

**American Recovery and
Reinvestment Act of 2009
Single Audit Internal Control Pilot Project,
Phase 2**

State of Colorado

**Financial Audit
Fiscal Year Ended June 30, 2010**



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The mission of the Office of the State Auditor is to improve the efficiency, effectiveness, and transparency of government for the people of Colorado by providing objective information, quality services, and solution-based recommendations.



November 15, 2010

Members of the Legislative Audit Committee:

This report contains the results of a compliance audit of the State of Colorado's Child Care and Development Program Cluster, Title IV-E Foster Care program, Adoption Assistance Title IV-E program, and the Vocational Rehabilitation Grants to States program. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Department of Human Services.

Sally Symanski



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Glossary of Terms and Abbreviations

AWARE - Agency-wide electronic case management system.

CCCAP - Colorado Child Care Assistance Program.

CCDF - Child Care and Development Fund.

CDHS/Department - Colorado Department of Human Services. A principal department in Colorado state government that oversees the State's county departments of social/human services and many of the State's public assistance programs.

CFDA - Catalog of Federal Domestic Assistance. Federal publication that provides a full listing of all federal programs available to state and local governments.

CFMS - Department's County Financial Management System.

CHATS - Department's Child Care Automated Tracking System.

Circular - The federal Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

COFRS - Colorado Financial Reporting System, the State's accounting system.

CPA - Child Placement Agency.

DPA - Colorado Department of Personnel & Administration within the Department of Human Services.

DVR - Colorado Division of Vocational Rehabilitation.

OMB - Federal Office of Management and Budget.

OSA - Office of the State Auditor.

Recovery Act - American Recovery and Reinvestment Act of 2009.

Deficiency in internal control - Exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis.

Significant deficiency - A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Material weakness - A deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material noncompliance with a type of compliance requirements of a federal program that will not be prevented or detected and corrected on a timely basis.

American Recovery and Reinvestment Act of 2009

Single Audit Internal Control Pilot Project, Phase 2

Purpose and Scope

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

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

From its date of passage through June 30, 2010, the Recovery Act has awarded more than \$218.6 billion nationwide in contracts, grants, and loans. Colorado's share of this amount for the period is approximately \$4.3 billion, with a majority of the funds, or \$2.8 billion, awarded through new or existing federal grants. To ensure transparency and accountability over how the funds are invested, the federal Office of Management and Budget (OMB) issued guidance for implementation of the Recovery Act. As part of this guidance, OMB expanded audit requirements for entities that receive Recovery Act funds.

OMB is also responsible for establishing requirements for the implementation of the Single Audit Act of 1984, as amended. The Single Audit Act requires that each state, local government, or nonprofit organization that spends at least \$500,000 a year in federal awards must conduct a Single Audit for that year. Each year OMB issues a *Compliance Supplement* to its *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular)*. The Circular and related Compliance Supplement prescribe requirements for auditing major federal programs and the internal controls over these programs. Accordingly, each year the Colorado Office of the State Auditor (OSA) issues a

Statewide Single Audit Report on the State of Colorado’s compliance with the OMB requirements. States’ Single Audit reports are to be submitted to the federal government no later than nine months after the end of the state fiscal year. We submitted Colorado’s Fiscal Year 2009 report in February 2010, or within eight months of the end of the State’s fiscal year (June 30, 2009).

In August 2009 OMB designated programs that receive Recovery Act funds as “higher risk programs” and issued additional guidance for auditing those programs. For those programs, OMB also encouraged earlier reporting of significant deficiencies or material weaknesses (these terms are defined in the Glossary and the Interim Communications Section of this report). Specifically, for programs receiving Recovery Act funds, OMB encouraged auditors to report such deficiencies or weaknesses before the nine-month Single Audit deadline. OMB first implemented this early-reporting process in the fall of 2009 through the Single Audit Internal Control Pilot Project, Phase 1. Colorado was one of 16 states that volunteered to participate in Phase 1. In December 2009, we reported the Phase 1 results in *The American Recovery and Reinvestment Act of 2009 Internal Control Pilot Project Report*, Report No. 2047.

In August 2010, based on the results of Phase 1 and the continuing flow of Recovery Act funds, OMB announced the continuation of the Single Audit Internal Control Pilot Project as Phase 2 for the subsequent fiscal year. Requirements for Phase 2 are similar to Phase 1, except that Phase 2 requires that the state auditor report on the results of the Single Audit work for at least four programs receiving Recovery Act funds, as opposed to the requirement to report on two programs in Phase 1. For Phase 2, the audit work must be completed by November 30, 2010, and the auditor must issue a report by December 31, 2010—three months earlier than the nine-month deadline specified by the Single Audit Act. Colorado was one of 12 states that volunteered to participate in Phase 2.

This report is issued as part of the OSA’s participation in Phase 2 and contains the results of our work on the four programs we selected for reporting under Phase 2.

Phase 2 Requirements

As required by Phase 2, we selected four federal programs to include in the early reporting. For these four programs, we are reporting on the audit work we performed and the deficiencies we found.

- **Programs Selected.** We selected four federal programs administered by the Department of Human Services. During Fiscal Year 2010 these four programs, combined, spent approximately \$298 million in federal and state funds, including \$20.6 million in Recovery Act funds. The programs and their individual expenditures for Fiscal Year 2010 are as follows:

- The Child Care and Development Program Cluster (CFDA Nos. 93.575, 93.596, and 93.713) spent approximately \$100.3 million, of which \$99.5 million was federal funds and \$800,000 was state general funds. Total federal expenditures include \$13.6 million in Recovery Act funds.
 - The Title IV-E Foster Care program (CFDA No. 93.658) spent approximately \$121.2 million, of which \$61.4 million was federal funds and \$59.8 million was state general funds. Total federal expenditures include \$2.1 million in Recovery Act funds.
 - The Vocational Rehabilitation Grants to States program (CFDA Nos. 84.126 and 84.390) spent approximately \$37 million, of which \$33 million was federal funds and \$4 million was state general funds. Total federal expenditures include \$3.2 million in Recovery Act funds.
 - The Title IV-E Adoption Assistance program (CFDA No. 93.659) spent approximately \$39.5 million, of which \$21.2 million was federal funds and \$18.3 million was state general funds. Total federal expenditures include \$1.7 million in Recovery Act funds.
- **Specific audit work required.** OMB guidance specifies 14 compliance requirements for testing under the Single Audit Act for each program. For programs tested under Phase 2, OMB required that 6 of the 14 requirements be tested by the November 30, 2010, deadline. We completed testing for all 14 compliance requirements prior to the deadline for the four selected programs.
 - **Required communications.** The Pilot Project requires that participating entities provide program managers with an interim communication of significant deficiencies and material weaknesses identified in the audit of the four selected programs. This interim communication can be found in the following section of this report.

The deficiencies in internal controls and significant deficiencies identified in this report will also be included in the State of Colorado's *Statewide Single Audit Report*, to be released in February 2011.

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Interim Communications

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

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**OMB Single Audit Internal Control Pilot Project, Phase 2
Interim Communications**

November 17, 2010

Members of the Legislative Audit Committee:

This communication is provided pursuant to the parameters of the 2010 Office of Management and Budget (OMB) Single Audit Internal Control Pilot Project, Phase 2. Such Project requires auditors of entities that volunteer for the Project to issue, in writing, an early communication of significant deficiencies and material weaknesses in internal control over compliance for certain federal programs with expenditures of American Recovery and Reinvestment Act of 2009 funding at an interim date, prior to the completion of the Fiscal Year 2010 compliance audit for the State of Colorado. Accordingly, this communication is based on our audit procedures performed through the November 17, 2010, interim period. Because we have not completed our compliance audit for Fiscal Year 2010, additional significant deficiencies and material weaknesses may be identified and communicated in our final report on compliance and internal control over compliance that will be issued to meet the reporting requirements of OMB *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

In planning and performing our audit procedures through November 17, 2010 of the Child Care and Development Program Cluster, Title IV-E Foster Care program, Adoption Assistance Title IV-E program, and the Vocational Rehabilitation Grants to States program, we are considering the State of Colorado's (State) compliance with the Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, Davis-Bacon, Eligibility, Equipment and Real Property Management, Matching and Level of Effort/Earmarking, Period of Availability of Federal Funds, Procurement and Suspension and Debarment, Program Income, Real Property Acquisition/Relocation Assistance, Reporting, Subrecipient Monitoring, and Special Tests and Provisions as described in OMB *Circular A-133 Compliance Supplement* for the year ended June 30, 2010. We are considering the State's internal control over compliance with the requirements described above that could have a direct and material effect on the Child Care and Development Program Cluster, Title IV-E Foster Care program, Adoption Assistance Title IV-E program, and the Vocational Rehabilitation Grants to States program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.



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OMB Single Audit Internal Control Pilot Project, Phase 2
Interim Communication
Page 2

Our consideration of internal control over compliance is for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, based on the audit procedures performed through November 17, 2010, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A **deficiency in internal control** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. We consider Recommendations Nos. 1 and 12 deficiencies in internal control.

A **significant deficiency** is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. We consider Recommendations No. 2-11, 13, and 14 significant deficiencies.

A **material weakness** is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material noncompliance with a type of compliance requirements of a federal program that will not be prevented or detected and corrected on a timely basis. We did not note matters involving the internal controls over compliance during our audit that we consider to be material weaknesses.

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

This interim communication is intended solely for the information and use of the Legislative Audit Committee, management, specified legislative or regulatory bodies, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, upon release by the Legislative Audit Committee this report is a public document.



RECOMMENDATION LOCATOR

Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	17	Improve controls over its federal program reporting by training program and accounting staff and supervisors on the procedures necessary to meet requirements for filing complete, accurate, and timely federal reports. This should include training supervisors on procedures for performing an appropriate review prior to submission.	Agree	Implemented
2	22	Improve controls over its flexplace program by (a) designating one division or manager to centrally track the Department's flexplace arrangements and costs, as well as ensuring the program functions consistently across the Department; (b) ensuring the Department of Personnel & Administration's (DPA) flexplace policy is consistently followed, including the proper use of DPA flexplace application and agreement forms; and (c) training approving officials at the division and program levels on their responsibilities for implementing flexplace policies and monitoring staff who participate in flexplace. The training should included requirements for approving and signing of flexplace applications and arrangements, the types of expenses to be covered and what State property will be used offsite, and how protected and confidential data is to be safeguarded.	a. Partially Agree b. Agree c. Agree	January 2011
3	27	Resume routine monitoring of county departments of human/social services for the Child Care Development Fund Program Cluster to ensure that the counties are correctly calculating parental fees and are charging only allowable costs to the federal Child Care and Development Fund grant.	Agree	January 2011

RECOMMENDATION LOCATOR

Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
4	29	Improve controls related to manual overrides of Colorado Child Care Assistance Program eligibility determinations within the Child Care Automated Tracking System (CHATS) by (a) completing the drafting and implementation of rules governing the acceptable reasons for overrides and documentation required at the counties to support them; (b) requiring that counties establish supervisory review and approval for all overrides; (c) ensuring that county case managers and supervisors are adequately trained in proper procedures for overrides; (d) building automatic supervisory review, approval, and reporting capabilities into the CHATS replacement system; and (e) monitoring overrides through the use of reports that identify state and county trends and irregularities, and ensuring proper follow-up.	Agree	March 2011

RECOMMENDATION LOCATOR

Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
5	32	Ensure that county departments of human/social services properly authorize child care for Colorado Child Care Assistance Program (CCCAP) participants by (a) completing the drafting and implementation of rules clarifying that counties shall only authorize the amount of child care needed by CCCAP families based on their schedule of eligible activities; (b) working with counties to improve the counties' internal control systems, such as requiring all counties to conduct monthly CCCAP case file reviews that identify errors in their case management and the causes behind those errors and require corrective actions to prevent future errors; (c) improving the monitoring of the counties' CCCAP operations by revising its county case file review process to include developing a risk-based approach that reviews those counties that manage larger CCCAP caseloads and determines why counties make errors, such as improperly authorizing CCCAP care or miscalculating an applicant's income, and whether counties have adequate CCCAP internal control systems in place; and (d) requiring that counties submit corrective action plans to address problems identified in part (c) and following up on these plans as appropriate.	Agree	March 2011

