

ATTACHMENT E
STATE OF COLORADO

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Bill Ritter, Jr.
Governor

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July 25, 2008

Ms. Sally Symanski, CPA
Office of the State Auditor
200 E. 14th Avenue
Denver, CO 80203

Re: Energy and Mineral Impact Grants Performance Audit #1836, October 2007 Status Report

Dear Ms. Symanski:

The Office of the State Auditor (OSA) presented its findings of the Energy and Mineral Impacts Grants Performance Audit in a report dated October 2007. In a letter dated June 18, 2008, OSA requested a status update on the progress the Department of Local Affairs (DOLA) has made on the recommendations contained within the audit.

DOLA has made significant strides in implementing these recommendations and is pleased to supply the following information which summarizes the current status of each of these recommendations.

OSA Recommendation No. 1: The Department of Local Affairs should improve its management and oversight of supplemental funding on energy and mineral impact grants by:

- a. Creating written policies and procedures that detail the process for applying for, evaluating, and making supplemental awards. This should include specifying those circumstances when grantees may qualify for supplemental funding. These policies and procedures should be included in the grant guidelines and clearly communicated to all grantees.
- b. Limiting the amount of supplemental funding available program-wide in any given year, on an individual per-project basis, or both.

DOLA Response: Agree.

In order to further enhance program transparency and accountability, DOLA will develop written policies and procedures that detail the process for applying for, evaluating and making supplemental awards, including circumstances qualifying applicants for such funding. These will be included in the program guidelines.

These guidelines will identify limits on supplemental funding on a per-project basis. Using historic data and supplemental policy guidelines, DOLA will attempt to predict the amount of money that will be available on an annual basis for supplemental grants. However, DOLA expects such predictions to be inexact given the volatility in revenues and number of active grants.

As part of discussions held with the Legislative Interim Committee to study the Allocation of Severance Tax and Federal Mineral Lease Revenues and its attendant Working Group, DOLA has outlined a process of extensive consultation with the state Advisory Committee and program stakeholders to revamp the grants program. This process will begin formally in late 2007. The policy framework for supplemental funding practices will be incorporated into the guidelines for a proposed new small grant program, which DOLA expects to have in place in June 2008.

Until this broader review of the program can be completed, and effective immediately, DOLA will not approve supplemental funding in excess of twenty-five percent (25%) of the existing funding amount without prior review by the state Advisory Committee. Also beginning immediately, all smaller supplemental awards and all new awards made without prior review of the Advisory Committee will be reported to the Advisory Committee.

Implementation Date: June 30, 2008.

Progress:

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
Develop written policies and procedures that detail the process for applying for, evaluating, and making supplemental awards, including circumstances qualifying applicants for such funding. This will be included in the program guidelines.	June 30, 2008	Dec. 2007 preliminary supplemental form developed March 2008 – supplemental form adopted and in use, approved by Advisory Committee.	March 2008
These guidelines will identify limits on supplemental funding on a per-project basis		Requests > 25% of original award to Adv. Committee for recommendation; Requests < 25% of original award approved administratively; policy approved by Advisory Committee. All supplemental requests are required to be funded on a 50/50 basis except in cases of extreme extenuating circumstances.	November 2007

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
<p>Attempt to predict the amount of money that will be available on an annual basis for supplemental grants</p>		<p>Cost overruns typical of construction projects nation-wide continue to create requests for supplemental funding. Therefore, it is difficult to predict the amount of money that should be set aside for these purposes.</p> <p>In 2007, supplemental funding represented approximately 11% of the amount of funds contracted; therefore, a similar percentage will be held in reserve until more analysis is completed.</p>	<p>Ongoing</p>
<p>Extensive consultation with the State Advisory Committee and program stakeholders to revamp the grants program.</p>	<p>June 30, 2008</p>	<p>The Advisory Committee has been utilized increasingly as a policy advisory committee. Since October 2007, the Advisory Committee has convened on average every other month to review and comment on policy changes in the grants program.</p> <p>The Advisory Committee was consulted, reviewed and concurred with the new, three-tier grants program to be initiated with the Aug. 1, 2008 application deadline.</p> <p>Similar ongoing consultations with program stakeholders have occurred and will continue as the program is revamped.</p>	<p>October 2007</p> <p>Ongoing</p>

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
		<p>DOLA has consulted with program stakeholders regarding the revamp of the grants program extensively since October 2007. Over 1600 surveys were sent to local government customers in February 2008 to get feedback on proposed program revamp. The feedback was overwhelmingly positive.</p> <p>The revamped (Three-tier) program was presented to CML, CCI, CCCMA, and other stakeholder groups throughout 2007 – 2008.</p>	Ongoing
<p>The policy framework for supplemental funding practices will be incorporated into the guidelines for a proposed new small grant program.</p>	June 2008	<p>April 15, 2008 submitted to Advisory Committee April 30, 2008 Advisory Committee approval.</p> <p>The policy framework has been incorporated into the Impact Program Policies and Procedures Manual which is under continual development and update.</p>	April 2008
<p>Until this broader review of the program can be completed, DOLA will not approve supplemental funding in excess of twenty-five percent (25%) of the existing funding amount without prior review by the state Advisory Committee.</p>	June 30, 2008	<p>Full implementation Immediate and Ongoing</p> <p>March 15, 2008 – Draft written supplemental procedure – see 1b</p>	October 2007
<p>All smaller supplemental awards and all new awards made without prior review of the Advisory Committee will be reported to the Advisory Committee.</p>	June 30, 2008	<p>Full implementation Immediate and ongoing</p> <p>All such awards are presented to the Advisory Committee at the hearings.</p>	November 2007

OSA Recommendation No. 2: The Department of Local Affairs should ensure that awards of energy and mineral impact grant funds are appropriate, transparent, and free from actual or perceived conflicts of interest. Specifically, the Department should:

- a. Comply with statutory requirements and ensure that monies are awarded to political subdivisions both in form and in substance.
- b. Refrain from submitting or participating in grant applications from entities or on projects where it has a direct management role or interest. Grantees receiving funds should have clear ownership and management responsibility for funded projects.
- c. Seek legislative spending authority to fund statewide projects benefitting local governments out of the Local Government Mineral Impact Fund, rather than using local governments as fiscal intermediaries.

