

**School District No. 1 in the
City and County of Denver and State of Colorado**

Single Audit Report

Year Ended June 30, 2014

**School District No. 1 in the
City and County of Denver and State of Colorado
Year Ended June 30, 2014**

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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 the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Education
School District No. 1 in the
City and County of Denver and State of Colorado
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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of School District No. 1 in the City and County of Denver and State of Colorado (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 22, 2014, which contained an emphasis of matter paragraph regarding a change in accounting principle, correction of an error and change in reporting entity. Our report includes a reference to other auditors who audited the financial statements of the Denver Public Schools Professional Compensation System for Teacher Trust Fund and the discretely presented component units. Of the discretely presented component units, only the financial statements of Academy 360, Colorado High School and Highline Academy were audited in accordance with *Governmental Auditing Standards*. This report does not include the result of other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the District's 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, there can be no assurance that all material weaknesses or significant deficiencies have been identified. However, as discussed in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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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 District'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 items 2014-001 and 2014-002 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-003 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

District's Response to Findings

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, according we express no opinion on them.

We also noted certain matters that we reported to the District's management in a separate letter dated December 22, 2014.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
December 22, 2014

**Independent Auditor's Report on Compliance For Each
Major Federal Program and Report on Internal Control Over
Compliance and Report on Schedule of Expenditures of
Federal Awards Required by OMB Circular A-133**

Board of Education
School District No. 1 in the
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Denver, Colorado

Report on Compliance for Each Major Federal Program

We have audited the compliance of School District No. 1 in the City and County of Denver and State of Colorado (the District) with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. The District'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 the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of 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 the District'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 the District's compliance.

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Basis for Qualified Opinion on Child Nutrition Cluster, Title I Grants to Local Education Agencies, IDEA Part B and IDEA Preschool, Improving Teacher Quality State Grants, and State Fiscal Stabilization Fund

As listed in the chart below and described in the accompanying schedule of findings and questioned costs, the District did not comply with certain requirements that are applicable to certain of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to these programs.

CFDA #	Program	Compliance Requirement	Type of Opinion	Finding Number
84.010	Title I Grants to Local Educational Agencies	Activities Allowed and Allowable Costs	Qualified	2014-004
84.027 and 84.173	Special Education – Grants to States (IDEA, Part B) and Special Education – Preschool Grants (IDEA Preschool)	Activities Allowed and Allowable Costs	Qualified	2014-004
84.367	Improving Teacher Quality State Grants	Activities Allowed and Allowable Costs	Qualified	2014-004
84.396B	State Fiscal Stabilization Fund (SFSF) – Investing in Innovation (i3) Fund, Recovery Act	Activities Allowed and Allowable Costs	Qualified	2014-004
84.010 and 84.367	Title I Grants to Local Educational Agencies and Improving Teacher Quality State Grants	Special Tests and Provisions	Qualified	2014-005
84.396B	State Fiscal Stabilization Fund (SFSF) – Investing in Innovation (i3) Fund, Recovery Act	Reporting	Qualified	2014-006
10.553, 10.555 and 10.559	Child Nutrition Cluster	Procurement, Suspension and Debarment	Qualified	2014-007

Qualified Opinion on Child Nutrition Cluster, Title I Grants to Local Education Agencies, IDEA Part B and IDEA Preschool, Improving Teacher Quality State Grants, and State Fiscal Stabilization Fund

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above

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that could have a direct and material effect on Child Nutrition Cluster, Title I Grants to Local Education Agencies, IDEA Part B and IDEA Preschool, Improving Teacher Quality State Grants, and SFSF for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the District 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 other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures also disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2014-008. Our opinion on each major federal program is not modified with respect to this matter.

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District'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 the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District'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 our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over the compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and a significant deficiency.

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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies

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in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-004, 2014-005, 2014-006 and 2014-007 to be material weaknesses.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-008 to be a significant deficiency.

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon, dated December 22, 2014, which contained an unmodified opinion, on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the financial statements. Other auditors audited the financial statements of the Denver Public Schools Professional Compensation System for Teachers Trust Fund and the discretely presented component units as described in our report on the District's financial statements. Our audit was performed for the purpose of forming opinions on financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

