airport Fund and the Social Services Fund. Furthermore, we are not convinced that they were necessarily material to the net assets or the activities of the County on a government-wide basis.

*As regards the 2004 CAFR comments:*

Agree in part. Disagree in part.

We agree that the County's reporting process is shared by various agencies and that, in the past, there was a lack of communication between the Finance Department and the various agencies which reduced the County's ability to produce accurate and timely financial reports. The auditors noted that it was approximately 12 months (actually nine months) after the close of the fiscal year before a draft CAFR was prepared. However, prior to 2004, the County had contracted with its external audit firm to prepare the CAFR, and it wasn't until a new Accounting Director was appointed in September 2005 that the County acquired that expertise in-house.

The County did provide fund statements, a trial balance, and draft footnotes to the auditors in May of 2005 for fiscal year 2004. Preparation of the CAFR could not be completed until the auditors submitted all of their recommended audit adjustments, which did not occur until 12 months after the end of fiscal year 2004. Even after completion of the CAFR, the system balances were still being adjusted for additional audit recommendations. It was the auditors' ad hoc adjustment process that was the cause of reconciliation difficulties between the notes and the statements.

We disagree that a decentralized model of shared financial responsibility was the cause of the errors noted by the auditor. Jefferson County is the second largest county in Colorado with one out of every nine residents of the State. It provides a multitude of services ranging from public health and safety, library to social services. It has various departments headed by elected and appointed officials. Such a complex and diverse organization must rely upon both a strong central accounting function and knowledgeable, competent agency personnel. Recent improvements in these areas were noted in the introduction to this response.

Jefferson County does have a central budget function with the appropriations power clearly in the hands of the BCC, see *City of Aurora v. Bd. of County Comm'rs*, 902 P.2d 375 (Colo. App. 1994), *aff'd*, 919 P.2d 198 (Colo. 1996). It maintains a central accounting system, which all departments must utilize and are the sole books of original entry for the County and its component units' financial statements. The BCC has made broad and sweeping changes. The results are that the County's *new* administration has opened up the lines of communication between the central financial agencies and the various operating departments, in both the budget and accounting functions, to such an extent that we believe that the "Cause" as cited by the external auditors no longer exists.

*Auditors' Addendum:* We believe the results of our testing support the finding as reported.

**JEFFERSON COUNTY, COLORADO**  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2004

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

**No. 04-02**

**All Federal Programs**

*Criteria:* OMB Cost Circular A-87 allows for contributions to certain self-insurance programs subject to restraints. These restraints include the type and extent of coverage and the rates and premiums that are allowed if insurance been purchased to cover the risks. The circular also requires refunds to be credited to the programs in the year received. Further, under the cost allocation rules, the working capital reserve generally allowed for is 60 days.

*Condition:* The self-insurance programs operated by the County experienced growth in the current year that resulted in large net asset balances. All self-insurance funds are internal service funds and the revenue is received from the other funds of the County. The large increase to net assets was the result of overcharges to grant programs, combined with significant positive adjustments related to the incurred but not reported liability.

*Questioned Costs:* Unknown.

*Context:* The County operates three self-insured internal service funds including: Workers' Compensation; Employee Benefits; and Self-Insured Other, which provides property, casualty and other liability insurance coverage. In 2004, the change in net assets in each of the funds was \$1.2 million, \$4.4 million, and \$822,000, respectively. Total revenues for the year were \$1.8 million, \$10.9 million, and \$1.7 million respectively. Based on the revenue and change in net assets, it appears that programs may have been overcharged by approximately 67%, 40%, and 48%, respectively.

*Effect:* The cost of insurance contributed by the federal agencies is in excess of the expenses actually incurred by the County.

*Cause:* The County does not appear to have proper processes in place to:

- 1) determine the appropriate premium to correspond to the expenses incurred
- 2) allocate the premium to the programs
- 3) adequately monitor, identify, evaluate, and correct any over-charges related to grant programs
- 4) accurately develop an estimate for the incurred but not reported amount

*Recommendation:* We recommend that the County develop procedures relating to the premiums charged, the allocation methodology, and a process to evaluate when refunds need to be made to grant programs. Additionally, the amounts charged to programs and funds need to be sufficiently documented.

*Management's Response:* Agree. The County is aware that these self-insurance programs are seeing significant increases in their reserves in the short-term. However, in 2005, the Self-insurance Fund did see a decrease of \$0.3 million in net assets. Fortunately, the County has experienced a very favorable loss record since switching to self-insurance for Employee Benefits and

**JEFFERSON COUNTY, COLORADO**  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2004

for Workers' Compensation causing the funds revenues to exceed their expenditures by more than was originally anticipated. For 2005, the IBNR calculations were performed by outside actuaries without significant changes from the 2004 amounts. The central problem is the current rates being charged by the various risk programs to the other funds, and it is the County's intention to lower the rates in each budget cycle so that these programs reduce their reserves to within the guidelines established by OMB A-87.

**No. 04-03                      Grants Management and Reporting**

*Criteria:* In accordance with OMB Circular A-133, auditees must be able to reconcile amounts presented in the financial statements to related amounts in the schedule of expenditures of federal awards. Additionally, grants should be accounted for in accordance with OMB Circular A-21, and applicable GASB standards.

*Condition:* The County does not have a formal process, structure, or internal controls in place to ensure grants are accounted for correctly and consistently across the County, nor is there a compilation process to ensure that the information on the Schedule of Expenditures of Federal Awards (SEFA) is complete, accurate, and properly presented.

*Questioned Costs:* None.

*Context:* During the course of the audit, we noted the following accounting issues related to grants:

- Separate identification of costs was not always adhered to
- The revenue on reimbursement-based grants was not always accrued for
- Grants in advance positions did not consider the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*
- The revenue and receivables related to grants were not reported consistently in the financial statements
- There are multiple allocation methods used throughout the County, some of which are not in accordance with the required cost circulars
- The County does not have the experience, knowledge or processes to properly create the supplementary information required by the Colorado Department of Human Services

Per our review of the SEFA, we noted the following:

- A reconciliation between the general ledger and the SEFA was not part of the SEFA generation process.
- There was lack of coordination regarding grant funds spent by multiple County departments to ensure that the expenditures were only reported once.
- Some grant titles and CFDA numbers were originally incorrectly reported.
- Pass-through identifying numbers were not provided for all related grants.
- Grants were not properly clustered for presentation.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

- There was not sufficient expertise in the County to ensure that the SEFA had all the required information.
- The expenditures originally reported contained more than what was expended in 2004.

*Effect:* The County may not be reporting the correct federal expenditure amounts, which will create discrepancies between the SEFA and the general ledger. Additionally, the County could be billing for costs that are unallowed or not supported by the County's financial records.

*Cause:* The County does not have adequate procedures, policies, or internal controls in place to ensure that all grants are accounted for consistently across the County. Additionally, some of the individual grant programs do not have sufficient knowledge of program rules, OMB Cost Circular A-133 and A-21, or generally accepted accounting principles.

*Recommendation:* The County should create uniform accounting policies for grants. The policy should include requirements to notify the grant accountant when federal money is being moved between departments. Additionally, the County should review all of the current accounting practices by the different grant departments to ensure that they are in compliance with the applicable accounting and federal compliance standards. Once policies are defined, any deviation of the policies should be approved by the grants manager only after a review. In addition, the general ledger and SEFA should be reconciled and all grants checked against the CFDA database to ensure that the programs are reported under the correct agency, name and title of the program. Finally, the County should clearly assign the responsibility of grants accounting and provide personnel with the authority to make policy decisions in relation to grants and ensure the proper internal controls are put in place over grants accounting and reporting.

*Management's Response:* Agree in part. Disagree in part.

*Grants*

- Agree. Separate cost identification (and itemization between grant programs) was not consistently done. Grants Management at the program level is implementing procedures and controls to link specific itemized costs to the appropriate funding sources/grants. These controls and procedures are slated for completion by July 31, 2006.
- Agree. Revenue was not properly accrued. Grants Management at the program level now works with the County Grant Accountant to ensure revenues and expenses are properly accrued. This accrual was done for 2005 and will be done in the future.
- Agree. Grants in advance positions had been recorded as deferred revenue, but GASB 33 requires that these Grants be accounted for as restricted revenue. We have transferred these funds from Deferred Revenue into Restricted Revenue for Fiscal Year 2004 and subsequent years at the recommendation of KPMG.

## JEFFERSON COUNTY, COLORADO

### Schedule of Findings and Questioned Costs

Year ended December 31, 2004

- Agree. Grants receivable amounts were being recorded in the same account as other receivables in the County as a whole. This procedure has been corrected.
- Agree. There are multiple and inconsistent methodologies used. Grants Management at the program level is working with the Division of Accounting to ensure that cost allocations and resource-sharing are done consistently and correctly per OMB and County requirements. Estimated completion is September 1, 2006.
- Disagree. There was discussion throughout the audit on some reports created in past year audits that did not meet the expectations of the current auditors. As a result of those discussions, accounting staff agreed that the reports could be improved and subsequently improved those reports.

#### SEFA

- Disagree. A general ledger reconciliation was performed and provided to KPMG as part of the SEFA generation workbook in Excel.
- Agree. The County has hired a Grant Accountant to oversee the grant-related transactions taking place within the County. Any transfers among departments are currently being reviewed and approved by the Grant Accountant.
- Agree. At the time the original SEFA was provided to KPMG, it was explained that it was not a final draft. The original SEFA was based on previous years' formats, and was reviewed and corrected by the Grant Accountant prior to completion of the final draft.
- Disagree. Grants were itemized on an Excel spreadsheet with subtotals and rolled up into a separate, final sheet within the same workbook. The final report format contains clustering per KPMG's recommendations. The final report includes agencies listed in numerical order by CFDA number, one line per CFDA number, and state grant pass-through identifying numbers.
- Agree. The County agrees that during 2004, there was not a uniform accounting policy for grants. At the end of 2004, a Grant Accountant was hired to oversee the grant-related transactions taking place within the County, and to review and compile the information for the SEFA at year-end. Because this position was not filled until late in 2004, it was not possible for the limited staff to oversee the grants throughout the year. Therefore, a review of all grants was required after the year had closed. A countywide grant policy will be instituted to ensure consistency across departments.
- Disagree. At the time the original draft was provided to KPMG, it was explained that it was still being reconciled, and that the numbers were not final.

*Auditors' Addendum:* We believe the results of our testing support the finding as reported.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

**No. 04-04**

**Cost Allocation Plan**

*Criteria:*

The Accounting and Budget departments are required to have sufficient internal controls in place to ensure that the Cost Allocation Plan is properly assembled and that all parties involved have a complete understanding of the process, the accuracy of the data input into the plan, and implementation of the plan in applying costs. Accounting and Budget departments are required to be in compliance with OMB Circular A-87, Attachment C, State/Local-Wide Central Service Cost Allocation Plan.

*Condition:*

The Accounting and Budget departments do not have procedures adequately enforced to ensure accuracy, proper understanding, and implementation of the Cost Allocation Plan.

*Questioned Costs:*

Unknown.

*Context:*

The Accounting department is responsible for reviewing all changes made to the Cost Allocation Plan. However, there is no evidence of this review for the 2002 cost data used to build the cost allocation plan applicable for the 2004 fiscal year. Both the Accounting and Budget Departments rely heavily on the external consultants to devise the Cost Allocation Plan such that the departments do not have a thorough understanding of the plan itself and the accuracy of the plan output. The Accounting department relies heavily on the prior year data when comparing to the current year data, as entered into the Cost Allocation Plan which may or may not be accurate for comparison purposes due to the significant reorganization of the County's service provider departments over the past several years. Additionally, application of the approved rates within the plan have been modified on a case-by-case basis throughout the year, depending on extenuating circumstances (rather than using that information to amend the plan in the following year).

*Effect:*

By not implementing adequate controls over the Cost Allocation Plan and not being compliant with the guidelines described in OMB Circular A-87, the Cost Allocation Plan could be incorrectly charging costs to the grant programs.

*Cause:*

The County does not have adequate procedures in place to understand and ensure accurate implementation of the plan.

*Recommendation:*

We recommend that the Accounting and Budget departments ensure their plan meets the requirements of OMB Circular A-87, as well as gain an understanding of the Cost Allocation Plan methodology, the validity of the data input into the plan, and proper application of the approved cost rates.

*Management's  
Response:*

Agree. On January 1, 2006, responsibility for the cost allocation plan was shifted from the Budget Office to the Accounting Division. Since then, Accounting staff have had extensive meetings with both the charging divisions staff and the staff of the programs being charged to ensure that the data and the allocation methodologies are appropriate.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

A similar approach was utilized in developing the prior year's plan as well. The knowledge gained in the last two years will assist the County staff in the review of the plan to ensure its accuracy.

**No. 04-05                      Global Telephone Finding  
All Jefferson County Federal Programs**

*Criteria:*                      The general criteria affecting allowability of costs under federal awards are that costs must be allocable to the federal awards under the provisions of the cost principles. A cost is allocable to a particular cost objective if the goods or services involved are charged or assigned to such cost objective in accordance with the relative benefits received.

*Condition:*                      The County allocates telephone charges to departments on a budget basis without settlement at year-end of the difference billed to departments per budget versus the actual amount billed from the vendor. Due to this inappropriate methodology employed for allocating telephone charges, each of the federal grants throughout the County may have been overcharged for phone services.

*Questioned Costs:*                      Unknown (distribution of costs is conducted through a multi-level allocation process).

*Context:*                      The County did not have an appropriately designed process or control over the distribution and posting of telephone charges during the year ended December 31, 2004.

*Effect:*                      The process for allocation of telephone costs resulted in overcharges to federal grants, potentially questioned costs, and noncompliance for activities allowed or unallowed and allowable costs.

*Cause:*                      The lack of an appropriate process, management review and subsequent lack of reconciliation between budgeted and actual costs lead to the errors.

*Recommendation:*                      We recommend that expenses allocated across multiple grants be reviewed for reasonableness and that each grant is charged in accordance with the relative benefit received. We recommend that controls be implemented to review the reasonableness and accuracy of allocated costs.