DOLA Response: Agree.

DOLA will ensure that grant awards are appropriate, transparent, and free of actual or perceived conflicts of interest. Specifically, DOLA will:

- a. Comply with statutory requirements and ensure that monies are awarded to political subdivisions both in form and substance.
- b. Refrain from submitting or participating in grant applications from entities or on projects where it has a direct management role or interest. Grantees receiving funds will have a direct interest in, and grant management responsibility for, funded projects.
- c. Refrain from using local governments as intermediaries to fund statewide projects benefitting local governments. If such statewide projects are considered in the future, legislative spending authority or specific statutory authorization will be sought.

Partly as a result of its work with the Legislative Interim Committee and Working Group, DOLA is considering the option of seeking legislative changes to permit funds to be granted to non-profit organizations that have a state-wide mission. Non-profit organizations play an important role in addressing impacts of mineral production. However, this potential legislation should be thoughtfully developed.

Implementation Date: June 30, 2008.

Progress:

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
<p>Ensure grant awards are appropriate, transparent, and free of actual or perceived conflicts of interest. Specifically:</p> <p>a. Comply with statutory requirements and ensure that monies are awarded to political subdivisions both in form and substance.</p>	<p>June 30, 2008</p>	<p>Full Compliance</p> <p>Immediate and Ongoing</p> <p>DOLA has conducted a review of the organizational status of all Councils of Government and similar regional organizations to determine if they meet the definition of "political subdivision" eligible to review Impact grants. In regard to regional technical assistance grant recipients, all are in compliance with this legal standard with the exception of two which are in process to reorganize to achieve this status.</p>	<p>December 2007</p>
<p>b. Refrain from submitting or participating in grant applications from entities or on projects where it has a direct management role or interest. Grantees receiving funds will have a direct interest in, and grant management responsibility for, funded projects.</p>	<p>June 30, 2008</p>	<p>Full Compliance</p> <p>Immediate and Ongoing</p> <p>See 2 b</p>	<p>September 2007</p>
<p>c. Refrain from using local governments as intermediaries to fund statewide projects benefiting local governments. If such statewide projects are considered in the future, legislative spending authority or specific statutory authorization will be sought.</p>	<p>June 30, 2008</p>	<p>The Colorado Rural Development Council, a non-profit organization working with rural areas, no longer includes a DOLA employee on its board.</p> <p>DOLA does not have grant recipients which act as intermediaries for statewide projects. Standard policy prohibits any such arrangements.</p>	<p>September 2007</p>

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
Partly as a result of its work with the Legislative Interim Committee and Working Group, DOLA is considering the option of seeking legislative changes to permit funds to be granted to non-profit organizations that have a state-wide mission. Non-profit organizations play an important role in addressing impacts of mineral production. However, this potential legislation should be thoughtfully developed.	June 30, 2008	Evaluate legislative option Decision June 30, 2008 Decision on Introduction of Legislation - December 2008 If introduced, pass Legislation May 2009	Delayed 1 year

OSA Recommendation No. 3: The Department of Local Affairs should ensure that applications for energy and mineral impact grants are more consistently and uniformly reviewed by:

- a. Providing more specific guidance on how to define and evaluate social and economic impact.
- b. Prioritizing and weighting established selection criteria. This should include reviewing the selection criteria for continued appropriateness and applicability.
- c. Developing a numeric scoring system to rate the extent to which grant applications meet established selection criteria.
- d. Communicating with and training members of the Energy Impact Assistance Advisory Committee, regional managers and grant applicants on the prioritization and weighting of established selection criteria and the numeric scoring process.

DOLA Response: Agree.

DOLA agrees to develop policies and procedures to ensure that grant applications are reviewed more consistently and uniformly by:

- a. Providing more specific guidance on how to define and evaluate social and economic impact.
- b. Using an objective scoring system in which selection criteria will be quantified and in which communities will be ranked on an annual basis based on impact metrics.
- c. Developing a three-tiered grants program to include a small grant option (under \$200,000) and a larger, multi-year grant program in addition to the standard grant program currently being used by DOLA.
- d. Strengthening the Advisory Committee by adding two local representatives and by requiring Senate confirmation of gubernatorial appointments.

- e. Placing an increased emphasis on the Advisory Committee's policy development role and scheduling periodic reviews of the selection criteria with the Advisory Committee to ensure appropriateness and applicability.
- f. Providing training to stakeholders – local government representatives, Advisory Committee members and program staff to ensure reliability.

Implementation Date: It is expected that guidelines for a proposed new small grants program will be implemented by June 30, 2008. Full implementation of all program changes, including stakeholder outreach, is anticipated by March, 31 2009.

