CITY OF AURORA, COLORADO

OMB Circular A-133 Report

Year ended December 31, 2005
CITY OF AURORA, COLORADO

OMB Circular A 133 Report

Year ended December 31, 2005

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Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Basic Financial Statements
Performed in Accordance with Government Auditing Standards

The Honorable Mayor and members of the City Council
of the City of Aurora, Colorado:

We have audited the financial statements of the governmental activities, the business-type activities, the
discretely presented component unit, each major fund, and the aggregate remaining fund information of the
City of Aurora, Colorado (the City) as of and for the year ended December 31, 2005, which collectively
comprise the City's basic financial statements, and have issued our report thereon, dated May 19, 2006 in
which we noted the City adopted the provisions of Governmental Accounting Standards Board Statement
No. 40, Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3, Deposits with
Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase
Agreements, and which included a reference to the report of other auditors. We conducted our audit 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.

Our consideration of internal control over financial reporting and our tests of compliance with certain
provisions of laws, regulations, contracts, and grants, and other matters did not include the entities audited
by other auditors referred to in the previous paragraph. The findings, if any, of those auditors are not
included herein.

For purposes of this report, our consideration of internal control over financial reporting and our tests of
compliance with certain provisions of laws, regulations, contracts, and grants, and other matters did not
include the Fitzsimons Redevelopment Authority. We have issued a separate report on our consideration of
internal control over financial reporting and our tests of compliance with certain provisions of laws,
regulations, contracts, and grants, and other matters for the entity. The findings, if any, included in this
report is not included herein.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in
order to determine our auditing procedures for the purpose of expressing our opinions on the financial
statements and not to provide an opinion on the internal control over financial reporting. However, we
noted certain matters involving the internal control over financial reporting and its operation that we
consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating
to significant deficiencies in the design or operation of the internal control over financial reporting that, in
our judgment, could adversely affect the City's ability to record, process, summarize, and report financial
data consistent with the assertions of management in the financial statements. Reportable conditions are
described in the accompanying schedule of findings and questioned costs as items 05-01, 05-02, and 05-03.
A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City’s basic 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*.

We also noted certain additional matters that we reported to management of the City in a separate letter dated May 19, 2006.

This report is intended solely for the information and use of the Mayor, City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

May 19, 2006
Independent Auditors’ Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards

The Honorable Mayor and members of the City Council
of the City of Aurora, Colorado:

Compliance

We have audited the compliance of the City of Aurora, Colorado (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2005. The City’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City’s management. Our responsibility is to express an opinion on the City’s compliance based on our audit.

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 City’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. Our audit does not provide a legal determination of the City’s compliance with those requirements.

As described in item 05-04 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the special test over loan requirements that is applicable to its Economic Development Cluster (CFDA 11.307). Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.
Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City’s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the City’s ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-01, 05-02, 05-03, 05-04, 05-05, 05-06, and 05-07.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 05-04 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2005, and have issued our report thereon, dated May 19, 2006 in which we noted the City adopted the provisions of Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3, Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements, and which included a reference to the report of other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City’s 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other auditors, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.
This report is intended solely for the information and use of the Mayor, City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

May 19, 2006
<table>
<thead>
<tr>
<th>Federal granting agency/program</th>
<th>Federal CFDA number</th>
<th>Pass-through grantor's number</th>
<th>Expenditures</th>
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<tbody>
<tr>
<td>Office of National Drug Control Policy</td>
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<tr>
<td>Direct Payments:</td>
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<tr>
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<td>Economic Development Cluster</td>
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<td>Direct Payments:</td>
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<td>Department of Defense</td>
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</tr>
<tr>
<td>Direct Payments:</td>
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<td></td>
<td></td>
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<td>Environmental Services Cooperative Agreement-Fitzsimons Landfills</td>
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<tr>
<td>Department of Housing and Urban Development</td>
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<td></td>
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<tr>
<td>Direct payments:</td>
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<td></td>
<td></td>
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<td>Housing Counseling Grant – 2001</td>
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<td>Fitzsimons Commons Development</td>
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<td>$125,696</td>
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</table>
CITY OF AURORA, COLORADO
Schedule of Expenditures of Federal Awards
Year ended December 31, 2005

<table>
<thead>
<tr>
<th>Federal granting agency/program</th>
<th>Federal CFDA number</th>
<th>Pass-through grantor's number</th>
<th>Expenditures</th>
</tr>
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<tbody>
<tr>
<td>HOME Investment Partnership Program -01</td>
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<td>HOME Investment Partnership Program -02</td>
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<td>HOME Investment Partnership Program -04</td>
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<td>HOME Investment Partnership Program -05</td>
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<td><strong>4,265,488</strong></td>
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**Department of Justice**