*Management's Response:*                      Agree in part, disagree in part.  
  
Telephone charges were not allocated based on the budget as noted in the Condition statement. They were allocated based on charges developed by the IT Division which approximated the relative values of the various telephone units and capabilities utilized by the users.

**JEFFERSON COUNTY, COLORADO**  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2004

We do agree that the charges and costs were not synched up at year-end and that the charges to the users exceeded the costs paid to vendors during 2004. Because of this and other issues, the County has begun to explore various methods to fix this problem including the unbundling of services and allowing users to seek the lowest cost provider.

*Auditors' Addendum:* We believe the results of our testing support the finding as reported.

**No. 04-06**                    **CFDA 10.551 & 10.561**  
**Food Stamp Cluster**  
**Reporting and Special Tests**

*Pass-Through Colorado Department of Human Services*

*Criteria:* OMB No. 0584-0080 requires each issuance reconciliation point to submit a monthly report to account for benefits issued during a report month. The County must complete form FNS-46 Food Stamp Program Issuance Reconciliation Report on a monthly basis and submit it to the State by the 15th of the following month. Additionally, the Colorado Department of Human Services has established procedures requiring Monthly EBT Card Reconciliation (EBTCard-6), EBT Bulk Inventory Report and Destruction Log for EBT Cards (EBTCard-7) be collected and available for inspection by the state at any time.

*Condition:* We noted that no FNS-46 reports were submitted to the state for 2004. In addition, for the months of September through December, CBMS did not provide the proper reports for the FS-46 report. Further, although the County has completed all of the required logs, controls were not in place for all of 2004 to ensure that supporting documents are reviewed for accuracy and are available for state inspection on a timely basis. These reports include Monthly EBT Card Reconciliation (EBTCard-6), EBT Bulk Inventory Report and Destruction Log for EBT Cards (EBTCard-7).

*Questioned Cost:* None.

*Context:* We noted that the FNS-46 reports for the pre-CBMS (Colorado Benefits Management System) period were not submitted, as well as those reports for September through December for the post-CBMS period.

*Effect:* Required reporting information was not submitted to the State, resulting in the possibility of inaccurate reporting information available to the federal agency. Also, since physical inventory counts were not reconciled to inventory records in a timely manner, errors may have gone undetected.

*Cause:* The County was unaware of the reporting requirement to the federal agencies and also was affected by the implementation of the new State system which did not allow for the generation of the FNS-46 report for the last four months of 2004. Finally, the County does not have adequate controls in place to ensure that reports are accurate and available for state inspection in a timely manner.

**JEFFERSON COUNTY, COLORADO**  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2004

*Recommendation:* The County should establish a process for submitting the require FNS-46 reports on a monthly basis, utilizing the information available under CBMS. The County should also ensure the additional reports and logs are collected, reviewed, and available for state inspection on a timely basis.

*Management's Response:*

Agree in part. Disagree in part.

The County has been working with the State of Colorado to learn what the FNS-46 report is and how to obtain one. The County has not had any success at this time. However, we will continue to try to find FNS-46 report or form. As soon as the County obtains the report, the report will be submitted (barring the inability to provide such information due to the shortcomings of CBMS, as mentioned above).

We disagree that the Monthly EBT Card Reconciliation (EBTCard-6), EBT Bulk Inventory Report and Destruction Log for EBT Cards (EBTCard-7) reports were not completed and available to the State for review. The Business Office created its own reports due to not having the FNS-46 report available.

We agree the reports were not completed timely, and therefore, the control was not operable for a period of time. The Business Office Manager will develop a checklist to ensure these reports are completed in a timely manner. The checklist will be reviewed with the Issuance Supervisor monthly at the bi-weekly status update meetings. This checklist will be implemented in March 2006. The Business Office Manager will also require cross-training of another staff member so that the control will not be inoperable due to an extended absence of the Issuance Supervisor. Cross-training will be completed by April 1, 2006.

*Auditors' Addendum:* We believe the results of our testing support the finding as reported.

**No. 04-07**

**CFDA 14.218**  
**Community Development Block Grant (CDBG)**  
**CFDA 14.239**  
**HOME Investment Partnership Grant Program (HOME)**  
**Allowable Costs and Cash Management**

*Direct Funding from Department of Housing and Urban Development*

*Criteria:*

The general criteria affecting allowability of costs under federal awards are that costs must be:

- *Reasonable and Necessary* – Costs must be reasonable and necessary for the performance and administration of federal awards.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

- *Allocable* – Costs must be allocable to the federal awards under the provisions of the cost principles. A cost is allocable to a particular cost objective if the goods or services involved are charged or assigned to such cost objective in accordance with the relative benefits received.
- *Costs Documentation* – Costs must be documented in accordance with OMB Circular A-102 Common Rule for State, local, and Indian tribal governments. (OMB Circular A-133 Part 3, B).

*Condition:*

Due to a lack of documentation and the allocation method employed, the allowability of administrative costs could not be determined. The CDBG and HOME grants were likely overcharged on some expenses and undercharged on others. However, due to the inability to reconstruct how the allocations were made and what the actual allocations should have been has resulted in the County’s inability to correct these errors.

*Questioned Costs:*

There is an undeterminable amount of questioned costs for the administrative costs incurred by the County for both CDBG and HOME; however, the questioned costs are likely greater than \$10,000 for each program.

For CDBG, subrecipient drawdowns were tested for allowability as they were not charged through the clearing account. These costs are questioned based on the lack of documentation to demonstrate the allowability of the activity and cost. Additional detail for CDBG subrecipients is provided below.

<u>Drawdown date</u>	<u>Payee</u>	<u>Amount of the drawdown</u>	<u>Total expenditures reported by subrecipient</u>	<u>Amount of questioned costs</u>
2/2/2004	Jefferson County Housing Authority	16,829	91,525	\$ 17,533
4/15/2004	Jefferson County Housing Authority	40,599	40,599	40,599
6/3/2004	CO Homeless Families	50,000	50,000	50,000
6/9/2004	Jefferson County Housing Authority	19,633	45,616	53,202
	Total question costs			\$ <u>161,334</u>

Note: In the instances where the amount of the drawdown is less than total expenditure, the difference is program income that has been applied to reduce the drawdown amount.

We also noted an expense of \$200,000 that was paid 18 days prior to expending the funds.

Subrecipient drawdowns were also tested for allowability. Testwork showed that four of the 15 drawdowns lacked sufficient documentation to determine if the cost or activity was allowable. These costs are identified above.

*Context:*

There is not an appropriately designed control over allowability during 2004 that could be identified. The correct administrative allowability population could not be determined for compliance testwork due to the County’s use of a single clearing account that inappropriately allocated virtually all direct, indirect, payroll and nonpayroll costs for

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

the HOME, CDBG and CSBG grants. Each month all of the administrative costs incurred by all of the three grants were charged to the clearing account and were then allocated between the three grants based on the average hours worked by employees during that month. As such, costs that may be applicable to only one of the grants would be divided between all three. Additionally, the method of allocation made no allowance for differences in salary. Consideration was not given as to whether the hours worked were an appropriate cost driver for the nonpayroll costs. Further, the County could not produce documentation supporting the allocation percentages used for several months during 2004.

*Effect:* Costs are not appropriately tracked, allocated or charged to the correct grant program resulting in unallowable costs on a grant-by-grant basis.

*Cause:* The lack of management review and reconciliation contributed to the compliance findings. The method of allocating administrative costs was inappropriate for a clearing account that is cleared to multiple federal grants. Part of the inability to reconstruct how allocations were made is due to staff turnover and inadequate cross training to ensure depth within the department.

*Recommendation:* We recommend that expenditures that can be identified as relating entirely to the CDBG program be charged directly to the program. Expenses requiring allocation between the grants should be conducted on a case-by-case basis in accordance with the relative benefit received by each grant. For costs that cannot be allocated by this method, we recommend the use of an appropriate cost driver as the means of allocation. Overall, controls must be established over costs charged to federal programs to ensure each is allowable and allowed under their respective grant program requirements.

*Management's Response:* Agree. In October 2005, Community Development staff received notification and initial training on the direct billing of administrative expenses to specific grants according to the direct level of work done. By March 2006, there will be written fiscal policies and procedures to support Community Development staff and to ensure administrative costs are charged to appropriate grants instead of using the clearing account.

The main deficiencies of the clearing account and cost allocation processes in Community Development were corrected in December 2005. Community Development had stopped requesting reimbursement of administrative expenses from HUD until the basic cost allocation methodology reached a minimum level of compliance. By April 2006, Community Development will have completed its modification of the administrative and cost allocation processes and will have implemented new procedures that are in compliance with the federal regulations and best practices.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

**No. 04-08**

**CFDA 14.218  
Community Development Block Grant (CDBG)  
CFDA 14.239  
HOME Investment Partnership Grant Program (HOME)  
Allowable Costs**

*Direct Funding from Department of Housing and Urban Development*

*Criteria:*

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards, per OMB Circular A-87:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee.
- (b) They must account for the total activity for which each employee is compensated.
- (c) They must be prepared at least monthly and must coincide with one or more pay periods.
- (d) They must be signed by the employee.

*Condition:*

Payroll charges were made to the Community Development clearing account during 2004. The timesheets submitted for these charges did not certify which grants were worked on during the pay period, and therefore, did not meet the requirements of personnel activity reports. Additionally, hours worked on nonfederal projects were charged to the Community Development grants. This is an inappropriate charge to a federal grant for nonfederal work. Additionally, it places in question the validity of the certified timesheets completed by CDBG staff.

*Questioned Costs:*

Likely questioned costs exceed \$10,000 each for the undeterminable costs charged to the CDBG and HOME grants for time worked on the County project, as well as undeterminable overcharges related to the allocation method used for administrative costs.

*Context:*

*CDBG:* Of the 14 employees tested, four had charged time to the Community Development clearing account and had not indicated the grant on which they worked, and one individual did not have a timesheet on file. Additionally, Community Development is managing a project that is funded by the County that involves development, although this project does not use CDBG funds but it is administered by the Community Development staff. None of the timesheets tested had time charged to this County project. CDBG Staff confirmed that Community Development staff did not charge any of their time to this County program despite having worked on this project for a material amount of time during the year.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

*HOME:* Of the nine employees tested, four charged their time to the Community Development clearing account and had not indicated the grant on which they worked, and one did not have a timesheet on file. As indicated previously, Community Development is managing a real estate redevelopment project that is funded by the County. Community Development staff did not charge any of their time to this project during 2004; rather all of their time was charged among the federal grants.

*Effect:* Certification of hours worked is a federal compliance requirement for allowable costs. The lack of appropriate certification by employees charging their time to the Community Development clearing account results in noncompliance.

*Cause:* Staff that do not work full-time on CDBG or HOME have a policy of charging their time to the clearing account rather than to the grants individually. The CDBG and HOME programs also had a practice of charging all time to federal grants despite working on nonfederal projects.

*Recommendation:* The County should implement controls within the CDBG and HOME Programs that will ensure that timesheets are appropriately completed, signed, and retained. The County should ensure that charges to CDBG and HOME are made directly to the appropriate grant rather than the clearing account and that the timesheets certify the hours actually worked for the grant. Controls should be implemented to mitigate the risk of charging time worked on nonfederal projects to federal grants.

*Management's Response:* Agree. In November 2005, the timesheet functions were transferred to a financial analyst with a great deal of experience working with timesheets and position control. By the end of February 2006, new policies and procedures will be implemented in conjunction with training of Community Development staff to ensure compliance with proper timesheet procedures and documentation.

Non-Community Development staff time charged to the Community Development clearing account was done as part of the internal cost allocation process here at Human Services. By March 2006, the cost allocation and timesheet procedures will be changed and HS staff notified so that specific Community Development grants will be charged directly and appropriately and that Community Development will not utilize the clearing account for these expenses. Community Development will also develop and implement detailed policy and procedures to assist with compliance by March 2006.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

**No. 04-09**

**CFDA 14.218**

**Community Development Block Grant (CDBG)**

**Reporting**

*Direct Funding from Department of Housing and Urban Development*

*Criteria:*

All the activities that a grantee undertakes during its CDBG program year must be identified in an action plan or an amended action plan (24 CFR sections 91.220 and 570.301). The reporting requirements for subrecipients must be specified by the pass-through entity (OMB Circular A-133 Part 3 (L)). Grantees may include reports generated by IDIS as part of their annual performance and evaluation report that must be submitted for the CDBG Entitlement Program 90 days after the end of a grantee's program year.

*Condition:*

The County did not have documentation to verify that the granting agency was appropriately advised of the projects noted below. The information included in the required reports could not be agreed to valid accounting records.

*Questioned Costs:*

The expenditures made on six projects during the year are considered questioned costs. The expenditure amounts available from the required IDIS reports can only be compiled on CDBG's federal fiscal year, which does not coincide with the County's calendar year. The amounts listed below were for expenditures made between 6/1/04 – 5/31/05. Due to the inability to quantify the 2004 expenditures on these six projects, questioned costs are indeterminable.

*Context:*

Testwork over IDIS System Reports (CO4PR26 & CO4PR03) indicated six ongoing projects that were not included in an approved annual Action Plan and the County could not provide evidence that the projects were disclosed to HUD through other appropriate means. Additionally, the County has not been completing quarterly SF-272 reports.

<b>Grant year</b>	<b>Subrecipient</b>	<b>Grant amount</b>	<b>Expended 6/1/04 to 5/31/05</b>
2002	City of Edgewater	\$ 6,000	\$ —
2002	Jefferson County Housing Authority	414,846	19,633
2003	Jefferson County Housing Authority	200,000	—
2004	Town of Mountain View	7,363	1,190
2004	Lutheran Family Services of Colorado	50,000	40,530
2004	City of Edgewater	46,300	—
	Questioned costs		<u>\$ 61,353</u>

*Effect:*

The County is out of compliance regarding submission of the SF-272 reports as they were not being completed. Additionally, due to the lack of accurate accounting records, the County cannot support the accuracy of the required IDIS Reports.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

*Cause:* CDBG has a policy of making public notices and disclosure to HUD for new projects that have not previously been disclosed in an approved action plan. However, in the above instances, CDBG did not make the appropriate disclosures or they did not maintain documentation evidencing such disclosure. There was not a control in place to detect this noncompliance.