Progress:

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
Develop policies and procedures to ensure grant applications are reviewed more consistently and uniformly by: a. Providing more specific guidance on how to define and evaluate social and economic impact.	June 30, 2008	Guidance Developed March 2008. Guidance approved by Advisory Committee at March 18, 2008 meeting.	March 2008
b. Using an objective scoring system in which selection criteria will be quantified and in which communities will be classified on an annual basis based on impact metrics.	June 30, 2008	Develop scoring system March 2008 Draft scoring system approved by Advisory Committee at April, 2008 meeting; fine-tuning in process.	August 2008

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
<p>C. Developing a three-tiered grants program to include a small grant option (under \$200,000) and a larger, multi-year grant program in addition to the standard grant program currently being used by DOLA.</p>	<p>March 31, 2009 (small and standard grant programs)</p>	<p>Implement small (Tier I) and standard grant (Tier II) programs March 2008, to be in effect for applications received on Aug. 1, 2008 and subsequently.</p> <p>Standard Grants (Tier II) (\$200,000 - \$2M)</p> <p>Large Grants (Tier III) (\$2M - \$10M)</p> <ul style="list-style-type: none"> ▪ Multi-year, multi jurisdictional ▪ Regional ▪ Use RFP process ▪ Advisory Committee to be heavily involved in development of grant criteria for large grant program. ▪ Target date of August 2009 <p>May 30, 2008 – meeting to consult with regional TA grant recipients and university technical assistance grant recipients on large grant program.</p>	<p>August 2008</p> <p>May 2008</p>
	<p>June 30, 2008 (small grants program)</p>	<p>Guidelines developed May 2008. Small Grants program implemented June 2008. Small Grants (\$200,000 or less)</p> <ul style="list-style-type: none"> ▪ Easily contracted and completed in one year. ▪ Small capital purchases (fire trucks, road equipment), planning and design projects. 	<p>August 2008</p>

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
d. Strengthening the Advisory Committee by adding two local representatives and by requiring Senate confirmation of gubernatorial appointments.	June 30, 2008	Introduce legislation December 2007 Pass legislation May 2008 New appointees are in process with Gov.'s Office of Boards and Commissions.	HB08-1083 introduced 1/11/08. HB08-1083 signed into law, June 2008. Appointments targeted for August 2009.
e. Placing increased emphasis on the Advisory Committee's policy development role and scheduling periodic reviews of the selection criteria with the Advisory Committee to ensure appropriateness and applicability.	June 30, 2008	Immediate and Ongoing	October 2007
f. Providing training to stakeholders – local government representatives, Advisory Committee members, and program staff on prioritization and weighting of selection criteria.	June 30, 2008	Begin training March 2008 Ongoing effort	April 2008 Weighting criteria selection established in HB08-1083.

OSA Recommendation No. 4: The Department of Local Affairs should ensure a meaningful and equitable evaluation of matching funds on energy mineral impact grant applications by:

- a. Assessing the rationale for requiring matching funds on projects.
- b. Developing one or more methods for calculating matching percentages in accordance with this rationale, and applying the calculation consistently for all applications. This should include establishing a policy for how in-kind contributions and outside sources of funding will be treated and valued.
- c. Including the rationale for requiring matching funds and methods for calculating matching percentages in the grant guidelines and clearly communicating this information to all regional managers, grant applicants, and Energy Impact Assistance Advisory Committee members.

DOLA Response: Agree.

The previously mentioned comprehensive review of project selection criteria and selection processes will include changes with respect to matching funds requirements and expectations. DOLA has specifically committed to the Working Group to the Legislative Interim Committee that matching requirements will be changed to better reflect the reality of local government financial conditions, including the stage in the life cycle of energy development and fund balances. A specific proposal DOLA has advanced is to relax or eliminate cash match for immediate, direct needs in heavily impacted areas, such as the need for road improvements in affected communities. DOLA expects to implement guidelines for a new small (up to \$200,000) grant program in June 2008 and for the standard (\$200,000 to \$1,000,000) and new large (more than \$1,000,000) grant programs in March 2009. The review of matching requirements will include the rationale for such requirements, the method of calculation of the matching percentage, policy for treatment of in-kind contributions and contributions from outside sources and training of staff and Advisory Committee members. DOLA will ensure a meaningful and equitable evaluation of matching funds as one of the selection criteria for application review.

We will do so by:

- a. Clarifying the rationale for requiring matching funds, and evaluating whether certain circumstances (e.g. stage in the life cycle of energy development, fiscal capacity of the applicant, type of project – road and bridge vs. community center) lead to different formulas for use of match as a selection criterion.
- b. Developing a clear and rational method to calculate the match criterion including policies regarding valuation of in-kind contributions and access to outside sources of project funds.
- c. Including the rationale for requiring matching funds and methods for calculating matching percentages in the program guidelines and clearly communicating this information to all regional managers, grant applicants and Energy Impact Assistance Advisory Committee members.

Implementation Date: Small grant program - June 30, 2008;
Standard and Large grant program - March 31, 2009.

Progress:

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
<p>Matching requirements will be changed to better reflect the reality of local government financial conditions, including the stage in the life cycle of energy development and fund balances.</p>	<p>March 31, 2009 (standard and large grant programs) – Tiers II & III</p> <p>June 30, 2008 (small grants program) – Tier I</p>	<p>Ongoing effort.</p>	<p>December 2007</p>
<p>A specific proposal is to relax or eliminate cash match for immediate, direct needs in heavily impacted areas, such as the need for road improvements in affected communities.</p> <p>The review of matching requirements will include the rationale for such requirements, the method of calculation of the matching percentage, policy for treatment of in-kind contributions and contributions from outside sources and training of staff and Advisory Committee members.</p>		<p>Match policies were revised and approved by the Advisory Committee at a March 18, 2008 meeting.</p> <p>Two types of match are considered:</p> <ol style="list-style-type: none"> 1. "Effort" = local government cash match as a % of total project cost. 2. "Leveraging" = local cash + other cash + documentable in-kind as a % of total project cost. <p>50% cash match, where possible, continues to be encouraged.</p> <p>Minimum match requirements have been relaxed to 25% of total project cost (as defined in "leveraging")</p> <p>Staff has been trained in how to consistently report the 2 kinds of match on grant review summary sheets. The Advisory Committee has been briefed on how match fits into project review criteria.</p>	<p>March 2008</p>
<p>Ensure a meaningful and equitable evaluation of matching funds as one of the selection criteria for application review.</p>		<p>See above.</p>	

OSA Recommendation No. 5: The Department of Local Affairs should establish written conflict-of-interest policies and procedures for the Energy Impact Assistance Advisory Committee. At a minimum, the Department should:

- a. Specify examples of situations that could create an actual or perceived conflict of interest and, therefore, warrant a member's abstention from discussion and voting on a proposed grant project.
- b. Require Advisory Committee members to self-disclose actual or perceived conflicts of interest and sign conflict-of-interest statements at least annually.
- c. Expand its official record of funding recommendations to include a breakdown of votes on grant applications by each individual Advisory Committee member and notation of the reasons for abstentions.