Passed through from the Colorado Department of Public Safety:
Volunteer Citizens Corp

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Direct Payments:
Organized Crime Drug Enforcement Task Force – Reimbursement
Organized Crime Drug Enforcement Task Force
Fugitive Task Force

<table>
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<tr>
<td></td>
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Passed through from the Colorado Department of Justice:
Drug Control and System Improvement -04/05

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Direct Payments:
Law Enforcement Block Grant – 04/05

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Weed & Seed Assets Forfeiture – 00/01
Weed & Seed – 2004
Weed & Seed – 2005

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Denver Metro Auto Theft Task Force

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Passed through from the Colorado Department of Justice:
Project Safe Neighborhoods

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Direct Payments:
Justice Assistance Grant (JAG) – 06/07

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Passed through from the Colorado Department of Justice:
Metro Gang Task Force JAG – 05/06

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<td>Total Department of Treasury</td>
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<td>Environmental Protection Agency</td>
<td>Passed through from Colorado Water Resources &amp; Power Development Authority:</td>
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<td></td>
<td>Total 66.458</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Environmental Protection Agency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Emergency Management Agency</td>
<td>Direct Payments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Metro Medical Response System (MMRS) Management</td>
<td>83.000</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Total 83.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>FEMA Firefighters Assistance</td>
<td>83.554</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Total 83.554</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Total Federal Emergency Management Agency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Education</td>
<td>Passed through from Aurora Public Schools:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>21st Century Coalition</td>
<td>84.287</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Elementary 21st Century</td>
<td>84.287</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>21st Century Aurora Central</td>
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</tr>
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<td></td>
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<tr>
<td></td>
<td>Total Department of Education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Health and Human Services</td>
<td>Passed through from the Colorado Department of Public Health and Environment:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Colorado Youth Services Program-West Community Partnership</td>
<td>93.000</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Total 93.000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Continued)
CITY OF AURORA, COLORADO  
Schedule of Expenditures of Federal Awards  
Year ended December 31, 2005

<table>
<thead>
<tr>
<th>Federal granting agency/program</th>
<th>Federal CFDA number</th>
<th>Pass-through grantor’s number</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northwest Aurora Bicycle and Pedestrian Plan</td>
<td>93.283</td>
<td>PPG-PF5-HHS</td>
<td>$5,000</td>
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<tr>
<td>Total 93.283</td>
<td></td>
<td></td>
<td>$5,000</td>
</tr>
<tr>
<td>Choose to Move</td>
<td>93.945</td>
<td>PPG-PG5-HHS</td>
<td>600</td>
</tr>
<tr>
<td>Total 93.945</td>
<td></td>
<td></td>
<td>600</td>
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<tr>
<td>Total Department of Health and Human Services</td>
<td></td>
<td></td>
<td>24,081</td>
</tr>
</tbody>
</table>

Department of Homeland Security

Direct Payments:
FEMA Katrina
97.000 N/A 269,087

Passed through from the City of Denver
Homeland Security:
97.000 None 10,471

Total 97.000

Passed through from the Colorado Department of Public Safety
Department of Local Affairs:
Urban Area Security Initiative
97.008 None 52,627

Total 97.008

Local Emergency Management System (LEMS) – 05
97.042 SEM05L82 48,805

Total 97.042

Community Emergency Response
97.053 4EM72482 8,452

Total 97.053

Homeland Security Exercise – 05
97.067 SEM72582x2 9,995

Total 97.067

Direct Payments:
Metro Medical Response System – 2004
97.071 N/A 88,490

Passed through from the Colorado Department of Public Safety
Department of Local Affairs:
MMRS – 2005
97.071 SEM75128 3,612

Total 97.071

Total Department of Homeland Security
491,539

Total Federal Awards
$21,089,329

See accompanying notes to schedule of expenditures of federal awards.
CITY OF AURORA, COLORADO
Notes to Schedule of Expenditures of Federal Awards
Year ended December 31, 2005

(1) General
The accompanying schedule of expenditures of federal awards includes the federal grant activity of the primary government of the City of Aurora, Colorado (the City). The City’s reporting entity is defined in note 1 in the City’s basic financial statements for the year ended December 31, 2005.