BKD, LLP

Denver, Colorado
December 22, 2014

**School District No. 1 in the
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Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Entity Pass- through Identifying Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Direct:			
Farm to School Implementation	10.575	4575	\$ 50,161
Passed through Colorado Department of Education:			
School Breakfast Program	10.553	4553	8,137,425
National School Lunch Program	10.555	4555	21,795,790
Summer Food Service Program for Children	10.559	4559	<u>565,257</u>
Child Nutrition Cluster Subtotal			30,498,472
Fresh Fruit and Vegetable Program	10.582	4582	1,139,915
Passed through Colorado Department of Public Health and Environment:			
Donated Commodities	10.555	51 2008008000 4010	2,008,096
Child/Adult Care Food Program	10.588	4558	<u>144,538</u>
U.S. Department of Agriculture Total			<u>33,841,182</u>
<u>U.S. Department of Defense</u>			
Direct:			
JROTC Career Academy	12.001	9001	<u>628,179</u>
U.S. Department of Defense Total			<u>628,179</u>
<u>U.S. Department of Labor</u>			
Direct:			
WIA - Youth Career Connect Program (aka YouthBuild)	17.274	7274	12,464
Passed through Front Range Community College:			
Trade Adjustment Assistance Community College and Career Training	17.282	7282	<u>5,500</u>
U.S. Department of Labor Total			<u>17,964</u>

**School District No. 1 in the
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Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2014**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Entity Pass- through Identifying Number	Federal Expenditures
<u>National Science Foundation</u>			
Passed through University of Colorado:			
Computer and Information Science and Engineering	47.070	7070	29,986
Passed through Denver Museum of Nature and Science:			
Education and Human Resources - STEM	47.076	7076	<u>26,376</u>
National Science Foundation Total			<u>56,362</u>
<u>U.S. Department of Education</u>			
Direct:			
Federal Supplemental Educational Opportunity Grants	84.007	5007	75,000
Federal Pell Grant Program - Pitkins Tech Center	84.063	5063	<u>1,490,619</u>
Federal Student Financial Aid Subtotal			<u>1,565,619</u>
Title VII Indian Education	84.060	4060	192,274
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	5334	885,679
Early Reading First	84.359B	5359	127,352
Urban Principal Leadership Program	84.363A	5363	119,919
Title V, Part D, Subpart: Teacher Incentive Fund (TIF)	84.374A	5374	<u>4,172,249</u>
Teacher Incentive Fund Cluster Subtotal			<u>4,172,249</u>
State Fiscal Stabilization Fund (SFSF)			
Investing in Innovation (i3) Fund, Recovery Act	84.396B	4396	5,421,533
Teacher Quality Partnerships, Recovery Act	84.405A	5405	<u>2,793,181</u>
Teacher Quality Partnership Grants Cluster Subtotal			<u>2,793,181</u>

**School District No. 1 in the
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Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2014**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Entity Pass- through Identifying Number	Federal Expenditures
Passed through Colorado Department of Education:			
NCLB Title I, Part A - Improving Basic Programs	84.010	4010, 5010, 7010	31,513,734
NCLB Title I, Part C - Education of Migrant Children	84.011	4011	65,250
Title VI - IDEA B Summer School Special Education	84.027	4027	16,953,427
PL99-457 Special Education Pre-School Grants	84.173	4173	<u>441,221</u>
Special Education Cluster (IDEA) Subtotal			<u>17,394,648</u>
McKinney-Vento Homeless Education Assistance, Title X	84.196	5196	34,353
NCLB Title V, Part B - Public Charter Schools	84.282	5282	2,024,373
Twenty-First Century Community Learning Centers	84.287	5287	2,792,575
Title I-G Advanced Placement for Disadvantaged	84.330B	5330	12,314
High School Graduation Initiative	84.360	5360	112,145
NCLB Title III, Part A - English Language Acquisition	84.365A	4365	1,901,856
NCLB Title II, Part A - Teacher and Principal Training and Recruiting Fund	84.367	4367	3,431,884
School Improvement Grant	84.377A	5377, 7377	2,885,887
Tiered Intervention Grant, Recovery Act	84.388	7388	<u>1,063</u>
School Improvement Grants Cluster Subtotal			<u>2,886,950</u>
Race to the Top Phase 3	84.413	4413	704,958
Passed through Colorado Community College and Occupational Education:			
Carl Perkins Vocational - Career and Technical Education	84.048A	4048	1,167,496
Passed through Colorado Department of Human Services:			
School to Work Alliance Program (SWAP)	84.126A	5126	330,808