RECOMMENDATION LOCATOR

Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
6	35	Improve county departments of human/social services' reviews of Colorado Child Care Assistance Program provider attendance records by (a) verifying that counties are conducting the reviews in accordance with Department regulations during the Department's monitoring reviews, (b) providing guidance to the counties on how to select samples of providers' attendance sheets for reviews, and (c) revising Department regulations to require that counties implement a risk-based approach for conducting reviews. Counties should continue to include a random element to ensure that all providers have a chance of being selected.	Agree	March 2011
7	38	Improve its oversight of county-owned child care centers to ensure an arm's-length bargaining relationship between counties and their county-owned providers by reviewing and approving all rates negotiated between county departments of human/social services and their county-owned child care centers.	Agree	November 2010
8	40	Improve its oversight of quality initiative spending by county departments of human/social services by (a) requiring counties to institute formal grant processes for distributing quality initiative funds to child care providers and reviewing the counties' grant processes to ensure that counties distribute and monitor funds appropriately; (b) ensuring that guidance given to counties about the allowability of types of quality initiative expenditures reflects current Department policy and federal requirements; and (c) clarifying whether administrative expenses and payment for the expenses of other programs like Head Start are appropriate uses of county quality initiative funds and, if so, establishing limits for these expenses.	Agree	November 2010

RECOMMENDATION LOCATOR

Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
9	44	Ensure that county departments of human/social services pay foster care rates that reflect the foster child's level of care needs by (a) continuing to work with counties to develop and implement a validated, statewide level-care-care assessment tool; (b) updating the Trails system to include fields for recording the child's level of care and requiring counties to include this information in Trails whenever they enter new provider rates; and (c) conducting periodic file reviews at counties and analysis of actual rates paid by counties to ensure they are using level-of-care tools to assist with setting and negotiating appropriate foster care rates.	Disagree	Not Applicable
10	47	Continue to work on identifying and implementing options for improving cost information to evaluate county administrative and case management costs in the child welfare allocation model used in the foster care system.	Agree	July 2012
11	50	Improve controls over administrative foster care funds expended by child placement agencies (CPAs) by (a) evaluating the substance of the relationship between counties and CPAs based on OMB <i>Circular A-133</i> criteria and concluding whether CPAs should be considered vendors or subrecipients, (b) implementing requirements for audits of CPAs in accordance with the determination suggested in part (a) of the recommendation, (c) establishing procedures to review the CPA audits and follow up on any findings identified, and (d) evaluating options for reviewing the allowability and appropriateness of CPA expenditures made with child welfare funds.	Disagree	Not Applicable

RECOMMENDATION LOCATOR

Agency Addressed: Department of Human Services

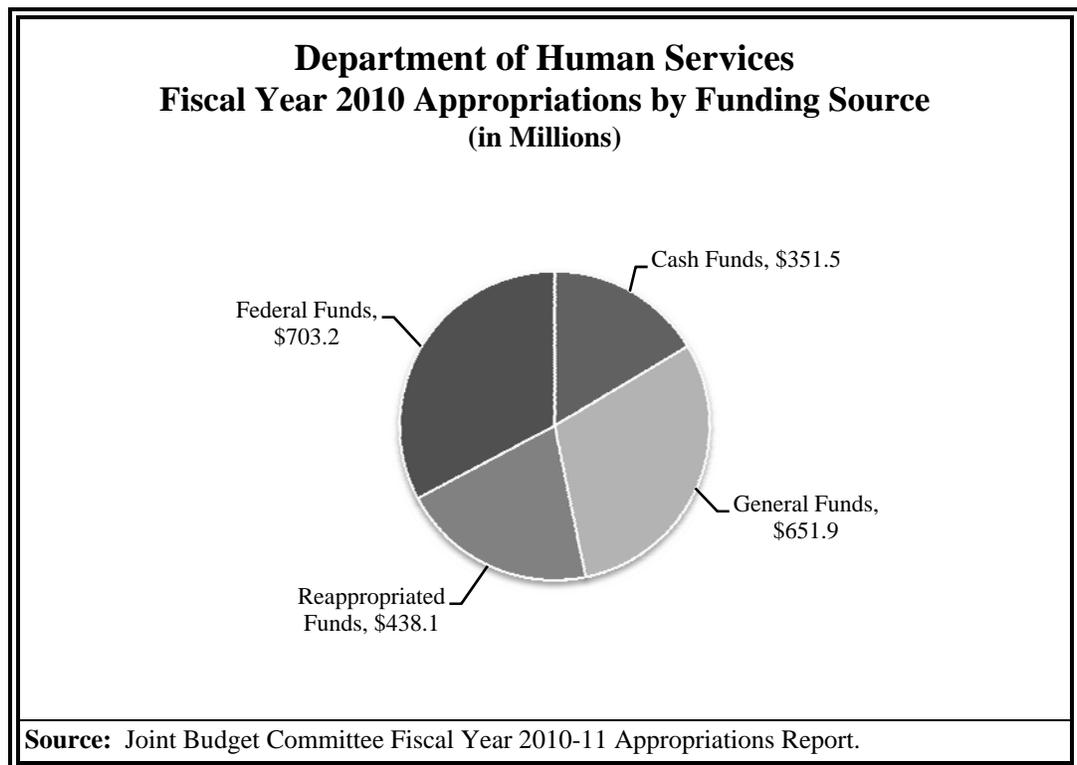
Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
12	53	Ensure that child placement agencies (CPAs) pass along the correct child maintenance payments received from county departments of human/social services to foster parents by (a) implementing routine, periodic reviews of the payments made from CPAs to foster parents to ensure that they match the payments received from counties and (b) following up on identified over- or underpayments to foster parents to determine why the incorrect payments were made and to require that counties and CPAs to rectify all incorrect payments.	Partially Agree	January 2011
13	57	Further strengthen controls over the Title IV-E Adoption Assistance program by ensuring, through training and monitoring programs, that county caseworkers are aware of all federal and state eligibility requirements and are maintaining all required documentation in the case file.	Agree	January 2011
14	60	Strengthen controls over the Vocational Rehabilitation program by ensuring, through training and monitoring, that counselors comply with federal and state documentation requirements, maintain all required documentation in the case files, and determine eligibility within the time frames outlined in regulations.	Agree	Ongoing and with AWARE implementation beginning April 2011

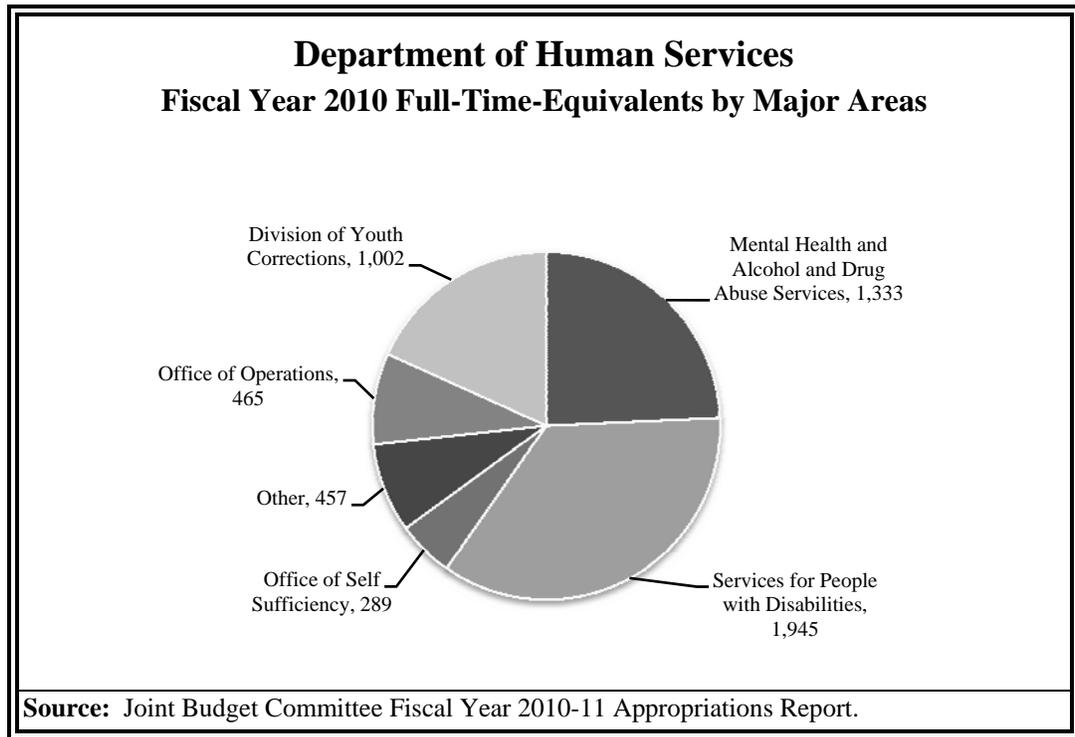
Department of Human Services

Introduction

The Department of Human Services (Department) is solely responsible, by statute, for administering, managing, and overseeing the delivery of the State's public assistance and welfare programs throughout Colorado. Most of these programs are administered through local county or district departments of human/social services. The Department also manages and directly administers programs in the areas of developmental disabilities, mental health, nursing homes, and youth corrections. In Fiscal Year 2010 the Department was appropriated approximately \$2.1 billion and nearly 5,500 full-time-equivalent staff, or FTE.

The following charts show the appropriations by funding source and FTE by major areas within the Department for Fiscal Year 2010.





This interim report includes only the federal compliance findings related to the four programs (Child Care and Development Program Cluster, Title IV-E Foster Care program, Title IV-E Adoption Assistance program, and the Vocational Rehabilitation Grants to States program) included in the OMB Single Audit Internal Control Pilot Project, Phase 2. All other Fiscal Year 2010 federal compliance findings for the Department will be reported in the State of Colorado's *Statewide Single Audit Report*, to be released in February 2011.

Federal Reporting

For Fiscal Year 2010, our audit included a review of nine federal programs—the four programs listed above and five additional programs—administered by the Department under guidance issued by the Office of Management and Budget's (OMB) *Circular A-133*. These nine programs spent approximately \$701 million, of which \$592.4 million was federal funds and \$108.6 million was state general funds. Total federal expenditures included \$25 million in Recovery Act funds. The nine programs were as follows:

- HUD Section 8 Housing Choice Vouchers Program (CFDA No. 14.871)
- Vocational Rehabilitation (CFDA Nos. 84.126 and 84.390)
- Temporary Assistance to Needy Families (TANF) (CFDA No. 93.558)
- Child Support Enforcement (CSE) (CFDA No. 93.563)
- Low Income Energy Assistance Program (LEAP) (CFDA No. 93.568)

- Child Care and Development Program Cluster (CFDA Nos. 93.575, 93.596, and 93.713)
- Title IV-E Foster Care (CFDA No. 93.658)
- Title IV-E Adoption Assistance (CFDA No. 93.659)
- Social Services Block Grant (CFDA No. 93.667)

The Department is required to submit numerous reports to the various federal agencies issuing the grant awards on these programs, including financial, performance, and special reports. Performance and special reports tend to report non-financial information such as case counts, while financial reports focus on specific quantitative data for a specific period of time. For financial reports, the Department's Division of Accounting is responsible for the preparation, and for program reports, the Department's program-specific staff are responsible for the preparation.

What was the purpose of the audit work?

The purpose of the audit work was to review the Department's internal controls over federally required reports on grant program activity for completeness, accuracy, timeliness of submission, agreement with supporting documentation, and compliance with the specific requirements outlined by the OMB and various federal agencies.

What audit work was performed and how were results measured?

In total we reviewed a sample of 26 reports submitted during Fiscal Year 2010 for the programs noted above. For most programs, the Department is required to submit multiple financial, performance, and special reports—usually on an annual or quarterly basis—to the cognizant federal oversight agency. For each of the nine programs, we reviewed two financial reports and any performance or special reports submitted during Fiscal Year 2010.

