

**Amendment 35 Tobacco Tax Funded
Grant Programs**

**Department of Public Health
and Environment**

**Performance Audit
July 2012**



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Office of the State Auditor

Dianne E. Ray, CPA
State Auditor

July 26, 2012

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the Department of Public Health and Environment's Tobacco Education, Prevention, and Cessation Program and Cancer, Cardiovascular Disease, and Chronic Pulmonary Disease Prevention, Early Detection, and Treatment 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 Public Health and Environment.

A handwritten signature in black ink, appearing to read "Dianne E. Ray".



We Set the Standard for Good Government

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Glossary of Terms and Abbreviations

A-133 Audit – An audit required by Circular A-133 of the Single Audit Act of 1984

Board of Health – The State Board of Health

CCPD – The Cancer, Cardiovascular Disease, and Chronic Pulmonary Disease Prevention, Early Detection, and Treatment Program

CCPD Review Committee – The Cancer, Cardiovascular Disease, and Chronic Pulmonary Disease Program Review Committee

COFRS – The Colorado Financial Reporting System

Department – The Department of Public Health and Environment

FTE – Full-time-equivalent staff

GAAS Audit – An audit performed under Generally Accepted Audit Standards

Tobacco Prevention Strategic Plan – The Colorado Tobacco Prevention and Control Strategic Plan

Tobacco Prevention Program – The Tobacco Education, Prevention, and Cessation Program

Tobacco Prevention Review Committee – The Tobacco Education, Prevention, and Cessation Program Review Committee



AMENDMENT 35 TOBACCO TAX FUNDED GRANT PROGRAMS

Performance Audit, July 2012 Report Highlights



Dianne E. Ray, CPA
State Auditor

Department of Public Health and Environment

PURPOSE

Evaluate grant-making processes and determine whether grant monies funded with Amendment 35 tobacco tax revenues are being used for their intended purposes.

BACKGROUND

- In Fiscal Year 2005, Amendment 35 raised the tax per package of cigarettes to \$0.84 and increased the tax on all other tobacco products to 40 percent of the manufacturer's list price. In Fiscal Year 2011, the State collected about \$145 million in Amendment 35 tobacco taxes.
- Statute requires that 16 percent of Amendment 35 tobacco tax revenues be used to fund school, community-based, and statewide tobacco education programs to reduce initiation of tobacco use by children and youth, promote cessation of tobacco use, and reduce exposure to secondhand smoke.
- Another 16 percent of Amendment 35 tobacco tax revenues are to be used to fund the prevention, early detection, and treatment of cancer, cardiovascular disease, and chronic pulmonary disease.

OUR RECOMMENDATIONS

The Department should:

- Seek an Attorney General's opinion on whether statute and the State Constitution allow the Tobacco Prevention Program to use grants to fund policy initiatives to help pass local laws and ordinances prohibiting smoking.
- Improve processes for assessing the risk and capacity of grant applicants.
- Implement internal controls to ensure grant contracts are accurate and complete.
- Strengthen procedures for ensuring grantee reimbursements are allowable and comply with grant contracts.
- Improve data management.

The Department disagreed with the first recommendation and agreed with the other recommendations.

AUDIT CONCERN

The Department should ensure its grants for the Tobacco Education, Prevention, and Cessation (Tobacco Prevention) Program and the Cancer, Cardiovascular Disease, and Chronic Pulmonary Disease Prevention, Early Detection, and Treatment (CCPD) Program comply with Colorado constitutional and statutory requirements, and improve its processes for selecting, managing, and tracking grants.

KEY FACTS AND FINDINGS

- In Fiscal Years 2010 and 2011, the Tobacco Prevention Program awarded 140 grantees a total of about \$5.2 million in funding to conduct policy initiatives to help pass local government laws and organizational policies related to tobacco use, such as prohibiting smoking in areas not banned by Colorado's Clean Indoor Air Act. It is unclear whether the State Constitution and statute allow these grant funds to be used to fund policy initiatives.
- The Tobacco Prevention and CCPD Programs awarded grants without sufficient consideration of applicants' past performance or financial risk. For example, one grantee in our sample was approved for continued grant funding although it had been issued an order to stop work on a previous grant due to performance problems.
- The Department's financial risk assessment tool includes rating factors that appear to conflict and may not accurately capture risk. The Department also does not conduct financial risk assessments on all applicants and grantees.
- We found problems with the accuracy and completeness of the contracts for nine out of 17 sampled grantees. Errors included budgets for timeframes that exceeded the contract period, budget miscalculations, and missing budget information. These errors resulted in the State overpaying grantees a total of about \$8,400.
- We identified questionable grant reimbursements for nine out of 17 sampled grantees totaling about \$69,500 (about 3 percent) out of the \$2.3 million in reimbursements we reviewed in Fiscal Years 2010 and 2011. Most reimbursements we reviewed were paid without proof of how the funds were used.
- The Department does not maintain a comprehensive, accurate database of grant information. For 57 out of the 211 grants in Fiscal Years 2010 and 2011, the information provided by the Department included errors such as incorrect entities that received grants, incorrect expenditure amounts, and incorrect grant award amounts.

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RECOMMENDATION LOCATOR
Agency Addressed: Department of Public Health and Environment

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	23	Seek a written Attorney General opinion on whether awarding Tobacco Prevention Program grant funds for policy initiatives complies with the intent of the State Constitution and statute. If these initiatives are determined to be outside the scope of the Constitution and statute, the Department should either discontinue its practice of funding policy initiatives or work with the General Assembly to seek the statutory authority to use grant funds for this purpose.	Disagree	-
2	30	Improve the process for assessing the risk and capacity of grant applicants during the grant selection process for the Tobacco Prevention and CCPD Programs by: (a) adopting Review Committee policies and processes for assessing grant applicants' past performance and financial capacity to administer grants, discussing grantee performance in Committee meetings, and providing training on the policies and procedures to Committee members and applicable Department staff; (b) providing the financial risk questionnaires and assessments to the Review Committees; and (c) reporting to the Review Committees information on grantee performance.	Agree	a. January 2013 b. July 2012 c. June 2013
3	39	Improve processes for assessing the financial risk of applicants for the Tobacco Prevention and CCPD Programs' grants by: (a) revising the financial risk assessment factors and points assigned to each based on the concerns identified in this audit and revising the financial risk questionnaire to ensure it collects adequate information needed to conduct the assessment; and (b) ensuring there is a process for assessing the financial risk of all applicants and periodically reassessing the financial risk of grantees whose grants are renewed.	Agree	a. July 2013 b. May 2013
4	43	Implement internal controls to ensure grant contracts for the Tobacco Prevention and CCPD Programs comply with the State Procurement Manual and the Department's <i>Guide to Best Practices in Contract Management</i> by: (a) improving contract drafting and review policies and procedures to ensure contracts accurately reflect the contract period and are reviewed by fiscal staff for completeness and accuracy; and (b) providing written guidance and training to applicable staff on the policies and procedures developed in part a., including processes for ensuring contracts are accurate and complete before they are executed.	Agree	a. June 2013 b. June 2013

RECOMMENDATION LOCATOR
Agency Addressed: Department of Public Health and Environment

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
5	52	Strengthen procedures for ensuring reimbursements paid to the Tobacco Prevention and CCPD Programs' grantees are allowable direct cost reimbursements that comply with grant contracts by: (a) implementing written policies and procedures for reviewing supporting documentation for a sample of reimbursements at least quarterly, based on the risk assessments, and revising contract language accordingly; and (b) conducting periodic desk reviews and site visits including at least one review or visit to grantees during the first 2 years of their grant and random reviews of other grantees annually.	Agree	a. May 2013 b. January 2013
6	57	Improve tracking of grant data for the Tobacco Prevention and CCPD Programs by: (a) ensuring the implemented automated system captures the data necessary to facilitate analysis and reporting on grants; and (b) reconciling grant information in the automated system, hard-copy grant files, and COFRS on a periodic basis, and strengthening controls over hard copy grant file documentation.	Agree	a. July 2013 b. January 2013

Overview of Tobacco Tax Funded Grant Programs

Chapter 1

Colorado implemented a tax on the sale of cigarettes in 1964 (Section 39-28-103, C.R.S.) and a tax on other tobacco products, such as cigars, pipe tobacco, and chewing tobacco, in 1986 (Section 39-28.5-102, C.R.S.). These taxes are collectively referred to as the “tobacco tax” in this report. The most recent increase in the tobacco tax rates became effective in 2005, when Colorado voters approved a citizen-initiated amendment to the State Constitution, Amendment 35 (art. X, sec. 21). The table below shows the changes in Colorado’s tobacco tax rates from 1964 to the most recent increase in 2005.

Historical Changes in Colorado Tobacco Tax Rates Fiscal Years 1964 Through 2005	
Effective Year of Rate Increase	Cumulative Tobacco Tax Rate
1964	<ul style="list-style-type: none"> • 3 cents per pack of cigarettes
1973	<ul style="list-style-type: none"> • 10 cents per pack of cigarettes
1986	<ul style="list-style-type: none"> • 20 cents per pack of cigarettes • 20 percent of the manufacturer’s list price on all other tobacco products
2005	<ul style="list-style-type: none"> • 84 cents per pack of cigarettes • 40 percent of the manufacturer’s list price on all other tobacco products
Source: Office of the State Auditor’s analysis of tobacco taxes in the Colorado Constitution and Colorado Revised Statutes.	

Amendment 35

Colorado voters approved Amendment 35 during a period when many other states were raising taxes on cigarettes and other tobacco products. Between 2002 and 2005, a total of 41 states, including Colorado, increased taxes on cigarettes and other tobacco products. The authors of Amendment 35 [art. X, sec. 21(1)] included the following declaration explaining the purpose of tobacco taxes:

- Tobacco addiction is the leading cause of preventable death in Colorado.
- Colorado should deter children and youth from starting smoking.
- Tobacco taxes are effective at preventing and reducing tobacco use among children and youth.
- Tobacco tax revenues will be used to expand health care for children and low-income populations, tobacco education programs, and the prevention and treatment of cancer and heart and lung disease.

In Fiscal Year 2011, the State collected about \$145 million in tobacco taxes from Amendment 35. The tax revenue generated by Amendment 35 is primarily used by the State to fund public health care programs, tobacco education and cessation programs, and the prevention and early detection of cancer, cardiovascular disease, and pulmonary disease. The State Constitution [art. X, sec. 21(5)] requires that revenues from Amendment 35 tobacco taxes be distributed annually for the purposes shown in the following table.

Amendment 35 Tobacco Tax Revenue Distributions As of July 2012		
Percentage of Tax Revenue	Recipient	Purpose of Distribution
46%	Department of Health Care Policy and Financing	To increase enrollment of children and pregnant women and expand eligibility of low-income adults and children who receive medical care through the Children's Basic Health Plan
19%	Department of Health Care Policy and Financing	To fund primary care through community health centers and providers that primarily serve uninsured or medically indigent patients
16%	Department of Public Health and Environment	To fund school, community-based, and statewide tobacco education programs ¹ to reduce initiation of tobacco use by children and youth, promote cessation of tobacco use among youth and adults, and reduce exposure to secondhand smoke
16%	Department of Public Health and Environment	To fund the prevention, early detection, and treatment ² of cancer, cardiovascular disease, and chronic pulmonary disease
3%	General Fund, Old Age Pension Fund, and municipal and county governments	For health-related purposes to compensate for tax revenue reductions attributable to lower cigarette and tobacco product sales
Source: Office of the State Auditor's analysis of the Colorado Constitution.		
¹ Distributions fund the Tobacco Education, Prevention, and Cessation Program.		
² Distributions fund the Cancer, Cardiovascular Disease, and Chronic Pulmonary Disease Prevention, Early Detection, and Treatment Program.		

The State Constitution [art. X, sec. 21(7)] also allows funds to be redirected to any health-related purpose and to serve enrollees in the Children's Basic Health Plan and Medicaid if the General Assembly adopts a joint resolution declaring a state fiscal emergency. The General Assembly and Governor declared fiscal emergencies and redirected a portion of Amendment 35 tobacco tax revenue in Fiscal Years 2010 through 2012. Most of the redirected funds were appropriated to the Department of Health Policy and Financing to support the Children's Basic Health Plan and Medicaid.

This audit focused on two grant programs administered by the Department of Public Health and Environment (the Department), highlighted in the previous table, that receive tobacco tax distributions: the Tobacco Education, Prevention, and Cessation Program (the Tobacco Prevention Program) and Cancer, Cardiovascular Disease, and Chronic Pulmonary Disease Prevention, Early Detection, and Treatment Program (the CCPD Program). These two grant programs are described below.

Department of Public Health and Environment

The Department is responsible for protecting and preserving the health and environment of Colorado through 11 divisions that carry out a variety of administrative, health, and environmental programs. Statute (Sections 25-20.5-103 and 104, C.R.S.) designates the Prevention Services Division (the Division), within the Department, as a Type 2 entity with the authority to administer and provide advice and input on the administration of a wide range of health promotion and disease and injury prevention programs, including the Tobacco Prevention and CCPD Programs. The Division is overseen by a Director, who is appointed by the Department's Executive Director. In Fiscal Year 2012, the Department was appropriated about \$6.5 million for the Tobacco Prevention Program and about \$4.2 million for the CCPD Program; each program has been appropriated 8.5 full-time-equivalent (FTE) staff.

State Board of Health

The General Assembly created the State Board of Health (Board of Health) as a Type 1 entity with responsibilities and authority for developing and enforcing public health laws, standards, rules, and regulations [Section 24-1-119(2), C.R.S.]. The Board of Health develops rules for the Tobacco Prevention and CCPD Programs. The Board of Health is composed of nine members appointed by the Governor and confirmed by the Colorado Senate for four-year terms. One member represents each of the State's seven congressional districts; two members are from the state at large; no more than five members can be from the same political party; and at least one member must be a county commissioner.

