



Federal Awards Reports In Accordance
with the Uniform Guidance
June 30, 2018



Denver School of Science and Technology, Inc.

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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*

The Board of Directors
Denver School of Science and Technology, Inc.
Denver, 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 and the major funds of Denver School of Science and Technology, Inc. (DSST or DSST Public Schools), a component unit of Denver Public Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated November 12, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered DSST'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 DSST's internal control. Accordingly, we do not express an opinion on the effectiveness of the DSST'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 material weaknesses.

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 deficiencies described in the accompanying schedule of findings and questioned costs as findings 2018-A and 2018-B to be material weaknesses.

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 DSST'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*.

DSST Public Schools' Responses to Findings

DSST's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. DSST's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP".

Fort Collins, Colorado
November 12, 2018



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

The Board of Directors
Denver School of Science and Technology, Inc.
Denver, Colorado

Report on Compliance for the Major Federal Program

We have audited DSST Public Schools’ compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on DSST’s major federal program for the year ended June 30, 2018. DSST’s major federal program is 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 DSST’s major federal program 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 DSST’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 the major federal program. However, our audit does not provide a legal determination of DSST’s compliance.

Opinion on the Major Federal Program

In our opinion, DSST has complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2018.

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 2018-001. Our opinion on each federal program is not modified with respect to these matters.

DSST Public Schools' responses to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. DSST's corrective action plan is also included in a separately issued letter. DSST's response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of DSST 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 DSST's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 DSST'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 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 2018-001 and 2018-002 that we consider to be significant deficiencies.

DSST's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. DSST's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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 the governmental activities and the major funds of DSST as of and for the year ended June 30, 2018, and have issued our report thereon dated November 12, 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

Fort Collins, Colorado
November 12, 2018

DSST Public Schools
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Cluster	Direct Award Number	Federal Expenditures
U.S. Department of Education				
Charter Schools	84.282	n/a	U282M160003-17	\$ 1,565,355
Total U.S. Department of Education				<u>1,565,355</u>
Total Expenditures of Federal Awards				<u><u>\$ 1,565,355</u></u>

The Accompanying Notes to the Schedule of Expenditures of Federal Awards are an Integral Part of this Schedule.

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of Denver School of Science and Technology, Inc. (DSST or DSST Public Schools) under programs of the federal government for the year ended June 30, 2018. The information is presented in accordance with the 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). Because the schedule presents only a selected portion of the operations of DSST, it is not intended to and does not present the financial position, or changes in net position or fund balance of DSST.

Note B – Basis of Presentation and Significant Account Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note C – Indirect Cost Rate

DSST draws for indirect administrative expenses at an approved rate of 9.09% and has not elected to use the 10% de minimus 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 the major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for the major program	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516	Yes
Identification of the major program:	
<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Charter Schools	84.282
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

**2018-A Financial Statement Preparation and Review and Restatement
Material Weakness**

Criteria: Management of DSST is responsible for establishing and maintaining internal control, and for the fair presentation of the financial statements and related financial statement disclosures being audited. Additionally, a good system of internal accounting control contemplates an adequate system for recording, processing and reconciling account balances to the financial statements.

Condition: DSST does not have an internal control system designed to provide for the preparation of the financial statements being audited. In conjunction with the completion of the audit, we were requested to draft the financial statements and accompanying notes thereto. Management reviewed, approved, and accepted responsibility for the financial statements and notes prior to their issuance. Based on audit procedures performed as of June 30, 2018, we identified a restatement to increase beginning fund balance of the general fund in the amount of \$538,306 relating to improper revenue recognition of federal grant awards. This also resulted in a restatement to increase net position for governmental activities in the amount of \$538,306.

Cause: DSST has limited staff trained to prepare full disclosure financial statements, including related footnotes. Additionally, the proper control activities were not in place to ensure that the year-end close process is performed accurately. There was not a detailed management review of the financial statements to ensure transactions were accounted for in accordance with GAAP.

Effect: Management has posted the correcting journal entry for the item noted above and updated the financial statements for presentation-related items. However, failure to review future financial statements to ensure that significant transactions have been properly accounted for and presented in the financial statements may result in material misstatement to DSST's financial statements.

Recommendation: While the auditors preparation of the financial statements is not unusual in an organization of your size, it is the responsibility of management and those charged with governance to the decision whether to accept the degree of risk associated with preparation of the financial statements because of cost or other considerations. We also recommend DSST establish procedures to identify significant accounting transactions that have taken place during the fiscal year and review the accounting treatment prior to preparation of the financial statements. Additionally, management should perform a detailed review of all financial statements and fund trial balances throughout the year to ensure that all significant transactions have been appropriately reported in both the financial statements and trial balances prior to the audit process beginning.

Views of Responsible Officials: Management agrees with the finding.