We assessed each report's completeness, accuracy, timeliness, agreement with supporting documentation, and compliance with the specific requirements outlined by OMB or the cognizant federal agency.

What problem did the audit work identify?

Of the 26 reports we reviewed, 10 (38 percent) contained at least one error. In total, the 10 reports contained 14 errors, as some reports contained more than one error and some reports had no errors at all. The results by program were:

Department of Human Services Federal Reporting Results Fiscal Year 2010			
Program	Total Number of Errors	Number of Reports Containing Errors	Number of Reports Tested
HUD Section 8 Housing Choice Vouchers	0	0	3
Vocational Rehabilitation	4	2	3
TANF	1	1	4
Child Support Enforcement	1	1	4
LEAP	2	2	2
Child Care and Development Program Cluster	0	0	3
Title IV-E Foster Care	0	0	2
Title IV-E Adoption Assistance	1	1	2
Social Services Block Grant	5	3	3
Totals	14	10	26
Source: Office of the State Auditor analysis of Fiscal Year 2010 audit work.			

The types of errors identified were related to completeness, accuracy, timeliness, supporting documentation, and overall compliance with federal requirements. The breakdown by program was as follows:

- **Vocational Rehabilitation:** Two of the three reports for the Federal Fiscal Year 2009 grant contained errors in the amounts of reported program expenditures and income resulting in approximately \$60,000 in understatements. One of these reports also recorded about \$75,000 in the incorrect grant year.
- **TANF:** One of the quarterly financial reports overstated the federal administrative charges by about \$306,000.
- **Child Support Enforcement:** One of the two quarterly federal financial reports tested was not completed according to federal instructions. The Department reported approximately \$2 million for the primary CSE grant that should have been reported as Recovery Act monies.
- **LEAP:** On the annual financial report the program underreported committed annual expenditures by \$1.7 million. On the annual special report the program was unable to provide back-up documentation for the amount of projected available funds.

- **Adoption Assistance:** One quarterly financial report contained a calculation error in the supporting documentation, which resulted in the misstatement of the estimated expenditures by approximately \$399,000 for the subsequent period.
- **Social Services Block Grant:** On two annual program reports multiple issues were identified such as errors in the amounts reported and lack of timely submission. The Department also submitted the annual financial report past its due date.

Why did the problem occur?

The Department does not require a formal supervisory review of program reports before the reports are submitted to the federal agencies. While all of the reports appear to have been initialed by a supervisor, the extent of the errors indicates that the review is not adequate and needs to be improved.

Why does this problem matter?

The federal oversight agencies depend on accurate reports to measure program results and state compliance with federal requirements. The Department risks the loss of federal awards if it does not comply with federal requirements.

(CFDA Nos. 84.126, 84.390, and 93.659; Rehabilitation-Services Vocational Rehabilitation Grants to States, Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act, and Adoption Assistance (Title IV-E); Reporting. Classification of Finding: Deficiency in Internal Controls.)

Recommendation No. 1:

The Department of Human Services should improve controls over its federal program reporting by training program and accounting staff and supervisors on the procedures necessary to meet requirements for filing complete, accurate and timely federal reports. This should include training supervisors on procedures for performing an appropriate review prior to submission.

Department of Human Services Response:

Agree. Implementation date: Implemented.

Program or Special Report Response

Division of Vocational Rehabilitation Response:

The Division agrees that federal program reports that contain financial information will be reviewed by the appropriate program accountant for accuracy prior to submission of the report.

Low Income Energy Assistance Program Response:

LEAP staff will retain back-up documentation to support the annual carryover report that projects the amount of the unobligated balance. Documentation will include expenditure details from the State's accounting system, COFRS, and the Financial Data Warehouse.

Financial Report Response***Division of Accounting Response:***

Program Accounting agrees that all accounting staff need to improve their proficiency in federal reporting and has implemented ongoing training in financial reconciliation and report preparation. Program Accounting further agrees that all federal financial reporting should receive an appropriate review by the Program Accounting Supervisor, and the supervisor continues to work with all program accountants.

Alternative Work Arrangements

Employees who work for 15 of the 39 divisions and programs within the Department can participate in a benefit called flexplace, which allows employees to work in alternative locations. The Colorado Department of Personnel & Administration (DPA) is responsible for providing centralized human resources, information, and guidance to all state agencies. DPA encourages state agencies to extend flexplace arrangements to their employees to attract qualified employees, increase job satisfaction, and reduce commuting costs. Employees participating in flexplace are permitted to perform work duties from locations other than the state agency offices, usually from home. Some flexplace staff have been approved to work exclusively from home.

What was the purpose of the audit work?

The purpose of the audit work was to test controls over the Department's flexplace arrangements.

What audit work was performed and how were results measured?

The audit work included interviewing Department staff, reviewing the DPA flexplace policy, and reviewing documentation related to the Department's implementation of its flexplace benefit, including agreements, work schedules, and associated costs.

DPA has developed a flexplace policy that defines flexplace requirements and provides for the use of standard flexplace application and agreement forms. The Department has adopted the DPA flexplace policy. In addition, federal and state laws require safeguarding of protected and confidential data, including data held outside of the office.

- **DPA flexplace policy** for state agencies includes the following provisions related to costs and monitoring:
 - **Application and agreement forms.** Employees must complete flexplace application and agreement forms, both of which must be signed by employees and supervisors. These forms document performance expectations, work hours, the parties responsible for particular costs associated with working offsite, and the agreement's duration.
 - **Flexplace expenses.** State agencies may incur costs associated with employees' working offsite, such as Internet service or photocopiers, as long as the costs are reasonable and properly documented in the agreement.
 - **Monitoring.** The policy recommends that, at a minimum, agencies conduct annual evaluations to ensure that flexplace arrangements are functioning as intended and that staff are meeting required performance expectations.
- **Federal and State laws** require that agencies safeguard personal and confidential information that is in the possession of employees working outside the office, such as Social Security numbers and protected health information.

What problem did the audit work identify?

The Department's controls over flexplace arrangements are inadequate, and the divisions and programs that allow flexplace do not follow DPA's policy or consistently use DPA's standard flexplace application and agreement forms. Both forms are important because the application lays out the plan for flexplace, and

the agreement formally documents the performance expectations, the hours of work, the parties responsible for specific costs, the equipment taken off site, and the duration of the agreement.

Flexplace arrangements are managed inconsistently from division to division.

Specifically, we identified problems in the following areas:

Lack of properly authorized flexplace applications and agreement forms.

We tested 81 Department employees currently participating in flexplace and found the Department could not provide flexplace applications for 77 (95 percent) employees or flexplace agreements for 73 (90 percent) employees. The Department could provide documentation in only one instance in which the employee's flexplace arrangement was properly documented with both the application and agreement, which had been signed by the employee and supervisor as required by DPA policy. Further we noted a lack of consistency among the divisions. For example, one division had created its own flexplace agreement, another required its flexplace staff to submit work plans for the time worked off site, and another maintained no flexplace documentation at all.

Lack of documentation on flexplace expenses and equipment use in agreement forms. We identified issues with state-paid flexplace costs in two categories:

- Phone and Internet Service – The Department paid \$21,100 in expenses for telephone landlines and Internet service for 22 (27 percent) of the 81 flexplace employees; however, these costs had not been documented in flexplace agreements, as required by DPA's flexplace policy. Because these costs were billed to federal programs, we consider the \$21,100¹ to be questioned costs.
- Furniture and equipment – Program officials within the Child Care Division reported that all 23 of the staff who work offsite full-time received state-funded items, including office furniture, copiers, and USB drives. However, the Division had not documented in the flexplace agreement the furniture or equipment taken offsite which should be returned to the Department in the event of termination of the flexplace arrangement.

Lack of adequate monitoring of flexplace arrangements. Department officials reported that they have not reviewed employees' flexplace arrangements annually. In some cases, employees' arrangements had been in place for up to 30 years.

Inadequate controls over protected and confidential information. The Department could not demonstrate that it has established adequate controls over protected and confidential information in employees' home offices.

Why did the problem occur?

The Department does not centrally manage its flexplace program or adequately communicate its flexplace policy to division and program staff. As a result, no central division or manager has been delegated the responsibility to monitor flexplace arrangements. Department officials have not adequately communicated flexplace policy to division or program managers and have not tracked the program in order to ensure that it is functioning as intended.

The Department has failed to consistently implement the DPA policy, including the use of the standard flexplace forms and conducting ongoing monitoring.

In addition, the Department has not trained approving officials on their responsibilities in implementing flexplace policies and managing staff who work offsite.

Why does this problem matter?

The Department's lack of adequate controls over flexplace arrangements is problematic for three reasons. First, 90 percent of the Department staff working a flexplace arrangement are involved in the delivery of social services, which requires those staff to routinely collect clients' personal and confidential information. Because the Department has not established adequate controls over protected and confidential data in employees' home offices, the Department cannot ensure that employees working a flexplace arrangement are properly safeguarding protected information, and there is a risk that protected information could be compromised.

Second, because the flexplace arrangements are not periodically reviewed, the Department cannot adequately monitor employees' offsite working arrangements, nor ensure that the arrangement is still appropriate, that employee performance expectations are met, and that employees properly safeguard state equipment at their home offices or return the equipment at the termination of the agreement.

Third, during Fiscal Year 2010 the Department's flexplace program was not executed consistently throughout the Department or in accordance with policy. Therefore, the Department cannot ensure that its flexplace arrangements are monitored appropriately and function in the State's best interests, that employees working offsite provide State services seamlessly, or that the State does not incur unnecessary costs.

(CFDA Nos. 93.575, 93.596, 93.713, 93.658; Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, American Recovery and Reinvestment Act Child Care and Development Block Grant, Foster Care Title IV-E; Activities Allowed or

Unallowed, Allowable Costs/Cost Principles. Classification of Finding: Significant Deficiency.)

¹Total known questioned costs of \$21,100: \$20,250 to the Child Care Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund, American Recovery and Reinvestment Act Child Care and Development Block Grant (CFDA Nos. 93.575, 93.596, 93.713) and \$850 to the Foster Care Title IV-E program (CFDA No. 93.658).

Recommendation No. 2:

The Department of Human Services should improve controls over its flexplace program by:

- a. Designating one division or manager to centrally track the Department's flexplace arrangements and costs, as well as ensuring the program functions consistently across the Department.
- b. Ensuring the Department of Personnel & Administration's (DPA) flexplace policy is consistently followed, including the proper use of DPA flexplace application and agreement forms.
- c. Training approving officials at the division and program levels on their responsibilities for implementing flexplace policies and monitoring staff who participate in flexplace. The training should include requirements for approving and signing of flexplace applications and arrangements, the types of expenses to be covered, what state property will be used offsite, and how protected and confidential data is to be safeguarded.

Department of Human Services Response:

- a. Partially agree. Implementation date: January 15, 2011.

The Colorado Department of Human Services (CDHS) will hold CDHS appointing authorities accountable for properly tracking flexplace agreements and costs, including maintaining copies of all such agreements in both supervisory and official personnel files.

- b. Agree. Implementation date: January 15, 2011.

CDHS ensures that DPA flexplace policy is consistently followed across the Department through current Policy VI 2.7 on Alternative Work Arrangements. This policy utilizes standard DPA application and agreement forms. Through the training provided in the response to part (c), the Department will emphasize the requirement for

approving officials to ensure the standard application and agreement forms are used in all flexplace agreements.

- c. Agree. Implementation date: January 15, 2011.

The CDHS Division of Employment Affairs will provide information and documents to all approving officials in CDHS at the division and program levels regarding their responsibilities for implementing flexplace policies and monitoring staff who participate in flexplace. The information will include requirements for approving and signing of flexplace applications and arrangements, the types of expenses to be covered, what state property will be used offsite, and how protected and confidential data is to be safeguarded.