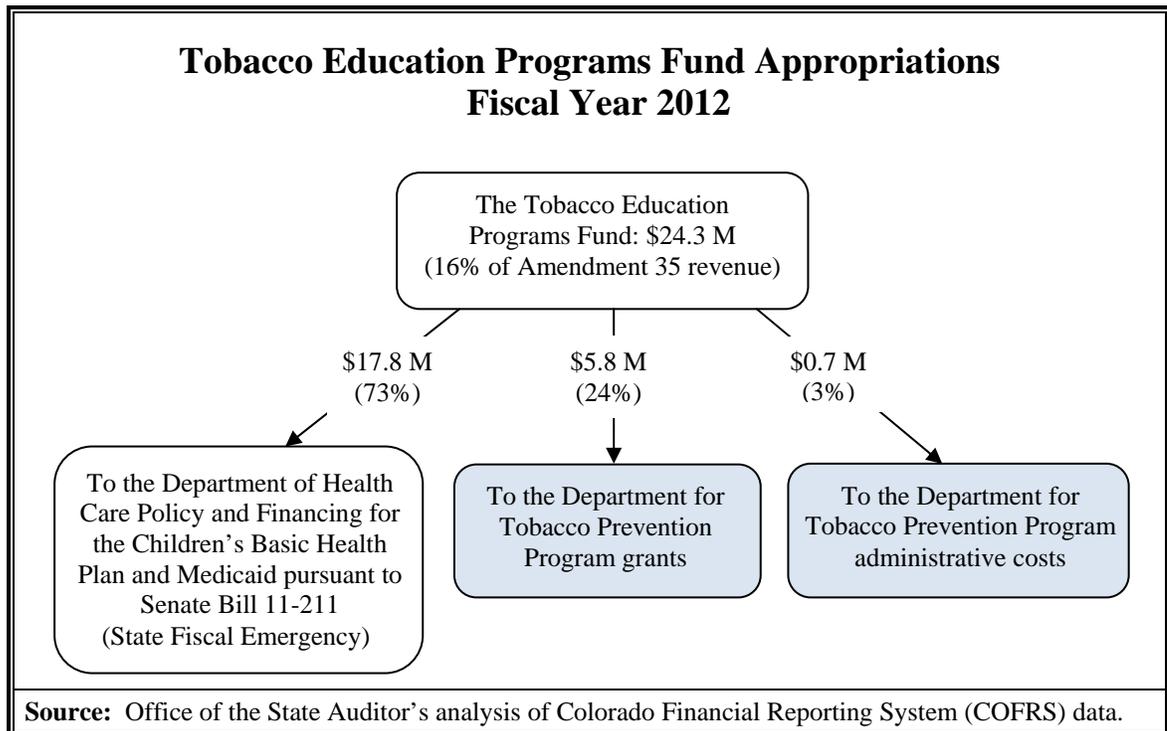
Tobacco Education, Prevention, and Cessation Program

In 2000, the General Assembly established the Tobacco Prevention Program to “provide funding for community-based and statewide tobacco education programs designed to reduce initiation of tobacco use by children and youth, promote cessation of tobacco use among youth and adults, and reduce exposure to secondhand smoke” (Section 25-3.5-804, C.R.S.). According to statute (Section 25-3.5-803, C.R.S.), entities eligible to receive Tobacco Prevention Program grants include local government health and social service departments, state agencies, higher education teacher programs, schools and school districts, and non-profit organizations. For-profit organizations are allowed to receive grants solely to provide statewide public information campaigns related to tobacco prevention and cessation. The following table outlines the purposes for which the Tobacco Prevention Program grant funds must be used.

Tobacco Education, Prevention, and Cessation Program Statutory Annual Grant Funding Requirements As of July 2012	
Percentage of Grant Funding	Purpose of the Grant Funds
At least 33% [*]	To entities that provide tobacco education, prevention, and cessation programs to school-age children [Section 25-3.5-804(3), C.R.S.]
At least 15%	To eliminate health disparities among minority populations and high-risk populations that have higher than average tobacco burdens [Section 25-3.5-805(4), C.R.S.]
Up to 15%	For grantees of the Tony Grampsas Youth Services Program for proven tobacco prevention and cessation programs [Section 25-3.5-805(5), C.R.S.]
Overall, the majority of all funds awarded through this program must be used for evidence-based programs that prevent and reduce tobacco use among youth and young adults [Section 25-3.5-805(6), C.R.S.]	
Source: Office of the State Auditor’s analysis of the Colorado Revised Statutes. [*] Statute specifies “at least one-third” of funds shall be awarded for this purpose.	

Tobacco Prevention Program Appropriations and Expenditures

From 2000 to 2005, the Tobacco Prevention Program was funded by revenue the State received from the Tobacco Master Settlement Agreement, which is a 1998 legal agreement between 46 states and the four largest tobacco product manufacturers to settle lawsuits against the manufacturers for recovery of the states' tobacco-related health care costs. Effective June 2005, the Tobacco Prevention Program began receiving funding from Amendment 35, which dedicates 16 percent of tobacco tax revenue for tobacco prevention and cessation efforts; these monies are distributed to the Tobacco Education Programs Fund [Section 24-22-117(2)(c), C.R.S.]. Statute (Section 25-3.5-808, C.R.S.) also specifies that the Department may receive up to 5 percent of the total monies annually appropriated to the Tobacco Education Programs Fund for administrative costs associated with the Tobacco Prevention Program. In Fiscal Year 2012, the Tobacco Prevention Program was appropriated about \$5.8 million for grants and about \$700,000 for administrative costs, as shown in the following chart.



Examples of activities funded by Tobacco Prevention Program grants include initiatives to pass more-restrictive local government laws related to secondhand smoke, tobacco education and cessation programs in schools, Colorado's toll-free telephone quit line, and media campaigns to promote cessation. The following

table provides the number and dollar amounts of grants made by the Tobacco Prevention Program, as well as program administrative expenditures, for Fiscal Years 2007 through 2011.

Tobacco Education, Prevention, and Cessation Program Grant Awards and Expenditures (Dollars in Millions) Fiscal Years 2007 Through 2011						
	2007	2008	2009	2010	2011	Percent Change
Number of Grants Awarded	130	105	96	64	81	-38%
Grant Awards Spent by Grantees	\$34.6	\$25.4	\$26.9	\$9.3*	\$6.5*	-81%
Program Administrative Expenses	\$ 0.91	\$ 0.90	\$ 0.93	\$0.57*	\$0.79*	-13%
Total Program Expenditures	\$35.5	\$26.3	\$27.8	\$9.9	\$7.3	-80%
Source: Office of the State Auditor's analysis of Department of Public Health and Environment data and Colorado Financial Reporting System (COFRS) data.						
* Grant awards and the Tobacco Prevention Program's administrative costs appropriation were reduced during Fiscal Years 2010 and 2011 due to the declaration of state fiscal emergencies.						

According to statute (Section 24-22-117, C.R.S.), any funds not expended by the Tobacco Prevention Program in a fiscal year are retained in the Tobacco Education Program Fund for use in subsequent years but must be annually appropriated by the General Assembly.

Tobacco Prevention Review Committee

Effective June 2005, statute (Section 25-3.5-804, C.R.S.) created the Tobacco Education, Prevention, and Cessation Program Review Committee (Tobacco Prevention Review Committee) to review applications for grants and make recommendations on grantees, grant amounts, and the duration of grants to the Board of Health for final decision. Statute (Sections 25-3.5-804 and 805, C.R.S.) requires both the Tobacco Prevention Review Committee and Board of Health to establish criteria for funding grants that will ensure implementation of the Tobacco Prevention Program that is consistent with statute and Colorado's Tobacco Prevention and Control Strategic Plan (Tobacco Prevention Strategic Plan). The Tobacco Prevention Review Committee consists of 16 members: five Department staff appointed by the Executive Director, the Division Director, eight individuals appointed by the Board of Health (including one Board member), and two members of the General Assembly who are appointed by legislative leadership.

Cancer, Cardiovascular Disease, and Chronic Pulmonary Disease Prevention, Early Detection, and Treatment Program

Effective June 2005, the General Assembly created the CCPD Program (Section 25-20.5-302, C.R.S.) to fund competitive grants with the goal of developing a comprehensive approach to impact cancer, cardiovascular disease, and chronic pulmonary disease. According to statute (Section 25-20.5-302, C.R.S.), grants for the CCPD Program shall meet at least one of the following criteria:

- Provide evidence-based strategies for the prevention and early detection of cancer, cardiovascular disease, and chronic pulmonary disease in healthcare, workplace, and community settings
- Provide diagnosis and treatment services for anyone who has abnormalities discovered in screening and early detection programs
- Implement education programs for the public and health care providers regarding cancer, cardiovascular disease, and chronic pulmonary disease
- Provide evidence-based strategies to overcome health disparities in the prevention and early detection of cancer, cardiovascular disease, and chronic pulmonary disease

Unlike the Tobacco Prevention Program, statutes and CCPD Program rules do not specify the entities that are eligible to receive CCPD Program grants, other than requiring that applicants have the capacity to administer the grants and assist with implementing the State's strategic plans for diseases, such as cancer and asthma, and national guidelines, such as those established by the Centers for Disease Control and Prevention for cancer screenings.

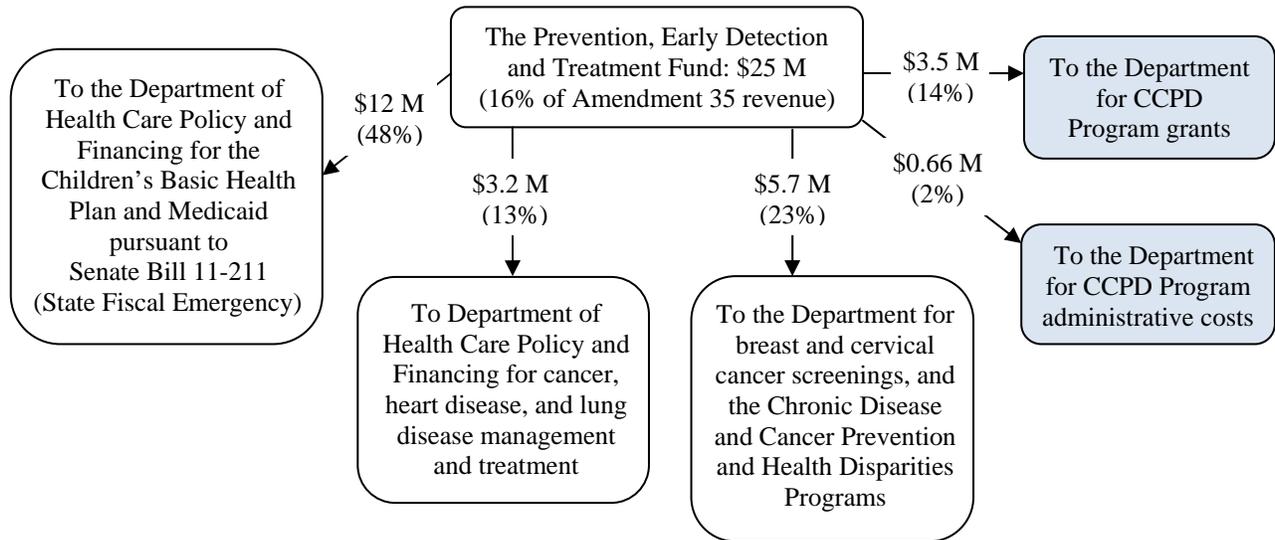
Statute [Section 25-20.5-304(2), C.R.S.] includes provisions for awarding CCPD Program grants for specific purposes, as shown in the following table.

Cancer, Cardiovascular Disease, and Chronic Pulmonary Disease Prevention, Early Detection, and Treatment Program Statutory Annual Grant Funding Requirements As of July 2012	
Percentage of Grant Funding	Purpose of the Grant Funds
At least 10%	To each of the following disease areas: cancer, cardiovascular disease, and chronic pulmonary disease [Section 25-20.5-304(4), C.R.S.]
At least 10%	To projects impacting rural areas as part of the Governor's Rural Healthcare Initiative [Section 25-20.5-304(4), C.R.S.]
A maximum of 10%	For treatment services [Section 25-20.5-304(2), C.R.S.]
Source: Office of the State Auditor's analysis of the Colorado Revised Statutes.	

CCPD Program Appropriations and Expenditures

The CCPD Program receives its funding from Amendment 35 tobacco tax revenue, 16 percent of which is dedicated for the prevention, screening, and treatment of cancer, cardiovascular disease, and pulmonary disease [Colorado Constitution, art. X, sec. 21(5)] and distributed to the Prevention, Early Detection, and Treatment Fund. Similar to the Tobacco Prevention Program, statute (Section 20-20.5-306, C.R.S.) specifies that the CCPD Program may receive up to 5 percent of the total monies appropriated to the Prevention, Early Detection, and Treatment Fund for administrative costs. In Fiscal Year 2012, the CCPD Program was appropriated about \$3.5 million for grants and about \$664,000 for administrative costs, as shown in the following chart.

Prevention, Early Detection, and Treatment Fund Appropriations Fiscal Year 2012



Source: Office of the State Auditor’s analysis of Colorado Financial Reporting System (COFRS) data and Senate Bills 11-209 and 11-211.

Examples of grant projects funded by the CCPD Program include blood pressure, cholesterol, and colorectal cancer screenings and specialized training to health care providers on cancer, cardiovascular diseases, and asthma. The following table provides the number and dollar amounts of grants made by the CCPD Program, as well as program administrative expenditures, for Fiscal Years 2007 through 2011.

Cancer, Cardiovascular Disease, and Chronic Pulmonary Disease Prevention, Early Detection, and Treatment Program Grant Awards and Expenditures (Dollars in Millions) Fiscal Years 2007 Through 2011

	2007	2008	2009	2010	2011	Percent Change
Number of Grants Awarded	54	64	64	55	11	-80%
Grant Awards Spent by Grantees	\$17.3	\$17.9	\$23.3	\$13.1*	\$ 6.4*	-63%
Program Administrative Expenses	\$ 0.57	\$ 0.85	\$ 0.83	\$ 0.79*	\$ 0.70*	23%
Total Program Expenditures	\$17.9	\$18.8	\$24.1	\$13.9	\$ 7.1	-60%

Source: Office of the State Auditor’s analysis of Department of Public Health and Environment data.