*Recommendation:* We recommend that the County implement controls over appropriate disclosure of new projects that are not included in an approved Annual Action Plan. The County should provide full disclosure to the granting agency of all projects in the IDIS System that have not previously been disclosed through an approved Annual Action Plan or other appropriate method of disclosure. Evidence of such disclosure should be maintained by the County. Further, we recommend that the County begin completing, reviewing for accuracy, and submitting SF-272 reports on a quarterly basis.

*Management's Response:*

Agree in part. Disagree in part.

Partially Disagree. Disclosure of new projects to HUD outside of the Action Plan: Community Development is required to publish notices twice a year to amend action plans. Please refer to the response for finding No. 04-14 for a detailed response to this issue.

Agree. In November 2005, Community Development began updating and improving the data quality and accuracy of the CDBG and HOME projects in IDIS. By the end of March 2006, the data cleanup will be complete so the IDIS reports will match the Community Development Action Plans, the amendments to Community Development's Action Plans, and the annual CAPER report.

Disagree. Community Development did file the quarterly SF-272 reports in 2004, and has provided copies of the signed cover sheets for the four SF-272 submissions completed for 2004. In July 2005, Community Development did resubmit to HUD, two revised SF-272 reports for 2005 that corrected errors previously submitted to HUD.

*Auditors' Addendum:* During the audit process, we confirmed with the Fiscal Operations Manager that the SF-272 reports were not completed or filed during 2004 or by the date of fieldwork and, correspondingly, the reports were not provided to the auditors for review. It was also represented that the County believed these reports were not required and an e-mail to the federal contact confirmed the reports were, in fact, required.

**JEFFERSON COUNTY, COLORADO**  
 Schedule of Findings and Questioned Costs  
 Year ended December 31, 2004

**No. 04-10**

**CFDA 14.218**  
**Community Development Block Grant (CDBG)**  
**CFDA 14.239**  
**HOME Investment Partnership Grant Program (HOME)**  
**Cash Management**

*Direct Funding from Department of Housing and Urban Development*

*Criteria:*

When entities are funded on a reimbursement basis, program costs must be paid for with nonfederal funds before reimbursement is requested from the federal granting agency. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and subsequent disbursement by the grantee. When advance payment procedures are used, recipients must establish similar procedures for subrecipients.

Pass-through entities must establish reasonable procedures to ensure receipt of reports on subrecipients' cash balances and cash disbursements in sufficient time to enable the pass-through entities to submit complete and accurate cash transactions reports to the federal awarding agency or pass-through entity. Pass-through entities must monitor cash drawdowns by their subrecipients to ensure that subrecipients conform substantially to the same standards of timing and amount as they apply to the pass-through entity.

Interest earned on advances by local government grantees and subgrantees is required to be submitted promptly, but at least quarterly, to the federal agency. Up to \$100 per year may be kept for administrative expenses. Interest earned on federal fund balances in excess of \$250 is required to be remitted to Department of Health and Human Services, Payment Management System (OMB Circular A-133 Part 3, C).

*Condition:*

Due to the lack of appropriate support documentation for many drawdowns made by the County, there is insufficient audit evidence to appropriately test compliance with the requirement of cash management.

*Questioned Costs:*

*CDBG:* The exception shown below was the only one noted during cash management testwork that resulted in interest that was greater than the applicable limit.

<u>Project</u>	<u>Amount of payment</u>	<u>Length of prepayment</u>	<u>Applicable interest rate</u>	<u>Total interest</u>	<u>Questioned costs</u>
Head start land purchase	\$ 125,000	6 Months	3%	\$ 1,875	
Allowed administrative costs				<u>100</u>	
Total questioned costs					<u>\$ 1,775</u>

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

The questioned costs indicated at CDBG 04-07 are related to cash management as well, and thus, will not be double-counted here. Similarly, in that finding, the lack of documentation related to administrative expenses would also be exceptions and questioned costs as related to cash management.

*HOME:* The exception shown below was the only one noted during cash management testwork that resulted in interest that was greater than the applicable limit. Of the \$500,000 land purchase, \$300,000 was for HOME and \$200,000 was for CDBG. The CDBG questioned costs are above.

<u>Project</u>	<u>Amount of payment</u>	<u>Length of prepayment</u>	<u>Applicable annual interest rate</u>	<u>Total interest</u>	<u>Questioned costs</u>
Jefferson County Housing Authority	\$ 300,000	18 Days	3%	\$ 444	
Allowed administrative costs				<u>(250)</u>	
Total questioned costs					\$ <u><u>194</u></u>

In addition, \$28,640 is questioned as the drawdown was not appropriately supported by documentation.

An exception for over-billing administrative expenses made on 11/4/04 resulted in an apparent \$20,627.80 over-billing related to the year-to-date general ledger used to support the drawdown at 10/31/04. However, according to the general ledger at 12/31/04, expenditures were greater than revenue so it would appear that for the year the County did not overbill, so the cost will not be questioned and the interest rate impact is indeterminable.

*Context:*

*CDBG:*

- In a population of 21 drawdowns, there were 13 exceptions related to timing of drawdowns. Of those exceptions, eight are exceptions for which timing of payment could not be determined and the interest impact for potential advances cannot be determined. The other five drawdowns listed as reimbursement exceptions were part of a single land purchase by Head Start for \$125,000. This was the only CDBG purchase that was confirmed as having accrued interest that should have been returned but was not.
- Of the 21 drawdowns tested, there were 12 exceptions related to drawdowns not being supported by appropriate supporting documentation. Of those, the County could not provide supporting documentation for two drawdowns. Documentation supporting 10 of the drawdowns tested had limited support but the records lacked some vital information or documentation. Finally, for one drawdown, the amount drawn did not agree to the support due to a mathematical error in calculation.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

- Additionally, there was a lack of segregation of duties during 2004 such that the same personnel that managed cash management at CDBG also managed fiscal operations at Head Start, one of CDBG's subrecipients.

*HOME:*

- In a population of five drawdowns, two exceptions were noted related to the advances of drawdowns which are detailed in questioned costs above. There were two exceptions for which there was not appropriate documentation. These two exceptions were administrative drawdowns. Additionally, there is a general lack of segregation of duties over cash management during 2004.

*Effect:* The controls in place over cash management were inappropriately designed as drawdowns were approved that did not have or did not agree to appropriate supporting documentation and there was a lack of proper segregation of duties.

*Cause:* CDBG lacks procedures to reduce the time between when federal funding is advanced and when it is subsequently disbursed. CDBG or HOME did not obtain or maintain appropriate supporting documentation for drawdowns. Additionally, there was a lack of internal controls in manager review during approval of drawdowns that may have been aggravated by employee turnover.

*Recommendation:* We recommend that the County:

- 1) Implement controls over cash management requiring that supporting documentation is reviewed, recalculated and filed for each drawdown prior to approving the drawdown in the IDIS System.
- 2) Implement procedures to reduce the time between the drawdown and expenditure of federal funding by the County and their subrecipients.
- 3) Ensure that fiscal personnel at CDBG are not also working for subrecipients in any capacity providing the same person the ability to request CDBG funds and to be involved in the approval of such funds. Additionally, a single person should not have authority over cash management at CDBG and one of its subrecipients.

*Management's Response:*

Agree. In March 2005, Community Development implemented new procedures that required subrecipients to provide detailed and valid supporting fiscal data for draw-downs. By March 2006, there will be written policies and procedures to support the drawdown process and compliance with federal regulations.

By August 2005, controls were put in place to ensure that the CDBG and HOME subrecipients were reimbursed by County funds before requesting the federal grant revenue from IDIS. By March 2006, there will be written policies and procedures to support the drawdown process and compliance with federal regulations.

By November 2005, controls were put in place at Community Development to eliminate the situations where Community Development staff were working with a subrecipient and performing fiscal duties for that subrecipient. Community Development has utilized

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

two fiscal staff from a different Human Services division to perform the cash management and IDIS drawdown activities. By March 2006, there will be written policies and procedures to support cash management and the drawdown process.

**No. 04-11**

**CFDA 14.218**

**Community Development Block Grant (CDBG)**

**Davis Bacon**

*Direct Funding from Department of Housing and Urban Development*

*Criteria:*

All laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 276a to 276a-7). Nonfederal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls). (OMB Circular A-133 Part 3 (D))

*Condition:*

The County is required to include the requirement that contractors conform to the requirements of the Davis-Bacon Act in their construction contracts. The County is required to verify that the contractor's certified payrolls indicated Davis-Bacon wages were paid to their employees. This was not the case in two of the six samples that we tested.

*Questioned Costs:*

None.

*Context:*

A sample of two contracts was tested for Davis-Bacon Requirements (half of the population of four that were active in 2004). Neither construction contract included a requirement that the contractor pay Davis-Bacon wages. Additionally, a selection of six timesheets (half of the population of 12) was tested. There were two exceptions for instances where the timesheets indicated wages below the Davis-Bacon minimums. In both cases, the Davis-Bacon base rate was used but no indication was made regarding the payment of the fringe rate, which is also required and no information was provided to ensure the County followed up and that, in fact, the correct fringe benefits were paid.

*Effect:*

The County has carried out construction contracts that did not pay the required Davis-Bacon wages. Construction contracts also lack the appropriate requirement that contractors conform to the requirements of the Davis-Bacon Act.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

*Cause:* There are insufficient control procedures to ensure Davis-Bacon requirements are embedded in applicable construction contracts and that management obtains verification that correct certified payrolls have been received prior to the approval of reimbursement of those costs to a contractor.

*Recommendation:* We recommend that the County implement controls over Davis-Bacon related to the proper drafting of construction contracts. We additionally recommend the implementation of controls to verify the receipt by the county of certified payrolls with wages equal to or higher than the applicable Davis-Bacon rates and confirmation that applicable fringe benefits were paid and to what plan each was paid, prior to the authorization to reimburse the contractor for work performed.

*Management's Response:* Disagree. Jefferson County Community Development Division contracts have specific Davis-Bacon requirement provisions. HUD has confirmed that there are options for fringe payments, which includes direct payments and payments outside of the payroll system. Certified payrolls were presented to Community Development, which were in compliance with applicable wage rates.

*Auditors' Addendum:* Though a sample document was provided subsequent to the exit conference that incorporated Davis-Bacon requirements, a copy of the signed contract provided during the audit between the contractor and the County did not have this exhibit incorporated. The HUD communications confirmed that fringe benefits may not be apparent on the payrolls that were paid, and if unclear, the County should request the contractor to provide a list of the paid fringe benefits to each employee and to what plan it is being paid into. No information was provided during the audit to indicate such inquiries were made previous to or at the time the certified payrolls were received and paid.

**No. 04-12                    CFDA 14.218  
Community Development Block Grant (CDBG)**

**Earmarking**

*Direct Funding from Department of Housing and Urban Development*

*Criteria:* Not less than 70% of CDBG funds must be used over a period of up to three years, as specified by the grantee in its certification, for activities that benefit low and moderate-income persons. In determining low and moderate-income benefits, the criteria set forth in 24 CFR sections 570.200(a)(3) and 570.208(a) are used in the Entitlement Program. The criteria set forth in 24 CFR sections 570.420(e) and 570.430(e) are used in the HUD-Administered Small Cities Program.

Additionally, not more than 20% of the total CDBG grant, plus 20% of program income received during a program year, may be obligated during that year for activities that qualify as planning and administration pursuant to 24 CFR sections 570.205 and 570.206 (24 CFR section 570.200(g)).

**JEFFERSON COUNTY, COLORADO**  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2004

*Condition:* During the course of test work, we found that there were no effective controls in place to ensure that the County complies with earmarking requirements.

*Questioned Costs:* None.

*Context:* According to the information available in the general ledger and IDIS Reports, CDBG was in compliance with earmarking requirements. However, as a result of the reporting findings previously noted above, the general ledger or the IDIS Reports cannot be relied upon.

*Effect:* The County is unable to prove compliance with earmarking requirements or that a control was in place to ensure compliance.

*Cause:* Noncompliance is the result of the County's lack of controls over earmarking and the inability to rely on the accounting records to support reporting requirements or IDIS reports.

*Recommendation:* The County should implement controls over earmarking requirements such as monthly budget-to-actual analysis that includes tracking performance as it pertains to earmarking.

*Management's Response:* Agree. In November 2005, Community Development began updating and improving the data quality and accuracy of the CDBG and HOME projects in IDIS. By the end of March 2006, the data cleanup will be complete so the IDIS reports will match the Community Development Action Plans, the amendments to Community Development's Action Plans, and the annual CAPER report.

By the end of March 2006, Community Development will develop quarterly monitoring processes to document its ongoing compliance with earmarking requirements.

In October 2005, Community Development fiscal staff began providing monthly fiscal updates and analyses of the CDBG and HOME projects to Community Development Program and Management staff. These fiscal reports are reviewed monthly in Community Development meetings.

**JEFFERSON COUNTY, COLORADO**  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2004

**No. 04-13**

**CFDA 14.218**  
**Community Development Block Grant (CDBG)**  
**CFDA 14.239**  
**HOME Investment Partnership Grant Program (HOME)**

**Suspension and Debarment**

*Direct Funding from Department of Housing and Urban Development*

*Criteria:* All nonprocurement transactions (i.e., subawards to subrecipients) are considered covered transactions. All subrecipients must certify that the organization and its principals are not suspended or debarred. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (§\_\_.300).

*Condition:* *CDBG:* Some of the subrecipients utilized by the County had been checked for suspension and debarment during Davis-Bacon procedures. However, not all subrecipients have Davis-Bacon projects, so not all were checked for compliance or a certification of compliance was not obtained from the subrecipient.