Child Care and Development Fund Program Cluster Overview

The Child Care and Development Fund Program Cluster (Program) provides financial assistance to states to increase the availability, affordability, and quality of child care services for low-income families in which the parents are working or attending training or educational programs. The Program (CFDA Nos. 93.575, 93.596, and 93.713) was enacted under Title IV-A of the Social Security Act and is administered at the federal level by the U.S. Department of Health and Human Services. In Colorado, the Program is overseen by the Department under the Colorado Child Care Assistance Program (CCCAP) and administered by the county departments of human/social services, which determine families' eligibility and calculate the parental fees that the families must pay. During Fiscal Year 2010, the Department spent approximately \$100.3 million, of which \$99.5 million was federal funds and \$800,000 was State general funds. Total federal expenditures included \$13.6 million in Recovery Act funds. Approximately 25,700 Colorado families received subsidized child care under the Program in Fiscal Year 2010. The average monthly benefit was \$635 per family.

County Monitoring

What was the purpose of the audit work?

The purpose of the audit work was to test the Department's controls over compliance with state and federal requirements for the Program with respect to eligibility determination and parental fees.

What audit work was performed and how were results measured?

The audit work included reviewing a sample of 40 CCCAP case files and the associated documentation to determine whether counties had correctly determined eligibility in accordance with State Rules and the Code of Federal Regulations, and that program costs were reasonable and necessary as required under federal cost requirements. In addition, we interviewed Department staff to determine what type of monitoring activities the Department had performed to monitor counties' eligibility processes and calculations of parental fees. Federal regulations require that primary grant recipients have controls in place to ensure subrecipients, such as the counties, have adequate controls in place to meet grant requirements.

To qualify for a child care subsidy under the Program, a family must submit documents verifying that (1) the child household members for whom care is requested are U.S. citizens; (2) the household's gross income is equal to or less than 85 percent of the median state income for a family of the same size; (3) the family resides in the county from which assistance is being requested; and (4) the parents are engaged in "eligible activities" such as job search, work, or continuing education/training. Copies of these documents are to be maintained in the family's CCCAP file, managed through the Child Care Automated Tracking System (CHATS) at the Department.

An eligible family receives child care services that are paid for jointly—by the Program and the family—based on the family's gross household income. The family's share of the monthly payment, called the "parental fee," is calculated on a sliding scale, based on factors such as the family's income, work schedule, and number of children needing care. The monthly parental fee can range from \$7 to more than \$1,000. In some cases, the county may determine that paying a parental fee would cause a financial hardship to the family and may thus waive the fee.

What problem did the audit work identify?

Our review of 40 active CCCAP case files identified no issues with eligibility determination but found that in five (12.5 percent) of the cases the parental fee had been erroneously calculated. As a result, in those five cases the families paid a lesser share of their child care costs than they should have paid, based on their incomes. As a result, the counties charged more than was allowable to the federal grant. The questioned costs totaled \$834¹ for these five cases.

In addition, Department staff informed us that they did not perform monitoring visits at the counties during Fiscal Year 2010.

Why did the problem occur?

Department officials reported in Fiscal Year 2010 that because of staffing constraints resulting from an upgrade of CHATS, officials decided to forgo all county monitoring until the upgrade is complete. Therefore, the Department did not have a mechanism in place to identify and correct the incorrect parental fee assessments by the counties.

Why does this problem matter?

Miscalculation of the parental fees results in either the State's overcharging the federal grant, which means the State has not complied with federal requirements and will be required to repay funds to the federal government, or overcharges to the families, who will bear more of the child care costs than is required under the program.

Because parental fee calculations are performed by the counties, without county monitoring the Department cannot ensure that calculations are accurate and that federal funds are expended appropriately and parents are charged the correct fees.

(CFDA No. 93.575, 93.596, and 93.713; Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF), American Recovery and Reinvestment Act Child Care and Development Block Grant; Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, Subrecipient Monitoring. Classification of Finding: Significant Deficiency.)

¹Total known questioned costs of \$834.

Recommendation No. 3:

The Department of Human Services should resume routine monitoring of county departments of human/social services for the Child Care and Development Fund Program Cluster to ensure that the counties are correctly calculating parental fees and are charging only allowable costs to the federal Child Care and Development Fund (CCDF) grant.

Department of Human Services Response:

Agree. Implementation date: January 2011.

The Department will resume monitoring of county departments of human/social services to ensure that counties are correctly calculating parental fees and are charging only allowable costs to the federal CCDF grant. The monitoring will include case reviews at the authorization level to determine proper authorization and payment for care. Authorization monitoring will include case eligibility, parent fee calculation, parent schedule of eligible activities, and child schedule of needed care. Payment monitoring will include verification of correct parent fee as well as correct provider reimbursement rates for authorized care, applying county policies related to reimbursement.

During CHATS implementation, 100 percent of staff time is committed to that project. Therefore, the January 2011 implementation date reflects the time frame when the Department has fully implemented the new CHATS statewide in December 2010, including the use of time attendance point-of-service devices for payment generation.

Overrides of Eligibility Determinations

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

What was the purpose of the audit work?

The purpose of the audit work was to determine whether adequate controls exist to ensure that overrides of CCCAP eligibility determinations in CHATS are appropriate.

What audit work was performed and how were results measured?

We performed limited procedures to determine whether the Department has implemented a recommendation related to eligibility overrides from our November 2008 *Colorado Child Care Assistance Program Performance Audit*. Specifically, we recommended that the Department improve controls over overrides of CCCAP eligibility determinations in CHATS, such as by (1) developing rules governing the acceptable reasons for overrides and required supporting documentation; (2) requiring that counties establish supervisory review and approval for all overrides; (3) ensuring that county case managers and supervisors receive training; (4) building automatic supervisory review, approval, and reporting capabilities into the CHATS replacement system; (5) monitoring overrides, and (6) following up on the county we identified with the highest rate of overrides.

What problem did the audit work identify?

During our Fiscal Year 2009 audit, we concluded that the only part of the 2008 performance audit recommendation that had been implemented by the Department was following up on the county with the highest rate of overrides.

During our Fiscal Year 2010 audit, the Department reported that rule changes to strengthen controls over eligibility overrides will be discussed at a hearing in December 2010, with an anticipated effective date of March 2011. We reviewed the proposed rule package and found that while the new rules require that “any overrides of eligibility must be accompanied by documentation” and that counties must establish controls over who has the authority to override CCCAP eligibility determinations in CHATS, the new rules do not specify the acceptable reasons for eligibility overrides or the type of documentation that counties must maintain to support the overrides.

During our Fiscal Year 2010 audit, we also found that the Department has not required counties to establish supervisory reviews and approval for all overrides or provided training to counties on override procedures. The Department reported that it will establish these requirements and provide this training once the aforementioned rules are effective in March 2011. Finally, the Department reported that automatic controls over overrides will be included in the CHATS replacement system that will be rolled out to counties in November 2010.

According to the Department, the CHATS replacement system will also contain reporting capabilities that will allow the Department to monitor the use of overrides by the counties.

Why did the problem occur?

The Department reported that it has not fully implemented our 2008 performance audit recommendation on overrides because it has focused on implementing the CHATS replacement system.

During our 2008 performance audit, when we first identified this problem, we found that the Department did not have any procedures for monitoring the use of eligibility overrides by counties, such as running a report to identify cases in which overrides occur. In addition, Department regulations and the CCCAP policy manual did not require counties to perform supervisory reviews of overrides or maintain any documentation related to overrides. The Department also reported that system controls for overrides had not been built into CHATS because the system was antiquated and being replaced.

Why does this problem matter?

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

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

Recommendation No. 4:

The Department of Human Services should improve controls related to manual overrides of Colorado Child Care Assistance Program eligibility determinations within the Child Care Automated Tracking System (CHATS) by:

- a. Completing the drafting and implementation of rules governing the acceptable reasons for overrides and documentation required at the counties to support them.

- b. Requiring that counties establish supervisory review and approval for all overrides.
- c. Ensuring that county case managers and supervisors are adequately trained in proper procedures for overrides.
- d. Building automatic supervisory review, approval, and reporting capabilities into the CHATS replacement system.
- e. Monitoring overrides through the use of reports that identify state and county trends and irregularities, and ensuring proper follow-up.

Department of Human Services Response:

Agree. Implementation date: March 2011 (projected date of State Board of Human Services approval of rule change).

The Department agrees to improve controls related to manual overrides in CCCAP eligibility determinations within CHATS by clarifying in rule acceptable reasons and the required supporting documentation for overrides. Guidance to counties will be given through an agency letter on the requirement of supervisory review of all overrides and the use of reports to identify overrides; training will be provided to county case managers and supervisors related to procedures related to overrides. The Department will monitor the use of overrides by counties through the use of reports that identify trends and irregularities. The CHATS replacement system has built into it an automatic supervisory review, required approval, and reporting capabilities and is fully implemented in the State as of November 1, 2010.

Child Care Authorizations

Child care providers bill counties on a monthly basis for child care provided to families receiving CCCAP subsidies. For a provider to receive payment, a county case manager must authorize the days of the weeks and the number of hours for which children can receive care based on the parents' scheduled participation in eligible activities (e.g., working or attending educational or job training programs). For example, counties only authorize part-time child care if the parents are working part-time.

What was the purpose of the audit work?

The purpose of the audit work was to determine whether adequate controls exist to ensure that child care providers only receive CCCAP payments for authorized care.

What audit work was performed and how were results measured?

We performed limited procedures to determine whether the Department has implemented a recommendation related to child care authorizations from our November 2008 *Colorado Child Care Assistance Program Performance Audit*. The 2008 performance audit identified problems with counties not authorizing CCCAP care based on the parents' schedule of participation in eligible activities (i.e., work or school schedules). As a result, we recommended that the Department ensure that counties properly authorize CCCAP payments by (a) promulgating rules that counties shall only authorize the amount of child care needed by CCCAP families based on their schedule of eligible activities; (b) working with counties to improve the counties' internal control systems, such as requiring counties to conduct monthly CCCAP case file reviews; (c) improving the Department's monitoring of CCCAP operations by developing a risk-based approach for monitoring and using the monitoring to determine why counties make errors, such as improperly authorizing CCCAP care; and (d) requiring counties to submit corrective action plans to address problems identified in part (c) and following up on these plans as appropriate.

What problem did the audit work identify?

During our Fiscal Year 2009 audit, we concluded that the Department had not fully implemented any part of the 2008 performance audit recommendation. During our Fiscal Year 2010 audit, we found that the Department had begun implementing the 2008 performance audit recommendation but had not completed implementation of any part of the recommendation. Specifically, the Department reported that rule changes to require that counties only authorize the amount of child care needed by CCCAP families based on their participation in eligible activities had been drafted but not yet approved. The Department also reported that it will begin to work with the counties to improve their internal control systems once the proposed rule has been approved. In addition, the Department is in the process of developing a plan for monitoring the counties that it anticipates implementing during Fiscal Year 2011.

Why did the problem occur?

The Department reported that it has not fully implemented our 2008 performance audit recommendation on payment authorizations because it has focused on implementing the CHATS replacement system.

During our 2008 performance audit, when we first identified this problem, we found that Department regulations did not explicitly state that CCCAP child care is to be authorized based upon the parents' schedules. In addition, the Department was not ensuring that the counties complete monthly CCCAP case file reviews. We also found that the Department's own monitoring of the counties did not identify the causes of errors made by the counties or follow a risk-based approach (i.e., focusing on counties with larger caseloads). Finally, the Department has not required the counties to adopt corrective action to address these problems.

Why does this problem matter?

Over-authorizing care increases the opportunity for fraud or abuse within the program. For example, an excess amount of authorized care could be used by a parent to receive subsidized child care while not engaged in an eligible activity, or by a provider to bill for that time even if care was not provided. In addition, any child care provided under CCCAP that is either not needed or not actually provided is subject to federal recoveries and disallowances, which would require the Department to pay funds back to the federal government.

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

Recommendation No. 5:

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

- a. Completing the drafting and implementation of rules clarifying that counties shall only authorize the amount of child care needed by CCCAP families based on their schedule of eligible activities.