* Grant awards and the CCPD’s administrative costs appropriation were reduced during Fiscal Years 2010 and 2011 due to the declaration of state fiscal emergencies.

CCPD Program Review Committee

Statute (Section 25-20.5-303, C.R.S.) created the Cancer, Cardiovascular Disease, and Chronic Pulmonary Disease Program Review Committee (CCPD Review Committee) to review grant applications and make recommendations on grant awards to the Board of Health and the Department's Executive Director, who also submits recommendations on the grant awards to the Board of Health for final decision. The CCPD Review Committee consists of 16 members, including the Executive Director or his or her designee, the Division Director, and three Department staff appointed by the Executive Director; nine members appointed by the Board of Health, including one Board member and eight subject matter experts, such as those with expertise related to cancer, cardiovascular disease, and chronic pulmonary disease; and two members of the General Assembly appointed by legislative leadership.

Audit Purpose and Scope

This report provides the results of our performance audit of the Department's Tobacco Prevention and CCPD Programs. We conducted this performance audit in response to a legislative request. The purpose of our audit was to evaluate the grant-making processes and determine whether grant monies funded with Amendment 35 tobacco tax revenues are being used for their intended purposes. Specifically, the audit objectives were to determine whether:

- Grant applications are solicited and grant funds are awarded in accordance with statutes, including applicable funding requirements, and the goals of the Tobacco Prevention and CCPD Programs.
- The Department has grant contract management processes, contract provisions, grantee guidance, and monitoring procedures that provide the State sufficient assurance that the Tobacco Prevention and CCPD Programs' grant funds will be used in accordance with applicable statutes and rules, approved grant awards, grant contracts, Department policies, and strategic plans.
- The Department has effective processes for evaluating the Tobacco Prevention and CCPD Program grants to ensure they meet Program goals.

To accomplish our audit objectives, we reviewed the Department's processes for (1) soliciting and reviewing grant applications and selecting grantees; (2) executing grant contracts and monitoring grantee performance; (3) reimbursing grantees; and (4) evaluating the effectiveness of the Tobacco Prevention and CCPD Programs.

As part of our audit work, we collected and analyzed Department grant application, contract, grantee payment, monitoring, and grantee performance and evaluation documentation and data maintained in Department and Division spreadsheets; financial data from the Colorado Financial Reporting System (COFRS); and Tobacco Prevention Review Committee, CCPD Program Review Committee, and Board of Health documentation and meeting minutes for Fiscal Years 2010 and 2011. Audit work also included a review data and documentation for the following samples:

- A judgmental sample of 10 of the 145 Tobacco Prevention Program grants that were awarded in Fiscal Years 2010 and 2011. The sampled grants totaled about \$1.8 million (11 percent) of the about \$16.8 million that was awarded during those 2 years.
- A judgmental sample of 7 of the 66 CCPD Program grants that were awarded in Fiscal Years 2010 and 2011. The sampled grants totaled about \$4.7 million (22 percent) of the \$20.9 million that was awarded during those 2 years.

The 17 sampled grants received final awards totaling about \$6.5 million or about 17 percent of grant awards during the 2-year period. We selected the samples to evaluate the Department's policies and procedures for reviewing grant applications, awarding grants, executing grant contracts, and reimbursing grantees. We also reviewed grantee reimbursements totaling about \$2.8 million (8 percent) paid to the 17 grantees out of the total \$35.4 million reimbursed in Fiscal Years 2010 and 2011. The samples were selected to ensure sufficient coverage of expended grant funds, the program areas required to be funded in statute, grantees designated as both high and low risk, and the different types of applicant organizations (e.g., government and non-profit), all of which were significant to our audit objectives. While the results of the sample testing cannot be projected to the entire population of grants, the results provide a sufficient basis to assess the adequacy of the Department's internal controls as they pertain to the objectives of this audit. Our conclusions on the sufficiency of Department processes and controls are reflected in our findings.

In addition, we interviewed Department and Division staff, a total of six members of the Tobacco Prevention and CCPD Review Committees, including two members of the Board of Health, a sample of five grant applicants that were not awarded funding, and 11 grantees from Fiscal Years 2010 and 2011. We also analyzed the Department's strategic plans related to the Tobacco Prevention and CCPD Programs; analyzed tobacco tax data for other states from the National Conference of State Legislatures; reviewed best practices among other grant programs in Colorado; and reviewed literature and research on tobacco prevention and control best practices.

We conducted this performance audit 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 audit work was performed from November 2011 through July 2012 and was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings, conclusions, and recommendations based on our audit objectives. We planned our audit work to assess the effectiveness of those internal controls that were significant to our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our conclusions on the effectiveness of internal controls are described in the audit findings and recommendations. We thank the Department, Division, and Board of Health for their assistance and cooperation during the audit.

Grants and Program Management

Chapter 2

The approval of Amendment 35 by Colorado voters increased the tax rate for a pack of cigarettes from 20 cents to 84 cents, or 320 percent; and doubled the tax on other tobacco products from 20 percent of the price to 40 percent of the price. The ballot initiative, State Constitution, and statute specify the tobacco tax was increased for health-related purposes.

Since 2005, when the new tobacco tax rate was implemented, the Tobacco Education, Prevention, and Cessation Program (Tobacco Prevention Program) and Cancer, Cardiovascular Disease, and Chronic Pulmonary Disease Prevention, Early Detection, and Treatment Program (CCPD Program) have been funded with state revenues generated from the Amendment 35 tobacco tax. The Colorado Constitution and statute require the Tobacco Prevention Program to fund education programs to prevent and reduce tobacco use by children and youth and reduce exposure to secondhand smoke; and require the CCPD Program to fund competitive grants to prevent, detect, and treat cancer, cardiovascular disease, and chronic pulmonary disease. As discussed in Chapter 1, both programs experienced significant funding cuts during Fiscal Years 2010 through 2012 due to the declaration of state fiscal emergencies. Regardless of these funding cuts, the Department of Public Health and Environment (the Department) should have comprehensive controls in place for awarding and monitoring grant funds to ensure Amendment 35 revenues are used in an efficient and effective manner to accomplish the respective purposes of each grant program.

We reviewed the Department's procedures for administering the Tobacco Prevention and CCPD Programs and identified weaknesses in the grant-making process, which limit the Programs' ability to accomplish their intended purposes. Specifically, we found that the Department can improve its processes for ensuring Tobacco Prevention Program grant funding aligns with statutory requirements, evaluating grant applications, assessing the financial risk of grant applicants and grantees, executing grant contracts, monitoring and reimbursing grantees, and managing data related to the Tobacco Prevention and CCPD Programs. We discuss these issues and our recommendations in the remainder of this report.

Policy Initiatives Funded by Tobacco Prevention Grants

The Review Committee for the Tobacco Prevention Program (Tobacco Prevention Review Committee) determines funding priorities for each grant cycle based on best practices and current research on the effectiveness of tobacco control and intervention strategies and activities. Based upon the funding priorities, the Department develops one or more requests for grant applications that outline the strategies and activities that will be funded. In Fiscal Years 2010 and 2011, the Tobacco Prevention Program funded four broad types of activities: policy initiatives, programs providing cessation services, education programs and campaigns, and an external program evaluation. During these 2 fiscal years, the Program granted about \$16.8 million to 145 grantees; grantees expended a total of about \$15.8 million in Program funds.

What audit work was performed and what was the purpose?

The purpose of the audit work was to determine whether the activities funded by the Tobacco Prevention Program during Fiscal Years 2010 and 2011 complied with the Program's statutory purpose and the Department's Tobacco Prevention and Control Strategic Plan (Tobacco Prevention Strategic Plan). In order to perform our audit work, we reviewed statute; interviewed Department staff; reviewed program data and the requests for grant applications for the 2 fiscal years; reviewed the Tobacco Prevention Strategic Plan; reviewed literature and research on tobacco prevention and control best practices; and consulted with the Office of Legislative Legal Services.

How were the results of the audit work measured?

According to the Amendment 35 ballot initiative approved by voters, the purpose of the funds allocated to the Tobacco Prevention Program are "for school, community, and statewide *education programs* designed to reduce the number of children and adults who smoke and reduce the community's exposure to second-hand smoke" (*emphasis added*). In addition, the State Constitution and statutes outline the purpose of the Tobacco Prevention Program and allowable uses of funding, as shown in the following table.

Constitutional and Statutory Funding Requirements As of July 2012

General Funding Requirements	The Colorado Constitution (art. X, sec. 21) and Section 25-3.5-804(1), C.R.S., specify that the purpose of the Tobacco Prevention Program is to fund “school and community-based and statewide tobacco <i>education programs</i> designed to reduce initiation of tobacco use by children and youth, promote cessation of tobacco use among youth and adults, and reduce exposure to secondhand smoke” (<i>emphasis added</i>).
Programs Authorized to be Funded	<p>Statute [Section 25-3.5-805(1), C.R.S.] specifies that grantees applying for funding from the Tobacco Prevention Program shall provide at least one of the following:</p> <ul style="list-style-type: none"> • “<i>Education</i> designed for school-age children that, at a minimum, addresses tobacco use prevention and cessation strategies and the dangers of tobacco use; or • <i>Education programs</i>, including but not limited to school, work site, mass media, and health-care setting programs, designed to prevent or reduce the use of all types of tobacco products or help reduce exposure to secondhand smoke; or • <i>Counseling</i> regarding the use of all types of tobacco products; or • <i>Programs</i> that address prevention and cessation of the abuse of various types of drugs, with an emphasis on prevention and cessation of tobacco use; or • Tobacco use and substance abuse <i>prevention and cessation services</i> addressed to specific population groups such as adolescents and pregnant women and provided within specific ethnic and low-income communities; or • <i>Training</i> of teachers, health professionals, and others in the field of tobacco use and prevention; or • Tobacco addiction prevention and treatment <i>strategies</i> that are designed specifically <i>for persons with mental illness</i>; or • <i>Activities to prevent the sale or furnishing</i> by other means of cigarettes or tobacco products <i>to minors</i>; or • <i>Programs</i> that are designed to eliminate health disparities among segments of the population that have higher than average tobacco burdens.” (<i>emphasis added</i>) <p>Statute [Section 25-3.5-805(6), C.R.S.] also states: “the majority of moneys annually awarded to grantees that qualify pursuant to [the specifications listed above]...shall be for evidence-based programs and programs that prevent and reduce tobacco use among youth and young adults.”</p>

Source: Office of the State Auditor’s analysis of the Colorado Constitution and Colorado Revised Statutes.

Statute [Section 25-3.5-804(5)(a), C.R.S.] charges the Tobacco Review Committee with ensuring Tobacco Prevention Program grants comply with the types of programs outlined in statute and establishing funding priorities consistent with the Department's Tobacco Prevention Strategic Plan. The Tobacco Prevention Strategic Plan states that engaging in policy initiatives is a strategy that can be used to maximize grant outcomes. Specifically, the Tobacco Prevention Strategic Plan states "policy activities are essential to reducing tobacco prevalence in Colorado. Research has documented the effectiveness of laws and policies in a comprehensive tobacco control effort to protect the public from secondhand smoke exposure, promote cessation, and prevent initiation." The Tobacco Prevention Strategic Plan also calls for other activities, including collaborating with communities to maximize tobacco control programming, such as education programs.

What problem did the audit work identify?

In Fiscal Years 2010 and 2011, the Tobacco Prevention Review Committee awarded 140 out of 145 grantees funding to conduct policy initiatives to help pass local government laws and organizational policies related to tobacco use. Specifically, grant funds were awarded for policy initiatives in three areas: (1) initiatives related to enforcing and strengthening the Colorado Clean Indoor Air Act (Clean Air Act) which was passed by the General Assembly in 2006 and bans smoking in most indoor public areas, public meetings, restaurants, and places of employment; (2) initiatives prohibiting individuals from smoking in low-income multi-unit housing structures to protect other residents from secondhand smoke; and (3) initiatives limiting youth access to tobacco products and minimizing youth exposure to tobacco advertising.

We question the appropriateness of providing Tobacco Prevention Program grant funding for policy initiatives. We consulted with attorneys from the Office of Legislative Legal Services on the interpretation of the statute that outlines how these grant funds should be used as well as on the pertinent sections of the Constitution. The Colorado Constitution (art. X, sec. 21) and statute [Section 25-3.5-804(1), C.R.S.] created the Tobacco Prevention Program to fund school and community-based and statewide tobacco *education programs* designed to reduce initiation of tobacco use by children and youth, promote cessation of tobacco use among youth and adults, and reduce exposure to secondhand smoke. We concluded that, as the law does not expressly allow policy work, it is not clear the General Assembly intended the Tobacco Prevention Program to use its funding to create policy, change laws, or regulate tobacco use. While policy initiatives related specifically to youth access to tobacco products may be within the scope of the statute [Section 25-3.5-805(1)(i), C.R.S.] allowing "*activities to prevent the sale...of cigarettes or tobacco products to minors*" (*emphasis added*), there are no laws specifically stating that grants may be used for policy initiatives, such as those related to prohibiting smoking in locations not covered by the Clean Air Act

and in multi-unit housing. We believe the law is more focused on voluntary prevention and cessation through education, counseling, and treatment programs and does not clearly contemplate the use of grant funds to create local laws or ordinances prohibiting smoking.