*HOME:* None of the subrecipients had been evaluated for suspension and debarment status.

*Questioned Costs:* None.

*Context:* Certifications were not consistently included in subrecipient contracts or drawdown documentation. However, none of the subrecipients for CDBG or HOME that we tested were found to be on the Excluded Parties List.

*Effect:* The County may enter into contracts with subrecipients that are suspended or debarred.

*Cause:* The County was unaware of and did not, therefore, have controls to ensure all subrecipients were checked for compliance with suspension and debarment.

*Recommendation:* The County should implement procedures and controls for suspension and debarment for subrecipients as well as for vendors with whom covered transactions may be made.

*Management's*

*Response:* Agree. By March 2006, Community Development will have written policies and procedures in place to ensure future compliance with this requirement.

In June 2005, Community Development fiscal staff reviewed the 1999-2004 CDBG and HOME subrecipients and vendors against the federal EPLS system and found that no entities were on the suspended/debarred list. This review was done after the fact and not documented in each file until the review was completed. For the 2005 projects, the CDBG and HOME subrecipients were checked in EPLS with no occurrences found. Documentation of the EPLS search and results are in each subrecipient file.

**JEFFERSON COUNTY, COLORADO**  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2004

No. 04-14

**CFDA 14.218**  
**Community Development Block Grant (CDBG)**  
**CFDA 14.239**  
**HOME Investment Partnership Grant Program (HOME)**

**Subrecipient Monitoring**

*Direct Funding from Department of Housing and Urban Development*

*Criteria:*

A pass-through entity is responsible for:

*During-the-Award Monitoring* – Monitoring the subrecipient’s use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

*Subrecipient Audits* – (1) Ensuring that subrecipients expending \$500,000 or more in federal awards during the subrecipient’s fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient’s audit period, (2) issuing a management decision on audit findings within six months after receipt of the subrecipient’s audit report, and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

*Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable federal regulations

Monitoring activities normally occur throughout the year and may take various forms, such as:

- *Reporting* – Reviewing financial and performance reports submitted by the subrecipient
- *Site Visits* – Performing site visits at the subrecipient to review financial and programmatic records and observe operations
- *Regular Contact* – Regular contacts with subrecipients and appropriate inquiries concerning program activities (OMB Circular A-133 Part 3 Section M)

Performance reports shall not be required more frequently than quarterly or less frequently than annually. Annual reports shall be due 90 calendar days after the grant year; quarterly or semi-annual reports shall be due 30 days after the reporting period. HUD may require annual reports before the anniversary dates of multiple year awards in lieu of these requirements. The final performance reports are due 90 calendar days after the expiration or termination of the award. (24 CFR Sec. 84.51)

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

- Condition:* The County did not perform appropriate monitoring activities as related to *During-the-Award Monitoring*. They also failed to obtain or ensure subrecipient audits were conducted. Performance reports were not obtained from some of the subrecipients.
- Questioned Costs:* None.
- Context:* **CDBG:**  
Of the 16 active CDBG subrecipients tested for acquisition of the required A-133 reports, six of these subrecipients had A-133 reports that indicated no reportable conditions, and five of the subrecipients had no A-133 reports obtained by the County; however, there was no indication as to why reports were not obtained. During the course of the audit, we determined that these five subrecipients did not receive more than \$500,000 in federal grants during 2004. However, the County had not conducted A-133 assessments of any subrecipients to establish this. The form utilized by the County to conduct site visits during 2004 was also inspected but did not sufficiently address the compliance requirements.
- Further, subrecipient annual performance reports were tested for 12 of the subrecipient drawdowns made during 2004. For two of the 12 samples, no reports could be produced by the County for inspection.
- HOME:**  
We tested A-133 reports for both active subrecipients in the HOME program. For one of these subrecipients, no A-133 report was obtained and the County did not conduct their own A-133 assessment. The form utilized by the County to conduct site visits was inspected. It did not sufficiently address compliance requirements. No monitoring was performed regarding compliance to federal requirements for individual eligibility. There were no performance reports on file for one of the two active subrecipients during 2004.
- Effect:* Subrecipients may not comply with the compliance requirements that are passed to them by the receipt of federal funding through CDBG and HOME.
- Cause:* The County had a lack of familiarity with all of the requirements of subrecipient monitoring, and thus, has not established appropriate controls over the subrecipients.
- Recommendation:* The County should implement procedures and controls for subrecipient monitoring. Specifically, the County should obtain, review, and ensure A-133 audits of subrecipients are conducted when required. Additionally, annual performance reports should be obtained and filed for each of the subrecipients. Procedures related to other monitoring activities (such as site visits) should be focused on the subrecipient's controls and compliance with each of the applicable compliance requirements that is passed to the subrecipient.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

*Management's Response:*

Agree. This process was implemented in August 2005 and is fully operational as of January 2006. The division has a written policy, procedure, and manual for subrecipient monitoring of all projects. Activities included are a three-tiered assessment system to identify barriers, needs of the agencies, and red flags; onsite scheduling requirements (monthly); fiscal monitoring separated from program monitoring; pictures of projects, summaries of all informal and formal monitoring events, site visits for staff and board members, electronic feedback, and administrative referrals. There is also an A-133 audit report that is either submitted to Community Development or completed by Community Development if the subrecipient has not completed one. As of January 2006, all subrecipients for all grant programs were formally requested to submit annual audit reports, as will be the annual practice in accordance with the updated policies, procedures, and manual.

**No. 04-15**

**CFDA 14.218  
Community Development Block Grant (CDBG)**

**Special Tests – Citizen Participation**

*Direct Funding from Department of Housing and Urban Development*

*Criteria:*

The County (applicant) shall publish a proposed application consisting of the proposed community development activities and community development objectives in order to afford affected citizens an opportunity to:

- (i) Examine the application's contents to determine the degree to which they may be affected.
- (ii) Submit comments on the proposed application.
- (iii) Submit comments on the performance of the applicant.

The requirement for publishing may be met by publishing a summary of the proposed application in one or more newspapers of general circulation, and by making copies of the proposed application available at libraries, government offices, and public places. The summary must describe the contents and purpose of the proposed application, and must include a list of the locations where copies of the entire proposed application may be examined. (24 CFR Sec. 570.431)

*Condition:*

The County did have an appropriately written citizen participation plan but in the instances noted below, did not follow the plan with respect to public notices.

*Questioned Costs:*

None.

*Context:*

There were three ongoing projects that were initiated in 2002 that were not included in an approved annual action plan and did not have appropriate public notice as described in the County's annual citizen participation plan. Two of the projects were to the Jefferson County Housing Authority: one for \$414,846 for the Homeowner

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

Rehabilitation Program and the second for \$200,000 for rental housing acquisition. The third project was for \$6,000 for economic development in the City of Edgewater. However, the City of Edgewater project did not incur any costs during 2004.

*Effect:* The effect of these lapses in public notice is the potential for the public not being advised of or provided the opportunity to comment on proposed programs.

*Cause:* The County has a policy of making public notices. The instances noted were either due to a failure to maintain documentation of these public notices or there was no public notice conducted.

*Recommendation:* We recommend that the County implement procedures and controls to mitigate the risk of failure to follow their Citizen Participation Plan and that evidence of public notices and meetings are retained to support that such action took place.

*Management's Response:* Disagree. All Community Development Division projects are approved by the Board of County Commissioners, a process that includes a formal briefing by staff and a public hearing one week thereafter. All County public hearings are advertised and recorded. Per the Code of Federal Regulations (CFR's) 24CFR570.431: "Holding a minimum of two public hearings, for the purpose of obtaining citizens' views and formulating or responding to proposals and questions."

*Auditors' Addendum:* Though the hearings may be the practice of the County, the County has failed to provide to date evidence that notice was provided for the Board of County Commissioner meetings above as related to the specific projects noted.

**No. 04-16** **CFDA 14.218**  
**Community Development Block Grant (CDBG)**

**Special Tests – HUD approval of RROF**

*Direct Funding from Department of Housing and Urban Development*

*Criteria:* CDBG funds (and local funds to be repaid with CDBG funds) cannot be obligated or expended before receipt of HUD's approval of a Request for Release of Funds (RROF) and environmental certification, except for exempt activities under 24 CFR section 58.34 and categorically excluded activities under section 58.35(b) (24 CFR section 58.18). (OMB Circular A-133, Part 4 HUD 14.218, Section N.) The subrecipient does not assume the recipient's environmental responsibilities described at Sec. 570.604.

*Condition:* The County did not have proof of environmental review and RROF for its projects under the Homeowner Rehabilitation Program.

*Questioned Costs:* None.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

*Context:* A selection of 13 samples was tested for full environmental review. Two projects were not required to complete a full review and had appropriate documentation as being categorically excluded. Documentation of full environmental review and RROF was on file for one sample but the remaining 10 projects did not have RROF or environmental review documentation on file. All 10 of the projects were part of the Jefferson County Housing Authority Homeowner Rehabilitation Program, and the County was only required to obtain a single environmental review and RROF document for the program year that covers all of the many small rehabilitation projects performed. However, this documentation could not be produced by the County.

*Effect:* The County cannot ensure compliance with the HUD required certifications and HUD approvals.

*Cause:* The County has a lack of controls to ensure performance environmental reviews and related documentation or a failure to maintain such documentation.

*Recommendation:* The County should implement procedures and controls over required certifications and HUD approvals. We also recommend that the required documentation be obtained and filed for all projects as they are implemented.

*Management's Response:* Agree. As of January 2006, the division has an improved, more comprehensive contract checklist and action plan checklist, both of which identify ER, RROF, Statements of Continued Relevancy, and required approval check points, to ensure that all requirements are satisfied prior to contract execution and payments, all with management confirmation.

**No. 04-17** **CFDA 14.218**  
**Community Development Block Grant (CDBG)**

**Special Tests – Environmental Reviews**

*Direct Funding from Department of Housing and Urban Development*

*Criteria:* Control procedures are not in place to ensure that environmental reviews are obtained at the initiation for all categorically excluded projects as required under CDBG.

*Condition:* Annually, the County determines which projects must have environmental reviews conducted. However, management does not revisit the list and track results to ensure the reviews were, in fact, conducted. As such, the County does not have sufficient internal controls in place to ensure that the County maintains compliance with federal environmental review requirements for these specified projects.

*Questioned Costs:* None.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

*Context:* The County did not have an effective control in place during the year that could be relied upon by management to ensure that the County complied with environmental review requirements.

*Effect:* Although the County was in compliance with actually obtaining the required federal environmental review during 2004 for categorically excluded projects, there was not a control in place to monitor compliance.

*Cause:* Although management did maintain a listing of the projects needing environmental review, the list showed no evidence that it was referred back to ensure that environmental review requirements were completed.

*Recommendation:* The County should establish and implement controls over environmental review requirements such as a list of all construction projects that is reviewed and signed off on by management when environmental review documentation is completed for each project.

*Management's Response:* Disagree. The division has an established environmental review (ER) requirement matrix that is prepared and sent electronically to HUD every year, prior to program embarkment; HUD confirms or notes changes to the matrix and returns it to the division electronically. All environmental reviews are signed off on. The matrix exceeds federal requirements and all required signatures are on ER forms.

*Auditors' Addendum:* The County agreed with the finding at the exit conference. The matrix referred to above was not provided during the course of the audit or provided subsequent to the exit conference to support management's response.

**No. 04-18** **CFDA 14.218**  
**Community Development Block Grant (CDBG)**

**Special Tests – Rehabilitation**

*Direct Funding from Department of Housing and Urban Development*

*Criteria:* When CDBG funds are used for rehabilitation, the grantee must ensure that the work is properly completed (24 CFR section 570.506), including the following:

- Verifying that pre-rehabilitation inspections are conducted describing the deficiencies to be corrected
- Ascertaining that the deficiencies to be corrected are incorporated into the rehabilitation contract
- Verifying through a review of documentation that the grantee inspects the rehabilitation work upon completion to assure that it is carried out in accordance with contract specifications

(OMB Circular Part 4 A-133 HUD 14.218 Section N(4))

**JEFFERSON COUNTY, COLORADO**  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2004

*Condition:* Contracts were not prepared for all projects, and for some projects, the supporting documentation was not maintained that the inspections were, in fact, conducted after the completion of work.

*Questioned Costs:* None.

*Context:* For six of the 10 files tested, an appropriate description of work was included in a signed construction contract. The remaining four did not have on file a signed construction contract, as per the subrecipient's policy for small work orders (less than \$1,500). Testwork showed that six of the 10 projects had pictures taken after the work was completed that indicated that an inspection was performed after the completion of work. The other four included no evidence that an inspection was performed after the work was completed.

*Effect:* Without a contract in place, the County may not obtain the required inspections in accordance with the agreed-upon work to be completed to resolve the deficiencies, at the conclusion of each rehabilitation project.

*Cause:* The County was not aware that contracts should be prepared and inspection documentation maintained to ensure compliance with the special test over rehabilitation projects.

*Recommendation:* The County should implement procedures and controls over rehabilitation projects to ensure that contracts are prepared for each of the rehabilitation projects and that evidence is maintained of inspections conducted prior to and after the completion of rehabilitation projects.

*Management's Response:* Agree. While the JCHA has established, approved contracting/rehabilitation program procedures and policies which are now incorporated into the Jeffco-JCHA contracts for rehabilitation, the controls to confirm this were not in place prior to October 2005. There are financial thresholds for contracts and small, emergency work was done under a purchase order system. Reviews and required inspections are conducted by JCHA.