The information in the accompanying schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements or reports to federal agencies. The schedule of expenditures of federal awards includes federally funded projects received directly from federal agencies and the federal amount of pass-through awards received by the City through the State of Colorado or other non-federal entities.

(2) Basis of Accounting
Expenditures in the schedule of expenditures of federal awards are recognized on the modified accrual basis. The City’s summary of significant accounting policies is presented in note 1 to the City’s basic financial statements.

(3) Federal CFDA Number
Certain grant programs have not been assigned Catalog of Federal Domestic Assistance (CFDA) numbers by the federal government, or the numbers are not obtainable. These programs are identified in the accompanying schedule by the federal agency number followed by three zeros (for example, 7,000).

(4) Pass-through Grantor’s Number
For federal awards expended by the City as a subrecipient, the accompanying schedule includes identification of the pass-through grantor and the identifying number assigned to the grant by the pass-through grantor where the pass-through grantor has supplied such number to the City.

(5) Revolving Loan Funds – Not Subject to Compliance
The City has certain revolving loan funds, which were originally financed with federal financial assistance through the Community Development Block Grant Program, the HOME Investment Partnership Program and the OAR Brownfields Program. The outstanding balances of these loan funds at December 31, 2005 were $2,203,784 for the Community Development Block Grant Program, $7,266,126 for the HOME Investment Partnership Program, and $471,495 for the OAR Brownfields Program. Since there are no continuing compliance requirements other than continued loan payments, the outstanding loan balances have not been included in the accompanying schedule of expenditures of federal awards.

(6) Revolving Loan Funds – Subject to Further Compliance
The City has certain revolving loan funds, which were originally financed from the Department of Commerce, Economic Development Administration through the City’s Gifts and Grants Fund. The outstanding balances at December 31, 2005 were $30,428 in loans outstanding and $346,198 in funds available to lend. The 2005 expenditures for administrative costs were $497. The balance of the City’s match from the Community Development Block grant for the Revolving Loan Fund at December 31, 2005 was $350,000.
CITY OF AURORA, COLORADO

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2005

(7) Payments to Subrecipients

The City passed through approximately $242,000 of the $1,076,259 in total expenditures to subrecipients under the HOME Investment Partnership Program (CFDA No. 14.239). In addition, the City passed through to the Fitzsimons Redevelopment Authority $55,524 under the Fitzsimons Common Development Program and $23,602 Bioscience East Fitzsimons Program (CFDA No. 14.000).
Section I – Summary of Auditors’ Results

A. The type of report issued on the basic financial statements: Unqualified opinion

B. Reportable conditions in internal control disclosed by the audit of the basic financial statements:
   Yes
   Material weaknesses: No

C. Noncompliance which is material to the basic financial statements: No

D. Reportable conditions in internal control over major programs: Yes
   Material weaknesses: Yes

E. The type of report issued on compliance for major programs: Qualified opinion on special test: loan requirements for the Economic Development Cluster (CFDA 11.307); unqualified for all other major programs and compliance requirements.

F. Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: Yes

G. Major programs:

<table>
<thead>
<tr>
<th>CFDA Numbers</th>
<th>Name of federal program or cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.307</td>
<td>Economic Development Cluster</td>
</tr>
<tr>
<td>12.000</td>
<td>Environmental Services Cooperative Agreement – Fitzsimons Landfills</td>
</tr>
<tr>
<td>14.218</td>
<td>Community Development Block Grant (CDBG)</td>
</tr>
<tr>
<td>14.239</td>
<td>HOME Investment Partnership Program</td>
</tr>
</tbody>
</table>

H. Dollar threshold used to distinguish between Type A and Type B programs: $632,654

I. Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: No

(Continued)
CITY OF AURORA, COLORADO
Schedule of Findings and Questioned Costs
Year ended December 31, 2005

Section II – Findings Relating to the Basic Financial Statements Reported in Accordance with Government Auditing Standards

No. 05-01 Reportable Condition Over Access to Applications

Criteria. In order to have adequate access to applications:

- Formal approvals should be required for the establishment of users and granting of privileges.
- Access to powerful system level IDs (i.e., root, administrator, security administration IDs, and batch processing IDs) for in-scope systems should be restricted to the appropriate users.
- An effective mechanism should be in place to ensure that access is appropriately modified or revoked when changes in job function through termination or transfer occur.

Condition. (1) We noted only 4 out of 15 new Information Technology (IT) access request forms could be located.