While the Department was unable to provide the exact amounts grantees spent on each of these policy-related initiatives because grantees worked on multiple initiatives under a single grant contract, based on the data provided by the Department, grantees spent a total of about \$5.2 million (33 percent) of the \$15.8 million in grant funds related to policy initiatives during Fiscal Years 2010 and 2011. For example, for Fiscal Year 2011, the Department reported that these grants included:

- Approximately \$365,000 (about 6 percent of Fiscal Year 2011 grant funds) to four local governments, coalitions, and non-profit organizations to help pass local ordinances and laws to prohibit smoking in areas (tobacco retail establishments, cigar bars, and restaurant and bar patios) that statute [Section 25-14-205(1), C.R.S.] exempts from the Clean Air Act; ban smoking in public outdoor areas such as parks and trails; and strengthen enforcement of the Clean Air Act and any additional local laws related to secondhand smoke. For example, one local government received a grant of about \$135,000 to “protect individuals from secondhand smoke by strengthening and enforcing the provisions of the Clean Air Act.”
- Approximately \$308,000 (about 5 percent of Fiscal Year 2011 grant funds) to four grantees to help pass local ordinances and private organization policies to ban smoking in units, balconies, and public common areas of multi-unit housing complexes with low-income residents, and to provide tax incentives for smoke-free housing developments and redevelopments. For example, one university received a grant of almost \$100,000 to “protect individuals from secondhand smoke in multi-unit housing” by banning individuals from smoking in and around residential units, outdoor common areas, and other areas not covered by the Clean Air Act.

In addition to providing funding to directly pursue policy initiatives, the Department reported that in Fiscal Year 2011, the Tobacco Prevention Program provided approximately \$687,000 (about 11 percent of Fiscal Year 2011 grant funds) to 10 organizations to provide technical assistance, public relations support, and community engagement assistance to other grantees that were pursuing policy initiatives.

Based upon our discussions with attorneys from the Office of Legislative Legal Services, there is a reasonable basis to question whether the policy initiatives described above comply with the intent of the State Constitution and statute. In

the plain reading of the statute, it appears that these policy initiatives do not qualify as secondhand smoke education programs or programs to reduce health disparities. It is unclear whether statute intended the evidence-based programs funded through these grants to include policy initiatives that change local laws and ordinances. According to Legislative Legal attorneys, initiatives meant to eliminate or ban smoking are fundamentally different from programs meant to educate and treat the public that still provide individuals a choice. Legislative Legal attorneys stated that, if the General Assembly intended the Tobacco Prevention Program to fund policy initiatives to pass more restrictive laws or regulations, it arguably would have included specific language or authority in statute. In fact, as discussed previously, statute [Section 25-3.5-805(1)(i), C.R.S.] appears to allow grant funds to be used broadly when they are for “*activities* to prevent the sale or furnishing by other means of cigarettes or tobacco products to minors” (*emphasis added*). As such, policy initiatives that the Department funds related to youth access to tobacco products may be within the scope of statute. Statutory language in this case may be broad enough to allow for a range of *activities*, including policy initiatives, to further prevent the sale or furnishing of cigarettes to minors, which is already prohibited by law [Section 18-13-121, C.R.S.]. However, according to Legislative Legal attorneys, no other statutory provisions related to the Tobacco Prevention Program use broad language that could be interpreted to allow grant funds to be used for policy initiatives.

Why did the problem occur?

Department representatives have stated that they believe that funding policy initiatives complies with the statutory requirement to fund evidence-based programs. According to the Department, the Tobacco Prevention Review Committee has established policy initiatives as a Tobacco Prevention Program priority and provided grant funding for these initiatives because policy work is established nationally as a best practice by the Centers for Disease Control and Prevention and others, and it aligns with the Department’s Tobacco Prevention Strategic Plan. According to the Department, tobacco control and prevention best practices and research strongly support policy work, including laws and policies, as effective at protecting the public from secondhand smoke exposure, promoting cessation, and preventing individuals from initiating smoking.

Department representatives have also stated that they believe that funding policy initiatives complies with statutory requirements to provide education programs because passing and enforcing more restrictive laws and ordinances banning smoking often require community education and outreach. Additionally, Department staff have stated that the Department considers initiatives to ban smoking in multi-unit housing to be allowable under the statutory provision that permits grant funds to be used for programs to prevent secondhand smoke and health disparities. The Department has not requested or received a written legal opinion from the Attorney General to determine whether it has the statutory

authority to use Tobacco Prevention Program grants to fund policy initiatives that create, strengthen, and enforce local laws or ordinances prohibiting smoking.

Why does this problem matter?

In Fiscal Years 2010 and 2011, approximately \$5.2 million (33 percent) of Tobacco Prevention Program grants was expended for grants related to policy initiatives, while approximately \$9.8 million (62 percent) was expended for grants for education programs and cessation services. The remaining 5 percent of grant funds were expended on program evaluation. As noted above, we believe it is unclear that the General Assembly intended the grant funds to be used for local policy making rather than for the educational programs specified in the Constitution and the programs, counseling, and other strategies that are specified in statute.

Additionally, the Department may be promoting policy changes that are not consistent with the intent of Amendment 35 or statute. We believe the language in the Amendment 35 ballot initiative passed by voters, Colorado Constitution, and statute emphasizes that the Tobacco Prevention Program was intended to help people avoid the initiation of smoking or quit smoking through efforts such as education programs, counseling, and treatment, rather than establish further legal restrictions on smoking. It is unclear whether the General Assembly is aware that Amendment 35 revenues are used to promote and help pass more-restrictive laws and regulation of tobacco use.

Recommendation No. 1:

The Department of Public Health and Environment should seek a written Attorney General opinion on whether awarding Tobacco Prevention Program grant funds for policy initiatives, including those creating local laws or ordinances prohibiting smoking, complies with the intent of the State Constitution and statute. If these initiatives are determined to be outside the scope of the Constitution and statute, the Department should either discontinue its practice of funding policy initiatives or work with the General Assembly to seek the statutory authority to use Tobacco Prevention Program funds for this purpose.

Department of Public Health and Environment Response:

Disagree.

State statute at Section 25-3.5-805(6), C.R.S., requires the Department, through the State Board of Health, to award the majority of its Tobacco

Prevention Program grant funds for “evidence-based programs and programs that prevent and reduce tobacco use among youth and young adults.” While statute does not define evidence-based programs, subject matter experts in the field of tobacco control and prevention, including the Centers for Disease Control and Prevention (CDC), the Institute of Medicine, and the National Institutes of Health, all agree that evidence-based practices in tobacco prevention and control include increasing the price of tobacco, implementing smoking bans and restrictions, reducing the availability of tobacco products to youth, providing cessation services, and targeting specific and high-risk populations through mass media campaigns. Specifically, the CDC best practices for tobacco prevention state that “state and community interventions include supporting and implementing programs and policies to influence societal organizations, systems, and networks that encourage and support individuals to make behavior choices consistent with tobacco-free norms.” Seeking a legal opinion is unwarranted as the use of Tobacco Prevention Program grant funds to support activities associated with policies to change societal norms is entirely consistent with the statutory mandates for expenditure of these funds on evidence-based programs.

Auditor’s Addendum:

We recognize that statute [Section 25-3.5-805(6), C.R.S.] states that “the majority of moneys annually awarded to grantees that qualify pursuant to (Section 25-3.5-805, C.R.S.)...shall be for evidence-based programs and programs that prevent and reduce tobacco use among youth and young adults.” However, it is unclear whether the policy initiatives funded by the Tobacco Prevention Program comply with statute Section 25-3.5-805(1), C.R.S., which specifies that grantees shall use the funds for at least one of the areas outlined in statute, such as education programs, counseling, and treatment. Statutes related to the Tobacco Prevention Program do not specify that the Department may use grants to fund policy initiatives, such as those that create and strengthen laws or ordinances prohibiting smoking. Therefore, we believe that a legal opinion from the Attorney General is warranted to clarify whether the State Constitution and statute allow the use of these grants to fund policy initiatives.

Grant Application Review Process

The Department has developed a grant application review process for the Tobacco Prevention Program and the CCPD Program. The Department announces requests for applications for new and renewing grant projects, and applicants submit information about the proposed grant project, including a description of the scope of work; the personnel assigned to the project and the percentage of time they will

work on the project; the applicant's experience in providing the proposed project services; and a detailed budget proposal. A nongovernment organization applying for a new grant project must also complete a financial risk questionnaire that includes information related to its financial operations, such as the number of grants it administers, the types of audits it has undergone, and the number of accounting personnel it employs. Department staff use the information disclosed in the financial risk questionnaire to calculate the applicant's financial risk by assigning points based on the applicant's responses. This process, called a financial risk assessment, allocates a greater number of points to areas that the Department considers higher risk, such as grant amounts more than \$500,000, and designates applicants as either low risk or high risk based on the total number of points. Additionally, applicants that apply for renewal of their existing grants must furnish information about their progress in completing their grant projects.

For both the Tobacco Prevention and CCPD Programs, Department staff review the applications received for each grant cycle for completeness and forward them to the respective review committee for evaluation. The Tobacco Prevention Review Committee and the Cancer, Cardiovascular Disease, and Chronic Pulmonary Disease Program Review Committee (CCPD Review Committee) score grant applications according to a matrix of criteria and make grant project funding recommendations to the Department's Executive Director and the State Board of Health (Board of Health). Department staff serving on the Review Committees also provide input as to which projects to fund. After consideration of the Committees' and Executive Director's recommendations, the Board of Health determines final grant awards. During the 2010 and 2011 grant cycles, the Tobacco Prevention Program received 194 grant applications and awarded 145 grants totaling about \$16.8 million; the CCPD Program received 140 grant applications and awarded 66 grants totaling about \$20.9 million.

What audit work was performed and what was the purpose?

The purpose of our audit work was to review the financial and performance information that the Department collects for grant applicants and assess the Review Committees' processes for evaluating applications and recommending grant awards. We interviewed Department and Division staff, a sample of six Review Committee members, including two Board of Health members, and a sample of five grant applicants to assess the process for awarding funds for new and existing grants. We reviewed Department data and documentation for a sample of 10 out of the 145 Tobacco Prevention Program grants and 7 out of the 66 CCPD Program grants awarded in Fiscal Years 2010 and 2011. The 17 sampled grants received final awards totaling about \$6.5 million, or about 17 percent of the funds awarded during the 2-year period. For each sampled grant, we reviewed grant awards, financial risk assessment, and expenditure data in Department tracking spreadsheets; grant expenditures recorded in the Colorado Financial Reporting System (COFRS); and grant contract files, grant project

completion rates, and quarterly performance reports for grantees. We also reviewed the Department's requests for applications, the Tobacco Prevention Strategic Plan, the Review Committees' meeting minutes, Board of Health meeting minutes, and best practices among other similar grant programs in the state.

How were the results of the audit work measured?

One of the Review Committees' primary responsibilities is to ensure that grant funds are awarded to applicants with the expertise to manage their grants. According to Board of Health regulations [(Section 1.5(2)(g), 6 C.C.R. 1015-5 and Section 1.4(2)(c), 6 C.C.R. 1015-9)], the Review Committees "shall consider the capacity of the grantees" and "select grantees [based on whether] the applicant has the capacity to adequately administer and implement the program." "Capacity" is not defined in the regulations or elsewhere. However, the questions in the grant application and financial risk questionnaire and the grant contracts all provide some guidance on the elements that "capacity" should include. First, the grant application and financial risk questionnaire contain specific questions about how the applicant will implement the grant project, the applicant's experience with administering similar grant projects, and the applicant's accounting practices. Second, grant contracts state that "all future grant funding is directly tied to past performance." The applicant's experience, expertise, operational capabilities to administer the approved grant project, financial risk, and past performance are important components of capacity.

The compliance score, or the percentage of deliverables that the grantee provided during the grant year, is the indicator of performance that the Department provides the Review Committees during the application review process. The compliance score is a benchmark created by the Department to determine whether a grantee that receives continued funding in the next grant cycle needs additional guidance from grant program staff in implementing the grant project. According to Department staff and the Review Committees' meeting minutes, if a grantee's project has a completion rate of 60 percent or less in 1 year, grant program staff recommend to the Review Committees to renew the grantee's funding in the following year and the Department provides the grantee additional guidance.

What problem did the audit work identify?

We found that applicants who had past performance problems or were documented as a financial risk were awarded grants without consideration of the risk to the Tobacco Prevention and CCPD Programs. Specifically, we identified the following problems:

- One grantee in our sample was awarded grant funding although it had been issued an order to stop work due to performance problems on a

previous grant. Specifically, for one of the seven CCPD Program grantees we reviewed, the Review Committee renewed the grantee's contract in Fiscal Year 2011 for \$160,000, although the Division had documented that the grantee was high risk and had not complied with the terms of its grant contract during the prior year, Fiscal Year 2010. The grantee was rated high risk because Department staff had concerns with the grantee's performance on prior years' contracts. During Fiscal Year 2010, Department staff determined that the grantee did not provide adequate expense documentation and had comingled its CCPD Program grant funds with its funds from other grant programs. As a result of these findings, the Department issued the grantee an order to stop work on its grant project in April 2010, yet the grantee was recommended by the Review Committee and approved by the Board of Health for continued funding on its grant in May 2010. According to the Department, this grantee ultimately chose not to accept the new grant contract with the Department.

- Two of the 17 grantees we reviewed (one in the CCPD Program and one in the Tobacco Prevention Program) that the Department documented as high risk based on their financial risk assessments and other Division documentation, were awarded grants totaling \$303,000. In addition, according to Division documentation, three other grantees outside of our sample were designated as high risk in Fiscal Years 2010 and 2011 and received grant awards totaling \$195,000. According to Department staff, these risk ratings were not communicated to the Review Committees.
- Five of the 42 CCPD grantees that were in the second year of their grant contracts received continued grant funding for the third year of their projects in Fiscal Year 2010 and had compliance scores showing the grantees had met less than 60 percent of their project deliverables in the prior year, Fiscal Year 2009. The compliance score is calculated by the Department to determine whether a grantee that receives continued funding in the next grant cycle will need additional guidance from Department staff in implementing the grant project. A lower project compliance score does not necessarily mean that the grantee is noncompliant with its grant contract, but it could indicate the grantee is not fully implementing its project, has potential performance issues, and is higher risk for noncompliance.