DOLA Response: Agree.

DOLA will establish written policies and procedures concerning rules of conduct for the Energy Impact Assistance Advisory Committee. DOLA will establish these rules of conduct in accordance with CRS 24-18-108.5, Rules of Conduct for Members of Boards and Commissions. Specifically,

- a. As is present practice, committee members will be instructed not to vote on grant applications from jurisdictions for which they serve in an elected or appointed position. Consideration will be given to establishing policies and procedures to avoid situations in which a committee member's vote might create the perception of a conflict of interest.
- b. DOLA will require Advisory Committee members to self-disclose actual conflicts of interest and sign conflict-of-interest statements annually.
- c. DOLA will expand its official record of funding recommendations to include a breakdown of votes on grant applications by each individual Advisory Committee member. Notations of reasons for abstentions will be made part of the official record.

Implementation Date: June 30, 2008.

Progress:

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
Establish written policies and procedures concerning rules of conduct for the Energy Impact Assistance Advisory Committee in accordance with CRS 24-18-108.5, Rules of Conduct for Members of Boards and Commissions.	June 30, 2008	Written policies and procedures and disclosure forms were approved by the Advisory Committee at its March 18, 2008 meeting. Members have been complying with these procedures since October, 2007. Disclosure forms will be completed and filed with DOLA at the July, 2008 hearings and annually subsequent to that.	March 2008
a. As is present practice, committee members will be instructed not to vote on grant applications from jurisdictions for which they serve in an elected or appointed position.	June 30, 2008	Full compliance October 2007	October 2007
b. Consideration will be given to establishing policies and procedures to avoid situations in which a committee member's vote might create the perception of a conflict of interest.	June 30, 2008	See 5 a	October 2007
c. Require Advisory Committee members to self-disclose actual conflicts of interest and sign conflict-of-interest statements annually.	June 30, 2008	See 5 a	July 2008
d. Expand its official record of funding recommendations to include a breakdown of votes on grant applications by each individual Advisory Committee member. Notations of reasons for abstentions will be made part of the official record.	June 30, 2008	Full compliance Files are maintained for each hearing which contain these records. October 2007	October 2007

OSA Recommendation No. 6: The Department of Local Affairs should ensure the timely contracting of energy and mineral impact grant awards by:

- a. Awarding grant funds only for projects that are ready to move forward in a timely manner. The Department should consider denying or deferring the award of funds to a later grant cycle when the entity is clearly not ready to contract.
- b. Setting performance goals and tracking statistics on grant award to grant contract time frames program-wide. This should include adapting monthly reports to include data on the number of months elapsed since the grant award date, and flagging those awards approaching the 12 - month cut-off date for follow-up by the regional manager.
- c. Complying with established policies requiring a withdrawal of award offers outstanding for more than 12 months.

DOLA Response: Agree.

DOLA will ensure the timely contracting of grant awards by:

- a. Awarding funds only for projects that are ready to move forward in a timely manner, as specified in the project selection criteria. In some cases this may result in the award letter not being issued until such time there is confidence the project can reasonably be expected to go to contract in the twelve-month timeline specified in the program guidelines.
- b. Setting performance goals and tracking statistics on grant award to grant contract timeframes, as recommended.
- c. Complying with existing program guidelines specifying that offers lapse 12 months after the date of award unless adequately justified and documented and extended in writing.

Implementation Date: June 30, 2008.

Progress:

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
<p>Ensure the timely contracting of grant awards by:</p> <p>a. Awarding funds only for projects that are ready to move forward in a timely manner, as specified in the project selection criteria. In some cases this may result in the award letter not being issued until such time there is confidence the project can reasonably be expected to go to contract in the twelve-month timeline specified in the program guidelines.</p>	<p>June 30, 2008</p>	<p>Immediate and Ongoing</p> <p>October 2007</p> <p>March 18, 2008 – Policies were reviewed and approved by Advisory Committee.</p>	<p>October 2007</p>
<p>b. Setting performance goals and tracking statistics on grant award to grant contract timeframes, as recommended.</p>	<p>June 30, 2008</p>	<p>Monthly reports have been updated to include this information.</p>	<p>March 2008</p>
<p>c. Withdrawing award offers outstanding for more than 12 months unless the extension is adequately justified, documented and approved in writing.</p>	<p>June 30, 2008</p>	<p>Withdraw award offers outstanding for more than 12 months unless the extension is adequately justified, documented and approved in writing.</p> <p>Immediate and ongoing</p> <p>October 2007</p> <p>March 2008 - set up automatic process for standard withdrawal letter.</p>	<p>October 2007</p>

OSA Recommendation No. 7: The Department of Local Affairs should improve the management of resources available in the Local Government Severance Tax Fund and the Local Government Mineral Impact Fund for energy and mineral impact grants by:

- a. Establishing a target year-end reserve amount for the uncommitted cash balance for each Fund. The Department should use the strategic approach to grant making discussed in Recommendation No. 13 to help set reserve amounts at an appropriate level.
- b. Identifying and announcing the amount of funds available for each grant cycle, as well as budgeting for out-of-cycle awards, supplemental awards, or other contingencies.

DOLA Response: Agree.