**School District No. 1 in the
City and County of Denver and State of Colorado
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2014**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Entity Pass- through Identifying Number	Federal Expenditures
Passed through Jobs for the Future: Investing in Innovation (i3) Fund	84.411B	4411	590,233
Passed through Reading is Fundamental, Inc.: Elementary and Secondary Educational Act Title V	84.215G	4215	59,453
U.S. Department of Education Total			<u>80,300,836</u>
<u>U.S. Department of Health and Human Services</u>			
Passed through the State of Colorado (Not CDE): Temporary Assistance for Needy Families	93.558	8558	<u>440,288</u>
TANF Cluster Subtotal			<u>440,288</u>
Refugee and Entrant Assistance State Administered Program	93.566	7566	528,082
Refugee and Entrant Assistance Targeted Assistance Workforce Development	93.584	7584	50,464
Passed through City and County of Denver: Head Start	93.600	8600	<u>1,740,532</u>
U.S. Department of Health and Human Services Total			<u>2,759,366</u>
<u>Corporation for National and Community Service</u>			
Passed through Colorado Governor's Commission on Community Service: AmeriCorps	94.006	7006	418,439
Passed through Mile High United Way: Social Innovation Fund	94.019	7019	<u>113,046</u>
Corporation for National and Community Service Total			<u>531,485</u>
Total Expenditures of Federal Awards			<u>\$ 118,135,374</u>

**School District No. 1 in the
City and County of Denver and State of Colorado**
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

1. The schedule of expenditures of federal awards is prepared on the modified accrual basis of accounting. Expenditures are recognized when they become a demand on current available financial resources. Encumbrances are used during the year for budgetary control purposes and lapse at fiscal year-end. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements or reports to federal agencies.

2. The District receives food commodities from the U.S. Department of Agriculture for use in its food service program. The commodities are recognized as revenue when received. The commodities are recognized as expenditures when used by schools. The majority of the commodities are stored at the individual schools instead of a central warehouse. As such, the District has determined that the title to the commodities passes to the District upon receipt of the commodities. Since the District has received title to the commodities, the unused commodities are not reflected as deferred revenue. The commodities are reported under the National School Lunch Program (CFDA 10.555). The District recognized noncash awards of \$2,008,096 for the year ended June 30, 2014.

**School District No. 1 in the
City and County of Denver and State of Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014**

6. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes No

7. Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.553, 10.555, 10.559	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies
84.027, 84.173	Special Education Cluster (IDEA)
84.367	Improving Teacher Quality State Grants
84.374	Teacher Incentive Fund
84.396B	State Fiscal Stabilization Fund (SFSF) - Investing in Innovation (i3) Fund, Recovery Act

8. Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000.

9. Auditee qualified as low-risk auditee? Yes No

**School District No. 1 in the
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Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014**

Section II – Financial Statement Findings

Reference Number	Finding
2014-001	<p>Finding: Accounting for Capital Assets</p> <p>Criteria or specific requirement: Under accounting principles generally accepted in the United States of America (US GAAP), capital assets should be accounted for at their historical cost and in the period in which the asset is acquired. Accounting guidance that addresses the proper recognition and accounting of capital assets includes Governmental Accounting Standards Board (GASB) Statement No. 34, <i>Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments</i>, GASB Statement No. 37, <i>Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Government: Omnibus - an amendment of GASB Statements No. 21 and No. 34</i> and various implementation guidance issued by the GASB.</p> <p>Condition: The following conditions were noted:</p> <ul style="list-style-type: none">• As part of our capital asset testing for government wide activity, we selected 46 construction-in-progress project additions noting two exceptions. The total error was approximately \$1.9 million and in both cases noncapitalizable expenses were included within the project. The majority of this error resulted from a conversion issue related to the District's new accounting system.• As part of our capital asset testing for the enterprise fund, we selected five current year additions noting three exceptions. The number of exceptions indicated a potential deficiency in controls over capital asset additions.• During testing of repairs and maintenance expense, we noted approximately \$1.8 million of assets that were incorrectly expensed and should have been capitalized during the year.• In reviewing the useful lives of assets held, we noted inconsistencies between assigned useful lives and Denver Public School capital asset policies. Additionally, we noted that depreciation was not calculated consistently in both the government wide and business type activities.

**School District No. 1 in the
City and County of Denver and State of Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014**

