



Federal Awards Reports In Accordance With the
Single Audit Act and the Uniform Guidance
December 31, 2017

Douglas County, Colorado



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May 11, 2018

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

Board of Douglas County Commissioners
Douglas County, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Douglas County as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Douglas County’s basic financial statements, and have issued our report thereon dated April 16, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Douglas County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Douglas County’s internal control. Accordingly, we do not express an opinion on the effectiveness of Douglas County’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2017-A to be a material weakness.

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

Compliance and Other Matters

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

Douglas County's Response to the Finding

Douglas County's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The County's corrective action plan is also included in a separately issued letter. We have not audited Douglas County's response or corrective action plan, and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Denver, Colorado
April 16, 2018



Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Board of Douglas County Commissioners
Douglas County, Colorado

Report on Compliance for Each Major Federal Program

We have audited Douglas County’s compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of Douglas County’s major federal programs for the year ended December 31, 2017. Douglas County’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on the compliance for each of Douglas County’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Douglas County’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Douglas County’s compliance.

Opinion on Each Major Federal Program

In our opinion, Douglas County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002. Our opinion on each federal program is not modified with respect to these matters.

Douglas County's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County's corrective action plan is also included in a separately issued letter. Douglas County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Douglas County is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Douglas County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Douglas County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002 that we consider to be significant deficiencies.

Douglas County's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County's corrective action plan is also included in a separately issued letter. Douglas County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Douglas County as of and for the year ended December 31, 2017, and have issued our report thereon dated April 16, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Denver, Colorado
April 16, 2018

Douglas County, Colorado
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Numbers	Pass-Through Entity Identifying Number	Expenditures as of 12/31/2017	Amounts Passed- Through to Subrecipients
U.S. Department of Agriculture				
Passed-through Colorado Department of Human Services				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	*	688,098	
State Administrative Matching Grants for the Watershed Rehabilitation Program	10.916	60-8B05-A14-02	112,550	—
Total U.S. Department of Agriculture			800,648	—
U.S. Department of Housing and Urban Development				
Community Development Block Grants/Entitlement Grants	14.218	B-15-UC-08-0004	119,226	111,689
Total U.S. Department of Housing and Urban Development			119,226	111,689
U.S. Department of Justice				
Passed-through Colorado Department of Public Safety, Division of Criminal Justice				
Edward Byrne Memorial Justice Assistance Grant	16.738	2016-DJ-BX-0881	14,813	—
VOCA Victims of Crime Act	16.575	2015-VX-15-009539-18	175,000	—
Equitable Sharing Program	16.922	*	146,979	—
Total U.S. Department of Justice			336,792	—
U.S. Department of Transportation				
Passed-through Colorado Department of Transportation				
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants (Click it or Ticket, Seatbelt Grant)	20.602	411012706	4,700	—
CDOT 405C	20.616	*	47,696	—
Department of Transportation Grant Cluster			52,396	—
Passed-through Regional Transportation District				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	17-HTR-ZL-00162 17-HTR-ZL-00163	287,763	—
Total U.S. Department of Transportation			340,159	—

Douglas County, Colorado
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Numbers	Pass-Through Entity Identifying Number	Expenditures as of 12/31/2017	Amounts Passed- Through to Subrecipients
U.S. Department of Health and Human Services				
Pass-through Colorado Department of Human Services				
Temporary Assistance for Needy Families (TANF)	93.558	*	1,177,348	—
Child Support Enforcement	93.563	*	955,653	—
Low-Income Home Energy Assistance Program	93.568	*	649	—
Child Care and Development Block Grant	93.575	*	451,243	—
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	*	319,361	—
Child Care and Development Block Grant Cluster			770,604	—
Child Welfare Services	93.645	*	145,744	—
Foster Care Title IV-E	93.658	*	1,714,769	—
Adoption Assistance	93.659	*	185,660	—
Social Services Block Grant	93.667	*	609,395	—
Medical Assistance Program	93.778	*	979,010	—
Community Services Block Grant	93.569	*	88,730	—
Guardianship Assistance	93.090	*	10,502	—
Pass-through Colorado Office of Behavioral Health				
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104		51,000	—
Total Department of Health and Human Services			6,689,064	—
Executive Office of the President				
High Intensity Drug Trafficking Areas Program	95.001		2,158,632	—
Total Executive Office of the President			2,158,632	—
Total Expenditures of Federal Awards			\$ 10,444,521	\$ 111,689

* Number not readily available

Note A – Basis of Presentation and Significant Account Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Douglas County, Colorado, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulation* (CFR) Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Douglas County, Colorado, received federal awards both directly from federal agencies and indirectly through pass-through entities. Federal financial assistance provided to a sub-recipient is treated as an expenditure when it is paid to the sub-recipient.

Governmental fund types account for the County's federal grant activity. Therefore, expenditures in the schedule of expenditures of federal awards are recognized on the modified accrual basis – when they become a demand on current available financial resources. The County's summary of significant accounting policies is presented in Note 1 in the County's basic financial statements.