**No. 04-19**                    **CFDA 14.239**  
**HOME Investment Partnership Grant Program (HOME)**

**Matching and Earmarking**

*Direct Funding from Department of Housing and Urban Development*

*Criteria:*                    *Matching:*  
Except for funds allocated in Fiscal Year 1992, each participating jurisdiction must provide eligible matching contributions of 25% of HOME funds drawn down during the year. The match must be provided by the end of the fiscal year. Some participating

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

jurisdictions are eligible for a reduction in the required match based upon meeting standards of distress. (HUD-40107-A) (24 CFR sections 92.218 through 92.220, 92.222, and 92.508). (OMB A-133)

*Earmarking:*

A participating jurisdiction may expend for its HOME administrative and planning costs an amount of HOME funds that is not more than ten percent of the fiscal year HOME basic formula allocation plus any funds received in accordance with 24 CFR section 92.102(b) to meet or exceed threshold requirements that fiscal year. A participating jurisdiction may also use up to ten percent of any return of the HOME investment, as defined in 24 CFR section 92.503, calculated at the time of deposit in its HOME account, for administrative and planning costs (24 CFR section 92.207). (OMB A-133)

- Condition:* As noted previously, the County is unable to rely on the general ledger information related to HOME administration costs as reported, and consequently to test earmarking requirements. The HOME program does not obtain matching contributions at the County level. Rather, its subrecipients obtain matching contributions on the HOME projects that they conduct. Testwork related to this requirement revealed that there were no effective controls in place over matching during 2004. Insufficient documentation was obtained by the County to substantiate matching contributions to meet this compliance requirement.
- Questioned Costs:* Total expenditures for the year were \$703,788. The required match should have been 25% of this or \$175,947. The match related to these expenditures was not achieved.
- Context:* The administrative expenses recorded in the general ledger were below the threshold of 10%. However, no controls were in place to monitor compliance with matching or earmarking. Efforts to obtain documentation supporting matching contributions did not render sufficient documentation to support the receipt of the required match totals.
- Effect:* The lack of supporting documentation and the lack of controls over matching and earmarking requirements may lead to the County exceeding the administrative cost ceiling and not reaching the matching floor as of year-end. The lack of documentation supporting the match contribution results in noncompliance for matching as its achievement cannot be substantiated.
- Cause:* Noncompliance resulted from a lack of appropriate procedures and controls related to matching and earmarking.
- Recommendation:* The County should implement controls over matching and earmarking requirements, such as monthly budget-to-actual analysis, that includes tracking performance as it pertains to matching and earmarking. Further, we recommend the County obtain and track matching contributions at the County level to meet the match requirement. We also recommend obtaining and maintaining thorough documentation for each of the subrecipient matching contributions. This may include documentation indicating the contributions received by subrecipients that is earmarked for a specific

**JEFFERSON COUNTY, COLORADO**  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2004

HOME-sponsored project, documentation of the timing of the receipt of these contributions and detailed supporting documentation supporting the extent, valuation, and source of contributions.

*Management's Response:*

Agree. KPMG has indicated that there was not an official test or review of this requirement due to questions surrounding the Match requirements and linkage to administrative expenses. Community Development has replied to the issues raised.

In October 2005, Community Development fiscal staff began providing monthly fiscal updates and analyses of the CDBG and HOME projects to Community Development Program and Management staff. These fiscal reports are reviewed monthly in Community Development meetings.

In September 2005, Community Development documented its compliance with the HOME Match regulations for 2000-2004. Additionally, the 2005 Match monitoring is ongoing and was effective as of October 2005. Copies of the 2000-2004 HOME Match reports have been provided to the auditors.

**No. 04-20**

**CFDA 20.106  
Airport Improvement Program**

**Davis-Bacon**

*Direct Funding from Department of Transportation*

*Criteria:*

The Davis-Bacon wage determination establishes minimum prevailing wages that must be paid to workers based on their job classifications in accordance with OMB A-133. Per the OMB A-133 Compliance Supplement, nonfederal entities shall include in their construction contracts subject to the Davis-Bacon Act, a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the nonfederal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6).

*Condition:*

As required, Davis-Bacon language is included as a standard clause in the contractor's agreement/contracts. However, we noted that the required weekly payroll certifications are not being obtained and reviewed by the County. County management relies on the contracted engineering firm to monitor and obtain these payroll certifications for all subcontractors and communicate any noncompliance issues to the County.

*Questioned Cost:*

None.

*Context:*

During our testwork, we noted that program management was not obtaining weekly certified payrolls and, therefore, was not monitoring Davis-Bacon compliance.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

*Effect:* The County’s Airport Improvement program contractors and subcontractors may not be in compliance with the prevailing wage requirements per the Davis-Bacon Act.

*Cause:* The County does not have controls in place to obtain and review the weekly certified payrolls to monitor compliance with the Davis-Bacon Act.

*Recommendation:* We recommend that the County have qualified program management personnel establish controls to obtain and review weekly certified payrolls for compliance with the Davis-Bacon Act Provisions.

*Management’s Response:* Agree. County management relies on the County’s main contractor, Contracted Engineering Firm, to monitor and obtain these payroll certifications for all subcontractors and communicate any noncompliance issues to the County. The County will follow the recommendation in the future.

**No. 04-21**                    **CFDA 20.106**  
**Airport Improvement Program**  
**Revenue Diversion**

*Direct Funding from Department of Transportation*

*Criteria:* All revenues generated by a public airport must be expended for the capital or operating costs of the airport, the local airport system, or other local facilities which are owned or operated by the owner or operator of the airport and are directly and substantially related to the actual air transportation of passengers or property (*Policies and Procedures Concerning the Generation and Use of Airport Revenue* in the Federal Register, issued February 16, 1999 (64 FR 7695).

*Condition:* A disbursement for a legal settlement was made in conjunction with the purchase of a capital asset, and this portion of the disbursement did not meet the requirement for airport revenue usage.

*Questioned Cost:* \$355,000 (the amount of the \$2,300,000 settlement less the \$1,945,000 appraisal)

*Context:* In 2002, there was a change in regulations whereby the County required an airport Fixed Base Operator’s (FBO) minimum size of 10 acres as opposed to a tenant’s required FBO of six acres. As a result of the County’s change in airport minimum standards, the tenant filed for damages against the County. In 2004, a settlement agreement was entered into between the tenant and the County in which the County acquired the tenant’s facilities and the tenant was released from its lease agreements. A portion of the settlement paid by the County was attributable to the County being released from further claims from the tenant. This settlement does not meet the criteria of “operating costs” as it is not a normal cost of the airport operations.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

*Effect:* The County has questioned costs that may need to be reimbursed to the federal government.

*Cause:* The County was not aware that this settlement payment would not meet the criteria of being a capital or operating cost of the airport.

*Recommendation:* We recommend that the County follow revenue diversion requirements and review all expenditures prior to their disbursement to ensure that the revenue diversion criteria are met.

*Management's Response:* Disagree. Section V, page 7718 of the Federal Register issued 2/16/99 (64 FR 7695) Permitted Uses of Airport Revenue, paragraph 5 lists litigation as a permitted use. This was a settlement of litigation related to the airport. It was between a tenant who was using a facility on the airport.

*Auditors' Addendum:* Though Section V, page 7718 of the Federal Register issued 2/16/99 (64 FR 7695) Permitted Uses of Airport Revenue, paragraph 5 lists "lobbying fees and attorney fees" as a permitted use; these settlement costs were incurred as a means to avoid these costs. These payments were made to the tenant, not an attorney, with the intent of avoiding litigation.

**No. 04-22** **CFDA 93.558**  
**Temporary Assistance for Needy Families (TANF)**  
**Eligibility and Allowed/Allowable Costs: Pre-CBMS**  
*Pass-Through Colorado Department of Human Services*

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

- Reassess the eligibility of all existing participants every 12 months.
- Complete an Individual Responsibility Contract (IRC) for all program participants, which focus on matters relating to securing and maintaining training, education, or work.
- On a monthly basis, participants must complete the Monthly Status Reports (MSRs), which details income earned, household composition, and other specific essential elements of eligibility.
- Upon determination that an individual is eligible for assistance, the County must perform an initial assessment of skills, prior work experience, and employability of each recipient who is at least 18 years of age, who has not completed high

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

school (or the equivalent) and who (between the age of 16 and 18) is not attending a secondary school. This assessment must be completed within 30 days of application.

- Obtain evidence of current immunization for children.

*Condition:*

Adequate procedures are not in place to ensure participants are eligible to receive program benefits and that related costs are allowable. There is no second review of client applications prior to approval or denial of assistance. Caseworkers do not consistently acquire and maintain necessary documentation from each applicant to appropriately determine eligibility based on the applicant's representations, nor do they consistently document in the file which information they deemed questionable. The County relies heavily on the participants to notify the County if payments appear incorrect. However, this would primarily serve to identify underpayments rather than overpayments due to ineligibility.

*Questioned Costs:*

There was \$18,380 calculated based on supporting documentation obtained for each instance of noncompliance below for payments that should not have been provided due to lack of supporting documentation in the case file.

*Context:*

We reviewed 45 case (participant) files for the period January – October 2004 and noted the following exceptions:

- One instance where the application was not signed by the client
- Six instances of a cash assistance payment without support
- One instance where the Redetermination was not completed in a timely manner
- One instance where the Individual Responsibility Contract was not present in the file
- Forty-one instances where there was no documentation in the file indicating income was verified through IEVES
- Forty-five instances where the applications did not ask the correct question regarding client drug felonies
- Eight instances where one or more MSRs are missing
- One client file did not have an assessment in the file.

*Effect:*

By not securing the required completed documents and performing required functions while continuing to provide program benefits to participants, Human Services is not in compliance with key elements of the TANF program. Failing to properly collect evidence supporting representations made by applicants could result in granting of benefits to ineligible individuals.

*Cause:*

There is a lack of implementation of standardized procedures to ensure consistent case file documentation. In addition, there was no supervisory monitoring and review of the case files over a representative sample on a routine basis.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

*Recommendation:* The department should establish control procedures that monitor the quality and consistency of client files and documentation obtained. Supervisors should review a representative sample of cases for all caseworkers each month, and ensure that all corrections are properly addressed.

*Management's Response:* Agree. Effective May 1, 2004, a sample of the supervisory reviews is selected by the Investigations Unit supervisor to ensure the reviews were conducted and any follow-up, if necessary, was completed.

Effective January 1, 2005, the Department instituted a supervisory case review process. Four supervisory reviews will occur for each staff member determining eligibility per month. Reviews are tracked and any error occurring in the eligibility determination will be tracked and corrected by the appropriate staff member. All supervisory reviews completed are tracked monthly on a master list and maintained by the EMAS program manager.

Effective February 1, 2006, the EMAS program manager will maintain copies of the review checklist for all supervisory reviews completed and will cross-reference the review checklist with the master review list to ensure all reviews were conducted.

**No. 04-23**                    **CFDA 93.558**  
**Temporary Assistance for Needy Families (TANF)**  
**Eligibility and Allowed/Allowable Costs: Post-CBMS**

*Pass-Through Colorado Department of Human Services*

*Criteria:* Human Services is required to have sufficient internal controls in place to ensure that eligibility is properly determined so that ineligible applicants do not receive TANF benefits and eligible applicants do qualify for TANF benefits. Initial and continuing TANF eligibility is determined by specific income eligibility requirements in the Colorado Staff Manual, Volume 3.

*Condition:* Human Services has not implemented adequate controls over eligibility determinations to ensure that each technician has properly determined eligibility and documented each determination.

*Questioned Costs:* Unknown. The system (CBMS) determines the monthly cash benefit payment and the change in payment due to the exceptions below cannot be determined.

*Context:* We tested 15 case files for eligibility for the period of September 1, 2004 – December 31, 2004, and noted the following:

- There were four instances where no documentation was located in the file or payment was not documented at all in the file.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

- In all instances, there was not a field in CBMS into which the caseworkers can enter information related to drug felony convictions.

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

*Cause:* Human Services did not implement or enforce adequate internal controls to ensure proper eligibility determinations were made.

*Recommendation:* We recommend that Human Services enforce eligibility review procedures that require program supervisors to perform reviews of eligibility determinations and retain records of the reviews. The records should include the file type, caseworker, date of review, and applicable review notes.

*Management's Response:* Agree. Effective May 1, 2004, a sample of the supervisory reviews is selected by the Investigations Unit supervisor to ensure the review was conducted and any follow-up, if necessary, was completed.

Effective January 1, 2005, the Department instituted a supervisory case review process. Four supervisory reviews will occur for each staff member, determining eligibility per month. The quality assurance review checklist contains program(s) type, staff member reviewed, reviewer, and month of review. In addition, review notes and error findings are documented on the review checklist to ensure staff follow-up. All supervisory reviews completed are tracked monthly on a master list and maintained by the EMAS program manager.

Effective February 1, 2006, the EMAS program manager will maintain copies of the review checklist for all supervisory reviews completed and will cross-reference the review checklist with the master review list to ensure all reviews were conducted.

**No. 04-24**

**CFDA 93.558**

**Temporary Assistance for Needy Families (TANF)**

**Special Tests – Income Eligibility Verification System (IEVS)**

*Pass-Through Colorado Department of Human Services*

*Criteria:* As stipulated in the Colorado Department of Human Services Staff Manual, Volume 3, Section 3.100, regulations require the County to perform the following procedures, among other things, in relation to Income Eligibility Verification System (IEVS):

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

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

- All information obtained through IEVS should be retained or documented in the case record.
- Counties shall report the results of the verification in accordance with reporting requirements established by the state department for IEVS.
- The County department is required to act upon information received from IEVS within 45 days of the receipt of such information. All information obtained from IEVS other than social security income, shall be considered unverified and subject to verification by the County office.

All income shall be verified through IEVS. Assistance shall not be denied, delayed, or discontinued pending receipt of information requested through IEVS, if other evidence establishes the individual's eligibility for assistance.

*Condition:* Adequate procedures are not in place to implement existing procedures to ensure IEVS is used as prescribed and applied to all participants such that there is no documentation in the case files to validate that IEVS was utilized. Additionally, supporting evidence did not exist to ensure that the hits were appropriately cleared.

*Questioned Costs:* None.

*Context:* We reviewed 60 case (participant) files and found no indication that IEVS had been used. Additionally, we were unable to determine whether the items had been investigated and cleared appropriately.

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

*Cause:* There is a lack of adherence to standardized procedures to ensure consistent case file documentation as well as a lack of consistency for using the IEVS hit reports.