- b. Working with counties to improve the counties' internal control systems, such as requiring all counties to conduct monthly CCCAP case file reviews that identify errors in their case management and the causes behind those errors and require corrective actions to prevent future errors.
- c. Improving the monitoring of the counties' CCCAP operations by revising its county case file review process to include developing a risk-based approach that reviews those counties that manage larger CCCAP caseloads and determines why counties make errors, such as improperly authorizing CCCAP care or miscalculating an applicant's income, and whether counties have adequate CCCAP internal control systems in place.
- d. Requiring that counties submit corrective action plans to address problems identified in part (c) and following up on these plans as appropriate.

Department of Human Services Response:

Agree. Implementation date: March 2011 (projected date of State Board of Human Services approval of rule change).

The Department agrees to ensure that counties properly authorize child care for CCCAP participants by clarifying in rule that counties shall authorize care based on the schedule of eligible activities. Guidance to counties will be given through an agency letter on how to improve county internal control/monitoring systems related to case file reviews to identify errors and the causes of the errors. The Department agrees to a review/monitoring system on counties' CCCAP operations to determine what errors are made that result in improper authorizations for care or improper assessment of eligibility and parent fee based on income, as well as assessing the internal controls that counties have in place to adequately monitor the administration of the program. In the event that findings are made related to the state review/monitoring of the counties' administration of the program, the State will require corrective actions plans from the county to address the problems identified.

Provider Attendance Sheets

Child care providers bill counties on a monthly basis for child care provided to families receiving CCCAP subsidies. Department regulations require CCCAP providers to maintain attendance records that note the child's time of arrival and departure for each day of care. Regulations also require that these records be signed by the person authorized to drop off or pick up the child, such as the child's parent. Thus, these records can be used by counties to verify provider

bills. Finally, regulations require counties to “complete at least a random monthly review of sign in/sign out sheets received from the provider compared to the billing sheets submitted.”

What was the purpose of the audit work?

The purpose of the audit work was to determine whether adequate controls exist to ensure that child care providers receive CCCAP payments only for care that the providers have actually provided.

What audit work was performed and how were results measured?

We performed limited procedures to determine whether the Department has implemented a recommendation from our November 2008 *Colorado Child Care Assistance Program Performance Audit* related to provider attendance sheets. The 2008 performance audit found wide variations in the ways that counties conduct the required reviews of provider attendance sheets. As a result, we recommended that the Department improve its oversight of counties’ reviews of CCCAP provider attendance records by (a) verifying that counties are conducting the reviews in accordance with Department regulations, (b) providing guidance to the counties on how to select samples of providers’ attendance sheets for reviews, and (c) revising Department regulations to require that counties implement a risk-based approach for conducting the reviews.

What problem did the audit work identify?

During our Fiscal Year 2009 audit, we concluded that the Department had not fully implemented any part of the 2008 performance audit recommendation. During our Fiscal Year 2010 audit, we found that the Department had still not fully implemented any part of the 2008 performance audit recommendation. Specifically, the Department reported that it has drafted, but not yet implemented, a new rule that would require counties to use a risk-based approach to reviewing provider attendance sheets. The Department also reported that once the new rule is implemented, it will provide guidance to counties on how to select samples of providers’ attendance sheets for review and verify that counties are conducting these reviews.

Why did the problem occur?

The Department reported that it has not fully implemented our 2008 performance audit recommendation on provider attendance sheet review because it has focused on implementing the CHATS replacement system.

During our 2008 performance audit, when we first identified this problem, we found that the Department did not monitor whether counties are reviewing provider attendance sheets. In addition, Department regulations did not specify how counties should conduct these reviews (e.g., number or types of files that should be reviewed). Finally, as noted, Department regulations specified that counties conduct a random, rather than a risk-based, review.

Why does this problem matter?

Reviewing provider attendance sheets regularly ensures that providers are billing counties only for care actually provided. Any child care provided under CCCAP that is not actually provided is subject to federal recoveries and disallowances, which would require the Department to pay funds back to the federal government.

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

Recommendation No. 6:

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

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

Department of Human Services Response:

Agree. Implementation date: March 2011 (projected date of State Board of Human Services approval of rule change).

The Department agrees to improve county departments of human/social services' reviews of CCCAP provider attendance records through

clarifying in rule county responsibility to monitor provider fiscal agreements and attendance records to payments. Guidance to counties will be given through an agency letter on how to select samples of providers' attendance sheets and how to implement a risk-based approach for conducting the reviews, as well as including a random sample element to the reviews.

County-Owned Child Care Providers

Although most counties in Colorado deliver CCCAP child care services primarily through contracts with private child care centers and home providers, at least two counties contract with their own county-owned child care facilities for CCCAP services. Agreements between counties and their county-owned child care centers have the potential for abuse; an inherent conflict-of-interest exists, since the county is essentially negotiating rates to pay itself. Department regulations attempt to mitigate this risk by requiring that all county expenditures be “necessary and reasonable for proper and efficient performance and administration.” According to these regulations, a cost is reasonable if it is comparable to what the market cost would be and it has restraints imposed upon it, such as “arm’s-length bargaining,” that function to maintain equal bargaining power between the two parties involved.

What was the purpose of the audit work?

The purpose of the audit work was to determine whether adequate controls exist to ensure that an arm’s-length bargaining relationship exists between counties and their county-owned child care centers when negotiating CCCAP payment rates.

What audit work was performed and how were results measured?

We performed limited procedures to determine whether the Department has implemented a recommendation from our November 2008 *Colorado Child Care Assistance Program Performance Audit* related to determining payment rates for county-owned child care centers. The 2008 performance audit identified problems related to excessive payments made by Prowers County to its county-owned child care center. As a result, we recommended that the Department improve its oversight of county-owned child care providers to ensure an arm’s-length bargaining relationship between counties and their county-owned providers and to provide assurance that CCCAP payments are reasonable and necessary by (a) reviewing and approving all rates negotiated between the county department of human/social services and the county-owned provider; (b) requiring Prowers County, where we identified a significant problem in this area during the 2008 performance audit, to immediately renegotiate the slot contract between Prowers

County and its county-owned child care center; and (c) considering increasing its audit coverage of Prowers County until the problems with the county-owned child care center in that county have been resolved.

What problem did the audit work identify?

During our Fiscal Year 2009 audit, the Department renegotiated the slot contract between Prowers County and its county-owned child care center but did not fully implement the other parts of the 2008 performance audit recommendation. During our Fiscal Year 2010 audit, we found that the Department has implemented another part of the recommendation, but the final part of the recommendation had yet to be fully implemented. Specifically, the Department reported that it has drafted, but not yet implemented, an agency letter addressing the review and approval of rates negotiated between counties and their county-owned child care providers. The Department also reported that it has considered increasing audit coverage of Prowers County but has not yet had the resources to perform an audit of Prowers County.

Why did the problem occur?

The Department reported that it has not fully implemented our 2008 performance audit recommendation on county-owned child care centers because it has focused on implementing the CHATS replacement system.

During our 2008 performance audit, when we first identified this problem, we found that the Department lacked adequate monitoring procedures to identify excessive payments or potential conflicts of interest in arrangements between counties and their county-owned child care centers.

Why does this problem matter?

Without appropriate oversight of contracts between counties and their county-owned child care centers, counties can pay their own centers excessive rates for CCCAP services. Additionally, these types of arrangements can limit the ability of private providers to compete and can create the appearance of a government monopoly. If other counties were to emulate practices in Prowers County, CCCAP rates could significantly increase across the State and reduce the number of families that could be served with available funds.

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

Recommendation No. 7:

The Department of Human Services should improve its oversight of county-owned child care centers to ensure an arm's-length bargaining relationship between counties and their county-owned providers by reviewing and approving all rates negotiated between county departments of human/social services and their county-owned child care centers.

Department of Human Services Response:

Agree. Implementation date: November 2010.

The Department agrees to improve its oversight of county-owned child care centers to ensure an arm's-length bargaining relationship between counties and their county-owned centers through reviewing and approving all rates negotiated between the county departments of human/social services and county-owned centers. Guidance on this issue will be given through an agency letter.

Quality Initiatives

Federal rules require states to spend at least 4 percent of their Child Care and Development Program Cluster (Program) allocation on quality activities. Federal regulations describe quality activities as those that (1) provide comprehensive consumer education to parents and the public, (2) increase parental choice, and (3) improve the quality and availability of child care. Department policy at the time of our 2008 performance audit allowed counties to spend funds transferred from their Temporary Aid to Needy Families (TANF) reserves and/or up to 10 percent of their Program allocation on activities to improve the quality of child care. Department policy also further defines acceptable uses of quality initiative funds to include child care capacity building, increases in child care resource and referral services, child care provider grants, provider training and recruitment, and minor remodeling of child care facilities.

What was the purpose of the audit work?

The purpose of the audit work was to determine whether adequate controls exist to ensure that counties spend quality initiative funds on appropriate activities.

What audit work was performed and how were results measured?

We performed limited procedures to determine whether the Department has implemented a recommendation related to county quality initiative spending from our November 2008 *Colorado Child Care Assistance Program Performance Audit*. The 2008 performance audit found that counties did not always comply with applicable federal and state requirements for quality initiative spending. As a result, we recommended that the Department improve its oversight of quality initiative spending for CCCAP by (a) instituting a regular review of a sample of quality initiative transactions from the counties, (b) auditing a \$2.8 million transaction we identified as a potential questioned cost during the audit, (c) requiring counties to institute formal grant processes for distributing quality initiative funds to child care providers and reviewing these processes for appropriateness, (d) ensuring that guidance given to counties about the allowability of types of quality initiative expenditures reflects current Department policy and federal requirements, and (e) clarifying whether administrative expenses and payments for the expenses of other programs, such as Head Start, are appropriate uses of county quality initiative spending and, if so, establishing limits for these expenses.

What problem did the audit work identify?

During our Fiscal Year 2009 audit, we found that the Department had begun to conduct regular reviews of county quality initiative transactions but that the other parts of our 2008 performance audit recommendation had not been fully implemented. During our Fiscal Year 2010 audit, we found that the Department had implemented another part of our 2008 performance audit recommendation but the remaining parts of the recommendation were still not implemented. Specifically, we confirmed that the Department completed an audit of the \$2.8 million transaction that we identified as a potential questioned cost during the 2008 performance audit. The Department also reported that it has drafted, but not yet implemented, an agency letter to require counties to institute formal grant processes for distributing quality initiative funds and the Department to monitor these processes, to clarify the Department's guidance on the allowability of types of quality initiative expenditures so that the guidance reflects current Department policy and federal requirements, and to clarify whether administrative expenses and paying for the expenses of other programs are appropriate uses of county quality initiative spending and establishing limits for these expenses.

Why did the problem occur?

The Department reported that it has not fully implemented our 2008 performance audit recommendation on county quality initiative spending because it has focused on implementing the CHATS replacement system.

During our 2008 performance audit, when we first identified this problem, we found that Department regulations did not require counties to establish formal grant processes for distributing quality initiative funds to child care providers. Also, informal Department guidance to the counties on the allowability of types of quality initiative expenses was more general and vague than the guidance in formal Department policy. Finally, Department policy did not specify whether counties could spend quality initiative funds on administrative expenses or to pay for the expenses of other programs, such as Head Start.

Why does this problem matter?

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

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

Recommendation No. 8:

The Department of Human Services should improve its oversight of quality initiative spending by county departments of human/social services by:

- a. Requiring counties to institute formal grant processes for distributing quality initiative funds to child care providers and reviewing the counties' grant processes to ensure that counties distribute and monitor funds appropriately.
- b. Ensuring that guidance given to counties about the allowability of types of quality initiative expenditures reflects current Department policy and federal requirements.
- c. Clarifying whether administrative expenses and payments for the expenses of other programs like Head Start are appropriate uses of county quality initiative funds and, if so, establishing limits for these expenses.

Department of Human Services Response:

Agree. Implementation date: November 2010.

The Department agrees to require counties to institute formal grant processes for distributing quality initiative funds. The counties will be informed of the required processes through an agency letter, which will include, but not be limited to, Department approval of the grant application prior to release, guidance on allowability of types of quality initiative expenditures, and clarification on the appropriate use of funds to support other programs as well as limitations on administrative expenses.