Douglas County did not elect to use the 10% De Minimis indirect cost rate.

Section I – Summary of Audit Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516	Yes

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Child Care and Development Fund Cluster	93.575 & 93.596
Foster Care Title IV-E	93.658
Medical Assistance	93.778
Supplemental Nutrition Assistance Program (SNAP)	10.561
Equitable Sharing Program	16.922

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee	No

Section II – Financial Statement Findings

**2017-A Adjusting Journal Entry / Accounts Payable
Material Weakness**

Criteria: The County is required to provide accurate GAAP basis financial data for preparation of the annual financial statements. Additionally, a strong system of internal accounting control contemplates an adequate system for recording, processing and reconciling account balances to the financial statements.

Condition: Based on audit procedures performed, we identified an accounts payable invoice that was not recorded in the December 31, 2017 financial information. The County did not accrue for a material journal entry for a capital project. An adjustment was posted for \$1,002,734 to accrue the invoice for construction in process at the government-wide level financial statements and for capital outlay in the Justice Center Sales and Use Tax fund and \$98,527 for the related retainage payable.

Cause: The County did not have strong enough control activities in place to ensure that the year-end accrual process was performed completely and accurately.

Effect: Management has posted the correcting journal entry. However, failure to review future accounts payable activity to ensure that significant transactions have been properly accrued for and presented in the financial statements may result in material misstatement to the County's financial statements.

Recommendation: We recommend the County establish additional procedures to identify significant accounting transactions that have taken place after the fiscal year-end to ensure all material transactions have been recorded in the financial statements.

Views of Responsible Officials: Agreed

Section III – Federal Award Findings and Questioned Costs

**2017-001 Passed-through Colorado Department of Human Services
Medical Assistance Program – CFDA 93.778**

Significant Deficiency in Internal Control over Compliance - Eligibility

Criteria – According to the Colorado Department of Health Care Policy and Financing (HCPF), processing standards 8.100.3.D, the County is required to process a disability determination no later than 90 days following receipt of an application, and an initial application for any program not requiring a disability determination shall be processed no later than 45 days following receipt of application.

Condition – We reviewed sixty case files related to eligibility. We noted the following in our testing:

- Three instances of non-compliance in which the County did not send notice of action within 45 days. This related to a long-term care case in which the disability determination was not required. The case was authorized in CBMS by the caseworker, but the notice was not generated or sent within the 45 day timeframe.
- One instance of non-compliance in which the County did not complete the eligibility determination and authorize the case within 45 day. The case was not authorized by the caseworker and no notice of action was sent to the client within 45 days.

Cause

- Three cases failed to provide a timely notice of action to the client due to a CBMS State of Colorado noticing error.
- One case was not timely processed due to the County’s ineffective monitoring of the 45 day deadline.

Effect – Failure to process applications timely results in participants that are delayed approval/denial for Medicaid services.

Questioned Cost – None

Context/Sampling: A non-statistical sample of 60 transactions out of approximately 14,500 total transactions were selected for testing.

Recommendation – We recommend that the County utilize available COGNOS reports to determine which cases are nearing the exceeding processing guidelines. We also recommend the County verify that CBMS automatically generated and sent the notice of action to the client for all cases in which they granted authorization that are not real time eligibility.

Views of Responsible Officials – Agree

2017-002 **Passed-through Colorado Department of Human Services
Child Care and Development Block Grant – CFDA 93.575 & CFDA 93.596**

Significant Deficiency in Internal Control over Compliance -Eligibility/Allowable Activities

Criteria – The Child Care Cluster includes programs in which States design their own programs, within very broad Federal guidelines. The objective of the Child Care Cluster is to provide funds to increase the availability, affordability, and quality of child care services. Funds are used to subsidize child care for low-income families where the parents are working or attending training or educational programs, as well as for activities to promote overall child care quality for all children, regardless of subsidy receipt. There are various eligibility requirements for the Colorado Child Care Assistance Program (CCCAP) detailed in the Code of Colorado Regulations Department of Human Services Income Maintenance (Volume 3) 9 CCR 2503-9, section 3.905.1- CCCAP Low Income Child Care Eligibility. Specifically, the County shall obtain various documentation, including but not limited to: 1) a completed and signed application, 2) a signed Individual Responsibilities Contract (IRC), and 3) Department of Labor records for any adult caretakers at application and redetermination to verify previous employment history for all applications dated prior to September 30, 2016, and 4) documentation of the client’s monthly income to determine if they are income eligible under the program.

Condition – We reviewed sixty case files related to eligibility, noting the following in our testing:

- One case of non-compliance in which the County did not obtain the full, completed, and signed application.
- One case of non-compliance in which the County did not obtain a signed responsibilities agreement.
- Three cases of non-compliance in which the County did not obtain the Department of Labor records.
- One case of non-compliance in which the County did not obtain income detail of hourly or salary amounts.

Cause – Near the end of 2016, the County transitioned from outsourcing the eligibility verification process to bringing these determinations in-house. While the cases were outsourced, the County had improper monitoring of case file information needed in order to determine timely and accurate eligibility information and calculation of allowable costs.