According to the Department, the CCPD Review Committee received information showing each grantee's progress toward completing its grant project, but based on our interviews and review of meeting minutes, it does not appear that the Committee considered this performance information when determining whether to continue grantees' funding or the amount of funding grantees should receive. The CCPD Review Committee awarded the five grantees with compliance scores of less than

60 percent the full funding amounts the grantees requested in Fiscal Year 2010. According to the Department, these grantees received additional assistance from grant program staff.

Why did the problem occur?

The Review Committees have not fully considered grant applicants' performance on prior grants or used financial risk information when assessing their capacity to administer and implement grant projects. The Review Committees do not have any written policies or standard procedures for considering past performance or financial risk when assessing grant applications nor do they receive information about financial risk or performance, other than compliance percentages. The four CCPD Review Committee members we interviewed stated that the Committee has not discussed specific grantee performance during its meetings. Three of the Review Committee members we interviewed were not aware of performance problems of past grantees; the remaining Review Committee member was a Department staff member familiar with the performance of grantees requesting continued funding because the Department had documented performance issues. We reviewed CCPD Review Committee meeting minutes and found that meeting discussions focus on whether the projects proposed by grant applicants meet program priorities but there was no discussion of the past performance of returning grantees. One Tobacco Review Committee member informed us that grantee performance had been discussed during its meetings prior to Fiscal Year 2010, but the practice was discontinued because some Committee members were reluctant to discuss grantee performance during meetings.

According to the Department, the Tobacco Prevention and CCPD Review Committee meetings are open to the public pursuant to the open meetings requirements under Colorado's Open Meetings Law (Section 24-6-402, C.R.S.), and Committee members believe it is an impediment to discussing grantee performance. The Open Meetings Law is meant to provide greater transparency of government decision making and requires entities, such as boards and committees, to make all decisions in the portion of the meetings that are open to the public. While members of the Review Committees may be reluctant to discuss the past performance of grantees in open meetings, the Department's information on grantee performance is open records, so the Review Committees' practices do not necessarily keep the information confidential. Open meeting requirements should not prevent the Review Committees from reviewing and discussing grantee performance. Other similar state-funded grant programs, such as the Department of Transportation's State Aviation System Grant Program and the Department of Local Affairs' Limited Gaming Impact Grant Program, discuss performance information during public meetings. For example, during the grant application review process for the State Aviation System Grant Program, Department staff and the Aeronautical Board hold public meetings to discuss the merits of each application and the applicants' performance on past grant contracts,

when applicable. The Aeronautical Board and staff score each application on a range of criteria, including past performance, and have declined to renew funding for some grantees based on poor performance on past grant projects.

Currently, the Department does not track instances of grantee noncompliance or performance issues in a centralized location, such as a database or spreadsheet; the information is maintained in each grant file. The Department would need to track the performance problems it identifies in a central location in order to efficiently provide the Review Committees the performance information they need to evaluate applications for grants, as discussed in Recommendation 6.

Department staff informed us that, although applicants for new grants are required to complete the financial risk questionnaire as part of the application, the Department does not provide the financial risk questionnaire or the results of the financial risk assessment to the Review Committees. One Department staff member informed us that when the financial risk assessment was developed, staff determined that it should not be used in grant award selection because they were concerned that it would be difficult to incorporate into the scoring process and would not be used consistently or objectively. The Department reported that its staff did not communicate the applicants' financial risk to the Review Committees because the State Procurement Manual states that agencies should "Provide an environment where all business concerns, large or small, majority or minority owned, are afforded an equal opportunity to compete for business with the State," and the Department did not want to preclude the awarding of high-risk contracts. Department staff stated that the risk assessment has been used to assess risk after grants are awarded and determine the extent to which the Department will monitor the grantees. For example, grantees designated as high risk are required to submit documentation supporting reimbursement requests. During the audit, several Department staff we interviewed stated that financial risk information should be used by the Review Committees. We believe the risk assessment is one source of information the Review Committees should use to evaluate each grant applicant, and the use of such information would not preclude entities from applying for or competing for grants.

Why does this problem matter?

In Fiscal Years 2010 and 2011, funding for the grant programs was significantly reduced, which increased competition for grant funds. To ensure that limited resources are directed toward addressing the grant programs' needs, the Department and Review Committees should improve the review of applicants' capacity by incorporating performance information and financial risk assessments into the grant application review processes. Financial risk and past contract performance are important in assessing whether applicants have the capacity to implement and manage grants and would help the Review Committees ensure grant funds will be used properly and reduce the risk to the State that funds are

misused. By not receiving performance and risk assessments of all applicants, the Review Committees cannot review all of the pertinent information they need to make informed decisions about the grant applicants.

As discussed above, for the 2010 and 2011 grant cycles, the Review Committee approved continued funding for one grantee that had been designated high risk and issued an order to stop work on the grant project due to performance problems. A grantee's poor performance or noncompliance with contract terms is an indicator of its potential lack of financial and administrative ability to carry out the grant project. Had the Review Committee received information on the grantee's performance and financial risk, the Committee may have questioned whether to award funding to the grantee with past performance problems when considering both new applications and contract renewals. The financial risk information would help the Review Committees gain a greater understanding of an applicant's sources of funding, financial condition, whether deficiencies were identified in audits, and if applicants employ accounting personnel with the expertise to properly account for grant funds, prior to determining whether the applicant should receive a grant award.

In June 2010, the Department implemented a *Guide to Best Practices in Contracts Management (Contract Management Guide)* recognizing the importance of using financial risk assessments and performance information during grant selection. The *Contract Management Guide* states that the grantee selection process "should utilize the results of the pre-award financial risk assessment and the results of previous contractor performance evaluations." While the Department's guidance was not yet implemented when it selected the grants for Fiscal Years 2010 and 2011, it was in place for the Fiscal Years 2012 and 2013 grant selection processes. At the completion of our audit, the Review Committees for the Tobacco Prevention and CCPD Programs had not yet begun utilizing grant applicants' past performance and financial capacity during the selection process so Fiscal Years 2012 and 2013 grants were selected without consideration of this information. The Department will need to ensure all future grant selection processes meet its best practice guidelines.

Recommendation No. 2:

The Department of Public Health and Environment (the Department) should improve the process for assessing the risk and capacity of grant applicants as part of the grant selection process for the Tobacco Prevention and CCPD Programs by:

- a. Adopting Review Committee policies and processes for assessing grant applicants' past performance and financial capacity to administer and implement grants. This should include developing processes to discuss grantee performance in Review Committee meetings and providing

training and guidance to Review Committee members and applicable Department staff on the application review and scoring procedures.

- b. Providing the financial risk questionnaires and assessments to the Review Committees.
- c. Reporting to the Review Committees information on grantee performance that is tracked in a central location, as discussed in Recommendation 6.

Department of Public Health and Environment Response:

- a. Agree. Implementation date: January 2013.

Although the Department has provided summary information about the applicants' financial capacity to the Review Committees in previous years, the program will develop policies and procedures to ensure the Review Committees will be informed of the Financial Risk Assessment, and past performance as documented in the statewide Contract Management System (CMS). The programs will also develop and implement a process for the Review Committees to discuss performance in Committee meetings. Additionally, new member orientation training will provide an overview of CMS and the Department's grantee oversight methods.

- b. Agree. Implementation date: July 2012.

Beginning with the July 2012 Review Committee meeting, financial risk assessment questionnaires and assessments were presented to the Review Committees prior to the formulation of funding recommendations to the Colorado Board of Health, and these will be presented at each application cycle in the future. The assessment was reviewed and discussed during the July 2012 Review Committee meetings.

- c. Agree. Implementation date: June 2013.

Semi-annual financial and programmatic progress reports for all grantees shall be made to the Committees at regularly scheduled public meetings.

Financial Risk Assessments

Department staff began a process for assessing the financial risk of Tobacco Prevention Program and CCPD Program applicants and grantees after the passage of Amendment 35 to understand more about the risk that these applicants posed. At the time, Department staff believed that these two programs would make grant awards to organizations that had not previously had contracts with the Department. Department staff developed a financial risk questionnaire and risk assessment, which were implemented for the Fiscal Year 2010 grant cycle. Department staff input the applicants' financial risk questionnaire responses into a financial risk assessment spreadsheet that is used to assign points for each response and to designate grantees as low risk or high risk based on the total number of points. Responses that the Department considers higher risk are allocated a greater number of points. An applicant with 9 or more points out of a possible 16 points is rated high risk; applicants with 8 or fewer points are considered low risk. The following table shows the factors in the Department's financial risk assessment and its method for scoring each.

Tobacco Prevention and CCPD Programs Financial Risk Assessment Factors and Scoring As of July 2012		
Risk Category	Risk Factor	Scoring Method
Current Grants	1. The number of current grants the organization administers (all sources)	<ul style="list-style-type: none"> • 1 point for 10 or more grants • 2 points for 5 to 9 grants • 3 points for fewer than five grants
	2. The total dollar amount of current grants administered by the organization	<ul style="list-style-type: none"> • 0 points for less than \$500,000 in total grants • 1 point for total grants of \$500,000 up to \$1 million • 2 points for total grants of \$1 million up to \$2 million • 3 points for total grants of \$2 million up to \$5 million • 4 points for total grants of \$5 million or more
Experience	3. The organization's previous experience administering grants	<ul style="list-style-type: none"> • 0 points for "Yes" response • 1 point for "No" response
	4. The number of years the organization has existed	<ul style="list-style-type: none"> • 0 points for 20 years or more • 1 point for 6 to 19 years • 2 points for 5 years or less
Staffing	5. The number of full-time staff the organization employs	<ul style="list-style-type: none"> • No points are assigned for this category regardless of the number of staff in the organization
	6. The number of full-time accounting staff the organization employs	<ul style="list-style-type: none"> • 0 points for six or more staff • 1 point for three to five staff • 2 points for two or fewer staff
Prior Audits	7. Did the organization have an audit under Circular A-133 of the Single Audit Act of 1984 (A-133 audit), which is required for non-federal entities that expend \$500,000 or more in federal awards annually?	<ul style="list-style-type: none"> • 0 points for a "Yes" response • 1 point for a "No" response
	8. The number of relevant findings from the A-133 audit, if applicable	<ul style="list-style-type: none"> • 0 points for two or fewer findings • 2 points for between three and five findings • 4 points for six or more findings
	9. Did the organization have an audit under Generally Accepted Auditing Standards (GAAS audit)?	<ul style="list-style-type: none"> • 0 points for a "Yes" response • 1 point for a "No" response
	10. Did the organization receive an unqualified audit opinion on the GAAS audit?	<ul style="list-style-type: none"> • 0 points for "Yes" or "Not applicable" response • 2 points for "No" response
Accounting Controls	11. If the applicant has not received an audit, Department staff's conclusion on whether the organization's accounting processes are adequate	<ul style="list-style-type: none"> • -1 point for "Yes" response • 1 point for "Maybe" response • 2 points for "No" response
Maximum points (9 or more points being high risk)*		16
Source: Office of the State Auditor's analysis of Department of Public Health and Environment documentation, data, and staff interviews.		
* According to the Department, 16 points are the maximum number of points that it allocates to an applicant or grantee.		

What audit work was performed and what was the purpose?

The purpose of our audit work was to assess the Department's process for evaluating grant applicants' financial risk and determine whether the Department's methods for assessing risk are objective, consistent, and effective. We interviewed Department staff, assessed the financial risk questionnaire and the method for assessing risk, and reviewed financial risk assessment data for 93 of the 334 Tobacco Prevention Program and CCPD Program applicants in Fiscal Years 2010 and 2011, which was all of the financial risk information the Department had on file. We evaluated the risk categories in the assessment and written explanations of the risk ratings provided by the Department that staff use to perform assessments; and compared the points allocated among the different categories, the relative weights assigned to each, and the risk ratings resulting from each financial risk assessment. We also compared the Department's documentation of applicants' performance to the risk ratings (i.e., low or high risk) the Department assigned the grantees.

How were the results of the audit work measured?

Currently, there are no written Department policies regarding the specific content of the risk assessment used for the Tobacco Prevention and CCPD Programs. However, the Department has developed written explanations of the risk ratings that staff are to use when performing assessments. We utilized the Department's written explanations when evaluating whether the risk assessments are objective, consistent, and effective. We also reviewed best practices among other state grant programs.

What problem did the audit work identify?

We found that the Department's financial risk assessment is a good tool, in general, to evaluate risk, and Department staff have used the assessment to determine the level of monitoring needed for most grantees. However, we identified ways that the Department can make the assessment more useful. We identified problems with both the financial risk assessment tool and the consistency with which the Department uses the tool, as described in the following sections.

The risk assessment tool could be strengthened. We identified the following weaknesses in the Department's financial risk assessment tool:

- Applicants' past performance is not consistently factored into the risk rating. The Department's risk assessment tool (shown in the previous table) does not include a factor to rate risk based on past performance, such as when grantees have problems on past contracts with the Department. However, the Department considers past performance for

some grantees on what appears to be a random basis. For example, Department staff initially rated one CCPD Program applicant low risk at the time of application because the staff conducting the assessment were not aware that the grantee had past performance problems and the financial risk assessment did not include a step to check whether the grantee had problems on past contracts with the Department. Department management changed the rating to high risk when it executed the contract due to concerns it was aware of with the applicant's performance on previous Department contracts. For another CCPD grantee, Department staff documented similar performance problems on previous Department contracts, noting that the grantee needed extensive fiscal oversight, which resulted in rating the applicant high risk. In this instance, the rating indicates that staff reviewed past performance and considered it as part of the initial risk rating at the time of application.