Title IV-E Foster Care Program Overview

The purpose of the federal Foster Care program (Program) is to help states provide safe and stable out-of-home care for children who have been temporarily removed from their homes. The federal grant provides funds to assist with the costs of foster care maintenance for eligible children, with costs directly related to the administration of the program, and with training costs. The Program (CFDA No. 93.658) was enacted under Title IV-E of the Social Security Act and is overseen at the federal level by the U.S. Department of Health and Human Services. In Colorado the Department oversees the program and the county departments of human/social services determine eligibility. During Fiscal Year 2010 the Department spent a total of approximately \$121.2 million, of which \$61.4 million was federal funds and \$59.8 million was state general funds. Total federal expenditures included approximately \$2.1 million in Recovery Act funds.

Level-of-Care Assessments

The 1994 Child Welfare Settlement Agreement, which resolved a lawsuit filed against the Department for inadequate care of foster children, required the State to use level-of-care tools in determining placements and corresponding rates for foster care. Level-of-care assessment tools allow counties to quantify the service needs of the children they serve and help determine appropriate rates to pay for those services. Typically, rates for children with more intense service needs are higher than rates for children with less intense service needs. Each county uses its own level-of-care assessment tool, as the Department has not developed a statewide tool.

What was the purpose of the audit work?

The purpose of the audit work was to determine whether adequate controls exist to ensure that counties pay appropriate rates for foster care services.

What audit work was performed and how were results measured?

We performed limited procedures to determine whether the Department has implemented a recommendation related to child placement agencies (CPA) expenditures from our September 2007 *Foster Care Financial Activities Performance Audit*. Specifically, we recommended that the Department ensure that county departments of human/social services pay foster care rates that reflect the foster child's level of care and service needs by (a) working with counties to develop and implement a validated, statewide level-of-care assessment tool; (b) updating the Trails system to include fields for recording the child's level of care and requiring counties to include this information in Trails whenever they enter new provider rates; and (c) conducting periodic file reviews at counties and analysis of actual rates paid by counties to ensure they are using level-of-care tools to assist with setting and negotiating appropriate foster care rates.

What problem did the audit work identify?

During our Fiscal Year 2009 audit, we found that the Department engaged a contractor to review level-of-care assessment tools to determine if any could be used in Colorado. The contractor's report, which was dated April 2008, found evidence of validated level-of-care tools used in other states but did not recommend a specific one for use in Colorado. We also found during our Fiscal Year 2009 audit that the Department had not begun periodic file reviews at counties to ensure that the counties are using level-of-care tools consistently.

During our Fiscal Year 2010 audit, the Department reported that it has not made progress in selecting a statewide level-of-care tool because it does not have the

expertise to determine the best tool to use and does not have the funding to hire an outside consultant to help with this determination. The Department also reported that it does not make sense to update Trails, which contains child welfare case information, to include fields for entering a child's level of care until a statewide level-of-care tool exists. We also found that the Department did not implement a monitoring process for ensuring that counties are using level-of-care tools consistently during Fiscal Year 2010.

Why did the problem occur?

During our 2007 performance audit, when we first identified this problem, we found that none of the 10 counties we contacted were using level-of-care tools that had been validated in Colorado. Validated tools improve the consistency and accuracy of assessment results. In addition, the tools used by 9 of the 10 counties did not weight child behaviors or needs that are most likely to drive service intensity. We also found during the 2007 performance audit that the Department did not require counties to enter level-of-care data into Trails and that the Department did not have any monitoring procedures for ensuring that counties are consistently matching assessed levels of care with appropriate rates.

Why does this problem matter?

If counties are not consistently using level-of-care information to determine the rates paid for foster care, counties may pay rates that are not based on the needs of the child, which could lead to overpayments for services provided. In addition, counties may not use their limited child welfare funds strategically to address the differing levels of need of foster children. Without a statewide level-of-care assessment tool, the Department cannot collect valid data for analyzing whether counties are paying rates that reflect the needs of the child or whether counties are paying consistent rates for the same level of services statewide.

(CFDA Nos. 93.658; Foster Care Title IV-E; Allowable Costs/Cost Principles. Classification of Finding: Significant Deficiency.)

Recommendation No. 9:

The Department of Human Services should ensure that county departments of human/social services pay foster care rates that reflect the foster child's level of care and service needs by:

- a. Continuing to work with counties to develop and implement a validated, statewide level-of-care assessment tool.

- b. Updating the Trails system to include fields for recording the child's level of care and requiring counties to include this information in Trails whenever they enter new provider rates.
- c. Conducting periodic file reviews at counties and analysis of actual rates paid by counties to ensure they are using level-of-care tools to assist with setting and negotiating appropriate foster care rates.

Department of Human Services Response:

Disagree. Implementation date: Not applicable.

The Department disagrees with the recommendation. The original response in September 2007 partially agreed, if the Department had resources available. The Department looked at national level of care tools, and it is not feasible to adapt them to Colorado's system. The Department does not have resources available to validate existing tools. There already is a process in place for counties to assess the level of care of children. Pursuant to Section 26-5-104 (2)(a) C.R.S., "a county shall be authorized to negotiate rates, services, and outcomes with providers if the county has a request for proposal process in effect for soliciting bids from providers or another mechanism for evaluating the rates, services and outcomes that it is negotiating with such providers that is acceptable to the state department." If a county chooses not to negotiate with providers, then the county is required to pay the base anchor rates in the State Automated Child Welfare Information System, Trails. The counties that negotiate rates, services, and outcomes with providers utilize a Needs Based Care tool to evaluate a child's needs when placed with a provider. In the event that the State validated a level of care assessment tool for all counties to use, that would negate the intention of the statute authorizing counties to negotiate with providers.

Auditor Addendum

Without a statewide level-of-care assessment tool, the Department cannot collect valid data for analyzing whether counties are paying appropriate and consistent rates for foster care services, thereby ensuring that the Department's limited funds are used most efficiently. Further, a statewide level-of-care assessment tool should aid counties in negotiating appropriate rates with providers.

County Administrative Spending

Counties use block grant allocations from the Department to fund their child welfare services. The Department uses an allocation model to determine each county's allocation. The model relies on eight active cost drivers that capture caseload levels and the associated costs of delivering child welfare services. Cost drivers that measure caseload levels include the rate of child abuse or neglect referrals and number of foster care placements in the county. Cost drivers based on county cost data include the county's average days per year for foster care placements and program services cost per open involvement with a family. Program services include county case management, administrative costs, and case services. For each driver, the model is intended to contain child welfare costs at the county level by establishing a maximum and minimum range of expenditures or services for each county. Counties that are above the maximum of the range for a driver must pay for these extra costs or services with funds other than child welfare block grant money. Counties that are below the low end of the range for a driver are given additional funding under the presumption that they should be providing a minimum level of services.

What was the purpose of the audit work?

The purpose of the audit work was to determine whether the child welfare allocation model apportions funds in a cost-effective and fair manner based on county caseloads.

What audit work was performed and how were results measured?

We performed limited procedures to determine whether the Department has implemented a recommendation related to CPA expenditures from our September 2007 *Foster Care Financial Activities Performance Audit*. Specifically, we recommended that the Department improve information for evaluating county administrative and case management costs in the child welfare allocation model by (a) working with counties to identify and evaluate options for using existing systems to improve information about county administrative and case management costs, and (b) using the improved cost information to analyze administrative and case management costs in the program services cost driver and considering allocating funds for administrative and case management costs in the child welfare allocation model separately. The Department disagreed with part (b) of the recommendation.

What problem did the audit work identify?

During the Fiscal Year 2010 audit, we found that the Department determined that a county workload study would be the best way to obtain improved cost information and has requested the Governor's Child Welfare Action Committee seek funds for the study.

Why did the problem occur?

During our 2007 performance audit, when we first identified this problem, we found that the Department's current systems were not designed to track administrative and case management costs separately for each county. For example, the Department's County Financial Management System (CFMS) captures county-level expenditures but does not break out certain costs by program (e.g., CFMS does not specifically identify "foster care administration costs").

Why does this problem matter?

The Department's inability to separate out administrative and case management costs significantly weakens accountability over the funds allocated to the program services cost driver, which at the time of the 2007 performance audit was increasing at a disproportionate rate. Without a method for separately capturing the administrative and case management costs that make up program services, the Department cannot determine whether the increase in program services costs is a result of increased county administrative costs or of increased case management services provided to families or children.

(CFDA Nos. 93.658; Foster Care Title IV-E; Allowable Costs/Cost Principles. Classification of Finding: Significant Deficiency.)

Recommendation No. 10:

The Department of Human Services should continue to work on identifying and implementing options for improving cost information to evaluate county administrative and case management costs in the child welfare allocation model used in the foster care system.

Department of Human Services Response:

Agree. Implementation date: July 2012.

The Department agrees with the recommendation. The Department of Human Services, Division of Child Welfare, will submit a request for funding during the Fiscal Year 2013 budget process in order for an outside entity to perform a workload study on county functions within Child Welfare. This funding request was discussed and a determination was made by the Department that this request should come from the Child Welfare Action Committee. However due to the budget crisis, no funding requests were submitted for the Division of Child Welfare for next year's appropriations. The earliest a request could be submitted for funding this type of project is next year during June 2011 for Fiscal Year 2013. To date there are no valid methodologies or proxies that can accurately break out case management and county administrative costs into comparable subsets. The Division explored using Random Moment Sampling Codes during 2010 in order to make a valid comparison but was unable to break out costs for administrative functions from case management costs with the current coding within CFMS. Once a workload study has been completed, the percentage of overall administrative functions to that of case management services can be determined. If the funding for the request is not approved by the legislation, the Division will not be able to complete the necessary workload study to determine a percentage of time spent by county workers on administrative functions as compared to case services function.

Child Placement Agency Expenditures

Counties can contract with private child placement agencies (CPAs) to provide foster care services. CPAs use payments from counties to pay foster parents for providing care and to cover the CPAs administrative costs associated with providing this care. Our June 2002 *Foster Care Program Performance Audit* and September 2007 *Foster Care Financial Activities Performance Audit* both identified significant problems with CPA expenditures, such as unreasonable and unallowable expenditures. The federal Office of Management and Budget (OMB) *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* requires non-federal entities, such as CPAs, that expend \$500,000 or more in federal funds annually submit to an annual audit that includes the requirements under OMB *Circular A-133*. The purpose of the audit is to determine if the entity's financial statements are stated fairly, assess the entity's internal controls over financial reporting, and test compliance with federal requirements. OMB *Circular A-133's* audit requirements apply to subrecipients

of federal funds but not to vendors. OMB *Circular A-133* provides criteria for states to use in determining whether an entity is a subrecipient or a vendor. For example, entities that are responsible for programmatic decision-making qualify as subrecipients under OMB *Circular A-133*.

What was the purpose of the audit work?

The purpose of the audit work was to determine whether adequate controls exist to ensure that CPAs appropriately expend federal funds on foster care services.

What audit work was performed and how were results measured?

We performed limited procedures to determine whether the Department has implemented a recommendation related to CPA expenditures from our 2007 performance audit. Specifically, we recommended that the Department improve controls over administrative foster care funds expended by CPAs by (a) evaluating the substance of the relationship between counties and CPAs based on OMB *Circular A-133* criteria and concluding whether CPAs should be considered vendors or subrecipients, including a detailed analysis of how CPAs do or do not meet the criteria of being a vendor or a subrecipient; (b) implementing requirements for audits of CPAs in accordance with the determination suggested in part (a) of the recommendation; (c) establishing procedures to review the CPA audits and follow up on any findings identified; (d) evaluating options for reviewing the allowability and appropriateness of CPA expenditures made with child welfare funds; and (e) including examples of unallowable costs in regulations. The Department disagreed with part (e) of the recommendation during Fiscal Year 2009.

What problem did the audit work identify?