Effect – The County may not timely detect an error in eligibility and allowable costs, which could result in the County providing federal dollars to participants who are ineligible. Ultimately, the County could have to remit these benefits back to the State.

Questioned Cost – None reported

Context/Sampling – A non-statistical sample of 60 transactions out of approximately 31,000 total transactions were selected for testing, which accounted for \$2,186 of \$770,605 of federal program expenditures.

Report Findings from Prior Years(s) – 2016-001

Recommendation – The County has made significant improvement in their internal controls from the prior year finding. We recommend that the County utilize the checklists implemented in September 2017 to ensure all elements for eligibility are obtained for every case to ensure appropriate verification of eligibility. Program management should also remain aware of changes in authoritative guidance to ensure checklists are updated accordingly on a continuous basis.

Views of Responsible Officials - Agree

Financial Statement Finding**Finding 2017-A Adjusting Journal Entry/Accounts Payable**
Material Weakness

The County did not have strong enough control activities in place to ensure that the year-end accrual process was performed completely and accurately.

Responsible Individual: Andrew Copland, Finance Director

Corrective Action Plan: The accounting department accrual schedule was:

- The first week of February, AP will accrue any invoices over \$1,000
- The second week of February, AP will only accrue invoices over \$5,000
- The third week in February, AP will only accrue invoices over \$25,000

The accrual review will be expanded to include:

- The last week in February, AP will review all vouchers entered with the G/L date of the new year that are over \$25,000 to find any vouchers that may have been missed. This review will continue until the end of audit fieldwork.

Anticipated Completion Date: Increased controls are now in place

Finding 2017-001 Significant Deficiency in Internal Control over Compliance

Of the 60 cases reviewed, there were three instances in which the client was not timely noticed, and one in which the County did not timely process.

Responsible Individual(s): Erin Johnson, Program Manager

Corrective Action Plan: Colorado Counties use the State’s eligibility system (CBMS) and have no ability to impact programming, automated interfaces or system failures. All three of the instances of no notice were the result of a CBMS failure. Since CBMS’s inception in 2004, Counties have relied on the system performing its basic functions, one of which is timely and accurate noticing being systematically generated.

Throughout 2017 and for several years before, the Department has used available State reports and developed its own internal processes to identify pending work and ensure timely processing.

In 2017, Douglas County received 7,083 new Medicaid applications and 33,162 Medicaid redetermination applications, and our timeliness percentages were 97.50% and 99.24% respectively. Based on our performance, the Colorado Department of Health Care Policy and Financing (HCPF) awarded Douglas the entire amount of incentives possible (\$72,372.16) per our Memorandum of Understanding with HCPF, and we earned an additional \$12,929.71 in incentives based on this work from undistributed incentives to other counties.

Despite these CBMS errors, and to resolve the single untimely processing error, in 2018 the Department will:

1. Submit a State OIT help desk ticket in instances where we notice any system issues including notices not being generated,
2. Review the value of CBMS Cognos reports and integrate as appropriate into existing processes,
3. Continue to utilize other State provided reports to ensure timely processing,
4. Finalize incorporating recommendations of a business process design review done in 2017, which includes the implementation of “production boards”, and
5. Complete all required case reviews as defined in rule and out policy.

Anticipated Completion Date: Ongoing.

Finding 2017-002**Significant Deficiency in Internal Control over Compliance**

In the fall of 2016, the County transitioned its Child Care Assistance Program (CCAP) back to the Department and ended its outsourcing arrangement. While CCAP was outsourced, the County had improper monitoring of case file information needed in order to determine timely and accurate eligibility information, and calculation of allowable costs.

Responsible Individual(s): Melissa Ingalls, Program Manager
Kevin Copeland, Investigations Supervisor

Corrective Action Plan: As soon as the vendor was noticed of the contract termination in October 2016, the Department's Child Care Manager accelerated the transition process. She had already completed State training and started processing cases prior to the vendor being noticed in October. By December the Department had the child care County staff hired and scheduled for training. The two critical points of failure were: 1) a lack of case reviews (the vendor did not complete any during their tenure), and 2) any Department case or work review that would have revealed in a more timely fashion the lack of documentation and inaccurate processing.

In 2017, the Department remedied this by: 1) ensuring monthly case reviews were done, 2) ensuring timely and complete staff training, 3) establishing unit meetings and coordinating with the Business Office on payment issues, and 4) completing two Program Integrity reviews.

As evidence to the dedicated Department work in 2017, all findings were the result of carryover work from the vendor and not reflective of any work completed by County staff post conversion. Continuing quality performance in 2018 the Department will:

1. Continue to timely complete monthly case reviews,
2. Actively participate in State meeting and workgroups to remain current on issues and upcoming changes,
3. Remain current on all training and system changes, and
4. Complete a Program Integrity review in Q2 2018.

Anticipated Completion Date: Ongoing for items one through three above. July 30, 2018 for the Q2 2018 child care program integrity review.