Reference Number	Finding
	<ul style="list-style-type: none"> • Numerous errors and issues related to the conversion process for capital assets into the new accounting system were noted, including: <ul style="list-style-type: none"> - Program information was missing and as such, the District was unable to easily determine the functional expense breakout for the depreciation expense reporting - Manual entries were required to correct capital assets that didn't transfer correctly, which resulted in additional clerical errors - Master database of capital assets did not transfer completely, which did not allow for a District wide inventory in the current year • Where inventories were able to be performed, significant exceptions resulting from items that were unable to be located. <p>Cause: Primary causes of these issues related the conversion to the new accounting system from legacy systems that were not established to facilitate financial reporting. While many of the issues from the legacy systems have been resolved in years prior, the conversion issues led to errors in the initial recognition of the assets and difficulty in the reconciliations process between the sub module and general ledger.</p> <p>Effect: Audit adjustments were proposed to increase the construction-in-progress balance at year-end.</p> <p>Recommendation: We recommend the District continue to monitor and improve the financial systems and increase the review process until confidence in the systems is obtained. Furthermore, the District has a current project underway to update policies and procedures relating to capital assets and we recommend this process be completed as timely as possible. Once complete adequate training should be provided to all employees involved in capital asset reporting (including project managers) to ensure the new policies and procedures are properly implemented and enforced.</p> <p>Views of responsible officials and planned corrective actions:</p> <p><i>Response:</i> The District concurs with the recommendations and currently has a cross-departmental project in-process to draft and implement updated policies and procedures for both capital and noncapital assets. The project scope includes setting dollar thresholds and characteristics for capital assets as well as inventory tracking of assets that may not meet capitalization thresholds. The project will also consider policies and procedures for depreciation, accountability to business owners, use of the systems, reconciliation procedures, and training.</p>

**School District No. 1 in the
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Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014

Reference Number	Finding
	<p><i>Person responsible for implementing:</i> Stephen A. Clawson, Controller.</p> <p><i>Anticipated completion date:</i> The phases of the project related to capital assets and external financial reporting will be fully implemented by June 30, 2015.</p>

**School District No. 1 in the
City and County of Denver and State of Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014**

Reference Number	Finding
2014-002	<p>Finding: Prior Period Adjustment – Accounts Payable</p> <p>Criteria or specific requirement: Internal controls over financial reporting should be in place to ensure the financial statements are fairly presented in accordance with accounting principles generally accepted (GAAP). Additionally, the District should have controls in place to maintain an accounts payable subsidiary ledger and should reconcile general ledger activity to the subsidiary ledgers to prevent and detect a material misstatement in the financial statements in a timely manner.</p> <p>Condition: The following conditions were noted:</p> <ul style="list-style-type: none">• Prior to fiscal year 2014, the accounts payable subsidiary ledger had not been reconciled adequately to the general ledger. During the conversion to the new accounting system, the District reconciled the subsidiary ledger and discovered payable accounts that were paid prior to the beginning of the fiscal year 2014. The correction of the subsidiary ledger resulted in a restatement of beginning fund balance/net position of approximately \$4.9 million.• During detailed accounts payable testing, we noted numerous recording errors on invoices, including incorrect dates, descriptions and accounts. Additionally, we noted improperly accrued invoices of approximately \$2.1 million. An audit adjustment was proposed and made by the District.• There is currently no review of the vendor master file to identify any outdated vendors who are no longer in use. <p>Cause: The District was unable to reconcile the accounts payable subsidiary ledgers to the general ledger. Challenges were also experienced in the new accounting system conversion.</p> <p>Effect: Beginning fund balance/net position was restated by approximately \$4.9 million and approximately \$2.1 million in adjustments were proposed to properly state accounts payable as of June 30, 2014.</p> <p>Recommendation: In order to maintain proper control over accounts payable, we recommend that the subsidiary ledger be reconciled with the balance in the general ledger monthly. If any differences exist, they should be investigated and resolved promptly. In addition, internal controls over accounts payable should be strengthened to include a more thorough review after the payable process.</p>

**School District No. 1 in the
City and County of Denver and State of Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014**

Reference Number	Finding
	<p>Views of responsible officials and planned corrective actions:</p> <p><i>Response:</i> The District concurs with the recommendations and has implemented monthly closing and review procedures to ensure that the accounts payable subsidiary ledger balances to the general ledger. Additionally, the District is currently in the process of reviewing accounts payable policies and procedures, roles and responsibilities, communication and training.</p> <p><i>Person responsible for implementing:</i> Kathleen Rinkel, Executive Director of Finance.</p> <p><i>Anticipated completion date:</i> June 30, 2015.</p>

**School District No. 1 in the
City and County of Denver and State of Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014**