(2) Access to powerful system level IDs (i.e., root, administrator, security administration IDs, and batch processing IDs) for in-scope systems was not restricted to the appropriate users. Specifically, we noted:

   a. There was one ID that was not appropriate for IFAS administrative access
   b. The timing of disabling 26 user accounts was unable to be determined
   c. As neither Human Resources nor IT had a listing of current contract employees, the appropriateness of eight contract employees’ access was unable to be verified

(3) There are no periodic, formally documented reviews conducted by management of user access rights to systems and applications.

(4) Two individuals had access to the administration level for the Novell network and for the IFAS application.

Context. This represents a systemic issue in that the City does not have appropriate access to applications.

Effect. There is an increased risk of unauthorized or inappropriate access to the City’s relevant financial reporting applications or data.

Cause. Effective controls are not in place to monitor the maintenance of access rights to the City’s IT systems.

13 (Continued)
CITY OF AURORA, COLORADO

Schedule of Findings and Questioned Costs

Year ended December 31, 2005

Recommendation. We recommend that management establish and enforce a policy over user administration to ensure that granting and termination of users’ access is based on proper authorization. This authorization should be documented and maintained by the IT department. In the case of termination of employment with the City, the policy should provide for timely revocation of access, such as the last day of employment. We further recommend that system administrator rights be restricted to certain members of the IT department.

Views of responsible officials and planned corrective actions. Staff concurs with the recommendation and will implement the following corrective actions or mitigations:

1. Formal approval for establishment of users and granting of system access privileges has been documented through memorandums or other written communication from appropriate supervisors and then purged after a period of time. In the future, the “Remedy” system will be modified to accurately and permanently document all new user requests to any system, and include documentation that will comply with the control description recommendation. Current system access will be documented, as noted in (2c) below, and approved through review with appropriate departmental representatives.

2a. The inappropriate ID has since been removed from the system.

2b. Novell does not track time and date of disabled accounts. Accounts can be disabled for a number of reasons, such as intruder lock-out. The procedure in place for disabling accounts for terminated employees includes the requirement to add comments indicating date/time/authority for disabled accounts. We will add language to the procedure for periodic review of disabled accounts to ensure the procedure is followed.

2c, 3, and 4. IT will develop a procedure where they will create Directory access reports for each department. The reports will be disseminated to departmental representatives for review and IT will update access rights upon notification from each department. Staffing levels preclude a complete separation of staff system level and application level access. The City does not have sufficient backup database administrator and system administrator positions, as such, IT would not be able to serve new account and change requests if we separated these functions. To mitigate the risk, the City will generate a report from IFAS of all new users on a monthly basis. This report will be reviewed by the proper departmental representative to ensure that accounts established have been authorized.

Contact. Mark Pray, Director of Information Technology
CITY OF AURORA, COLORADO
Schedule of Findings and Questioned Costs
Year ended December 31, 2005

No. 05-02 Reportable Condition over Recovery Testing

Criteria. Effective procedures should exist and be followed to periodically test the effectiveness of the restoration process and the quality of backup media relevant to systems and applications used during financial reporting processes.

Condition. We were unable to obtain documentation that backups are sent offsite. We were also unable to obtain documentation that the backup and recovery procedures for in-scope systems are tested periodically.

Context. This represents a systemic issue in that the City does not have appropriate recovery testing.

Effect. Without recovery testing and documentation of such testing, there is increased risk that backed-up data is not recoverable in the case of an emergency which could lead to a loss of productivity.

Cause. Effective controls are not in place to perform recovery testing procedures in accordance with City policy.

Recommendation. We recommend that management consider performing regular restoration testing and maintain documentation that this testing was performed and was successful.

Views of responsible officials and planned corrective actions. Staff notes the City’s Disaster Recovery Plan calls for a minimum of annual hot site recovery testing. However, due to the relatively small number of IT staff levels and day-to-day operational/project commitments the IT department was unable to conduct tests as described in the plan. If time permits, hot site recovery will be resumed. Restorations are done on a regular basis for testing of operating system and application upgrades.

Contact. Mark Pray, Director of Information Technology

No. 05-03 Reportable Condition over Application Controls (Segregation of Duties)

Criteria. Segregation of duties is an internal control intended to prevent or decrease the occurrence of innocent errors or intentional fraud. Segregation of duties means that no single individual should have control over two or more phases of a transaction or operation. Management should assign responsibilities to ensure a crosscheck of duties.