DOLA has committed to taking a more strategic approach to grant-making activities (see response to Recommendation No. 13). Such an approach will include better management of resources by more systematically analyzing and controlling cash balances. This will be accomplished by:

- a. For each fund, analyses will be performed to determine an appropriate reserve cash balance. Whether this would be an absolute cash amount or a percentage of average revenue flows over a specified time period or an amount determined in some other fashion will result from the analysis. Sensitivity to the volatility in revenues to the funds will likely lead to a conservative strategy, to avoid unforeseen drops in revenue that might jeopardize the program's ability to be responsive to local government impacts associated with revenue downturns.
- b. Budgeting for supplemental awards and contingencies, such that, combined with cash flow analysis, a targeted amount of funds available for each grant cycle can be determined and announced.

Implementation Date: The analysis of the reserve balance options and budgeting for supplemental awards will be completed by June 30, 2008 and implemented for FY 2009.

Progress:

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
<p>Take a more strategic approach to grant-making activities (see response to Recommendation No. 13). Such an approach will include better management of resources by more systematically analyzing and controlling cash balances. This will be accomplished by:</p> <ul style="list-style-type: none"> a. Performing analysis for each fund, to determine an appropriate reserve cash balance. Whether this would be an absolute cash amount or a percentage of average revenue flows over a specified time period or an amount determined in some other fashion will result from the analysis. Sensitivity to the volatility in revenues to the funds will likely lead to a conservative strategy, to avoid unforeseen drops in revenue that might jeopardize the program's ability to be responsive to local government impacts associated with revenue downturns. 	<p>June 30, 2008</p>	<p>The analysis of the reserve balance options and budgeting for supplemental awards will be completed by June 30, 2008 and implemented for FY 2009.</p> <p>Status – process in place and being implemented.</p> <p>See 7 b</p>	

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
<p>b. Budgeting for supplemental awards and contingencies, such that, combined with cash flow analysis, a targeted amount of funds available for each grant cycle can be determined and announced.</p>		<p>Status – See 1c regarding supplementals.</p> <p>DOLA, as part of the rollout of the three-tier program guidelines are related communications effort, has announced projected annual fund availability as well as allocation of available funds among the 3 tiers.</p>	<p>March 2008</p>

OSA Recommendation No. 8: The Department of Local Affairs should ensure that regional councils of government are eligible to receive energy and mineral impact grant funds by:

- a. Obtaining and reviewing documentation from councils of governments demonstrating that the entity is formed pursuant to Section 29-1-203(1), 10 C.R.S., and that the agreements establishing the councils of governments authorize the acceptance of grant funds.
- b. Assessing the need to define “political subdivision” within the severance tax and federal mineral leasing statutes.

DOLA Response: Agree.

DOLA is in the process of obtaining and reviewing documentation from regional councils of governments to determine their eligibility under the statutes to receive program funds.

- a. In instances where necessary statutory status is not clear, DOLA staff will work with local officials, as requested, to create appropriate political subdivisions eligible to receive grant funds.
- b. DOLA will assess whether changes to the severance tax and federal mineral lease statutes are necessary or desirable in light of the review of regional councils of governments' eligibility status.

Implementation Date: June 30, 2008.

Progress:

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
Obtain and review documentation from regional councils of government to determine their eligibility under the statutes to receive program funds. In instances where necessary statutory status is not clear, staff will work with local officials, as requested, to create appropriate political subdivisions eligible to receive grant funds.	June 30, 2008	Determine eligibility of COGs to receive program funds. December 2007	December 2007
Assess whether changes to the severance tax and federal mineral lease statutes are necessary or desirable in light of the review of regional councils of governments' eligibility status.		Completed – see No. 2.a	December 2007

OSA Recommendation No. 9: The Department of Local Affairs should take a stronger and more standardized approach to its monitoring of energy and mineral impact grant expenditures by reevaluating its program monitoring procedures to determine the appropriate combination of grantee reporting requirements, the level of documentation to be provided with reimbursement requests, desk reviews, and site visits. At a minimum, the Department should:

- a. Include sufficient detail in grant contracts to describe the scope of the funded project and clearly identify the costs and cost categories that are allowable or unallowable for reimbursement with grant funds.
- b. Establish clear and consistent documentation requirements, including use of a standard reimbursement request form, that are applicable program-wide. This should include a requirement that grantees document total project costs when seeking reimbursement.
- c. Ensure that regional managers thoroughly review reimbursement requests and supporting documentation before approving payments. Costs claimed for reimbursement should be allowable and sufficiently documented in accordance with established requirements.
- d. Develop and implement procedures for conducting a secondary review of expenditure documentation to take place as reimbursement requests are submitted by grantees, prior to final closeout of the grant, or both.
- e. Formalize policies, procedures and checklists for conducting site visits to grantee locations and following up on any problems identified. On-site monitoring activities should be risk-based.
- f. Communicate new documentation standards, review practices, and other program requirements in the grant guidelines. This should include providing training on the new requirements to grantees, regional managers, and other staff, as appropriate.

DOLA Response: Partially agree.

Contingent on availability of additional resources, DOLA agrees to take a stronger and more standardized approach to monitoring grant expenditures. Local needs and program revenues from both state Severance taxes and Federal Mineral Lease funds have increased dramatically in recent years. Specifically, the amount of grant and loan awards to local governments has more than quadrupled from FY 2003 (\$27.8 million) to-FY 2007 (\$119.8 million). Despite reallocation of all other available staff resources to administration of the program, resources have not been adequate to properly administer the program. With increased resources, DOLA commits to the following, which will be accomplished as part of its ongoing review and improvement of program policies and procedures:

- a. Including sufficient detail in contract scopes of work to more clearly identify project costs and cost categories that are allowable to be reimbursed from grant funds.
- b. Establishing clear and consistent documentation requirements, a standardized reimbursement request form, and a requirement that grantees document total project costs when seeking reimbursement.
- c. Establishing standardized protocols for thorough and consistent review of reimbursement requests by regional managers before approval of payments. Only costs determined to be allowable and sufficiently documented will be reimbursed.
- d. Developing and implementing a process for secondary review of expenditure documentation, to occur as reimbursement requests are submitted or prior to grant closeout.
- e. Implementing a risk-based on-site monitoring process, as well as formalizing policies, procedures and checklists for conducting site visits.
- f. All of the above procedures and practices will be incorporated into program guidelines, and training will be provided to grantees, regional managers and other staff as appropriate.