Reference Number	Finding
2014-003	<p>Finding: Financial Information Preparation</p> <p>Criteria or specific requirement: The District is required to maintain its general ledger necessary to support the preparation of financial statements and related footnote disclosures in accordance with generally accepted accounting principles. Additionally, accounting tasks such as cross-checks and reviews play a key role in proving the accuracy of accounting data and financial information that comprise interim and year-end financial statements and other financial reports on a timely basis.</p> <p>Condition: During our review of the financial information, we encountered numerous problems with the timeliness and/or accuracy of the information provided. Multiple requests to responsible departments to provide and correct information were required to be made during the audit process. Additionally, we noted the following:</p> <ul style="list-style-type: none">• The District did not timely perform monthly bank reconciliations over District accounts.• The District had inconsistent classifications of account balances including restricted/unrestricted cash and cash equivalents and investments and grant accounts receivable.• District schedules did not agree to supporting documentation that resulted in a proposed audit adjustment.• The District did not include required PERA contributions and Medicare taxes in the vacation and sick accrual as required in Governmental Accounting Standards Board Statement No. 16, that resulted in proposed audit adjustments over compensated absences.• The District incorrectly recorded the receipt of payment on the receivable and unearned revenue balance that resulted in a proposed audit adjustment. Several individual grant receivable projects showed a receivable and unearned revenue balance on the same project and were reclassified to properly state the total grant receivable balances.• The District net investment in capital asset calculation incorrectly excluded debt and expenditures. This exclusion resulted in a proposed audit adjustment that the District recorded.

**School District No. 1 in the
City and County of Denver and State of Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014**

Reference Number	Finding
	<ul style="list-style-type: none"> • The District net investment in capital asset calculation incorrectly excluded debt and expenditures. This exclusion resulted in a proposed audit adjustment that the District recorded. • The District made approximately 40 entries after the trial balance was provided for the audit. <p>Cause: From our observations and inquiries of management, Financial Services appears to spend a great deal of time correcting errors in accounting and re-working financial information due to inconsistent application of District policies and procedures designed to ensure that original transactions properly reflect account coding and budgets. An excessive number of journal entries are made by schools and departments across the District which increases the risk of errors and increases the workload of Financial Services staff to document, review and approve correcting entries. These issues were further exacerbated by the conversion to a new accounting system in July 2013. Challenges with the conversion process resulted in even greater difficulties preparing financial information, and further lessened the available time to review the financial information causing certain errors to go undetected until the audit commenced.</p> <p>Effect: The errors detected above and lack of detailed review led to the recompletion of financial information that led to significant delays in completing the audit and reporting to the Board of Education, compared to the agreed upon timeline.</p> <p>Recommendation: We recommend that the District examine its current process over financial reporting and strengthen its existing policies and procedures to help ensure transactions are initially recorded timely and accurately. We further recommend that all financial reporting policies and procedures be strictly enforced and the Finance and Audit Committee provide direction to Financial Services in this enforcement and oversight.</p> <p>Views of responsible officials and planned corrective actions:</p> <p><i>Response:</i> The District concurs with the recommendations and is currently in the process of reviewing financial reporting policies and procedures, roles and responsibilities, communication and training.</p>

**School District No. 1 in the
City and County of Denver and State of Colorado**
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014

Reference Number	Finding
	<p><i>Person responsible for implementing:</i> Stephen A. Clawson, Controller.</p> <p><i>Anticipated completion date:</i> The significant internal control elements of the reviews will be implemented by June 30, 2015.</p>

**School District No. 1 in the
City and County of Denver and State of Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014**

Section III – Federal Award Findings and Questioned Costs

Reference Number	Finding
2014-004	<p>Finding: Allowable Costs/Activities</p> <p>CFDA No. 84.010 - Title I Grants to Local Educational Agencies CFDA No. 84.027 and 84.173 - Special Education - Grants to States (IDEA Part B) and Special Education - Preschool Grants (IDEA Preschool) CFDA No. 84.367 - Title II-A - Improving Teacher Quality State Grants CFDA No. 84.396B - State Fiscal Stabilization Fund (SFSF) – Investing in Innovation (i3) Fund, Recovery Act</p> <p>Passed through the Colorado Department of Education</p> <p>Criteria: According to OMB Circular A-87, when employees work solely on a single federal award or cost objective, charges for salaries and wages shall be supported by periodic certifications that the employees worked solely on that program, for the period covered by the certification. These certifications should be prepared at least semi-annually and signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation, must reflect an after-the-fact distribution of the actual activity of each employee, must account for the total activity for which each employee is compensated, must be prepared at least monthly and coincide with one or more pay periods, and must be signed by the employee.</p> <p>Condition: Certain salary and wages charged to Title I, IDEA Part B and IDEA Preschool, and Title II-A were not supported by time and effort reporting.</p> <p>Questioned costs: Title I - \$14,932.56 IDEA Part B and IDEA Preschool - \$14,471.84 Title IIA - \$11,867.96 SFSF - \$21,477.83</p> <p>Context: We tested 60 payroll and nonpayroll transactions for each of the grants identified above. Of the total 240 transactions tested, we noted exceptions totaling \$62,750.19.</p> <p>Effect: Salary and wage costs were not fully supported by documentation in accordance with OMB Circular A-87.</p>