During our Fiscal Year 2009 audit, we concluded that the Department had not fully implemented any part of the 2007 performance audit recommendation. For example, the Department reported that it completed an evaluation of whether CPAs should be considered subrecipients or vendors and determined that vendors were “clearly vendors.” However, the Department’s evaluation of the subrecipient versus vendor designation for CPAs that we reviewed during our Fiscal Year 2009 audit provided no detailed analysis or explanation to show how staff reached the conclusion that CPAs are vendors. During our Fiscal Year 2010 audit, we found that Department management met in February 2010 to discuss the subrecipient vs. vendor designation of CPAs and decided that the Department would not reevaluate its determination to treat CPAs as vendors. The Department was also unable to provide evidence that it is reviewing independent financial audits that certain CPAs must submit to the Department and following up on any findings identified in those audits or that it has evaluated options for reviewing

the allowability and appropriateness of CPA expenditures made with child welfare funds.

Why did the problem occur?

During our 2007 performance audit, we found that the Department had not evaluated the substance of the relationship between counties and CPAs, in terms of whether CPAs are subrecipients or vendors of counties, using OMB *Circular A-133* criteria. We also found that the Department did not have a process for reviewing the independent financial audits being submitted by CPAs or for conducting on-site reviews of CPA expenditures.

Why does this problem matter?

As our June 2002 and September 2007 audits have shown, CPAs present significant risks that they may not spend funds in accordance with federal requirements.

(CFDA Nos. 93.658; Foster Care Title IV-E; Activities Allowed or Unallowed, Allowable Costs/Cost Principles. Classification of Finding: Significant Deficiency.)

Recommendation No. 11:

The Department of Human Services should improve controls over administrative foster care funds expended by child placement agencies (CPAs) by:

- a. Evaluating the substance of the relationship between counties and CPAs based on OMB *Circular A-133* criteria and concluding whether CPAs should be considered vendors or subrecipients. The evaluation should include a detailed analysis of how CPAs do or do not meet the criteria of being a vendor or a subrecipient.
- b. Implementing requirements for audits of CPAs in accordance with the determination suggested in part (a) of the recommendation. If the Department concludes that CPAs are subrecipients, it should develop a process to identify those CPAs with annual expenditures of federal funds of \$500,000 or more and notify those CPAs that they must submit OMB *Circular A-133* audits each year.
- c. Establishing procedures to review the CPA audits and follow up on any findings identified.

- d. Evaluating options for reviewing the allowability and appropriateness of CPA expenditures made with child welfare funds.

Department of Human Services Response:

Disagree. Implementation date: Not applicable.

- a. The Department disagrees with the recommendation. The Department evaluated this relationship and determined that CPAs are to be considered vendors. Since this evaluation has already occurred the Department stands by the original response.
- b. – d. The Department disagrees with the recommendation. Since the Department has determined that CPAs are not subrecipients these audit requirements do not apply.

Auditor Addendum

Parts c. and d. Regardless of whether the Department agrees to reconsider the substance of the relationship between counties and CPAs, it should provide oversight over CPAs by reviewing the financial audits it already collects from the CPAs and consider other options for reviewing the allowability and appropriateness of CPA expenditures made with child welfare funds.

Payments to Foster Parents

Counties sign contracts with CPAs to provide foster care services for some of the children in the county's custody. The contract specifies the services the CPA will provide and the rates the county will pay to the CPA for (1) administrative maintenance—which covers CPA administrative costs, (2) administrative services—which cover the cost of providing direct therapy or other treatments to the foster child, and (3) child maintenance—which covers the costs of raising the foster child. Each month counties authorize and pay the CPAs the agreed-upon child maintenance payment, which is then paid to the CPA-certified foster parent. According to Department regulations, CPAs must pass the full amount of the child maintenance payment to the foster parents who are providing care for the child.

What was the purpose of the audit work?

The purpose of the audit work was to determine whether adequate controls exist to ensure that CPAs are passing along the full child maintenance payment they receive from counties to the appropriate foster parents.

What audit work was performed and how were results measured?

We performed limited procedures to determine whether the Department has implemented a recommendation related to CPA expenditures from our September 2007 *Foster Care Financial Activities Performance Audit*. Specifically, we recommended that the Department ensure that CPAs pass along the correct child maintenance payments received from counties by (a) implementing routine, periodic reviews of the payments made from CPAs to foster parents to ensure that they match the payments received from counties and (b) following up on over- or underpayments to foster parents we identified during the 2007 performance audit to determine why the incorrect payments were made and to require that counties and CPAs rectify all incorrect payments. Our 2007 performance audit found that of the 255 foster parents in our sample, 73 received payments totaling about \$35,000 more than the CPA received from the county, and 45 received payments totaling about \$6,000 less than the CPA received from the county.

What problem did the audit work identify?

During our Fiscal Year 2009 audit, we found that the Department had developed a new monitoring tool to review payments made to foster parents. We also found that the Department had not taken any steps to follow up on the over- and underpayments to foster parents that we identified during the 2007 performance audit. During the Fiscal Year 2010 audit, we found that the Department had not yet begun to use the tool during CPA monitoring visits. The Department had also not taken any steps to follow up on the over- and underpayments to foster parents that we identified during the 2007 performance audit.

Why did the problem occur?

During our 2007 performance audit, we found that the Department had not implemented a recommendation from our June 2002 *Foster Care Program* performance audit that also addressed the issue of foster parent payments. In response to the 2002 recommendation, the Department agreed to randomly sample foster care providers to determine if CPAs are accurately passing along child maintenance payments to their foster parents but had not begun these reviews at the time of our 2007 performance audit. Under federal regulations, the Department is responsible for the proper administration of the State's foster care system.

Why does this problem matter?

Overpayments to foster parents take scarce funds away from other needs in the child welfare system and underpayments affect foster parents' ability to provide quality care to their foster children.

(CFDA Nos. 93.658; Foster Care Title IV-E; Activities Allowed or Unallowed, Allowable Costs/Cost Principles. Classification of Finding: Deficiency in Internal Control.)

Recommendation No. 12:

The Department of Human Services should ensure that child placement agencies (CPAs) pass along the correct child maintenance payments received from county departments of human/social services to foster parents by:

- a. Implementing routine, periodic reviews of the payments made from CPAs to foster parents to ensure that they match the payments received from counties.
- b. Following up on identified over- or underpayments to foster parents to determine why the incorrect payments were made and to require that counties and CPAs to rectify all incorrect payments.

Department of Human Services Response:

Partially agree. Implementation date: Part (a): January 2011. Part (b): Not applicable.

- a. The Department agrees with the recommendation. During each CPA supervisory visit a minimum of 10 percent of the children's files will be reviewed. A section has been added to the monitoring tool to review the maintenance agreement (SS 23B) between the CPA and the county department. This agreement will be compared to the payment being given to the foster parent for the maintenance of the child. Violations will be documented on the Report of Inspection and a performance improvement plan will be implemented.
- b. The Department disagrees with the recommendation. The Division of Child Welfare Services has determined that it would not be cost effective to follow-up on the over/under payments made to foster parents identified during the 2007 audit. The Department has created procedures to ensure that these sorts of incorrect payments are

identified and corrected going forward. Follow up will be in accordance with rule, Section 7.710.22,C,6 (12CCR 2509-8), “Upon receipt of adequate written notice that a county department or the State Department plans to recover or withhold unallowable or misused funds from a CPA, a CPA may file a written request for review of the decision with the State Department.” The current process is for the Division of Child Care (DCC) to notify both the CPA, as well as, the Division Child Welfare Services (DCWS) in order to correct any of these discrepancies or incorrect payments. DCWS will notify the County Departments while DCC is responsible for follow-up with the CPA that are licensed within their jurisdiction.

Adoption Assistance Program Overview

The Adoption Assistance program (Program) provides funds to states to enter into adoption assistance agreements with parents who adopt eligible children. For their health and safety, these children have been removed from their birth parents' care and have special needs or circumstances that would otherwise make them difficult to place in a traditional adoption. The Program (CFDA No. 93.659) is authorized by Title IV-E of the Social Security Act and overseen at the federal level by the U.S. Department of Health and Human Services. In Colorado, the Department administers the program, and counties determine eligibility for adoption subsidies. During Fiscal Year 2010, the Department spent approximately \$39.5 million, of which \$21.2 million was federal funds and \$18.3 was million state general funds. Total federal expenditures included \$1.7 million in Recovery Act funds. On average, families received monthly IV-E Adoption Assistance monies for approximately 7,300 children in Fiscal Year 2010.

Case File Citizenship Documentation

What was the purpose of the audit work?

The purpose of the audit work was to test the Department's compliance with federal and state program eligibility requirements.

What audit work was performed and how were results measured?

We reviewed 60 active case files and applicable supporting documentation, including evidence of U.S. citizenship, to verify adoptive parents' eligibility for IV-E Adoption Assistance. Under Department policy, the program is required to maintain copies of documentation supporting eligibility in the case files. State law also requires that adopting parents complete an affidavit attesting to their U.S. citizenship and provide valid identification, such as a driver's license or a birth certificate.

What problem did the audit work identify?

We found that 27 (45 percent) of the 60 case files lacked copies of the citizenship affidavit, valid identification, or both for the adoptive parents. For these case files, we identified questioned costs of more than \$99,000.¹

Why did the problem occur?

The Department has not conducted adequate monitoring or training of county caseworkers on complying with federal and state citizenship requirements for the IV-E Adoption Assistance program.

During our Fiscal Year 2009 audit we recommended that the Department strengthen its controls over case file documentation. Although the Department made improvements in documenting the citizenship of the adoptive children in the case files, our Fiscal Year 2010 audit continued to note issues with controls over the documentation of the adoptive parents' citizenship.

Why does this problem matter?

Obtaining appropriate documentation to demonstrate that only eligible families are receiving Title IV-E funds is important for the Department to ensure that it is complying with federal and state requirements. Because eligibility determination occurs at the county level, without adequate case file documentation, Department staff cannot ensure that the counties are making appropriate eligibility determinations or recovering costs when errors have been made.

(CFDA No. 93.659; Adoption Assistance (Title IV-E); Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, Subrecipient Monitoring. Classification of Finding: Significant Deficiency.)

¹Total known questioned costs of over \$99,000.

Recommendation No. 13:

The Department of Human Services should further strengthen controls over the Title IV-E Adoption Assistance program by ensuring, through training and monitoring programs, that county caseworkers are aware of all federal and state eligibility requirements and are maintaining all required documentation in the case files.

Department of Human Services Response:

Agree. Implementation date: January 1, 2011.

The Department agrees with the recommendation of the Office of the State Auditor requiring additional training and monitoring for county staff. The Department respectfully disagrees with the factual information related to questioned costs because all adoptive parents in Colorado must provide proof of their identity, citizenship, and the results of fingerprint checks several times during their journey through the foster care and adoption process: 1) at the time of application for foster care, 2) at the time they become adoptive parents for their foster child, 3) at the time that they file their petition for adoption with the district court, and 4) at the time of their adoption hearing.

The application for all foster and adoptive parents in Colorado requires that every applicant complete the affidavit of lawful presence, provide the results of fingerprints through the Colorado Bureau of Investigation and the Federal Bureau of Investigation, and provide a photo ID to the entity to which they are applying.

Auditor Addendum

Because our testwork did not find both the affidavits and photo IDs in 45 percent of the case files we reviewed, the Department cannot demonstrate that the state citizenship requirements have been met for this program. This results in questioned costs for these families.

Vocational Rehabilitation Program Overview

The purpose of the Vocational Rehabilitation program (Program) is to provide vocational rehabilitation services to individuals with disabilities. These services, such as transportation and job training, help program participants prepare for and engage in competitive employment. The Rehabilitation Services Vocational Rehabilitation Grants to States Program (CFDA Nos. 84.126 and 84.390) is authorized by Title I of the Rehabilitation Act, and overseen at the federal level by the U.S. Department of Education. In Colorado, the Department administers the Program, while the Department's Colorado Division of Vocational Rehabilitation (Division) determines applicants' eligibility. Counselors located in Division field offices throughout the state perform the eligibility determinations. During the Fiscal Year 2010, the Program spent a total of approximately \$37 million, approximately \$33 million of which was federal funds and \$4 million was state general funds. Total federal expenditures included approximately \$3.2 million in Recovery Act funds. Services were provided to approximately 18,000 individuals during Fiscal Year 2010.