*Recommendation:* Social Services should implement a process under the applicable regulations and make changes as needed, including the maintenance of appropriate documentation. Procedures for investigating and clearing IEVS hits should be strengthened. This includes retaining the IEVS reports and noting in the case file or record that IEVS has been used (i.e., keep the report and indicate how each individual item is cleared and note in the file that IEVS was cleared). We also recommend that the supervisors review the reports and ensure hits have been investigated and resolved.

*Management's Response:* Agree. With the implementation of the Colorado Benefits Management System (CBMS) on September 1, 2005, IEVS became automated through the ticklers and alerts functionality of the system. IEVS alerts are generated through various CBMS interfaces. Now that IEVS are automated through CBMS, IEVS reports are no longer available for supervisory use to monitor what IEVS hits have been investigated and resolved.

**JEFFERSON COUNTY, COLORADO**  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2004

<b>No. 04-25</b>	<b>CFDA 93.563</b> <b>Child Support Enforcement (CSE)</b>  <b>Special Tests – Interstate Cases</b>  <i>Pass-Through Colorado Department of Human Services</i>
<i>Criteria:</i>	Recipients must provide the IV-D agency or central registry in the responding state with any requested additional information or notify the responding state when the information will be provided within 30 calendar days of receipt of the request for information by submitting an updated form, or a computer-generated replica in the same format and containing the same information, and any necessary additional documentation (CFR 303.7b4).
<i>Condition:</i>	When requests were received from other states, the requests were kept and fulfilled but, due to the County’s implementation of a new document imaging solution, some documents were not kept and not always documented in the ASCES system. Certain documents were kept and others were discarded to streamline the transition to the document imaging solution. As the documentation is not maintained in all instances, the population against which this requirement must be applied cannot be defined.
<i>Questioned Costs:</i>	None.
<i>Context:</i>	The County is unable to ensure that all requests are addressed as some documentation is not kept. We are unable to determine how often this occurs.
<i>Effect:</i>	Required responses to requests for information from a responding state may not be fulfilled in the proper time frame or at all. A late response or a lack of response may cause a case to be mishandled. We were unable to perform procedures over these special test requirements for the CSE program.
<i>Causes:</i>	There are no effective controls in place to ensure that all requests for information from other states are adequately acted upon and subsequently documented in the client files.
<i>Recommendation:</i>	The County should establish controls to monitor that all requests are appropriately addressed and ensure communications with other states are adequately documented in the client files.
<i>Management’s Response:</i>	Agree. Staff will be instructed to keep a copy in the electronic file (scanned into the Livelink system) of all written requests for information received from the other state. Staff will be instructed to enter into ACSES thorough chronology messages detailing the response to the other state and how the information was provided to them. All incoming written correspondence from the other state is date stamped upon receipt and forwarded to individual staff mailboxes.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

The team supervisor will randomly review a minimum of three written requests for information on a monthly basis and subsequently review to determine if timely and accurate responses were provided. This information is to be maintained by the supervisor in a folder for easy access in the future.

**No. 04-26**

**CFDA 93.563**

**Child Support Enforcement (CSE)**

**Special Tests – Establishment of Paternity**

**Special Tests – Enforcement of Support Obligations**

**Special Tests – Interstate Cases**

*Pass-Through Colorado Department of Human Services*

*Criteria:*

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

**Enforcement of Support Obligations** – For all cases referred to the IV-D agency or applying for services under 45 CFR section 302.33 in which an obligation to support and the amount of the obligation has been established, the agency must maintain a system for (a) monitoring compliance with the support obligation; (b) identifying on the date the parent fails to make payments in an amount equal to support payable for one month, or an earlier date in accordance with State law, those cases in which there is a failure to comply with the support obligation; and (c) enforcing the obligation. To enforce the obligation, the agency must initiate income withholding, if required by and in accordance with 45 CFR section 303.100, and initiate any other enforcement action, unless service of process is necessary, within 30 calendar days of identification of the delinquency or other support-related noncompliance, or location of the absent parent, whichever occurs later. If service of process is necessary, service must be completed and enforcement action taken within 60 calendar days of identification of the delinquency or other noncompliance, or the location of the absent parent whichever occurs later. If service of process is unsuccessful, unsuccessful attempts must be documented and meet the State's guidelines defining diligent efforts. If enforcement attempts are unsuccessful, the agency should determine when it would be appropriate to take an enforcement action in the future and take it at that time (45 CFR section 303.6). Optional enforcement techniques available for use by the State are found at 45 CFR sections 303.71, 303.73, and 303.104.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

**Interstate Cases** – The State IV-D agency must provide the appropriate child support services needed for interstate cases (cases in which the child and custodial parent live in one State and the responsible relative lives in another State), establish an interstate central registry responsible for receiving, distributing and responding to inquiries on all incoming interstate IV-D cases, and meet required time frames pertaining to provision of interstate services. The case requiring action may be an initiating interstate case (a case sent to another State to take action on the initiating State’s behalf) or a responding interstate case (a request by another State to provide child support services or information only). Specific time frame requirements for responding and initiating interstate cases are at 45 CFR sections 303.7(a) and 303.7(b)(2), (4), (5), and (6), respectively (45 CFR sections 302.36 and 303.7).

*Condition:* Although the supervisors review technician exception reports, there was no documentation of follow-up on these cases after they were given to technicians for correction. We noted that cases may be dropped from reports due to the case aging. Further, without a control in place, technicians may not be responding to cases within the required time frames.

*Questioned Costs:* None.

*Context:* Although there appears to be some level of controls present to ensure compliance with the above listed special tests, these controls have not been applied and tracked in a formalized manner. Consequently, the controls may not be adequately effective.

*Effect:* This may cause some cases to be out of compliance with the above federal guidelines.

*Causes:* The County does not have adequate procedures in place to ensure cases are being processed properly and within the timeframes required.

*Recommendation:* The County should establish controls to monitor client files for compliance and ensure they are completed timely within federal guidelines.

*Management’s Response:* Disagree. Per Volume 6, 6.130.22-Child Support compliance reviews:

“The State Department, Division of Child Support Enforcement (CSE) shall supervise and monitor the operations of CSE programs in the County Departments to ensure that the State is not penalized and that the CSE program is administered on a statewide basis. The State Division of CSE shall monitor the performance of County CSE units to ensure compliance with Title IV-D of the Social Security Act and the federal and state regulations and rules which govern the operations of the CSE programs.”

The State Department selects a random sample of cases including Establishment, Enforcement, and Interstate cases. All are reviewed for compliance and the state notifies County Directors/Program Managers of the outcome and/or any issues that have been

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

uncovered. Jefferson County CSE always passes the compliance reviews and the findings show that cases are being worked according to the Federal Code of Regulation, State Statutes and Volume 6 (staff manual).

To ensure compliance at a county level, several automated reports are generated for technicians, supervisors, and managers. The reports identify a case and a particular action that was taken by the Automated Child Support Enforcement system (ACSES). Once an action is taken on a case, a chronology is added to the ACSES automatically. The ACSES continues to monitor all cases to ensure they are being processed within mandated time frames. The system is programmed to identify cases and notify technicians via calendar reviews, automatic chronology and reports. For example, once an employer is identified, the ACSES automatically generates an income assignment within the two-day requirement and the Family Support Registry issues and mails the documents. The ACSES lists all income assignment and monitors for payment. If payment is received, the ACSES changes the category to identify it is a paying case and continues to monitor the case for as long as the case is open on the system. If no payment is received, the case is changed to a locate category which allows the ACSES to search for new information. Once information is found, the ACSES takes an action automatically and a chronology and calendar review is created to notify the technician of the action. All automated locates are reviewed for new information, copied into the ACSES person records so the system can take an action when new information is discovered. The ACSES is programmed to ensure that cases are processed within the required time frames.

In addition, reports identify individual cases and the status of the case. The reports are used as a case management tool so technicians can review and take manual action, if appropriate. They are not designed or used to monitor federal time frames; this is done by our system and monitored by the State Department.

*Auditors' Addendum:* Though the State may have responsibility in monitoring counties for CSE compliance with Title IV, that does not negate the County's responsibility to ensure there are internal controls in place to ensure compliance. Correspondingly, ACSES is a management tool, as indicated by the County above, and is used for processing information and housing client data. It does not, however, act as a control to ensure action is being taken on a case accurately and timely.

**No. 04-27**

**CFDA 93.563  
Child Support Enforcement (CSE)**

**Special Tests – Enforcement of Medical Support Obligations**

*Pass-Through Colorado Department of Human Services*

*Criteria:*

The County must attempt to secure medical support information, and establish and enforce medical support obligations for all individuals eligible for services under 45 CFR section 302.33. Specifically, the State IVD agency must determine whether the custodial parent and child have satisfactory health insurance other than Medicaid. If not,

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

the agency must petition the court or administrative authority to include medical support in the form of health insurance coverage in all new or modified orders for support. The agency is also required to establish written criteria to identify cases not included above, where there is a high potential for obtaining medical support based on: (a) available evidence that health insurance may be available to the absent parent at a reasonable cost, and (b) facts (as defined by the State) which are sufficient to warrant modification of an existing support order to include health insurance coverage for dependent children). For cases meeting the established criteria, the agency shall petition the court or administrative authority to modify support orders to include medical support in the form of health insurance coverage (45 CFR sections 303.31(b)(1)-(4)).

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

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

The agency shall inform the Medicaid agency when a new or modified order for child support includes medical support.

*Condition:* There are no effective control procedures in place to ensure compliance with the requirements listed above. Technicians may not be responding to cases requiring medical support as listed above. The County did not issue medical insurance requests to noncustodial workplaces even though the workplace had been identified for medical insurance enforcement. This was evident by the enforcement screen in ASCES where wage withholding was displayed and no medical requests were issued. Since the cases that had medical insurance support court orders did not have the medical insurance requests, we noted that the County was not actively enforcing this portion of the court order.

*Questioned Cost:* None.

*Context:* Out of 60 cases tested, five did not have the medical support obligation contained in the court order enforced.

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

*Causes:* The County does not have adequate procedures in place to ensure medical insurance support enforcement is carried out.

*Recommendation:* The County should establish a process and control to ensure medical insurance support enforcement is completed and followed up timely.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

*Management's  
Response:*

Agree. Each time that the technician is made aware of verified employment information for a noncustodial parent, they will be instructed to review the corresponding court order to determine if a medical support order exists. If an order for medical support exists, staff will then determine if it is appropriate to issue a National Medical Support Notice (NMSN) to the employer. Staff will set calendar review flags to monitor for the receipt of medical support information from the employer, making follow-up contact attempts when necessary. Staff will update the automated Child Support Enforcement System (ACSES CASEMAIN, option R), to detail the status of medical support information that has been obtained.

**No. 04-28**

**CFDA 93.563**

**Child Support Enforcement (CSE)**

**CFDA 93.568**

**Low-Income Home Energy Assistance (LEAP)**

**93.778**

**Medical Assistance Program (Medicaid)**

**Allowable Costs**

*Pass-Through Colorado Department of Human Services*

*Criteria:*

Per OMB Circular No. A-87, where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages should be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semi-annually and should be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

*Condition:*

The County did not have a control in place to ensure that time certifications were being completed correctly and within the required time frames. Although the County completed certifications, the County did not change the lists appropriately to ensure that the correct employees were being certified.

*Questioned Cost:*

None.

*Context:*

Of the 37 payrolls tested that required certification, the County did not have a certification for any of the 30 CSE employees tested, the three LEAP employees tested, or the four Medicaid employees tested.

*Effect:*

Payroll charges that are not semiannually certified may not be properly posted against the correct programs, based on the utilization of employees in various programs, resulting in noncompliance for these costs.

*Cause:*

County personnel were not properly trained in obtaining and maintaining time certifications.

**JEFFERSON COUNTY, COLORADO**  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2004

*Recommendation:* The County should strengthen controls to monitor the process to ensure time certifications are completed correctly in a timely manner.

*Management's Response:*

Agree in part. Disagree in part.

The County agrees that the Child Support Enforcement (CSE) and the Low-Income Energy Assistance (LEAP) employees do work solely on a single federal award or cost objective and these employees did not complete a 100% direct-time certification. The LEAP program was an oversight as these employees are seasonal and the CSE program was a lack of understanding of the regulation.

The County has reassigned the 100% time certification to staff who are more knowledgeable of the funding streams, rules and regulations regarding 100%-time certification. A tickler system has been established to notify staff who are responsible for this task to begin work in January and July of each year so 100% time certifications can be completed in a timely manner. The list of those needing to certify time is updated appropriately every six months.

The County disagrees that Medical Assistance Program (Medicaid) staff must complete a 100%-time certification. First of all, this portion of the finding was not discussed during the audit nor was it discussed at the exit interview. The County is uncertain what program the auditors are referencing. Medicaid can fall into two areas, Child Welfare or Temporary Assistance to Needy Families (TANF). Staff working in TANF are charged to a cost pool and Child Welfare staff do not work directly on just Medicaid. However, to be proactive, the County has placed a call to the State of Colorado Accounting Office to verify the County has not misinterpreted the rule or regulation.

*Auditors' Addendum:* We believe the results of our testing support the finding as reported.

**No. 04-29**

**CFDA 93.568**

**Low-Income Energy Assistance Program (LEAP)**

**Eligibility**

*Pass-Through Colorado Department of Human Services*

*Criteria:*

Social Services is required to have sufficient internal controls in place to ensure that eligibility is properly determined so that ineligible applicants do not receive Energy Assistance benefits and eligible applicants do qualify for Energy Assistance benefits. Initial and continuing Energy Assistance eligibility is determined by specific income eligibility requirements in the Colorado Staff Manual, Volume 3.

*Condition:*

Social Services does not have effective controls in place to ensure that proper determinations of Energy Assistance eligibility are made.