Condition. There is not proper segregation of duties within the IFAS application.
CITY OF AURORA, COLORADO
Schedule of Findings and Questioned Costs
Year ended December 31, 2005

Context. Specifically we noted:

a. 175 exceptions in which employees have the ability to set up a new accounts payable (AP) vendor and enter the invoices
b. 11 exceptions in which employees have the ability to enter an AP invoice (create a batch) and post the batch
c. One exception in which an employee has the ability to post an AP batch and print checks
d. Six exceptions in which employees had the ability to set up a new employee, enter pay rates/changes, and enter timesheets/leave slips
e. 11 exceptions in which employees have the ability to enter timesheets (create a batch) and post the final payroll batch
f. 10 exceptions in which employees have the ability to post the final payroll batch and process the payment (procedure called “Distribute and Pay”)

We noted high level reviews were being performed by appropriate members of management which were not at the appropriate level of detail to mitigate the risk of errors or irregularities.

Effect. With a lack of segregation of duties, there is an increased risk that errors or irregularities will not be prevented or detected on a timely basis by employees in the normal course of business.

Cause. Management was not performing regular reviews of user lists to ensure proper segregation of duties was maintained within the IFAS application.

Recommendation. We recommend that management perform regular reviews of City application user lists to ensure access is appropriate at all times and that there are no segregation of duties conflicts. These reviews should be performed more than annually.

We further recommend that if complete segregation of duties cannot be achieved due to resource limitations, management should implement appropriate mitigating controls, document these controls and the acceptance of the risk associated with the lack of segregation of duties.

Views of responsible officials and planned corrective actions. Staff is reviewing the recommendations and will continue to perform regular reviews of City application user lists for appropriateness of access and to identify segregation of duties conflicts. Staff believes certain existing controls mitigate the identified issues and has implemented certain new mitigating controls as follows:

a. Staff will review options improving segregation of access to creation of new vendors and to creation of accounts payable batches.

(Continued)
CITY OF AURORA, COLORADO
Schedule of Findings and Questioned Costs
Year ended December 31, 2005

b. Of the 11 exceptions noted, the persons with the ability to enter an accounts payable invoice (create a batch) and post an accounts payable batch are City Information Technology and Controller’s Office employees and employees of BITECH, the IFAS system provider. Information Technology and Controller’s Office staff levels do not allow separation of access. Information Technology dual access is mitigated through Controller’s Office reconciliation of cash disbursements to bank statements accompanied by departmental review of charges to budgets. Controller’s Office dual access is now mitigated through review of an automated weekly list of incidences of batch creation/modification and batch distribution by the same employee. This mitigating control will also be used to aid in mitigation of Information Technology employee dual access. BITECH dual access is necessary to receive issue resolution support from BITECH employees. A mitigating control over BITECH employees is that amounts paid are reconciled to amounts authorized for payment by City Management.

c. The employee’s access to the MICR printer check-writing function has been removed.

d. The six employees with the ability to set up a new employee, enter pay rates/changes, and enter time sheets/leave slips are all located in Human Resources. The limited size of Human Resources staff does not allow separation of these functions. However, a mitigating control exists as Controller’s Office Payroll personnel will monitor Human Resources access to payroll batches and will not process payment unless the batch changes input by Human Resources net to zero. If in the process of netting to zero net pay of a Human Resources employee is increased, Payroll personnel will receive Human Resources management approval of the transaction.

e. and f.

The persons with the ability to enter timesheets (create a batch), post the final payroll batch and process payroll payment are City Information Technology and Controller’s Office employees and employees of BITECH, the IFAS system provider. Information Technology and Controller’s Office employees must retain dual access due to staff size limitations. A mitigating control of both employee groups pay will be exercised through an independent review of the dual access employees approved and final payrolls to ensure amounts paid agree with amounts authorized by management. BITECH dual access is necessary to receive issue resolution support from BITECH employees. A mitigating control over BITECH employees is that amounts paid are reconciled to amounts authorized for payment by City Management.