- The points the Department assigns for some rating factors appear to conflict or appear arbitrary, and may not capture risk. Specifically, we found:
 - Point assignments for the total dollar amount of grants and the total number of current grants may not correlate with actual risk. The financial risk assessment assigns more points (and thus greater risk) to grantees that have more total grant funds but considers grantees with a larger number of grants to be lower risk. The risk assessment assigns zero points to applicants that report having less than \$500,000 in grant awards but three points to applicants with fewer than five total grants. For example, based on the Department's financial risk assessment tool, an applicant with one grant totaling \$500,000 is considered higher risk than an applicant with five grants totaling \$499,000. The idea behind the methodology is that grantees with less grant funding are lower risk because the grants they have with the Department may not be as material, and grantees with fewer grants are higher risk because the grantees may not have the internal controls or accounting systems in place to properly account for Department grants separately from other grants. However, we believe an applicant with less than \$500,000 in grant funds could still present risk if those funds represent a significant source of funding for the applicant or the applicant is inexperienced in administering grants. Additionally, the \$500,000 funding level may not be an appropriate threshold for determining low risk given that many applicants for Tobacco Prevention and CCPD Program grants have less than \$500,000 in total grant funding. For example, in Fiscal Year 2010 almost one-half (37 out of 85) of the applicants that received financial risk assessments reported having less than \$500,000 in total grants.

- The risk assessment includes a factor for determining the total number of full-time-equivalent staff employed by the organization but does not allocate any points to this category. We question whether total staff should be included on the risk assessment if it is not a factor used to assess risk.
- While the Department has recognized the importance of audits by including factors to consider the results of audits in the risk assessment, the assessment tool does not appear to assign ample points to applicants that have not had audits. For example, six Tobacco Prevention Program and six CCPD Program applicants in Fiscal Years 2010 and 2011 reported that they had not received an A-133 or GAAS audit but were rated low risk, although four out of the 10 risk factors in the Department's assessment relate to audits and their findings. Since applicant information is self-reported, audits can provide information from an independent source that can aid Department staff in evaluating risk. Further, during the period we reviewed, the Department did not require applicants who had an A-133 or GAAS audit to complete the entire risk questionnaire. These applicants were required to complete only the first half of the financial risk questionnaire and were not required to complete the remaining questions, which elicit detailed information about the applicant's accounting systems and fiscal practices that could help the Department evaluate financial risk.

Inconsistent use of assessments. The Department has been inconsistent in its use of the financial risk assessment in the following ways:

- The Department has not consistently performed financial risk assessments on grant applicants that are governments, such as county health agencies and universities. Specifically, in Fiscal Years 2010 and 2011, the Department performed financial risk assessments for only five out of the total 143 government grant applicants. We obtained and reviewed the financial audits of the six government grantees in our sample, only one of which had a financial risk assessment because the grantee voluntarily provided the Department the financial risk questionnaire. We identified one government grantee whose audit cited a finding of a significant deficiency because the grantee had insufficient documentation of employee time spent on federal grants. Had a risk assessment been performed on this grantee, it may have been rated high risk.
- The Department does not perform financial assessments on grantees applying to renew their grants nor does it require these applicants to complete financial risk questionnaires. None of the 11 CCPD Program applicants had financial risk assessments in Fiscal Year 2011 because all had received grant funds in the prior year(s). Information gathered from

the financial risk questionnaire and the risk assessment can help the Department determine whether the financial condition and controls of grantees have changed since they were originally awarded grant funding.

Why did the problem occur?

The Department fully implemented its financial risk questionnaire and assessment beginning with the 2010 grant cycle and has not developed written policies on how the risk assessment should be used for the Tobacco Prevention and CCPD Programs. For example, the Department has not documented its reasoning behind the categories in the financial risk assessment and the point thresholds. According to the Department, staff have not consistently considered grantees' past performance when conducting the risk assessment because program staff are not always aware when grantees have performance problems on grant contracts in other programs at the Department. We believe the Tobacco Prevention and CCPD Programs should include a step in its financial risk assessment process to determine whether grantees have had past performance problems related to financial issues or controls at the Department and factor performance in its risk assessment. The State Historical Fund Grant Program (Historical Fund) is one similar state grant program that conducts a financial risk assessment of applicants during the grant selection process that considers grantees' past performance.

According to the Department, the number of staff in a grantee's organization is included in the risk assessment tool to indicate the overall size of the entity; and it does not allocate points for the total number of staff because the total staff would not have an impact on the grantees' financial risk or accounting process. The Department also stated that it does not allocate more risk points for entities that do not have an audit so that risk ratings do not have a greater impact on smaller entities that are not audited. We believe the risk assessment should only include factors that will be used to assess risk and the Department should consider allocating additional points to those entities that do not have audits since these organizations receive less scrutiny from auditors and may require additional Department monitoring.

The Department did not require applicants who have had an audit to complete the full financial risk questionnaire during the period we reviewed because staff stated that they believe the information from the audit reports can be sufficient to assess whether the applicants have adequate controls to effectively manage their grants. For the Fiscal Year 2013 grant cycle, the Department reports that it began requiring all nongovernment entities to complete the full risk questionnaire. We believe all entities, government and nongovernment, should be required to complete the full financial risk questionnaire.

Department staff stated that financial risk assessments have not been performed on all government applicants because, in general, the Department assumes public

entities to be lower risk than nongovernment entities. According to the Department, in April 2012 it began a process for assessing the financial risk of current grantees that are local governments, such as counties and cities, which includes site visits to verify information the grantees reported. The Department reported that it has not required applicants renewing grants to complete the financial risk questionnaire if the grantees had previously submitted it with their first application. Department staff stated that they are familiar with the grantees through ongoing monitoring and believe it is not necessary to collect financial risk information every year for grantees that receive renewed funding over multiple years. While it may not be necessary to conduct a risk assessment for grantees that receive grants every year, the Department should periodically reassess their financial risk by obtaining updated information from the grantees.

Why does this problem matter?

Identifying financial risk of grant applicants is an important component of evaluating a grant applicant's capacity to carry out the grant project effectively and is necessary to ensure that the Department is sufficiently managing risks in the Tobacco Prevention and CCPD Programs. The weaknesses we identified in the financial risk assessment indicate that the assessment factors may not be appropriately assigned and weighted to reflect the applicant's true risk. In addition, the results of the risk assessments and the risk rating assigned to grantees may not correlate with the manner in which the grantees have performed for the Department in the past. The Department should be able to use the results of its monitoring of grantees to improve the financial risk assessment tool and point allocations to ensure they more adequately capture risk.

Additionally, by conducting risk assessments on only some entities and employing different requirements for the completion of the risk questionnaire, the Department is not evaluating all entities using the same information. As a result, the Department cannot score all risk factors for grantees in the same manner. If the Department utilizes the financial risk assessment as a source of information to evaluate grant applicants during the selection process, as we recommend in Recommendation No. 2, it will be important for the Department to collect and utilize the same information to assess applicants.

Finally, by not conducting financial risk assessments of all government applicants and grantees, the Department cannot use this information to determine the risk that these grantees present. According to the Department, if these grantees have had an audit, it reviews the audit findings to assess risk. However, the review of audits may not provide the Department a complete picture of an entity's risk and not all grantees receive audits. Financial risk assessments should be used for all applicants and grantees as a tool to determine the extent to which there is a risk that funds for the Tobacco Prevention and CCPD Programs will be misused. Government entities receive a significant amount of the Tobacco Prevention

Program and CCPD Program grant dollars. For example, in Fiscal Years 2010 and 2011, about 63 percent of Tobacco Prevention Program grantees and about 21 percent of CCPD Program grantees were government organizations that did not have risk assessments; these government grantees received a total of about \$16.6 million in grants or about 44 percent of the total grant funds awarded in the 2-year period.

Recommendation No. 3:

The Department of Public Health and Environment should improve its processes for assessing the financial risk of applicants for the Tobacco Prevention and CCPD Programs' grants by:

- a. Revising the financial risk assessment factors and points assigned to each based on the concerns identified in this audit. This should include revising the financial risk questionnaire to ensure it collects adequate information needed to conduct the risk assessment.
- b. Ensuring that there is a process for assessing the financial risk of all applicants, including government applicants, and periodically reassessing the financial risk of grantees whose grants are renewed.

Department of Public Health and Environment Response:

- a. Agree. Implementation date: July 2013.

The Department agrees that the financial risk assessment process, including the risk questionnaire, should be periodically reviewed for relevance and accuracy. The Department currently reviews the financial risk assessment prior to every Request for Application (RFA) that is published by the Tobacco Prevention and CCPD Programs and adjustments are made on an as-needed basis. During the June-July 2012 RFA process, changes were made to the assessment calculation spreadsheet that allowed for a better distribution of points to the various risk factors. The majority of the questions were allocated individual points, on a weighted scale, that provides a more detailed view of the entities' risk. The financial risk assessment was revised based upon Department staff review. The revision did not include the areas identified in the audit finding. The Department will consider the audit findings when reviewing the financial risk assessment for any future RFA processes.

- b. Agree. Implementation date: May 2013.

The Tobacco Prevention and CCPD Programs have developed a process that will ensure that all new, and renewing, applicants for the tobacco funds have a risk assessment completed on their financial controls. With the full implementation of the Financial Risk Management (FRM) process, and completed assessments of all of the local government contractors by May 2013, the programs plan on including the FRM risk rating for the local governments in the review of the applications.

Grant Contracts

As discussed previously, the Review Committees for the Tobacco Prevention Program and the CCPD Program review grant applications and make recommendations for approvals to the Board of Health. The Review Committees' recommendations to the Board of Health include the applicants' names, descriptions of the grant projects, and award amounts. The Board discusses and approves, modifies, or rejects the Review Committee recommendations. In Fiscal Years 2010 and 2011, the Board of Health approved all of the Review Committees' recommendations. After the Board of Health approves grants, Department and Division staff work together to execute a contract with each grantee. According to the Department, Division staff draft the contract using the State Controller's standard template and include a scope of work, budget summary, and budget narrative. The budget summary specifies the amounts grantees are authorized to spend in each major budget category, including personal services, operating expenses, subcontracts, and indirect costs. The budget narrative provides a more detailed description of the budget categories. The contracts are executed for each State fiscal year, which spans July 1 through June 30. Department staff review each contract to ensure that the scope of work and budget are clear and that exhibits are referenced and attached. The Department's Controller has final approval of all grant contracts. Once the grantee and the State sign the contracts, Division staff monitor the grantees' performance and compliance with the contracts.

What audit work was performed and what was the purpose?

We evaluated the Department's grant contracts and processes for executing contracts for the Tobacco Prevention and CCPD programs. We reviewed a judgmental sample of 10 out of the 145 Tobacco Prevention program grants and 7 out of the 66 CCPD program grant from Fiscal Years 2010 and 2011 and interviewed Division and Department staff. The purpose of the audit work was to determine whether the Department's contracts provide a sufficient basis upon

which to evaluate grantee performance and ensure compliance, and determine whether grantees complied with the terms of the contract, applicable statutes and regulations, and the Department's best practices.

How were the results of the audit work measured?

We applied the following criteria when evaluating the Department's Tobacco Prevention and CCPD Program grant contracts:

- **State Procurement Manual.** The State Procurement Manual states that “the fundamental purpose of written contracts is to memorialize the terms of agreements reached between parties thereby preventing misunderstandings and conflict later on as memories fade and/or circumstances change. They provide a basis to enforce contractual provisions. As such, clarity of terms and completeness of the issues addressed are of primary importance.”
- **The Department's *Contract Management Guide*.** The Department's *Contract Management Guide* was implemented in June 2010, just prior to when the Department executed the Fiscal Year 2011 grant contracts we reviewed. The *Contract Management Guide* states that “typically a budget and budget narrative are developed by the contractor and reviewed by fiscal staff for accuracy and completeness prior to the contractor's signature of the contract document. The budget and budget narrative must be consistent with the scope of work.”
- **Best practice.** Other state grant programs we reviewed, including those at the Department of Transportation, Department of Human Services, and the Department of Local Affairs, have processes to ensure grant contracts are accurate and complete based on the grant project scope of work, budget, and contract term, before the contracts are executed.

What problem did the audit work identify?

Overall, we found problems with the accuracy and completeness of nine out of the 17 sampled grant contracts (six Tobacco Prevention Program contracts and three CCPD Program contracts). Some contracts were both inaccurate and incomplete. Specifically, the contracts contained errors such as budgets for timeframes that exceeded the contract period, budget miscalculations, and missing budget information. Some of the contracts had multiple errors. We identified the following problems:

- Five grant contracts included budgets for timeframes that exceeded the contract period. For example, one Tobacco Prevention Program grantee's budget included expenses for 9 months although the term of the contract

was only 8 months, resulting in the Department paying about \$8,400 more (about 12 percent) for personal services than it should have had the budget been calculated based on 8 months. In other words, the Department paid the grantee 9 months of expenses for the 8-month contract. In another example, one CCPD Program grantee's budget included personal services expenses for 12 months although the contract was written for 7 months. While this grantee did not ultimately request reimbursement for the full amount of the contract, the errors in the contract created the risk that the State could have paid about \$36,000 more than it should have.

- Three grant contracts, including one from the Tobacco Prevention Program and two from the CCPD Program, included budgets with calculation errors that committed the State to paying a combined total of about \$8,900 more (about 2 percent) than if the budgets had been calculated correctly. For example, the budget in one of the CCPD Program grant contracts from Fiscal Year 2010 was overstated by about \$7,700 primarily because of errors in the calculation of indirect costs.
- Two grantees' contracts, one for the Tobacco Prevention Program and one for the CCPD Program, contained discrepancies between the budget summary and the budget narrative. For example, the budget summary in the CCPD Program contract contained a line item for 1 month of rent, but the budget narrative indicated that there were 11 months of rent. Both the budget narrative and budget summary are necessary to explain the specific amounts grantees may spend and for what purposes. These details provide the Department and grantees guidance on the types and amounts of expenses the grantees may charge to the grant programs for reimbursement. Inconsistencies between the budget summary and the budget narrative prevent the Department from knowing which amounts are correct when grantees request reimbursement or if disputes arise regarding reimbursements.
- One CCPD Program contract totaling about \$212,500 did not include a budget narrative. The budget narrative is necessary to provide details of the grant expenses allowed in the contract.

Why did the problem occur?