Implementation Date: June 30, 2009.

Progress:

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
<p>Contingent on availability of additional resources, DOLA agrees to take a stronger and more standardized approach to monitoring grant expenditures. Local needs and program revenues from both state Severance taxes and Federal Mineral Lease funds have increased dramatically in recent years. Specifically, the amount of grant and loan awards to local governments has more than quadrupled from FY 2003 (\$27.8 million) to-FY 2007 (\$119.8 million). Despite reallocation of all other available staff resources to administration of the program, resources have not been adequate to properly administer the program. With increased resources, DOLA commits to the following, which will be accomplished as part of its ongoing review and improvement of program policies and procedures.</p>	<p>January 31, 2008</p>	<p>Budget request to OSPB December 2007</p>	<p>December 2007</p>
<p>a. Including sufficient detail in contract scopes of work to more clearly identify project costs and cost categories that are allowable to be reimbursed from grant funds.</p>		<p>Immediate and ongoing. Standard Scope of Work guidance is included in policies and procedures manual.</p>	<p>March 2008</p>
<p>b. Establishing clear and consistent documentation requirements, a standardized reimbursement request form, and a requirement that grantees document total project costs when seeking reimbursement.</p>	<p>June 30, 2009</p>	<p>Standardized reimbursement request form included in policies and procedures manual.</p>	<p>March 2008</p>

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
c. Establishing standardized protocols for thorough and consistent review of reimbursement requests by regional managers before approval of payments. Only costs determined to be allowable and sufficiently documented will be reimbursed.	June 30, 2009	Staff is trained in use of reimbursement request form and reimbursement policies.	March 2008
d. Developing and implementing a process for secondary review of expenditure documentation, to occur as reimbursement requests are submitted or prior to grant closeout.	June 30, 2009	July, 2008	This process will be implemented upon hiring and training of new staff, per approved budget decision item related to audit implementation.
e. Implementing a risk-based on-site monitoring process, as well as formalizing policies, procedures and checklists for conducting site visits.	June 30, 2009	July, 2008	See 9 d
f. All of the above procedures and practices will be incorporated into program guidelines, and training will be provided to grantees, regional managers and other staff as appropriate.	June 30, 2009	June, 2008	See 9 d

OSA Recommendation No. 10: The Department of Local Affairs should strengthen controls to ensure the overall security and integrity of energy and mineral impact grant data maintained in its grants database. This should include:

- a. Reassessing its notification process for changes in employment status to ensure that user IDs are deactivated as soon as the employment status of a user changes.
- b. Implementing strong password controls over all user IDs.
- c. Minimizing the use of generic user IDs wherever possible.
- d. Establishing processes to review user access permissions and to prepare and review audit trail reports on a routine basis.

- e. Continuing efforts to implement a routine reconciliation of grant data between the grants database and the State's accounting system. This should include exploring options for a direct data interchange between these two systems.

DOLA Response: Agree.

- a. DOLA has developed and implemented a paper process for departing employees which utilizes a "Departing User Checklist." Human Resources initiates the process; and end user accounts are deactivated with the signature of the system administrator and date/time stamped for each system account (i.e., GroupWise, Network, Oracle, COFRS, etc.). The original paper record is maintained by Human Resources. The Office of Information Services maintains a copy of the completed document. Internal accounts are reviewed and necessary changes are made monthly. External inactive accounts are on a 90-day password replacement cycle. The password cycle forces the accounts to be activated or in a locked state, thereby making the inactive account non-accessible.
- b. As of September 2007 DOLA Oracle accounts now enforce strong password protection.
- c. DOLA has "generic" user accounts for web access by local jurisdictional officials who are responsible for each of these accounts. DOLA is in the process of creating an accountability letter to be signed for each account. The letter will be completed by November 1, 2007.
- d. DOLA has developed a security matrix ("Security Profile for FS Grants Tracking") for all Oracle database applications. This security matrix report will be issued quarterly to the program manager(s). A signature of verification will be required. Audit logs will track actions (inserts, updates, deletes) to data tables for three years. The audit logs will be sampled annually to verify the security changes. Audit logs will be reviewed on demand.
- e. Oracle program data and COFRS accounting data are now being reconciled on a monthly basis. Enhancements are being implemented in the Oracle data base to expedite this reconciliation. Direct data interchange between COFRS and the database is technically possible and is the ultimate goal.

Implementation Date: November 30, 2007.

Progress:

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
<p>a. DOLA has developed and implemented a paper process for departing employees which utilizes a "Departing User Checklist." Human Resources initiates the process; and end user accounts are deactivated with the signature of the system administrator and date/time stamped for each system account (i.e., GroupWise, Network, Oracle, COFRS, etc.). The original paper record is maintained by Human Resources. The Office of Information Services maintains a copy of the completed document. Internal accounts are reviewed and necessary changes are made monthly. External inactive accounts are on a 90-day password replacement cycle. The password cycle forces the accounts to be activated or in a locked state, thereby making the inactive account non-accessible.</p>	<p>November 30, 2007</p>	<p>Completed November 6, 2007</p>	<p>November 2007</p>
<p>b. As of September 2007 DOLA Oracle accounts now enforce strong password protection.</p>	<p>November 30, 2007</p>	<p>Completed</p>	<p>November 2007</p>
<p>c. DOLA has "generic" user accounts for web access by local jurisdictional officials who are responsible for each of these accounts. DOLA is in the process of creating an accountability letter to be signed for each account. The letter will be completed by November 1, 2007.</p>	<p>November 30, 2007</p>	<p>Form Letter Completed</p>	<p>November 2007</p>