**School District No. 1 in the
City and County of Denver and State of Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014**

Reference Number	Finding
	<p>Cause: The District's process to identify employees that require a periodic time and effort certification was not effective for the entire year ended June 30, 2014. In addition, the District's process to ensure that all required time and effort certifications are completed does not allow for timely recognition of uncompleted certifications.</p> <p>Recommendation: During fiscal year 2014 the District started a process to implement procedures to strengthen controls and improve procedures for timely follow up. We recommend the District continue this process to strengthen controls and to ensure all required certifications are obtained.</p> <p>Views of responsible officials and planned corrective actions:</p> <p><i>Response:</i> The District concurs with the recommendation to continue the process initiated during fiscal year 2014 to strengthen the controls surrounding time and effort reporting, thus ensuring that all required certifications are obtained. We are currently reviewing our process to ensure that all exceptions are resolved through a timely final disposition.</p> <p><i>Person responsible for implementing:</i> Stephen A. Clawson, Controller.</p> <p><i>Anticipated implementation date:</i> June 30, 2015.</p>

**School District No. 1 in the
City and County of Denver and State of Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014**

Reference Number	Finding
2014-005	<p>Finding: Special Tests and Provisions</p> <p>CFDA No. 84.010 - Title I Grants to Local Educational Agencies CFDA No. 84.367 - Title II-A - Improving Teacher Quality State Grants</p> <p>Passed through the Colorado Department of Education</p> <p>Criteria: Local Education Agencies which choose to operate a school wide program must include certain core elements as defined in 34 CFR Section 200.26, Core Elements of a School wide Program as well as 34 CFR Section 200.28, School wide Program Components. Local Education Agencies are also required to conduct an assessment of local needs for professional development and hiring, as identified by the Local Education Agency and school staff in accordance with Sections 2122(b)(8) and (c) (20 USC 6622(b)(8) and (c)).</p> <p>Condition: The District is not utilizing the same template for each individual school, and templates provided do not include all required components, and in some instances not all required components were completed. In addition, the District provides each school with a tracker spreadsheet which can be used to track the progress of specific goals within the school wide plan. We noted that the District is not ensuring the proper use of this form as a means of achieving the goals within the school wide plan.</p> <p>Questioned costs: None.</p> <p>Context: We tested 25 school wide plans for internal controls and compliance noting the following issues:</p> <p>Title I Grants to Local Educational Agencies</p> <ol style="list-style-type: none"> 1. Eleven school wide plans either did not include or did not complete the instruction by highly qualified professional staff (34 CFR section 200.28(b)) 2. Thirteen school wide plans either did not include or did not complete the parental involvement policy as required in section 1118(b) of the Elementary and Secondary Education Act (ESEA) 3. Twenty-four school wide plans either did not include or did not complete the section addressing providing additional support to students experiencing difficulty (34 CFR Section 200.28(d))

**School District No. 1 in the
City and County of Denver and State of Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014**

Reference Number	Finding
	<p>4. Seven school wide plans either did not include or did not complete the transition plan for assisting preschool children in the successful transition to the school wide program (34 CFR section 200.28(e))</p> <p>5. Two school wide plans did not entirely complete the section addressing a comprehensive plan based on data from the needs assessment (34 CFR Section 200.26(b))</p> <p>6. Ten school wide plans were not properly identified as being Title I schools in the section addressing the annual evaluation of the results achieved by the school wide program and revision of the school wide plan based on that evaluation (34 CFR Section 200.26(c))</p> <p>7. The District uses a tracker spreadsheet as a monitoring control and in three instances we noted that this control was not used or completed.</p>
	<p>Title II-A - Improving Teacher Quality State Grants</p> <p>1. Eight school wide plans either did not include or did not complete the Need Assessment - Section III for the 1) narrative on data analysis and root cause identification 2) root cause analysis 3) action plan</p> <p>2. Twelve school wide plans either did not include or did not complete the Need Assessment Section demonstrating Title I Requirements and funding/resources for activities including an explanation as to how the Title II funds are coordinated</p> <p>Effect: The District is not in compliance with school wide plan documentation requirements.</p> <p>Cause: The District's monitoring procedures are not adequate to ensure that school wide plans are properly completed by each school and include all compliance requirements. In addition, the District has not established procedures which allow for the identification of incomplete school wide plans.</p> <p>Recommendation: We recommend the District strengthen monitoring procedures to review and approve school wide plans on an annual basis including the identification of schools which submit incomplete school wide plans and follow up procedures that will be performed to ensure appropriate completion.</p>

**School District No. 1 in the
City and County of Denver and State of Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014**

Reference Number	Finding
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Views of responsible officials and planned corrective actions:

Response: The District concurs with the recommendation to strengthen monitoring and review procedures for school wide plans. The District has developed a review and approval process for school wide plans and will work with the Assistant Superintendent of Schools to implement in time for the April 15th UIP submissions. Additionally, the District is continuing to review policies and procedures, roles and responsibilities, communication and training for ongoing improvement.