Overall, the errors and incomplete grant contracts we identified were due to a lack of sufficient policies and processes at the Department for ensuring that the grant contracts cover the correct grant program time period and include accurate budgets. For the Fiscal Year 2010 contracts we reviewed, the Department had not yet implemented its *Contract Management Guide*, which contains some guidance for contract development and approval. As a result, in that year, Department staff did not have best practice guidance or follow a consistent process for reviewing

contracts for accuracy and completeness. For the Fiscal Year 2011 contracts, the Department did not consistently follow its *Contract Management Guide* or give its staff clear guidance on the contracting process. For example, to help ensure staff have the expertise to review financial information, the *Contract Management Guide* indicates that fiscal staff should review budgets; however, the staff that review contract budgets do not always have sufficient expertise to do so. The program staff we interviewed stated that nonfinancial staff including temporary staff, review Tobacco Prevention Program and CCPD Program grant contract budgets for accuracy and completeness. Having nonfinancial and temporary staff review the contract budgets appears to be one cause of some of the errors we identified. The errors occurred during a period when the Department was utilizing temporary staff, and staff that reviewed the contracts were not effective in identifying errors. The Department should implement procedures for fiscal staff to review budgets for accuracy and provide staff guidance and training based on the direction provided in the *Contract Management Guide*.

Additionally, the Department's contract review process, in which Department staff review contracts, does not appear to be detailed enough to identify calculation errors or missing information. Clear guidance, such as a detailed checklist that is used on each contract, for staff reviewing contracts would help ensure contracts are accurate and complete.

Why does this problem matter?

Effective contract development practices are fundamental to ensuring that the Tobacco Prevention and CCPD Programs' grantees meet legal requirements and provide full value to the State. When contract terms are inconsistent or contain errors, the State is at risk for making improper payments. For the grant contracts we reviewed, the errors resulted in the State paying a total of about \$8,400 more for services than it received. Had the Department identified and corrected the errors, these funds could have been used for additional grant projects or to increase other grantees' awards.

For the 2013 grant cycle, the Department plans to issue grantees contracts for terms of less than 12 months. It is important that the Department only include budgets in the contracts that will reimburse grantees for the expenses incurred during the term of the contract.

Recommendation No. 4:

The Department of Public Health and Environment should implement internal controls to ensure grant contracts for the Tobacco Prevention and CCPD Programs comply with the guidelines set forth in the State Procurement Manual and the Department's *Guide to Best Practices in Contract Management* by:

- a. Improving contract drafting and review policies and procedures to ensure all contracts accurately reflect the contract period and are reviewed by fiscal staff to ensure they include complete and accurate budget information.
- b. Providing written guidance and training to applicable staff on the policies and procedures developed in part a. that include processes for ensuring contracts are accurate and complete before they are executed.

Department of Public Health and Environment Response:

Agree. Implementation date: June 2013.

- a. The Department recently completed a process improvement analysis of the contract generation, review, and approval process. During the analysis, redundant steps and unnecessary reviews were eliminated, reducing handovers, potential errors, and increasing accountability. To further reduce potential errors, the Department is streamlining the process flow to include standardizing forms, reviews, and approvals and keeping an audit trail of all process steps. The Department plans on implementing these new procedures in Fiscal Year 2013 with the next round of Amendment 35 grant contracts. The Request for Application (RFA) budget form has already been condensed into a single form that includes the budget amount and a justification of planned expenses. This is expected to reduce errors and conflicts. Fiscal staff will be required to review budget information to ensure it is complete and accurate and the review will be documented.
- b. The Department is currently working to develop comprehensive training for all staff involved in contract generation. By June 2013, written procedures and training documents for the generation and review of contracts will be produced to ensure completion and accuracy.

Controls Over Grant Payments

The Tobacco Prevention and CCPD Programs are direct cost reimbursement grant programs, meaning that each month grantees are to request reimbursement for costs incurred on their grant projects. The Department only requires grantees that it designates as high-risk to submit supporting documentation with requests for reimbursement. The Department requires all other grantees to maintain

documentation (at the grantee's location), such as invoices, timesheets, and travel logs, supporting their costs. Department contract monitors review the monthly requests for compliance with the grantees' contract requirements; Department accounting staff reported that they review the requests for accuracy and to determine if they are within budgeted amounts in the grantee's contract and align with spending trends for the grant. According to Department staff, it also reviews reimbursement requests to determine if they are allowable and reasonable and questions any issues it identifies with the requests, such as if a service or good was purchased outside of the contract term, or equipment was purchased that was not outlined in the contract budget. When the Department deems a request unallowable, the grantees are to submit a new reimbursement request without the unallowable expense. Grantees are reimbursed after the Department's review and approval of the request. According to Department staff, they conduct desk reviews of grantee supporting documentation and site visits to the grantees as needed, when they identify issues.

What audit work was performed and what was the purpose?

The purpose of the review was to determine whether the Department has sufficient controls to ensure grantee reimbursements comply with State rules and policies, the grant contract, and Department guidance. During the audit, we reviewed documentation, such as invoices, receipts, timesheets, and descriptions of items or services purchased, to support grantees' expense reimbursements on file at the Department as well as supporting documentation maintained by grantees. First, for a sample of 17 grantees (7 CCPD Program grants and 10 Tobacco Prevention Program grants), we selected a sample of reimbursements totaling about \$2.8 million out of the approximately \$35.4 million expended by all 211 grants in Fiscal Years 2010 and 2011. As shown in the following table, the Department had documentation on file for 10 of the grantees' reimbursements totaling about \$1.9 million; the Department did not have documentation supporting about \$923,000 in expenses for 11 of the grantees. We reviewed the documentation that the Department had on file. Second, due to the lack of documentation at the Department, we requested and received supporting documentation from 11 grantees for reimbursements totaling about \$434,000. In total, we reviewed about \$2.3 million in grantee reimbursements as highlighted in the following table.

Audit Sample and Reimbursement Documentation Reviewed Fiscal Years 2010 and 2011		
	Amount	Number of Grantees
Original Sample Requested at the Department	\$2.8 M	17
Documentation on File at the Department and Reviewed by Auditors	\$1.9 M	10
Documentation Not Available at the Department	\$923,000	11
Follow-up Sample Documentation Requested from Grantees and Reviewed by Auditors	\$434,000	11
Total Documentation Reviewed	\$2.3 M	17
Source: Office of the State Auditor's analysis of the audit sample and supporting documentation.		

How were the results of the audit work measured?

We measured the Department's processes for monitoring contracts and reimbursing grantees against the following authoritative guidance:

- **State Fiscal Rules.** The State Fiscal Rules set forth financial policies for state agencies concerning internal controls, accounting policies, and financial reporting. State Fiscal Rules state that "each agency and institution of higher education shall monitor its contracts with respect to all of the following elements: completion of the contract according to the contract's performance schedule; satisfactory performance and completion of the contract's scope of work; and extent to which the vendor met or exceeded budgetary requirements of the contract."
- **The State of Colorado Procurement Manual (The Procurement Manual).** The Procurement Manual sets forth procurement guidelines for purchasing goods and services from parties that are not on the State's payroll. The Procurement Manual specifies that cost-reimbursement contracts are the most complex type to manage, with the highest cost risk to the State, and requires departments to conduct the following monitoring assessments, among others:
 - Was the good/service billed really purchased by the vendor?
 - Was the good/service billed used for contract purposes?
 - Was the good/service necessary and reasonable for contract purposes?
 - Was the good/service of the quality and quantity specified in the contract?
 - Was the good/service listed in the vendor's budget and approved by the agency?

In addition, the Procurement Manual states that contract monitoring includes “reviews of vendor invoices and expenditure draw requests to determine if the rates and services are allowable...[and in accordance] with contract budgets and rate schedules.” The Procurement Manual states that agency staff should “review invoices to match vendor billing with vendor performance, and ensure that performance is not sub-standard” and “ensure supporting documents such as cost reports, third-party receipts for expenses, detailed client information, etc., adequately support payment requests. If not, and especially if this becomes a pattern, more intensive monitoring, such as on-site visits, may be necessary.”

Additionally, the grant contracts for the Tobacco Prevention and CCPD Programs outline allowable and unallowable costs; specify the maximum amount that may be spent in a category, such as personal services, program operations, and travel costs; and specify that all reimbursement requests must be for costs incurred in the course of working on the grant. As discussed previously, the grant contracts contain detailed budgets that specify the services for which grantees may be reimbursed and budget narratives that explain how the grantees shall use grant funds.

We also identified best practices for controls over grant payments among other grant programs including the Historical Fund and state-funded grant programs within the Department of Transportation.

What problem did the audit work identify?

During our review of both Department and grantee documentation, we identified questionable grant reimbursements, meaning they were unallowable or made in error. First, for three of the 10 grantees for whom the Department had some documentation supporting grantee expenses, we identified about \$60,000 (about 3 percent) out of the total \$1.9 million reviewed that were questionable reimbursements. We found:

- Two reimbursements for one grantee totaling about \$52,000 for salaries and related indirect costs that were not approved in the contract grant budget. The grantee requested and received a total of about \$52,000 for 8 months of salaries for two staff positions that had not been approved in the contract budget.
- One grantee reimbursement totaling \$8,100 for services outside the contract period. In 2009, Governor’s Executive Order D 017 09 limited spending by the CCPD Program. In response to the budget cuts, the Department issued orders to stop work to 20 grantees; work on the grants was to be terminated in September 2009. We identified one grantee that the Department had paid \$8,100 for work conducted in October 2009,

after the grantee had received the stop-work order and its contract had been terminated.

- One reimbursement totaling about \$300 for services that was over the grantee's approved line item budget in the contract. According to the Department, the grantee should have notified it about the overage.

Second, for seven of the 11 grantees that provided documentation supporting their expenses, we identified about \$9,500 (about 2 percent) out of the total \$434,000 reviewed that appeared to be unallowable, unreasonable, or in error. We identified multiple problems for some grantees. We found:

- Reimbursements totaling about \$9,300 to six grantees for salaries and benefits that were not approved in the grant contract budgets. For these six grantees, the documentation they provided did not support the amounts the Department reimbursed for employee salaries and benefits. For one grantee, we reviewed three of its monthly reimbursements and found multiple problems; it was paid a total of about \$1,650 in salaries for four staff positions that were not approved in the contract; it was paid \$250 more in salaries than was correct for the hours worked; and it received payment for \$150 more than the contract allowed for employee benefits. Four other grantees were reimbursed a total of about \$5,900 for salaries that documentation did not support. Another grantee requested and received \$1,350 more than it should have for the monthly salary of an employee that was hired near the end of the month.
- Reimbursements totaling about \$200 for items that could not be tied to approved grant budgets in the contracts. We identified one instance in which the Department reimbursed the grantee \$78 in training expenses although the training was not part of the grantee's contract budget or scope of work. For this instance, Department staff stated that the grantee had permission to incur the expenses, but the Department had not documented it had allowed the expenses. We also identified one instance in which a grantee was reimbursed the \$63 fee to print its grant application and one instance in which a grantee's contract did not allow for any food and beverage expenses, but the grantee requested and was reimbursed for \$46 in food and beverages for a meeting held with Department staff.

Overall, for nine out of our sample of 17 grantees, we identified unallowable and questionable reimbursements totaling about \$69,500 (about 3 percent) out of the \$2.3 million in grantee reimbursements we reviewed in Fiscal Years 2010 and 2011.

Why did the problem occur?

The Department's internal controls over grant expenditures need to be improved. First, the questionable and unallowable reimbursements we identified had been approved without sufficient supporting documentation. This is because each of the questionable reimbursements had been made to low-risk grantees and the Department does not require these grantees to provide documentation supporting their expenses to verify that reimbursement requests are allowable. For the 17 grants we reviewed, the Department required two grantees to submit supporting documentation with their reimbursement requests because the grantees were designated as high risk. Department staff stated that supporting documentation is not required or requested from all grantees because reviewing documentation is a time-intensive process. We understand that reviewing documentation does take time. However, based on the results of our audit work, it can be a cost effective. For example, during the audit, we estimate that our team spent a total of 148 hours reviewing expense documentation, which is equivalent to .07 (or 7 percent) of one full-time-equivalent (FTE) employee. The time spent reviewing documentation cost less than \$10,000 and resulted in identifying about \$69,500 in unallowable and questionable costs, or approximately \$7 dollars in potential cost savings for each \$1 dollar spent. Allocating a portion of one staff member's time to reviewing a sample of reimbursement documentation on a quarterly basis would help the Department identify unallowable grantee expenses and cost savings that could be used for allowable program expenses.

Second, although some grantees voluntarily submitted supporting documentation to the Department along with their reimbursements, the Department had not adequately reviewed the documentation to ensure the expenses were allowable and within the contract period. For example, the grantee that was reimbursed about \$52,000 for two staff positions that were not allowed by the contract had provided the Department documentation with the reimbursement request showing that the two staff were outside of the contract, yet the Department paid the grantee the requested amount. This payment indicates that the Department did not review the supporting documentation.

Other direct cost reimbursement grant programs in the state that we reviewed had more thorough processes for assessing grantee expenses prior to issuing payment. For example, one model program is the Historical Fund, which requires grantees to submit with reimbursement requests a narrative of their progress to date, a list of services provided or tasks completed, and, if no progress has been made, an explanation and an expected commencement date. The Historical Fund also requires grantees to report a comparison of the work completed to the grant budget and scope of work, with an explanation of any variances. The Historical Fund only reimburses documented costs, up to the established amount in the project budget. As another example, state-funded grant programs within the Department of Transportation review standardized reimbursement claim forms

and supporting documentation for expenses, including invoices, submitted by grantees before issuing reimbursements to grantees for costs incurred.

Third, as shown in the following table, the Department conducted limited site visits and desk reviews to monitor grantees in Fiscal Years 2010 and 2011 because it only conducts these visits or reviews if it identifies issues with grantee noncompliance. Most of the grantees with Tobacco Prevention and CCPD grants (203 out of 211) did not receive a desk review or site visit during the 2 years we reviewed.