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
<p>d. DOLA has developed a security matrix ("Security Profile for FS Grants Tracking") for all Oracle database applications. This security matrix report will be issued quarterly to the program manager(s). A signature of verification will be required. Audit logs will track actions (inserts, updates, deletes) to data tables for three years. The audit logs will be sampled annually to verify the security changes. Audit logs will be reviewed on demand.</p>	<p>November 30, 2007</p>	<p>Security matrix is completed. Education of Managers in process.</p>	<p>Matrix: November 6, 2007</p>
<p>e. Grant program data and COFRS accounting data are now being reconciled on a monthly basis. Enhancements are being implemented in the Oracle data base to expedite this reconciliation. Direct data interchange between COFRS and the database is technically possible and is the ultimate goal.</p>	<p>November 30, 2007</p>	<p>Planned meeting November 19, 2007 @ 2:00 p.m.</p> <p>Reconciliation is now being done quarterly until procedures for monthly reconciliation are finalized and staff is trained. Implementation will be accomplished after fiscal close.</p>	<p>September 2008</p>

OSA Recommendation No. 11: The Department of Local Affairs should improve its management of loans made from the Local Government Severance Tax Fund to ensure that all loans are repaid in full with interest. Specifically, the Department should:

- a. Formally document its assessment of each loan applicant's ability to repay the loan, including concluding on the specific factors and data supporting the loan decision. Applicants who do not meet specified minimum criteria should be denied. Documentation and information pertinent to the loan decision should be maintained in the permanent loan files.
- b. Align loan contract terms and internal policies and procedures to clarify when payments are considered late or loans are considered in default.
- c. Consider financial disincentives, such as additional monetary penalties, to encourage timely loan payments. The Department should avoid using awards of energy and mineral impact grants to forgive loan recipients' outstanding loan obligations.
- d. Update management reports and routine correspondence with loan recipients to include sufficient detail on outstanding loan balances and payment amounts.

DOLA Response: Agree.

DOLA will improve management of its loan program to ensure that all loans are repaid in full with interest. Specifically,

- a. Each loan applicant's ability to repay the loan will be analyzed according to standard methods of determining recipient credit-worthiness, and such analyses will be maintained in permanent loan files. Those applicants not determined to be credit worthy will be denied loans.
- b. Loan contract terms will be aligned with policies and procedures to clarify when payments are considered late or when loans are in default. Loans payments are due September 1 and are considered late if not received by September 15. If late, interest accrues on the delinquent amount from September 1 until paid. Loans are considered in default after 60 days.
- c. Grants will be used to forgive outstanding loan obligations only in cases of extreme financial hardship, as is present practice.
- d. Routine correspondence with loan recipients will be enhanced to include additional detail on outstanding loan balances and payment amounts.

Implementation Date: June 30, 2008

Progress:

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
<p>Improve management of its loan program to ensure that all loans are repaid in full with interest. Specifically,</p> <p>a. Each loan applicant's ability to repay the loan will be analyzed according to standard methods of determining recipient credit-worthiness, and such analyses will be maintained in permanent loan files. Those applicants not determined to be credit worthy will be denied loans.</p>	<p>June 30, 2008</p>	<p>Full Implementation</p> <p>Immediate and Ongoing</p> <p>New underwriting criteria have been developed and are being used in loan application reviews. The new change made is a "coverage" calculation which shows the ability of the utility's total revenues (from the most recent audit) to cover operating expenses, current debt service, and proposed debt service.</p>	<p>June 2008</p>
<p>b. Loan contract terms will be aligned with policies and procedures to clarify when payments are considered late or when loans are in default. Loans payments are due September 1 and are considered late if not received by September 15. If late, interest accrues on the delinquent amount from September 1 until paid. Loans are considered in default after 60 days.</p>	<p>June 30, 2008</p>	<p>Loan letter detail now includes outstanding principal balance. New language implemented in 2007.</p> <p>Loan portfolio report format by March 15, 2008 to include default rate and frequency.</p>	<p>September 2007</p>
<p>c. Use of financial disincentives to encourage timely loan payments will be considered. Grants will be used to forgive outstanding loan obligations only in cases of extreme financial hardship, as is present practice.</p>	<p>June 30, 2008</p>	<p>Process for late payments has been written into the loan policies and procedures. Late payments result in a penalty calculated as outstanding interest on principal for the month following the late payment.</p>	<p>September 2007</p>
<p>d. Routine correspondence with loan recipients will be enhanced to include additional detail on outstanding loan balances and payment amounts.</p>	<p>June 30, 2008</p>	<p>Loan letter includes specific information relating to outstanding principal. Included the loan policy with loan letters in an effort to keep loan recipients informed.</p>	<p>September 2007</p>

OSA Recommendation No. 12: The Department of Local Affairs should develop a formal policy defining those circumstances in which grant recipients are eligible for an initial, advance payment of energy and mineral impact grant funds without incurring an expense, and obtain written approval from the State Controller's Office when advancing funds on grant contracts.

DOLA Response: Agree.

DOLA ceased making initial, advance grant payments in November 2006. As part of its overall review of program policies and procedures, DOLA will develop a formal policy defining circumstances (such as land and equipment purchases) in which grant recipients may be eligible for initial, advance payment of grant funds prior to incurring an expense. Cases of initial, advance payments are expected to be rare, and in any cases in which such a policy permits an advance payment, DOLA will obtain written approval from the State Controller's Office.