*Questioned Costs:*

None.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

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

We tested 60 case files for eligibility and noted two instances of inadequate proof of citizenship – alien status. Per 3.752.27 of the Staff Manual, all applicants must meet the citizenship/alien requirements contained in Section 3.140 of the Staff Manual. In these cases, the applicants were registered aliens, but did not provide proof either by including an alien resident card or a Request for Verification of Alien Status.

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

*Cause:* The County does not have controls in place to ensure appropriate documentation is maintained in the field to support eligibility determinations made.

*Recommendation:* We recommend that Social Services enforce eligibility review procedures that require case supervisors to perform reviews and retain records of the review over a representative sample. The records should include the file type, the date of review, and applicable review notes and should provide adequate coverage of the caseloads across all technicians.

*Management's Response:*

Agree. Effective May 1, 2004, a sample of the supervisory reviews is selected by the Investigations Unit supervisor to ensure the review was conducted and any follow-up, if necessary, was completed. However, due to insufficient resources, sampling 10-20% of the caseload for supervisory review is not achievable.

Effective January 1, 2005, the Department instituted supervisory case review process. Four supervisory reviews will occur each month for staff members determining eligibility. The quality assurance review checklist contains program(s) type, staff member reviewed, reviewer and month of review. In addition, review notes and error findings are documented on the review checklist to ensure staff follow-up. All supervisory reviews completed are tracked monthly on a master list and maintained by the EMAS program manager.

Effective February 1, 2006, the EMAS program manager will maintain copies of the review checklist for all supervisory reviews completed and will cross-reference the review checklist with the master review list to ensure all reviews were conducted.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

**No. 04-30**

**CFDA 93.600**

**Head Start**

**Allowable Costs**

*Direct Funding from Department of Human Services*

*Criteria:*

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages should be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications should be prepared at least semi-annually and should be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee. (OMB A-87 Section B subsection 8 (h).3)

OMB Circular A-87 (A-87) establishes principles and standards for determining allowable direct and indirect costs for federal awards. (OMB Circular A-133)

*Head Start with child care before and/or after:* Sometimes called “wrap-around” services, one variation of this approach has start/stop times when Head Start services (and full compliance with the Performance Standards) begin and end. Although child care (i.e., providing extended hours of service) is an allowable service in Head Start, it must be an integral part of the program and meet the Head Start Performance Standards as defined by the U.S. Department of Health and Human Services. Therefore, the before/after periods of child care technically would not be considered Head Start. Costs for such periods would have to be fully allocated to the program providing the funds for them. (Health and Human Services Log No. ACYF-IM-HS-01-13)

*Condition:*

Payroll certifications were not being completed by employees who worked exclusively for Head Start. Year-end certifications obtained during testwork were completed by five employees who indicated that they worked exclusively on Head Start. However, these employees also work on the “wrap-around” class, as discussed above, which is day care that is not technically part of the Head Start program. These costs and income received for the “wrap-around” class were not being separately identified.

*Questioned Costs:*

\$74,347 in unallowed indirect costs

*Context:*

None of the employees who worked exclusively on Head Start had completed certifications during 2004. These certifications were subsequently obtained after year-end to ensure costs were allowed. However, a process was not in place to ensure these are completed accurately and timely. Further costs associated with the child care portion (non-Head Start portion) of the “wrap-around” class had not been separately identified as required.

We also noted during compliance testwork that indirect costs were incurred for accounting, budgeting, and other services provided by the County. The costs of these services were allocated across all programs in the County. Upon inspection of the grant

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

agreement, indirect costs were not specifically allowed. Additionally, we inquired of the County's Head Start federal contact who confirmed that unless specifically allowed in the grant, indirect costs are not allowable.

*Effect:* There was no effective control in place over allowable costs for nonpayroll expenditures, including indirect costs. There were also no effective controls in place to ensure certified payrolls are obtained and the allowability of costs is properly established.

*Cause:* Head Start staff were unaware of the requirement to conform to OMB Cost Circular A-87 and failed to separately track the non-Head Start costs of the "wrap-around" class. The requirements of the grant agreement were not observed by paying indirect costs which were not delineated in the budget.

*Recommendation:* We recommend that the County implement controls that verify the allowability of expenditures and activities as set forth in OMB Cost Circular A-87 and OMB Circular A-133. The County should also implement controls over the completion of payroll certifications, separate identification of "wrap-around" class costs and compliance to all the requirements of grant agreements and should not charge indirect costs to the federal grant unless they first obtain appropriate authorization from the granting agency.

*Management's Response:*

Agree in part. Disagree in part.

We agree that there were no controls in place to ensure the allowability of nonpayroll costs. In April 2005, Head Start implemented a new accounts payable procedure to ensure proper review of expenditures by the Director of Head Start.

We agree that there were no controls in place to ensure certified payrolls were obtained. A time certification procedure now outlines these controls, as approved by the Head Start Policy Council in their December 2005 meeting. The timesheets for those staff who work solely for the Head Start Program have a certification that the staff signs each pay period.

We agree that payroll certifications did not have sufficient separation of "wrap-around" class costs. In July 2005, the "wrap-around" staff began completing a Wrap Time Reporting sheet each pay period to certify and delineate these costs.

We disagree that the indirect costs of \$74,347 are unallowable. Per Head Start's federal contact, "The amount from the allocation cost plan is fine with us...If you call it administrative costs derived from a cost allocation plan, we have no issue with it."

*Auditors' Addendum:* Though the federal contact may generally agree that a cost allocation plan in place may negate the need for this specific budgeted item, the County also has significant control and compliance issues regarding the cost allocation plan for 2004, which has been reported above.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

**No. 04-31**

**CFDA 93.600**

**Head Start**

**Cash Management**

*Direct Funding from Department of Human Services*

*Criteria:*

When entities are funded on a reimbursement basis, program costs must be paid for with entity funds before reimbursement is requested from the federal government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and subsequent disbursement by the grantee. When advance payment procedures are used, recipients must establish similar procedures for subrecipients.

Interest earned on advances by local government grantees and subgrantees is required to be submitted promptly, but at least quarterly, to the federal agency. Up to \$100 per year may be kept for administrative expenses. (OMB Circular A-133)

*Condition:*

The management review control in place over cash management was inadequate as there were discrepancies between drawdowns and the related supporting documentation. This lack of control resulted in instances of over-billing the grant, some expenses being double-billed to the federal grant, and a lack of monitoring in place to account for interest owed on federal advances.

*Questioned Costs:*

None.

*Context:*

The controls in place over cash management were not designed properly as the management review that was performed was inadequate. Also, the County delayed the payment of P-Cards (purchasing card) bills until after the reimbursement had been received from the federal government. Due to this timing difference, the payment of these costs was actually an advance. However, no control was in place to monitor the payment of interest owed to the federal government. Additionally, in the population of 12 drawdowns that were tested, there were three that had been overcharged due to duplicate billing of the same expense.

*Effect:*

The inadequate management review control and lack of other controls may result in unintentional advances on program funding. Further, costs may be inappropriately requested for reimbursement if errors in duplicated expenditures are not detected.

*Cause:*

The cause of the control findings was due to poorly designed controls surrounding P-Card expenditures and a lack of recognition by the County that interest earned should be remitted to the federal government. The cause of the compliance finding for over-billing was caused by a poorly executed cash management process and a lack of controls.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

*Recommendation:* We recommend that management review controls over cash management be improved and that supporting documentation be reviewed for completeness and appropriateness and agreed to drawdown requests prior to approval for submission of requests for reimbursements. Additionally, controls should be established and implemented over advances of federal grant monies to ensure any rebate received on P-Cards be remitted to the federal agency or future drawdowns be reduced accordingly.

*Management's Response:* Agree. We agree that adequate controls were not in place to ensure completeness and appropriateness of drawdown requests. In August 2005, we implemented an itemized general ledger report to accompany the drawdown request for approval prior to submitting them for reimbursement. The Director of Head Start reviews these drawdown requests prior to approval. A reimbursement is not requested in the Payment Management System (PMS) without the Director's approval.

Given the controls put in place regarding drawdown requests outlined above, Head Start feels as though the Procurement Card issue will not occur in the future. The County does not post Procurement Card transactions to the general ledger until two weeks after they have been paid to the vendor. Thus, there is no interest charged to the federal agency for advance payments in regards to Procurement Card transactions.

**No. 04-32**                    **CFDA 93.600**  
**Head Start**

**Matching and Earmarking/Allowable Costs**

*Direct Funding from Department of Human Services*

*Criteria:*                    *Matching:*  
Grantees are required to contribute at least 20% of the costs of the program through cash or in-kind contributions, unless a lesser amount has been approved by ACF (42 USC 9835 (b); 45 CFR sections 1301.20 and 1301.21).

- Earmarking:*
- At least 90% of the children enrolled in the program must be under the low-income threshold. The family of an enrolled over-income child cannot have income that exceeds 185% of the low-income threshold.
  - All of the children enrolled must be at least three years old as verified by a birth certificate.
  - The family's income must be determined from a reliable source such as a W-2, 1040, employer confirmation letter, or pay check stubs.
  - The program must maintain a statement of the child's income signed by a Head Start Employee. (CFR 1305.4)

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

*Condition:* There were no effective controls in place over matching or earmarking. The 20% match requirement was not met and the County exceeded the 10% maximum for children over the income threshold for at least three months of 2004. There were children whose files didn't contain birth certificates, files that did not contain proper documentation or properly calculate income, and files that didn't contain signed statements of participants' income. There were instances of expected participants being added to the master enrollment file that never attended or completed the required documentation. There were also instances of the master enrollment file indicating one income eligibility determination while the child's file indicated another.

*Questioned Costs:* *Matching:*  
After the match total was adjusted for the disallowed expenditures, the match actually obtained was \$498,443. This is less than the \$547,388 required based on expenditures of \$2,736,940. This \$48,945 shortfall in meeting the required match total indicates the expenditure of \$244,725 ( $\$48,945 / 0.20$ ) that were not matched. Therefore, \$244,725 of the program expenses are questioned costs.

*Context:* *Matching:*  
Review of Head Start's calculation of match revealed overvaluation by Head Start of market rent. It is appropriate to include in the match calculation the difference between actual rent paid and the market value of that rent as an in-kind donation. However, in determining market rent, the County used a market report produced in 2001 on a few of the rental locations and extrapolated these per square foot values to all the locations and factored in a 9% annual appreciation in value. These estimates appeared unreasonable, resulting in a disallowance of \$95,627 of this in-kind estimate.

*Earmarking:*  
Review of compliance with the earmarking requirement for eligibility determination rendered exceptions in 10 of the 60 files tested. The calculation of the percentage of income eligible children could not be reperformed during several months due to the fact that the monthly master enrollment sheets included some children that were never enrolled in the program and there were discrepancies between the income determination made in the child's file, and what was listed on the master enrollment sheet. There were two instances of enrolled children whose family's income exceeded the maximum allowable (185% of low income threshold) and three other instances where improper documentation was used or miscalculated. For three months during 2004, the percent of children over the income threshold was greater than the 10% limit. In two of the children's files, there were no birth certificates and three files did not have a signed statement of the child's income.

*Effect:* The failure to meet the matching requirement or the eligibility earmarking requirement results in noncompliance for the federal requirements.

*Cause:* The lack of controls was for tracking and monitoring the levels at which matching and earmarking are met lead to noncompliance.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

*Recommendation:* For match, we recommend that the County implement controls, such as regular management review of the status of compliance, to each of the compliance requirements, as well as controls over the completion of the earmarking eligibility requirements prior to the enrollment of the participant. The County should also review and correct all instances of noncompliance to earmarking eligibility requirements for currently enrolled participants. Finally, the County should obtain independent and current third-party analysis of the market value of the occupied rental properties in determining in-kind rent contributions.

*Management's Response:*

Agree in part. Disagree in part.

We disagree that Head Start failed to meet the matching requirement. Head Start is in the process of retrieving a third party analysis of the market value of the occupied rental properties to determine the in-kind contributions for free or reduced rent. This will be completed by April 2006.

We agree that the eligibility-earmarking requirement was not met. To ensure that only age eligible children (proven with birth certificate) and income eligible children (proven with income verification) are enrolled in Head Start, the enrollment technician now completes all enrollments. Both the birth certificate and the income verification for each child/family must be checked and verified. At that point, a signature verifies the eligibility of the family. The second step in the process requires that on-site family support workers accept the child's file and, once again, verify the eligibility of the child/family. Then, area supervisors sign off on each child's file verifying their eligibility prior to the child attending class. This process went into effect in August 2005.

*Auditors' Addendum:* We believe the results of our testing support the finding as reported.

**No. 04-33**

**CFDA 93.600  
Head Start**

**Suspension and Debarment**

*Direct Funding from Department of Human Services*

*Criteria:*

All nonprocurement transactions (e.g., subawards to subrecipients) are considered covered transactions—this was the case before November 26, 2003, and was not changed by the revised rules. Under rules in effect prior to November 26, 2003, contractors receiving individual awards for \$100,000 or more (\$25,000 after this date) and all subrecipients must certify that the organization and its principals are not suspended or debarred. Effective November 26, 2003, when a nonfederal entity enters into a covered transaction with an entity at a lower tier, the nonfederal 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

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (§\_\_\_.300). (OMB Circular A-133, Part 3, Section I)

*Condition:* Vendors were not monitored for suspension or debarment upon initiation of the procurement transactions.

*Questioned Costs:* None.

*Context:* Certifications were not consistently included in vendor contracts. Each of the subrecipients for Head Start were subsequently tested during the course of the audit and none were on the Excluded Parties List.

*Effect:* The effect of this lack of suspension and debarment procedures provides the opportunity to enter into contracts with vendors that are suspended or debarred.

*Cause:* The County was unaware of the requirement to check suspension and debarment on vendor contracts exceeding \$25,000.

*Recommendation:* We recommend that the County implement procedures and controls for suspension and debarment for vendors with whom covered transactions are made.

*Management's Response:* Agree. The Special Projects Coordinator started checking the Excluded Parties List System (EPLS) Web site per the contract procedure approved by the Policy Council in December 2005. The Financial Analyst will utilize a checklist to review all Head Start contract files on a semi-annual basis to ensure this requirement is met.