Tobacco Prevention and CCPD Program Site Visits and Desk Reviews Conducted on Grantees Fiscal Years 2010 and 2011				
Fiscal Year	Number of Grants	Site Visits	Desk Reviews	Total Grantees Receiving a Visit or Review
2010	119	6	4	7*
2011	92	1	0	1
Source: Office of the State Auditor's analysis of Department of Public Health and Environment data.				
*One grantee received both a site visit and desk review in Fiscal Year 2010, and another grantee received three site visits, therefore a total of seven grantees received a site visit or desk audit in Fiscal Year 2010.				

According to Department staff interviewed during the audit, site visits are only conducted in reaction to concerns and issues identified with grantees. However, both the Tobacco Prevention and CCPD Programs have submitted program risk assessments to the Department Controller stating that they would conduct site visits to all grantees by the end of the grantees' second year; these risk assessments are used by the Department Controller to assess the overall risk of the programs to the Department. We found that out of the 46 Tobacco Prevention and CCPD Program grants that were in their second year during Fiscal Years 2010 and 2011, none received a site visit. Improving the Department's risk-based system by performing more regular desk reviews and site visits of grantees, such as reviewing each grantee at least once during the first 2 years of the grant, and reviewing a random sample of other grantees annually would improve the Department's monitoring of grantees.

Why does this problem matter?

Since the Department does not require most grantees to submit supporting documentation with their reimbursement requests and conducts limited monitoring, it does not know how most of the grant funds are actually spent. For example, for seven grantees in our sample, the Department had no supporting

expense documentation on file. As a result, the Department paid 65 out of the 95 monthly reimbursement requests we reviewed without proof of how the funds were used. Further, four of these grantees for whom the Department had no expense documentation had not received desk reviews or site visits during the 2 years we reviewed. Reviewing supporting documentation is an effective means for the Department to determine how grant funds are used and ensure grantees comply with their contracts. For example, in Fiscal Year 2010, one grantee we reviewed that was designated as high risk was issued an order to stop work on the grant project because the grantee had not provided the Department adequate documentation of its expenses and had commingled its CCPD Program grant funds with funds from other grants. In this instance, the Department was able to identify problems with the grantee because it reviewed supporting documentation. The Department informed us that one other grantee outside of our sample was also issued an order to stop work on the grant because the grantee, which had grants through both the Tobacco Prevention and CCPD Programs, had been billing the same services to both programs. In this instance, the Department was able to identify problems with the grantee because it noticed that reimbursement requests were for the same amount and conducted a site visit to review supporting documentation and investigate the issues.

The lack of review of grantee supporting documentation also diminishes the Department's ability to verify the services that grantees provide using Tobacco Prevention and CCPD Program funds. The Department receives quarterly progress reports from grantees in which grantees self-report the number of services that were delivered during the period. Yet the quarterly reports do not always allow the Department to verify the services that grantees provide. We reviewed the quarterly reports for Fiscal Years 2010 and 2011 that the 17 grantees in our sample submitted to the Department and identified incomplete information in five of the grantees' reports. For example, one grantee's Fiscal Year 2011 contract required it to provide services related to three key project areas, and none of this grantee's quarterly reports for that year included progress and status updates for two of the three contractually required areas. Without documentation or monitoring supporting the actual number and types of services that the grantees provide, the Department cannot confirm whether it is receiving the deliverables specified in grant contracts.

Further, the lack of documentation and monitoring reduces the Department's ability to ensure that the grantees are carrying out evidence-based grant programs, which are strategies and techniques proven effective by national standards or studies, as required by statute [Section 25-3.5-805(6), C.R.S.]. For example, Department staff informed us of one instance where the organization that primarily compiles grantees' self-report data had identified one CCPD Program grantee that was not carrying out the grant project correctly. Specifically, the evidence-based program required that the grantee take blood pressure readings three times throughout a patient's participation in the program, but the grantee

only conducted one blood pressure reading on each patient. As a result, the Department paid the grantee for more services than the State received. Because the grantee did not execute the evidence-based strategy outlined in its contract, the Department could not assess whether the grant was effective. In this instance, improved Department monitoring of grantee expenses and services could have helped the Department to identify the problems with the grantee's performance.

According to the Department, it is implementing an improved Department-wide monitoring system of its local public health grantees based on low-, medium-, and high-risk ratings. The Department's goal is to expand this system to all nongovernment grantees over the next few years. The new system will be in addition to any grant monitoring conducted within each grant program. Department representatives stated that the system will include a risk-based schedule for conducting site visits and desk reviews where high-risk grantees are reviewed quarterly and their risk reassessed annually, medium-risk grantees are visited or reviewed every 18 months, and low-risk grantees are visited or reviewed every 2 years. When implementing its new monitoring system, the Department should ensure the concerns identified in this audit are addressed.

Recommendation No. 5:

The Department of Public Health and Environment should strengthen its procedures for ensuring reimbursements paid to Tobacco Prevention Program and CCPD Program grantees are allowable direct cost reimbursements that comply with grant contracts by:

- a. Implementing written policies and procedures for reviewing supporting documentation for a sample of reimbursements at least quarterly, based on the risk assessments. Contract language should be revised to reflect these policies.
- b. Conducting periodic desk reviews and site visits including at least one review or visit to grantees during the first 2 years of their grant and random reviews of other grantees annually.

Department of Public Health and Environment Response:

- a. Agree. Implementation date: May 2013.

The Department is currently developing a system, including written policies and procedures, that will include a risk-based schedule for conducting site visits and desk reviews where high-risk grantees are

reviewed quarterly and their risk reassessed annually; all medium-risk grantees are visited or reviewed every 18 months; and all low-risk grantees are visited or reviewed every 2 years. The Tobacco Prevention and CCPD Programs will continue to monitor the contract invoices on a monthly basis as they are received for reasonable and allowable costs, and address any issues or concerns that may arise as a result of this review process. In Fiscal Year 2013, the Prevention Services Division shall implement written policies and procedures which will require supporting documentation for review and reconciliation for all new grantees, and periodic submission for all other grantees based on their designated risk level. The Division will also revise contract language to reflect the new policies regarding documentation review.

- b. Agree. Implementation date: January 2013.

Risk assessments will facilitate the allocation of reduced monitoring resources and site visits will be prioritized by risk. All grantees will undergo either a desk review or a site visit during the first two years of the contract, with periodic reviews thereafter based on the risk assessment results.

Data Management

The Tobacco Prevention and CCPD Programs manage grant data in several different systems. Some data systems are paper-based, such as grant files, and some are electronic, such as spreadsheets. Neither grant program stores all information related to a single contract in a single, integrated system. Different program staff, such as accounting staff or contract oversight staff, create, maintain, and use the various systems to fulfill their own needs. Additionally, grant reimbursement payments are recorded in the State's accounting system, the Colorado Financial Reporting System (COFRS).

What audit work was performed and what was the purpose?

At the beginning of our audit, we asked the Department to provide any electronic databases it used on a regular basis to track, summarize, monitor, and otherwise administer the Tobacco Prevention and CCPD Programs grant awards and reimbursements. Department staff reported that most grant program information was not tracked electronically. Due to a lack of electronic data, we requested a list of all grant applications, projects funded, award amounts, unfunded projects, amounts spent, and other relevant information broken out by each grant award. We reviewed hard-copy grant files, spreadsheets staff created for the audit,

spreadsheets that staff used for their own tracking purposes, and COFRS data for grants awarded in Fiscal Years 2010 and 2011. We compared these sources with one another and interviewed Department staff to assess their processes for tracking and maintaining essential grant information.

How were the results of the audit work measured?

We applied the following criteria when evaluating Department processes for maintaining Tobacco Prevention Program and CCPD Program information:

- **Statutory requirements.** Statute (Sections 25-3.5-804, C.R.S. and 25-20.5-303, C.R.S.) requires the Division to provide support staff to the Tobacco Prevention and CCPD Review Committees and charges each Committee with oversight of the activities of their respective programs. To carry out its responsibilities, the Division needs complete, accurate, and consistently recorded data to monitor grantees and report the effectiveness of its programs.
- **Best practice.** Effective stewardship of grant dollars and oversight of grant awards is based largely on the State's ability to capture, store, use, and report on grant data in a manner that ensures accountability for all dollars disbursed. Effective grant management systems (1) track data such as grant applications, awards, expenditures, budget modifications, and unobligated funds, and (2) support management oversight and accurate reporting. Effective grant management systems need to be able to provide grant data in a timely manner.

What problem did the audit work identify?

The Department could not readily provide accurate grant program information, such as the number of applications, the number of grants and the amounts awarded, and the amounts grantees expended. As mentioned above, at the beginning of our audit we requested basic grant information related to the Tobacco Prevention and CCPD Programs for Fiscal Years 2010 and 2011. It took the Department approximately 2 weeks to provide this information. Additionally, we identified a number of discrepancies and inconsistencies in the information the Department provided. Specifically, for 57 out of the 211 grants awarded in Fiscal Years 2010 and 2011, the information included errors such as incorrect entities that received grants, incorrect expenditure amounts, incorrect grant award amounts, and incorrect encumbrance numbers, as shown in the following table.

Errors Identified in Grant Data Fiscal Years 2010 and 2011		
Description of the Error	Number of Grants * with an Error	Percentage of Total Contracts
Grantee not reported or entity misreported as grantee	2	1%
Incorrect Expenditure Amount	42	20%
Incorrect Award Amount	15	7%
Incorrect Encumbrance Numbers	21	10%
Source: Office of the State Auditor's analysis of Department of Public Health and Environment data.		
* The information provided by the Department included multiple types of errors for some grants.		

The specific errors we identified are as follows:

- For one Tobacco Prevention Program grantee that received a grant totaling more than \$220,000, the Department inadvertently did not report that the entity had received a grant until after we completed our audit work. For another entity, the Department misreported that it had received a grant totaling about \$138,000, and at the end of our audit work the Department reported that the entity had not received a grant.
- For 42 of the total 211 grants, the Department provided inaccurate expenditure amounts. These errors totaled approximately \$1.1 million. For example, the information did not include all reimbursement payments provided to 33 grantees so the expended amounts were underreported.
- For 15 of the 211 grants, the Department provided inaccurate grant award amounts. These errors totaled approximately \$543,000. For example, the award amount reported for 14 grantees was less than the actual amount, so it appeared that the grantees had overspent their grant awards when in fact they had not.
- For 21 of the 211 grants with contracts totaling approximately \$2.4 million, the Department provided inaccurate contract encumbrance numbers. Specifically, the encumbrance numbers provided did not match the encumbrance numbers on the contracts and in COFRS. This error makes it difficult to reconcile Department-reported expenditures to the contracts and records in COFRS.

We also found the Department was missing the financial risk questionnaires for two out of the 17 grantees in our sample. Department staff had reported that one grantee had been rated high risk and one grantee was rated low risk; we were unable to verify the accuracy of the risk ratings.

Why did the problem occur?

The timeliness issues and information management errors we identified occurred because the Department does not have a single, comprehensive, electronic database that tracks all pertinent information related to the grants for either program, although during our audit the Tobacco Prevention and CCPD Programs were well into their 12th grant cycle. Instead recordkeeping for the Programs was disjointed and at times duplicative, with staff maintaining similar information in various hard-copy and electronic locations. The lack of a single database contributed to the delay in providing basic grant data because most grant information for the Fiscal Years 2010 and 2011 could only be obtained by Department staff reviewing hard-copy files. The Department had to manually compile and enter data for the basic grant information, such as the number of grant applications, grants awarded, and award amounts, that we requested during the audit from various staff spreadsheets and hard-copy files. Furthermore, some of the information contained in the grant files was incomplete or inaccurate. For example, the Department had compiled grant reimbursement data by obtaining information from the some hard-copy contract files that did not contain all reimbursement records (e.g., missing some months of data) or that contained calculation errors. Lastly, Department staff reported that two financial risk questionnaires were not available for the audit team to review because the questionnaires had been misplaced after staff had performed their initial financial risk assessment review.

A single, comprehensive, electronic grant management system is needed to help ensure that the Department has accurate, useful, and real-time information on grants. The Department reported that in May 2012 it was in the process of implementing a database that would contain grant application, financial risk, contract, and reimbursement data on all grantees. According to the Department the new database will replace the various spreadsheets currently used by Department staff. The Department should ensure that the new system captures the data necessary to facilitate timely analysis and reporting on grants, such as the total amount awarded, the contract amount, encumbrance numbers, the scope of work, the amount reimbursed, and an assessment of each grantee's performance, as discussed in Recommendation No. 2. The Department should also ensure the grant program information is reviewed for accuracy and completeness to help prevent the types of errors we identified during the audit.

Why does this problem matter?

Both the Tobacco Prevention and CCPD Programs have experienced staff turnover at the management and staff levels over the past several years, elevating the need for maintaining complete and accurate grant data in a single, comprehensive system. The problems we identified indicate there is no assurance that grant information stored in the Department's various locations agrees at a single point in time, thereby leaving management's and staff's view and understanding of the Programs to depend on the source of data they consult. For example, staff spreadsheets of reimbursements were at times different from COFRS, which could lead to misreporting of grant information to Review Committees and the Board of Health and impair oversight of the Tobacco Prevention and CCPD Programs.

Recommendation No. 6:

The Department of Public Health and Environment should improve its tracking of grant data for the Tobacco Prevention and CCPD Programs by:

- a. Ensuring the automated system it implements captures, at a minimum, the data necessary to facilitate analysis and reporting on grants, including but not limited to contract amounts, reimbursements paid to grantees, and grantee performance.
- b. Implementing a process to reconcile grant information in the automated system, hard-copy grant files, and COFRS on a periodic basis and to strengthen controls over hard-copy grant file documentation if it is maintained outside the automated system.

Department of Public Health and Environment Response:

- a. Agree. Implementation date: July 2013.

The Tobacco Prevention and CCPD Programs identified the need for a data system in 2008 and have been working to implement an automated end-to-end process flow solution. This system tracks all applications, awards, contract amounts, and progress reporting.

- b. Agree. Implementation date: January 2013.

The Tobacco Prevention and CCPD Programs will develop a process that will strengthen controls over hard copy grant files and periodically

reconcile all grant information, within all electronic and hard copy grant files, to ensure that the documentation is accurate and complete.

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