Person responsible for implementing: Nancy Connor, Senior Director Federal Programs.

Anticipated implementation date: April 15, 2015.

**School District No. 1 in the
City and County of Denver and State of Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014**

Reference Number	Finding
2014-006	<p>Finding: Reporting</p> <p>CFDA No. 84.396B - State Fiscal Stabilization Fund (SFSF) - Investing in Innovation (i3) Fund, Recovery Act</p> <p>Passed through the Colorado Department of Education</p> <p>Criteria: The District is required to submit ARRA Section 1512 reports quarterly as a requirement of the Investing in Innovation Fund program.</p> <p>Condition: There is no evidence that the District submitted the final ARRA Section 1512 report for the quarter ended September 30, 2013 related to the Investing in Innovation Fund program.</p> <p>Questioned costs: None.</p> <p>Context: The District was unable to provide evidence that the required quarterly report was submitted.</p> <p>Effect: The District is not in compliance with reporting requirements of the Investing in Innovation Fund program.</p> <p>Cause: The District does not have an adequate process in place to ensure ARRA Section 1512 reports are submitted timely, and that such reports can be subsequently located or reproduced to verify compliance.</p> <p>Recommendation: We recommend procedures be established to ensure that required reports are submitted timely. In addition, the District should include steps to ensure such reports can be subsequently located or reproduced to verify compliance with requirements of the Investing in Innovation Fund program.</p> <p>Views of responsible officials and planned corrective actions:</p> <p><i>Response:</i> The District concurs with the recommendation that ARRA Section 1512 reports should be submitted timely. This program ceased to be funded with ARRA monies as of September 30, 2013, and is therefore no longer applicable.</p> <p><i>Person responsible for implementing:</i> Not Applicable.</p> <p><i>Implementation date:</i> Not Applicable.</p>

**School District No. 1 in the
City and County of Denver and State of Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014**

Reference Number	Finding
2014-007	<p>Finding: Procurement, Suspension and Debarment</p> <p>Child Nutrition Cluster CFDA No. 10.553 - School Breakfast Program CFDA No. 10.555 - National School Lunch Program CFDA No. 10.559 - Summer Food Service Program for Children</p> <p>Passed through the Colorado Department of Education</p> <p>Criteria: Per 2 CFR 180, all nonfederal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. The District must verify that the contracted entity is not suspended or debarred or otherwise excluded from participating in the transaction. The verification can be accomplished by:</p> <ol style="list-style-type: none"> 1. Checking the Excluded Parties List System (EPLS) 2. Collecting a certification from the entity 3. Adding a clause or condition to the covered transaction with the entity <p>If checking of the EPLS system is used, the District should perform this review at the time the award is entered into. In addition, the District should comply with its purchasing policy, which requires contracts greater than \$25,000 to be competitively bid or the District must document justification to sole source contracts greater than \$25,000. Finally, Board of Education Policy requires approval of contracts based on a dollar threshold tier outlined in the Fiscal Management Policy.</p> <p>Condition: The District could not provide evidence that a verification was performed, nor was any language to this effect included in the contracts. Furthermore, we noted instances where the internal District policies were not followed.</p> <p>Questioned costs: None.</p> <p>Context: We tested nine procurement contracts greater than \$25,000, for internal controls and compliance noting the following issues:</p> <ol style="list-style-type: none"> 1. The District could not provide evidence for four contracts that the vendor's suspension and/or debarment status was verified against the federal database or any certifications were received from the entity.