Contact. Ron Craft, Controller
Section III – Findings and Questioned Costs Relating to Federal Awards

No. 05-04 Economic Development Cluster – CFDA 11.307
Program: Small Business Development Revolving Loan Fund
Award No.: 05-49-02842 from 1993

Federal Agency Direct Award from Economic Development Administration (EDA)

Special Test: Loan Requirements
Reportable Condition, Material Weakness, Material Noncompliance, Qualification

Criteria The City is required to retain standard revolving loan fund (RLF) loan documents necessary for lending. Per the EDA Loan File Checklist (1-17) and Section E of the EDA Grant Agreement (18-27), RLF loan files must contain the following information: 1) Completed loan application (with attachments and information release forms); 2) Minutes of Loan Administration Board approving the loan; 3) Commitment Letter (optional); 4) Loan Agreement, which contains a provision to call the loan if borrower fails to comply with the federal requirements of the grant (also any correspondence from the attorney regarding that agreement); 5) copy of the Promissory Note, with a provision for late payment charges and storing the original note in a secure and fireproof place; 6) Environmental Assessment; 7) Recorded Mortgage or Deed of trust, if real estate secures the loan; 8) Title Insurance Policy, if real estate secures the loan; 9) Security Agreement, if personal property secures the loan; 10) UCC filing, with date stamp, if personal property secures the loan; 11) Personal Guarantee Agreement (usually principals of closely held corporations); 12) Current Hazard and Liability Insurance, which shows the expiration date of the policy and includes a Lender’s Loss Payee Endorsement naming the Grantee as a “loss payee”; 13) Bank Loan Agreement or Bank Commitment Letter, which verifies private sector financing (leverage); 14) Annual Job Count Documentation, which records the number of jobs created/saved since loan was made; 15) documentation of Nonsubstitution, which notes that the Revolving Loan Fund Program did not substitute private capital (i.e., bank turn down letter); 16) Financial Statements not over 12 months old; 17) Annual Borrower Site Visit; 18) historical financial reports for the last three years of operation for the existing business at the time of application; 19) tax returns for the last three years for the business and individuals key to the project; however, personal tax returns will not be required for corporations unless an officer or director is providing a personal guarantee; 20) loan write-up; 21) borrower eligibility analysis; 22) conflict of interest statements signed by each Loan Review Committee member on an annual basis; 23) documentation of other project financing 24) personal financial statements; 25) general correspondence and copies of newspaper articles related to the project; 26) loan closing statement and summary of loan process expenses (i.e., legal fees, title insurance, etc.); and 27) loan amortization schedule and payment record. Per OMB Circular A-133, the City is required to have appropriate controls in place to ensure compliance with the loan requirement special test.
The City is also required to obtain additional documentation as described in Section B of the EDA Grant Agreement, which includes the following: 28) complete business plan; 29) an appraisal is required on real estate used as collateral and must be less than six months old prior to loan application; 30) an environmental assurance and compliance commitment document required for all applicants; and 31) credit report for all applicants.

**Condition**

All files tested were missing at least one required document. Although a checklist had been developed, it did not contain all requirements per the EDA loan checklist and grant agreement. In addition, management was not reviewing the completed checklist to ensure missing items were obtained.

**Questioned Costs**

Not applicable as lack of file documentation does not impact the eligibility or allowability of the disbursed funds.

**Context**

We reviewed the five loan files that were open during 2005 and noted the following exceptions:

- Five instances in which the original promissory was kept in the loan file instead of being stored in a secure and fireproof place
- Three instances in which an environmental assessment was not performed
- One instance in which a security agreement was not obtained
- One instance in which the UCC filing did not contain a date stamp
- Three instances in which a personal guarantee agreement was not obtained
- Three instances in which there was no evidence of current hazard and liability insurance
- One instance in which the borrower’s current insurance did not name the City of Aurora as a loss payee
- Four instances in which neither a bank loan agreement nor bank commitment letter was obtained
- Three instances in which an annual job count was not performed
- Three instances in which there was no documentation of nonsubstitution
- Two instances in which there were no current financial statements
- Four instances in which an annual borrower site visit was not performed
- One instance in which there were no historical financial reports for the borrower
- One instance in which there were no personal tax returns for the borrower
- Three instances in which a complete business plan was not obtained
- One instance in which an appraisal was not obtained for real estate used as collateral

(Continued)
CITY OF AURORA, COLORADO
Schedule of Findings and Questioned Costs
Year ended December 31, 2005

- Five instances in which an Environmental Assurance and Compliance Commitment document was not completed

Effect

If the City does not maintain the original signed promissory note in a secure and fireproof place, the note could be lost. If this were to occur, it would be difficult to prove that the borrower did, indeed, sign a binding legal document.

If the City does not perform an environmental assessment before approving a loan, and an environmental issue arises later, the City may be liable for any damages incurred.

If the City does not obtain a security agreement for personal property used as collateral, the City may not have legal claim to the property.

A UCC filing with a date stamp establishes lien priority. So, if the City does not obtain a UCC filing with a date stamp, and the borrower defaults on the loan, the City may not be able to prove priority over other parties.