Section II – Financial Statement Findings (continued)

**2018-B Schedule of Expenditures of Federal Awards (SEFA) Preparation and Reconciliation
Controls
Material Weakness**

Criteria: In order to ensure the financial reports generated by the accounting system are accurate and meaningful, DSST should have a system of internal controls in place that includes year-end reconciliations of account balances by all departments with corresponding supervisor reviews and documentation thereof to foster recording and processing of financial data accurately and in a timely manner. Additionally, 2 C.F.R.200.510(b) *Schedule of expenditures of Federal awards* states “the auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee’s financial statements which must include the total Federal awards expended in accordance with 2 C.F.R.200.502 *basis for determining federal awards expended.*” and 2 C.F.R.200.502 states “The determination of when a Federal award is expended should be based on when the activity related to the Federal award occurs.”

Condition: Through audit procedures performed, we noted instances in which the Schedule of Expenditures of Federal Awards was not prepared consistent with the requirements of 2 C.F.R. 200.502 and 2 C.F.R. 200.510. Rather, DSST prepared the SEFA based on when grant reimbursements were received. As a result, several adjustments were made to the SEFA.

Cause: DSST does not have sufficient internal controls to ensure grant staff are aware of the requirements for reporting federal expenditures on the SEFA. Additionally, management failed to appropriately reconcile grant activity reported in the SEFA to current period expenditures.

Effect: When reconciliations are inaccurate or not properly completed, this could lead to materially misstated balances which includes federal expenditures.

Recommendation: We recommend DSST improve controls surrounding the performance and approvals of reconciliations and the preparation of the SEFA.

Views of Responsible Officials: Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

**2018-001 Department of Education
CFDA # 84.282, Charter Schools
Procurement, Suspension & Debarment
Significant Deficiency in Internal Control over Compliance; Other Noncompliance**

Criteria: Federal regulation 2 C.F.R. 180.220 states that a contract for goods or services is a covered transaction if awarded in a nonprocurement transaction and if the amount of the contract is expected to equal or exceed \$25,000. Also, federal regulation 2. C.F.R. 180.300 requires that when a non-federal entity enters into a covered transaction with another entity, the non-federal entity must verify that the person or entity they intend to do business with is not excluded or disqualified from receiving federal funds. This can be done by: (1) checking the System of Award Management (SAM) exclusions, (2) collecting a certification from that entity, or (3) adding a clause or condition to the covered transaction with that person.

2 C.F.R, 200.303 states that, DSST, as a recipient of federal funds, must establish and maintain effective internal control over its federal awards that provides reasonable assurance that DSST is managing the federal awards in compliance with federal statutes, regulations, and the award terms and conditions.

Condition: We tested internal controls over procurement, suspension and debarment for the project and noted that there was no documentation to support that the SAM's check was performed to determine if the contractor was debarred or suspended. Although there was no documentation to support the internal control was in place, we noted that the contractor was not suspended or debarred.

Cause: DSST could not provide documentation to support that the SAM's check was performed prior to entering into the procurement transaction. Internal controls were not documented sufficiently to ensure documentation supported the required verification was performed and retained.

Effect: Failure to provide documentation the SAM's check was performed may result in entering into a contract with a suspended or debarred entity.

Questioned Costs: None reported.

Context/Sampling: Sampling was not used. All transactions subject to the suspension and debarment requirement were tested.

Repeat Finding from Prior Year(s): No

Recommendation: We recommend that DSST review the approval and documentation process for the suspension and debarment requirement (SAM's) to determine why the controls failed and make corrections to the design and implementation of controls that will prevent and detect and correct this from occurring in the future.

Views of Responsible Officials: Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs (continued)

**2018-002 Department of Education
CFDA # 84.282, Charter Schools
Cash Management
Significant Deficiency in Internal Control over Compliance**

Criteria: Federal regulation 2 C.F.R. 200.305(b) states that non-federal entities must minimize the time elapsing between the transfer of funds from the U.S. Treasury or pass-through entity and disbursement by the non-federal entity for direct program or project costs and the proportionate share of allowable indirect costs, whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means.

2 C.F.R, 200.303 states that, DSST, as a recipient of federal funds, must establish and maintain effective internal control over its federal awards that provides reasonable assurance that DSST is managing the federal awards in compliance with federal statutes, regulations, and the award terms and conditions.

Condition: We tested internal controls over cash management for the project and noted that there was a lack of controls over review.

Cause: DSST did not have internal controls in place to ensure proper review over cash draw requests.

Effect: Failure to review the cash management process may result in federal funds not being timely and/or accurately disbursed.

Questioned Costs: None reported.

Context/Sampling: Sampling was not used, 100% of the reimbursement requests were tested.

Repeat Finding from Prior Year(s): No

Recommendation: We recommend that DSST design and implement controls for review over the cash management process.

Views of Responsible Officials: Management agrees with the finding.