**School District No. 1 in the
City and County of Denver and State of Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014**

Reference Number	Finding
	<p>2. Two contracts greater than \$25,000 were not competitively bid and the District could not provide sole source documentation or evidence that the contract met the applicable exceptions per District policy.</p> <p>3. The District was unable to provide documentation of the approval of the contract for five of the nine contracts.</p> <p>Effect: By not following procedures, the District risks contracting with a vendor that is suspended or debarred.</p> <p>Cause: The primary cause appears to be that the Child Nutrition Program is not consistently utilizing the District central procurement process. This was the case in eight of the nine items selected.</p> <p>Recommendation: We recommend all departments utilize the central procurement process. Training and communication to all departments should be improved as deemed necessary. The District may also consider increasing its monitoring procedures to include testing a portion of new contracts each year to verify compliance with requirements of its procurement policy and federal regulations.</p> <p>Views of responsible officials and planned corrective actions:</p> <p><i>Response:</i> The District concurs with the recommendation that all departments utilize the central procurement process and will provide training and communication to all departments as necessary. The District will also consider increasing monitoring procedures for any decentralized purchases.</p> <p><i>Person responsible for implementing:</i> Stephen A. Clawson, Controller.</p> <p><i>Anticipated implementation date:</i> June 30, 2015.</p>

**School District No. 1 in the
City and County of Denver and State of Colorado
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014**

Reference Number	Finding
2014-008	<p>Finding: Allowable Costs</p> <p>CFDA No. 84.367 - Title II-A - Improving Teacher Quality State Grants</p> <p>Passed through the Colorado Department of Education</p> <p>Criteria: Office of Management and Budget Circular A-87 requires that to be allowable a cost must be necessary and reasonable for proper and efficient performance and administration of federal awards. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.</p> <p>Condition: The purchase of logo t-shirts was charged to the program, which is an expenditure that does not meet the criteria of Title II-A grant requirements.</p> <p>Questioned costs: \$3,135.97.</p> <p>Context: We tested 60 payroll and nonpayroll transactions and noted one exception totaling \$3,135.97.</p> <p>Effect: Unallowable expenses were applied towards the grant.</p> <p>Cause: The District's review process did not identify the expenditure as being unallowable and therefore the expenditure was charged to the grant.</p> <p>Recommendation: We recommend the District strengthen its payment review and approval process to specifically include procedures to identify any unallowed costs, and ensure all costs charged to the grant are allowable.</p> <p>Views of responsible officials and planned corrective actions:</p> <p><i>Response:</i> The District concurs with the recommendation and notes that such systems and procedures do currently exist. This transaction was related to a new reporting process and an upgrade to a new financial system which resulted in certain transactions hitting the Activities Module with insufficient detail for the reviewer to easily identify individual line items; we began a process of addressing this issue in FY 2015. Additionally, the District is continuing to review accounts payable and accounting policies and procedures, roles and responsibilities, communication and training for ongoing improvement.</p>

**School District No. 1 in the
City and County of Denver and State of Colorado**
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2014

Reference Number	Finding
	<i>Person responsible for implementing:</i> Stephen A. Clawson, Controller.
	<i>Anticipated implementation date:</i> June 30, 2015.

**School District No. 1 in the
City and County of Denver and State of Colorado
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014**

Reference Number	Summary of Finding	Status
2013-001	<i>Financial Statement Preparation</i> - We recommend that the District consider improvements to its existing procedures to prepare and review account balance reconciliations, as well as the process to prepare its financial statements and related footnote disclosures in advance of the annual audit. Further, we recommend the District consider a more comprehensive monitoring process to ensure the CAFR is prepared in accordance with the agreed upon timeline and that all relevant milestones are reached.	Not Implemented. See finding 2014-003.
2013-002	<i>Allowable Costs- Title I, ARRA Innovation Fund, Title II-A, School Improvement Grant Cluster, & Head Start</i> - We recommend the District implement additional monitoring procedures to ensure that all employees charged to the grant have completed time and effort reporting.	Not Implemented. See finding 2014-004.
2013-003	<i>Allowable Costs - Title I, ARRA Innovation Fund, Title III, Title II-A, & School Improvement Grant Cluster</i> - We recommend the District implement additional procedures to ensure all supporting documentation is obtained and properly maintained on file.	Implemented.
2013-004	<i>Special Tests and Provisions - Title I, Title II-A, & School Improvement Grant Cluster</i> - We recommend that the District establish monitoring procedures to review and approve school wide plans on an annual basis to ensure compliance with Federal requirements.	Not Implemented. See finding 2014-005.
2013-005	<i>Reporting - School Improvement Grant Cluster</i> - We recommend that the District establish procedures to ensure ARRA Section 1512 reports are submitted timely. In addition, the District should include steps to ensure such reports can be subsequently located or reproduced to verify compliance with requirements of the School Improvement Grant program.	No longer valid. ARRA funding ceased in September 2013. Section 1512 reporting no longer required.
2013-006	<i>Procurement - Title I & School Improvement Grant Cluster</i> - We recommend that the District increase training and communication related to its procurement policy. The District may also consider increasing its monitoring procedures to include testing a portion of new contracts each year to verify compliance with requirements of its procurement policy.	Implemented