If the City does not obtain a personal guarantee agreement from the principal of a corporation, the individual is not personally liable if the loan is in default. As such, the City may not be able to demand payment from the individual.

If the City does not obtain proof of current hazard and liability insurance, with a lender’s loss payable endorsement naming the City as a loss payee, the City is not protected in the event of a loss.

If the City does not obtain a bank loan agreement or bank commitment letter (verifying private sector financing), more funding may be required from this program but the borrower may not qualify for additional funds. Therefore, the related project may not be completed as planned.

Cause

Effective controls were not in place to ensure all required loan documentation was completed and maintained in the loan files.

Recommendation

The City should implement controls to ensure all the required loan documents are maintained in the file. The Small Business Loan program should develop a formal checklist that is maintained in the loan file that includes all requirements outlined in the EDA Loan File Checklist and grant agreement. In addition, the checklist should be reviewed by management each quarter to ensure the file is complete.

Views of responsible officials and planned corrective actions

Staff concurs with the recommendation and will take corrective action and, if possible, gather missing documents for current borrowers (existing files). Staff will revise its current Borrower File Checklist to include all 31 documentation requirements, will initial and date all appropriate points on the list as documents are gathered for the file, and will update the Checklist to remain current with EDA and RLF plan requirements. The Checklist and documents will be reviewed for accuracy and completeness, compared to current EDA and RLF plan requirements, initialed, and dated by management.

Contact

Nancy Webster-McKinney, Small Business Coordinator
CITY OF AURORA, COLORADO
Schedule of Findings and Questioned Costs
Year ended December 31, 2005

No. 05-05 Economic Development Cluster – CFDA 11.307
Program: Small Business Development Revolving Loan Fund
Award No.: 05-49-02842 from 1993

Federal Agency Direct Award from Economic Development Administration (EDA)

Suspension and Debarment
Reportable Condition

Criteria Per the EDA Grant Agreement, Section 11: Government Wide Debarment, Suspension & Other Responsibility Matters (Non Procurement), the City is required to perform a suspension and debarment check on any recipient of federal funds that exceeds $25,000. The City is required to have controls in place to ensure they are in compliance with the Suspension and Debarment requirement. (OMB Circular A-133 Compliance Supplement I. Procurement and Suspension and Debarment)

Condition The City did not perform a suspension and debarment check for one Small Business loan recipient who was awarded $75,000.

Questioned Costs Not applicable as our compliance testing confirmed the funds were not disbursed to parties who had been suspended or debarred.

Context We reviewed the five loan files that were open during 2005 and noted the loan file of one recipient did not have evidence that the City had checked the Excluded Parties website.

Effect If a suspension and debarment check is not performed prior to a loan being approved, the risk exists that a borrower could receive Federal funds while holding a record of suspension and debarment with the Federal government.

Cause The Small Business Loan program did not have adequate controls in place to ensure a suspension and debarment review was performed on all open loans.

Recommendation The City should implement controls within the Small Business Loan program that ensure a check for suspension and debarment is performed prior to any loan receiving approval. The Small Business Loan program should use the formal checklist that is included in the loan file to ensure that a suspension and debarment check is performed and evidence of review of the Excluded Parties website is placed in the loan file.

Views of responsible officials and planned corrective actions Staff implemented loan suspension and debarment verification for new loans during 2005 in concurrence with the recommendation, but did not conduct suspension and debarment reviews for open pre-2005 loans. Staff will also conduct a suspension and debarment verification for all open pre-2005 loans in 2006.

Contact Nancy Webster-McKinney, Small Business Coordinator

(Continued)
CITY OF AURORA, COLORADO
Schedule of Findings and Questioned Costs
Year ended December 31, 2005

No. 05-06  HOME Investment Partnership Program – CFDA 14.239
Award No.: M-05-MC-08-0201 for 2005

Federal Agency
Direct Award from Department of Housing and Urban Development (HUD)

Program Income
Reportable Condition

Criteria
Per OMB Circular A-133, an entity is responsible for establishing and maintaining internal control procedures to provide reasonable assurance that all loan write-offs are properly authorized.

Condition
When gaining an understanding of the write-off process, we noted that the management analyst inspects the supporting documents (records search, newspaper clippings of property foreclosure, etc.), however, as she also processes the charge-offs, there is a lack of segregation of duties. We also noted that the Community Development Division manager reviews and approves the monthly cash reconciliation, which includes details of all the loans written off that month. However, at this point, the loan has already been charged-off in the loan ledger system and his review of supporting documentation in the loan file only occurs when questions arise. As such, the write-off was not properly authorized prior to processing.