Implementation Date: June 30, 2008

Progress:

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
Develop a formal policy defining circumstances (such as land and equipment purchases) in which grant recipients may be eligible for initial, advance payment of grant funds prior to incurring an expense. Cases of initial, advance payments are expected to be rare, and in any cases in which such a policy permits an advance payment, DOLA will obtain written approval from the State Controller's Office.	June 30, 2008	The new policy is that initial payments will no longer be made under the new waived contract. Any requests for advance payments will require State Controller's approval.	October 2007

OSA Recommendation No. 13: The Department of Local Affairs should improve the overall effectiveness of its energy and mineral impact grants by taking a more strategic approach to its grant-making activities. Specifically, the Department should:

- a. Develop a methodology to identify and assess the common impacts and needs created by nonrenewable resource development throughout the State. This should include soliciting input from local governments, industry representatives and other stakeholders, as appropriate.
- b. Use the results of this analysis to set clear goals, objectives and desired outcomes to guide grant-making activities.
- c. Use defined funding initiatives to proactively solicit grant applications and target resources in support of established program goals and objectives.
- d. Track program data to assess outcomes and evaluate and routinely report on performance

DOLA Response: Partially agree.

Contingent on additional resources, DOLA has committed to improving the overall effectiveness of its grant program by taking a more strategic approach to grant-making activities. This commitment, as well as preliminary strategies developed to date, have been communicated to the Legislative Interim Committee and Working Group. As noted in the response to Recommendation No. 3, DOLA will be engaging in a process to review all program policies and procedures and to recommend improvements to the grant-making process. This process will include department management and program staff, regional managers, grant applicants the Advisory Committee and other stakeholders. Particularly in light of recent revenues, more strategic approaches are a high priority.

- a. In consultation with program stakeholders, DOLA will develop a methodology to identify and assess the common impacts and needs created by resource development throughout the state.
- b. Grant-making activities will be guided by clear goals, objectives and desired outcomes guided by the impact and needs assessment.
- c. DOLA will continue to use and refine funding initiatives based upon strategic objectives developed with stakeholders to target resources to support program goals and objectives. Grant applications will be proactively solicited in support of these initiatives.
- d. DOLA will track program data to assess outcomes and to evaluate and routinely report on performance.

Implementation Date: March 31, 2009.

Progress:

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
<p>Contingent on additional resources, DOLA has committed to improving the overall effectiveness of its grant program by taking a more strategic approach to grant-making activities. This commitment, as well as preliminary strategies developed to date, has been communicated to the Legislative Interim Committee and Working Group. As noted in the response to Recommendation No. 3, DOLA will be engaging in a process to review all program policies and procedures and to recommend improvements to the grant-making process. This process will include department management and program staff, regional managers, grant applicants, the Advisory Committee and other stakeholders. Particularly in light of recent revenues, more strategic approaches are a high priority.</p>	<p>March 31, 2009</p>	<p>Ongoing effort. See 3 above.</p>	
<p>a. In consultation with program stakeholders, DOLA will develop a methodology to identify and assess the common impacts and needs created by resource development throughout the state.</p>	<p>March 31, 2009</p>	<p>Ongoing effort. See 3 b.</p> <p>Additionally, DOLA awarded \$350,000 to the Associated Governments of NW Co. to hire a consultant to perform a socioeconomic needs assessment. This assessment has enabled local governments to predict future capital needs as energy development in the region continues over the next 20 years, allowing for more systematic efforts to develop infrastructure.</p> <p>DOLA plans to support similar regional studies in other impacted areas.</p>	
<p>b. Grant-making activities will be guided by clear goals, objectives and desired outcomes guided by the impact and needs assessment.</p>	<p>March 31, 2009</p>	<p>Ongoing effort.</p>	

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
<p>c. DOLA will continue to use and refine funding initiatives based upon strategic objectives developed with stakeholders to target resources to support program goals and objectives. Grant applications will be proactively solicited in support of these initiatives.</p>	<p>March 31, 2009</p>	<p>In consultation with stakeholders and the advisory committee, DOLA has developed the New Energy Communities Initiative, in partnership with the Governor's Energy Office.</p> <p>\$10 million has been allocated to this initiative. Applications are due in September 2008, with awards anticipated in November 2008.</p> <p>DOLA will continue to work with stakeholders and the Advisory Committee to develop strategic funding initiatives.</p>	<p>June 2008</p>
<p>d. DOLA will track program data to assess outcomes and to evaluate and routinely report on performance.</p>	<p>March 31, 2009</p>	<p>DOLA has refined its grant program data base to permit better assessment of outcomes. The application form has been revised to require applicants to state anticipated outcomes more explicitly, allowing for better evaluations of success.</p> <p>DOLA is developing a customer (grantee) satisfaction survey to better evaluate service delivery.</p>	<p>June 2008</p> <p>March 2009</p>

REQUIRED ACTION BY DOLA	AUDIT IMPLEMENTATION DATE	MILESTONES AND TARGET DATES	MILESTONES ACHIEVED DATE
<p>DOLA, as part of this process, is proposing to develop a three-tiered grants program consisting of a small grant program (under \$200,000) and a larger multi-year grant program in addition to the standard grant program currently being used.</p> <p>DOLA is seeking additional FTE through budget amendment for the Fiscal Year 2009 budget. Severance tax and federal mineral lease funds are sought to fund this unforeseen need for additional resources prompted by this audit and internal review.</p>	<p>March 31, 2009</p>	<p>The three-tiered grants program was approved in March 2008 by the Advisory Committee. The small and standard grant programs will be implemented beginning with applications due on August 1, 2008.</p> <p>The large grant program will be implemented with grant applications due on August 2009 and subsequently.</p> <p>DOLA was successful in achieving 5 additional FTE for the Impact program through a budget decision item. New staff is in process of being hired and the full complement of new staff should be on board by the end of August 2008.</p>	<p>August 2008</p> <p>August 2008</p> <p>August 2008</p>

DOLA has made significant progress in implementing the recommendations from the audit and remains committed to completing the remaining tasks. If you have any questions, please feel free to contact me.

Sincerely,



Susan E. Kirkpatrick
Executive Director

Cc: Greg Fugate, Audit Manager, OSA
Bruce Eisenhauer, Deputy Director
Tony Hernandez, Division of Local Government Director