Case File Documentation and Timely Processing

What was the purpose of the audit work?

The purpose of the audit work was to assess the Department's compliance with federal and state Program eligibility requirements and the Department's controls over eligibility determination.

What audit work was performed and how were results measured?

We reviewed 52 active case files and the associated supporting documentation to verify participants' eligibility for vocational rehabilitation services. Under federal law and Department policy, counselors are required to maintain, in the case files, documentation that supports the participants' Program eligibility. Required documentation includes documentation of the participant's initial eligibility determination date, verification that the participant's disability results in a substantial impediment to employment, and the counselor's initial and annual analysis of the participant's vocational rehabilitation needs. Further, counselors are required to meet specific timelines for determining eligibility and completing agreements outlining the client's vocational rehabilitation needs.

What problem did the audit work identify?

We identified issues in two areas. First, the required documentation was absent or incomplete in 22 cases (42 percent). Second, the client's application process was not completed timely in 12 cases (23 percent). We found at least one error in 28 (54 percent) of the 52 cases we reviewed. For example:

- Five case files lacked evidence of the required annual review of the client's progress and continued ability to participate in the program.
- Seven case files lacked an analysis of the participant's needs.
- Six cases files showed that eligibility was not determined within 60 days of the application date, and the required documentation to extend this timeline beyond the 60 days was not included in the case file. Eligibility was subsequently determined appropriately but ranged from 19 days to more than a year later, after the initial 60-day requirement.
- Six cases files showed the agreement outlining the client's vocational rehabilitation needs was not completed within 120 days of the date the client was determined eligible. The agreements were subsequently

documented, but completion dates ranged from 11 days to nearly 10 months beyond the initial 120 days.

Although case file documentation errors were identified, the missing documentation did not result in inappropriate eligibility determinations. The case files in question did contain other documentation necessary to accurately determine the clients eligible for Vocational Rehabilitation services.

Why did the problem occur?

The Department has not ensured, through training and monitoring, that field counselors understand and are complying with federal and state documentation and timeliness requirements for the Vocational Rehabilitation program.

Why does this problem matter?

Accurate and complete documentation, as well as timely determinations are important to demonstrate the Program's compliance with federal and state requirements. Further, accurate and complete documentation is crucial to the Department's ability to ensure, through monitoring, that field office counselors have made appropriate eligibility determinations, that determinations are being made in a timely manner, that appropriate services are being delivered, and that individuals with valid disabilities are not mistakenly determined to be ineligible. Timely determinations are further important to ensure that qualifying individuals are served in a timely manner.

Although we did not identify documentation problems that affected eligibility, errors in case file documentation can result in inappropriate eligibility determinations and an outcome that could result in the inappropriate expenditure of federal grant monies.

(CFDA Nos. 84.126 and 84.390; Rehabilitation Services Vocational Rehabilitation Grants to States, Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act; Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, Subrecipient Monitoring. Classification of Finding: Significant Deficiency.)

Recommendation No. 14:

The Department of Human Services should strengthen controls over the Vocational Rehabilitation program by ensuring, through training and monitoring, that counselors comply with federal and state documentation requirements,

maintain all required documentation in the case files, and determine eligibility within the time frames outlined in regulations.

Department of Human Services Response:

Agree. Implementation date: Ongoing and with AWARE implementation beginning April 2011.

The Division of Vocational Rehabilitation (DVR) engages in continuous and rigorous review of programming and associated case service file documentation on a monthly and annual basis. Documentation required to comply with state and federal regulations, especially around eligibility, is regularly reviewed as part of this process, as are other types of documentation that demonstrate high-quality service delivery. Results of DVR's comprehensive case reviews will continue to be shared with both responsible supervisors as well as counselors responsible for maintaining the case files. DVR leadership will continue to improve this process and ensure that review results are translated into appropriate action and relevant training to ensure timely documentation and improve outcomes experienced by our consumers. Of note, no documentation problems were identified in the audit that resulted in inappropriate eligibility determinations.

Base implementation of a new, agency-wide electronic case management system (AWARE) is scheduled for April 2011, with full implementation by September 2011. This system incorporates "ticklers," or timely reminders, to counselors of necessary documentation activities. The system will have edits that do not allow certain case activities to occur without ensuring that proper documentation has been completed, thus increasing quality and timeliness of case documentation.

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Appendix

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APPENDIX A

FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirements / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
1	17	Improve controls over its federal program reporting by training program and accounting staff and supervisors on the procedures necessary to meet requirements for filing complete, accurate, and timely federal reports. This should include training supervisors on procedures for performing an appropriate review prior to submission.	84.126, 84.390, 93.659 (L) ED, HHS	Agree	Implemented	Richard Taylor (303) 866-2732 Nancy Smith (303) 866-4905
2	22	Improve controls over its flexplace program by (a) designating one division or manager to centrally track the Department's flexplace arrangements and costs, as well as ensuring the program functions consistently across the Department; (b) ensuring the Department of Personnel & Administration's (DPA) flexplace policy is consistently followed, including the proper use of DPA flexplace application and agreement forms; and (c) training approving officials at the division and program levels on their responsibilities for implementing flexplace policies and monitoring staff who participate in flexplace. The training should included requirements for approving and signing of flexplace applications and arrangements, the types of expenses to be covered and what State property will be used offsite, and how protected and confidential data is to be safeguarded.	93.575, 93.596, 93.713, 93.658 (A)(B) HHS	a. Partially Agree b. Agree c. Agree	1/2011	Brad Mallon (303) 866-4700
3	27	Resume routine monitoring of county departments of human/social services for the Child Care Development Fund to ensure that the counties are correctly calculating parental fees and are charging only allowable costs to the federal CCDF grant.	93.575, 93.596, 93.713 (A)(B)(E)(M) HHS	Agree	1/2001	Leslie Bulicz (303) 866-4556

FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

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4	29	Improve controls related to manual overrides of Colorado Child Care Assistance Program eligibility determinations within the Child Care Automated Tracking System (CHATS) by (a) completing the drafting and implementation of rules governing the acceptable reasons for overrides and documentation required at the counties to support them; (b) requiring that counties establish supervisory review and approval for all overrides; (c) ensuring that county case managers and supervisors are adequately trained in proper procedures for overrides; and (d) building automatic supervisory review, approval, and reporting capabilities into the CHATS replacement system.	93.575, 93.713 (A)(B)(E)(M) HHS	Agree	3/2011	Leslie Bulicz (303) 866-4556
5	32	Ensure that county departments of human/social services properly authorize child care for Colorado Child Care Assistance Program (CCCAP) participants by (a) completing the drafting and implementation of rules clarifying that counties shall only authorize the amount of child care needed by CCCAP families based on their schedule of eligible activities; (b) working with counties to improve the counties' internal control systems, such as requiring all counties to conduct monthly CCCAP case file reviews that identify errors in their case management and the causes behind those errors and require corrective actions to prevent future errors; (c) improving the monitoring of the counties' CCCAP operations by revising its county case file review process to include developing a risk-based approach that reviews those counties that manage larger CCCAP caseloads and determines why counties make errors, such as improperly authorizing CCCAP care or miscalculating an applicant's income, and whether counties have adequate CCCAP internal control systems in place; and (d) requiring that counties submit corrective action plans to address problems identified in part (c) and following up on these plans as appropriate.	93.575, 93.713 (A)(B)(E)(M) HHS	Agree	3/2011	Leslie Bulicz (303) 866-4556

FEDERAL SINGLE AUDIT RECOMMENDATION LOCATOR

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6	35	Improve county departments of human/social services' reviews of Colorado Child Care Assistance Program provider attendance records by (a) verifying that counties are conducting the reviews in accordance with Department regulations during the Department's monitoring reviews, (b) providing guidance to the counties on how to select samples of providers' attendance sheets for reviews, and (c) revising Department regulations to require that counties implement a risk-based approach for conducting reviews. Counties should continue to include a random element to ensure that all providers have a chance of being selected.	93.575, 93.713 (A)(B)(M) HHS	Agree	3/2011	Leslie Bulicz (303) 866-4556
7	38	Improve its oversight of county-owned child care centers to ensure an arm's-length bargaining relationship between counties and their county-owned providers by reviewing and approving all rates negotiated between county departments of human/social services and their county-owned child care centers.	93.575, 93.713 (A)(B)(M) HHS	Agree	11/2010	Leslie Bulicz (303) 866-4556
8	40	Improve its oversight of quality initiative spending by county departments of human/social services by (a) requiring counties to institute formal grant processes for distributing quality initiative funds to child care providers and reviewing the counties' grant processes to ensure that counties distribute and monitor funds appropriately; (b) ensuring that guidance given to counties about the allowability of types of quality initiative expenditures reflects current Department policy and federal requirements; and (c) clarifying whether administrative expenses and payment of the expenses of other programs like Head Start are appropriate uses of county quality initiative funds and, if so, establishing limits for these expenses.	93.575, 93.713 (A)(B)(M) HHS	Agree	11/2010	Leslie Bulicz (303) 866-4556

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Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirements / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
9	44	Ensure that county departments of human/social services pay foster care rates that reflect the foster child's level of care needs by (a) continuing to work with counties to develop and implement a validated, statewide level-care-care assessment tool; (b) updating the Trails system to include fields for recording the child's level of care and requiring counties to include this information in Trails whenever they enter new provider rates; and (c) conducting periodic file reviews at counties and analysis of actual rates paid by counties to ensure they are using level-of-care tools to assist with setting and negotiating appropriate foster care rates.	93.658 (B) HHS	Disagree	Not Applicable	Lloyd Malone (303) 866-4365
10	47	Continue to work on identifying and implementing options for improving cost information to evaluate county administrative and case management costs in the child welfare allocation model used in the foster care system	93.658 (B) HHS	Agree	7/2012	Lloyd Malone (303) 866-4365
11	50	Improve controls over administrative foster care funds expended by child placement agencies (CPAs) by (a) evaluating the substance of the relationship between counties and CPAs based on OMB Circular A-133 criteria and concluding whether CPAs should be considered vendors or subrecipients, (b) implementing requirements for audits of CPAs in accordance with the determination suggested in part (a) of the recommendation, (c) establishing procedures to review the CPA audits and follow up on any findings identified, and (d) evaluating options for reviewing the allowability and appropriateness of CPA expenditures made with child welfare funds.	93.658 (B) HHS	Disagree	Not Applicable	Lloyd Malone (303) 866-4365

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Rec. No.	Page No.	Recommendation Summary	CFDA No. / Compliance Requirements / Federal Entity	Agency Response	Implementation Date	Contact for Corrective Action Plan
12	53	Ensure that child placement agencies (CPAs) pass along the correct child maintenance payments received from county departments of human/social services to foster parents by (a) implementing routine, periodic reviews of the payments made from CPAs to foster parents to ensure that they match the payments received from counties and (b) following up on identified over- or underpayments to foster parents to determine why the incorrect payments were made and to require that counties and CPAs to rectify all incorrect payments.	93.658 (B) HHS	Partially Agree	1/2011	Lloyd Malone (303) 866-4365
13	57	Further strengthen controls over the Title IV-E Adoption Assistance program by ensuring, through training and monitoring programs, that county caseworkers are aware of all federal and state eligibility requirements and are maintaining all required documentation in the case file.	93.659 (A)(B)(E)(M) HHS	Agree	1/2011	Lloyd Malone (303) 866-4365
14	60	Strengthen controls over the Vocational Rehabilitation program by ensuring, through training and monitoring, that counselors comply with federal and state documentation requirements, maintain all required documentation in the case files, and determine eligibility within the time frames outlined in regulations.	84.126, 84.390 (A)(B)(E)(M) ED	Agree	Ongoing and with AWARE implementation beginning 4/2011	Nancy Smith (303) 866-4905

Compliance Requirements

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

Federal Entities

- ED – Department of Education
- HHS – Department of Health and Human Services

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