Questioned Costs
Not applicable as our compliance testing confirmed the loans were properly written-off.

Context
We reviewed 50 loan files that had been written off during 2005 and noted that there was no evidence that the write-offs were authorized in advance of being submitted to the management analyst for processing in the loan ledger system. However, subsequent review during the audit indicated that the required documents that track the status of the foreclosure and ultimate sale of the property were on file.

Effect
The City does not have an adequate preventive control in place to catch errors before they occur. If loan write-offs are not properly and timely authorized, it is possible that the transaction was not appropriate, accurate, and complete in order to comply with applicable regulations.

Cause
Effective controls were not in place to ensure that loan write-offs are properly and timely authorized.

Recommendation
The City should improve controls in the HOME Program to ensure that the loan write-offs are properly authorized prior to being processed in the loan ledger system. Once a loan has been identified for write-off, the supporting documentation should be reviewed and approved by the program coordinator or other personnel knowledgeable about the program and note their authorization by signing the support or an approval form, which would then be forwarded to the management analyst for processing.

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(Continued)
CITY OF AURORA, COLORADO
Schedule of Findings and Questioned Costs
Year ended December 31, 2005

Views of responsible officials and planned corrective actions
Staff will implement the recommendation and will add to its policies and procedures and loan file checklist a requirement that loan write-offs be properly authorized prior to being processed in the loan ledger system. Each loan file will contain the signature or initials of the appropriate housing counselor or senior housing counselor, who is typically the originating staff member on all loans, payoffs, and foreclosures, along with the initials of the HOAP Program Coordinator (Supervisor), or a designated acting Supervisor in the absence of the Supervisor. The current practice of the review by the management analyst and the Community Development manager will continue.

Contact
Joseph Garcia, Community Development Manager

No. 05-07
Environmental Services Cooperative Agreement – Fitzsimons Landfills – CFDA 12.000
Award No.: DASW01-01-2-0006 from 2001

Federal Agency
Direct Award from the United States Department of the Army

Suspension and Debarment
Reportable Condition

Criteria
Per OMB Circular A-133, non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of $25,000 and all nonprocurement transactions. As such, the City is required to have controls in place to ensure they are in compliance with the Suspension and Debarment requirement.

Condition
When gaining an understanding of the procurement, suspension, and debarment process, we noted that the City has authorized exceptions to the standard purchasing procedures for certain purchases over $2,500. One of these exceptions is that a Department Director is authorized to procure agreements with other federal, state, county, districts, local governments, and other political subdivisions without having to go through the Purchasing Department. However, the Department Director is then responsible for ensuring that actions initiated by them comply with the City code requirements, which includes performing a suspension and debarment check before a vendor/contractor is awarded a contract. We noted that the City did not have a control in place to ensure that a suspension and debarment check is performed for a vendor who received more than $25,000 and was procured by a Department Director outside the Purchasing Department.

Questioned Costs
Not applicable as our compliance testing confirmed the funds were not disbursed to parties who had been suspended or debarred.

23 (Continued)
CITY OF AURORA, COLORADO
Schedule of Findings and Questioned Costs
Year ended December 31, 2005

Context
We selected four vendors/contractors who received more than $25,000 of federal funds and reviewed the vendor’s files. We noted one of those vendors was contracted as an exception to the City’s procurement policy as it involved an intergovernmental agreement, so the Public Works Department was responsible for the transaction. We also noted that this department did not perform a suspension and debarment check for this vendor.

Effect
If a suspension and debarment check is not performed prior to a payment being made, the risk exists that a vendor could receive federal funds while holding a record of suspension and debarment with the federal government.

Cause
Effective controls were not in place to ensure that all grant managers verify the suspension and debarment status of all vendors.

Recommendation
The City should implement controls within each department that ensure a suspension and debarment check is performed on all vendors/contractors who are awarded contracts paid with federal funds. The suspension and debarment check can be performed by visiting the website at www.epls.gov and the screen-print of this check should be maintained as evidence of the review.

Views of responsible officials and planned corrective actions
Staff concurs with the recommendation and will reemphasize in training provided to all grant managers that review of the suspension and debarment status is required for all vendors receiving federal funds. Staff specific to this recommendation has changed the Fitzsimons Landfill Agreement process to include debarment review on any new vendors related to this project.

Contact
Jim Ives, Program Manager