**No. 04-34** **CFDA 93.600**  
**Head Start**

**Reporting**

*Direct Funding from Department of Human Services*

*Criteria:* The County is required to complete the following reports:

*SF-269, Financial Status Report*, which is a semi-annual report that includes total expenditures, total draws to date, matching and earmarking data.

*SF-272, Federal Cash Transactions Report* – Payments under this program are made by HHS, Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PMS 272 series of reports. Federal awarding agencies enter authorization amounts in PMS to allow recipients to draw federal funds. There are three methods by which recipients can request funds: (1) the PMS 270 cash request, (2) SMARTLINK II, or (3) CASHLINE systems. SMARTLINK II enables recipients to request federal funds through computer link with DPM, while CASHLINE allows funds to be requested via a touch tone telephone. Once

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

a quarter, using the authorization amounts provided by the federal agency, payments requested by recipients, cash collection activity, and disbursement information provided by recipients, DPM generates PMS 272 reports.

*Condition:* There are no effective controls in place over the federal requirement for reporting. The SF 269 reports are not completed correctly, and therefore, are inaccurate.

*Questioned Costs:* None.

*Context:* There were no appropriately designed controls over reporting for 2004 and management review was insufficient. Reconciling items were necessary to agree the SF-269 report to the accrual totals and it did not agree to the cash totals per the SF-272 report. The SF-269 is not prepared on either the cash or accrual method, despite having been filed indicating preparation by the cash method. Additionally, the mid-year SF-269 report is completed based on budgeted amounts and the County did not agree or reconcile it to the general ledger.

*Effect:* The lack of an effective management review allowed inaccuracies to be reported in submission of the reports.

*Cause:* This control finding is due to a lack of management oversight or review of reports prior to submission.

*Recommendation:* We recommend that the County implement controls over the federal requirements for reporting and ensure reports are filed on the appropriate accounting basis twice each year.

*Management's Response:* Agree. The financial analyst will prepare the SF-269 and SF-272 based on general ledger reports for the appropriate time frames. The Director of Head Start will review the reports to ensure that they accurately reflect the general ledger prior to submission to the PMS.

The SF-269 for 1/1/04 – 12/31/04 was originally submitted incorrectly. A revised SF-269 was submitted to the PMS in August 2005.

**No. 04-35**      **CFDA 93.778**  
**Medicaid**

**Eligibility**

*Pass-Through Colorado Department of Human Services*

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

**JEFFERSON COUNTY, COLORADO**  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2004

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

*Questioned Costs:* Unknown.

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

We tested 75 case files for eligibility and noted the following:

- Three instances in which an undocumented pregnant mother receiving Medicaid under Volume 8.101.53 was not timely discontinued
- One instance in which the client was given Medicaid benefits after the allowed 60-day grace period for pregnant mothers as required per Volume 8.101.11(J)c. Additionally, this client's case was closed without a redetermination being performed.
- Eighteen instances in which redeterminations were either completed late, or not at all. Volume 8.100.71 requires a redetermination be performed every 12 months with verification of information that has changed.
- Two instances in which the client received Medicaid benefits but was not categorically eligible as defined by 8.100.52 to be receiving such benefits
- Three instances where the technician did not verify the client's resources when determining their eligibility
- Five instances where the client's income was not verified during the redetermination process. Per Volume 8.105.5A(2), a client's income must be verified.
- One instance where a client's presumptive eligibility was extended past the 45 days allowed per the agency letter dated August 1, 2003
- One instance where a client who was on Transitional Medicaid received benefits for 19 months past their 12 months eligibility time frame.
- Eighteen instances where the client's application was not processed within the appropriate time frame or we were unable to determine whether application was processed within appropriate time frame. Per Volume 8.100.27 a client's application must be processed within 45 days of receipt.
- Four instances where a client's case was closed before a redetermination was performed. The closures were related to the CBMS system conversion.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

- One instance where a client receiving Transitional Medicaid benefits did not provide verification of quarterly income as required per Volume 8.106.74, but benefits were continued
- One case where a client's case was closed prior to a redetermination being performed. Per agency letter dated August 1, 2003, under no circumstances is a Medicaid case closed without completion of a redetermination for all possible categories of eligibility.
- One instance where eligibility compliance requirements could not be tested because the County was unable to locate the file

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

*Cause:* Social Services did not enforce adequate internal control to ensure proper eligibility determinations were made.

*Recommendation:* We recommend that Social Services enforce eligibility review procedures that require case supervisors to perform reviews and retain records of the review over a representative sample. The records should include the file type, the date of review, and applicable review notes and should provide adequate coverage of the caseloads across all technicians.

*Management's Response:* Agree. Effective May 1, 2004, a sample of the supervisory reviews is selected by the Investigations Unit supervisor to ensure the review was conducted and any follow-up, if necessary, was completed. However, due to insufficient resources and the amount of time required to complete a case review because of the amount of data CBMS requires to determine eligibility, sampling 10-20% of the caseload for supervisory review is not achievable.

Effective January 1, 2005, the Department instituted a supervisory case review process. Four supervisory reviews will occur each month for staff members determining eligibility. The quality assurance review checklist contains program(s) type, staff member reviewed, reviewer and month of review. In addition, review notes and error findings are documented on the review checklist to ensure staff follow-up. All supervisory reviews completed are tracked monthly on a master list and maintained by the EMAS program manager.

Effective February 1, 2006, the EMAS program manager will maintain copies of the review checklist for all supervisory reviews completed and will cross-reference the review checklist with the master review list to ensure all reviews were conducted.

**JEFFERSON COUNTY, COLORADO**  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2004

<b>No. 04-36</b>	<b>CFDA 97.004</b> <b>Preparedness Equipment Support Cluster</b> <b>Procurement</b> <i>Pass-Through Colorado Department of Emergency Management</i>
<i>Criteria:</i>	Per the general procurement requirement in the March 2004 OMB Circular A-133 Compliance Supplement, subrecipients of States shall use the same State policies and procedures used for procurements from non-federal funds. Per review of the State's Administrative Guide for the Homeland Security grant, the sub-grantee (Jefferson County) is required to document its procurement procedures and maintain this document in the grant records.
<i>Condition:</i>	Although bids were obtained for equipment purchases, the County did not follow its standard approval processes as noted in its procurement policies when making purchases for equipment under the Homeland Security grant.
<i>Questioned Costs:</i>	Unknown, as it cannot be determined which transactions might have been processed differently or not at all had the proper procurement guidelines been followed.
<i>Context:</i>	We noted that the County made all equipment purchases by obtaining only the finance director's approval for these purchases. The County did not obtain signatures in the appropriate hierarchy as required in the County's procurement policies and for required approvals on bids.
<i>Effect:</i>	Failure to obtain proper approvals of contracts may result in questioned costs.
<i>Cause:</i>	Controls were not sufficient to ensure that the County's official procurement policies and procedures were followed. The County was less stringent in its procurement procedures when making purchases with federal funds under the Homeland Security program.
<i>Recommendation:</i>	We recommend that the County follow its procurement policy when making purchases with federal funds. Each purchase should be supported with the appropriate approval depending on the dollar amount and the type of purchase that is made.
<i>Management's Response:</i>	Agree. We immediately began routing purchases in accordance with adopted policies and procedures when the auditors made us aware of this requirement.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

**No. 04-37**

**CFDA 97.004  
Preparedness Equipment Support Cluster**

**Allowable Costs and Cash Management**

*Pass-Through Colorado Department of Emergency Management*

*Criteria:* In accordance with OMB Circular A-87, Attachment A, paragraph C.4, expenditures must be net of all applicable credits. Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to federal awards as direct or indirect costs. Examples of such transactions include rebates or allowances. To the extent that such credits received by the governmental unit relate to allowable costs, they shall be credited to the federal award either as a cost reduction or cash refund, as appropriate.

*Condition:* The County earns rebates for purchases made with the County's procurement cards, such that all departments/divisions within the County are encouraged to use the procurement cards for purchasing supplies and equipment. Depending on the volume of purchases, rebates can range anywhere from 0.10% to 0.50% of the purchase. The rebate is calculated by accounts payable and distributed to the County at year-end.

*Questioned Costs:* \$18,706 (the amount of the rebate based on 0.4% of total expenditures on the program)

*Context:* As the fiscal agent, the County purchased approximately \$4.7 million of equipment for Homeland Security using the County's procurement cards. This resulted in a rebate to the County of \$18,706. When requesting reimbursement for these expenditure purchases, the County did not net the rebates to be received against the expenditure reimbursement requested, nor did it refund the rebated amount of the reimbursement to the federal granting agency.

*Effect:* Expenditures reported are not net of applicable credits and the County may be overpaid. Additionally, the expenditures are overstated on the Schedule of Expenditures of Federal Awards.

*Cause:* The County was not aware that the rebates earned from the use of its Procurement Cards should have been offset against its request for expenditure reimbursement, or refunded to the granting agency.

*Recommendation:* We recommend that the County have a process in place to net anticipated estimated rebates against its reimbursement requests to the State, or refund rebates to the State when the amount relating to this grant is known.

**JEFFERSON COUNTY, COLORADO**  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2004

*Management's Response:*

Disagree. The County is paid an incentive by the bank that provides our credit card services. The incentive is not a rebate received from the supplier or manufacturer with whom we conducted business. When the auditors brought this matter to our attention, our state coordinator contacted the federal liaison. The federal liaison advised that the rebate/incentive payment was not considered to be program income. The federal liaison further stated that the rebate/incentive payment was the County's. Our legal counsel also, after review of A-133, came to the same conclusion.

*Auditors' Addendum:*

OMB Circular A-87 references all applicable credits. The incentive paid by the County's credit card servicer are a direct result of the level of dollars posted to the procurement cards from equipment purchases made on the grant. The County would not have received the \$18,706 from the servicer had these purchases not been made.

**No. 04-38**

**CFDA 97.004  
Preparedness Equipment Support Cluster**

**Reporting**

*Pass-Through Colorado Department of Emergency Management*

*Criteria:*

Per OMB Circular A-133, the grant recipient is required to have sufficient internal controls in place to ensure that reporting is accurate and complete.

*Condition:*

The County is not adequately carrying out the supervisory review of the required quarterly narrative reports.

*Questioned Costs:*

None.

*Context:*

The County does not have a formal review process in place over the narrative reports prior to submission.

*Effect:*

The County could incorrectly or incompletely report information about the program that would not be detected prior to submission.

*Cause:*

There was not a process established for approving the narrative reports as the County considers the individual compiling the reports the only knowledgeable individual regarding the related data.

*Recommendation:*

We recommend that the County implement a formal review process over the narrative reports prior to the reports being submitted. Furthermore, the County should ensure that the reviewer of the reports has the appropriate knowledge and training to understand the compilation of the reports.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

*Management's Response:*

Disagree. Jefferson County Emergency Management prepared the quarterly narrative reports, which were forwarded to the State. The finance director was given a copy of this narrative, along with the financial report (which was signed). This is included in the Homeland Security Process Flowchart Reporting Process. The narrative report also included progress reporting on the project goals/objectives that the North Central Region had initiated.

*Auditors' Addendum:*

County management confirmed at the exit conference that the narrative report was prepared and submitted without supervisory review prior to submission of the report. Further, there was no evidence that the finance director reviewed the report (per the copy provided in the field) and it cannot be corroborated since he is no longer employed by the County.

**No. 04-39**

**CFDA 97.004**

**Preparedness Equipment Support Cluster**

**Equipment and Real Property Management**

*Pass-Through Colorado Department of Emergency Management*

*Criteria:*

Per the general equipment management requirement criteria in the March 2004 OMB Circular A-133 Compliance Supplement, subrecipients of states who are local governments shall use state laws and procedures for equipment acquired under a sub-grant from a state. Per review of the State's Administrative Guide for Homeland Security, the sub-grantee (Jefferson County) must have an effective system of property management and controls in effect to safeguard against loss, damage, or theft of equipment. Also, the sub-grantee is required to maintain an inventory form for equipment purchased, in whole or in part, which contains the following information: description of item, serial number and property inventory number, date of purchase, grant number, check or voucher number, cost, equipment location, present use, condition, and disposition data.

*Condition:*

The County does not have adequate monitoring procedures in place to monitor its equipment purchased for the Homeland Security grant.

*Questioned Costs:*

None.

*Context:*

We noted that the County did not have proper management procedures over the equipment purchased with Homeland Security grant funds. The County used its invoices as support for equipment purchases; however, this support did not contain equipment location, present use, condition, and disposition data (if applicable), as required under the grant agreement.

*Effect:*

Equipment purchased with federal funds may not be used as intended by the grant agreement.

**JEFFERSON COUNTY, COLORADO**

Schedule of Findings and Questioned Costs

Year ended December 31, 2004

*Cause:* This was a new grant to the County, and proper monitoring procedures were not in place throughout the grant process.

*Recommendation:* We recommend that the County apply proper equipment management policies and procedures to the Homeland Security program, including establishment of a database of equipment and the applicable detail data for each piece.

*Management's Response:* Disagree. Jefferson County Emergency Management was responsible for receiving equipment, tracking and maintaining an inventory spreadsheet. This spreadsheet contains agency, purchase order number, date of purchase, description, serial number, cost, point of contact, and physical location. The proper equipment management policies and procedures have been followed per Jefferson County Inventory Control (equipment purchased for Jefferson County).

Per e-mail from the Colorado Department of Local Affairs, on March 16, 2005, the State of Colorado has the responsibility for all subrecipients' monitoring of equipment purchases and shared regional assets, not Jefferson County.

*Auditors' Addendum:* The County was unable to provide the equipment tracking spreadsheet and relative disposition of such equipment upon initiation of fieldwork and confirmed at the exit conference that this was not maintained throughout the fiscal year from the beginning of the grant. Communications with the Colorado Department of Local Affairs has only affirmed that the State is taking responsibility for conducting the annual inventory state-wide, while indicating on several occasions it is the County's responsibility for keeping records of such assets.