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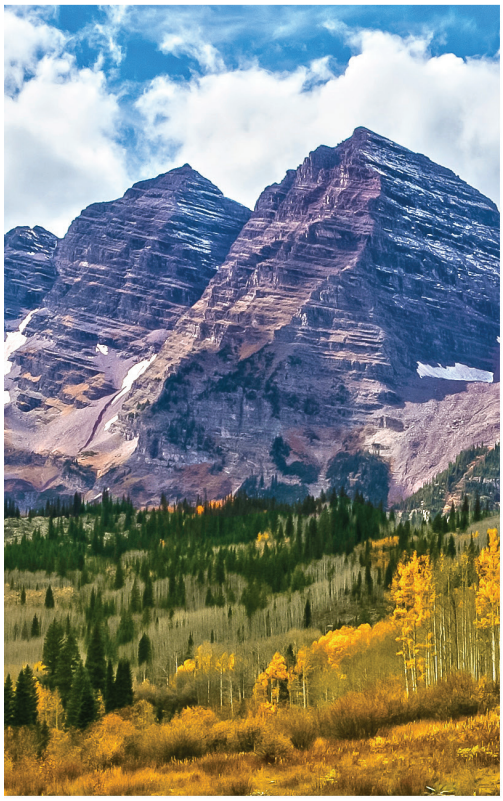
DEPARTMENT OF LOCAL AFFAIRS & DEPARTMENT OF HUMAN SERVICES

GAMING IMPACT GRANTS



AUGUST 2015

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DIANNE E. RAY, CPA

STATE AUDITOR

August 14, 2015

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the Local Government Limited Gaming Impact Program within the Department of Local Affairs and the Gambling Addiction Program within the Department of Human Services. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Departments of Local Affairs and Human Services.

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REPORT HIGHLIGHTS

GAMING IMPACT GRANTS
PERFORMANCE AUDIT, AUGUST 2015

DEPARTMENT OF LOCAL AFFAIRS
DEPARTMENT OF HUMAN SERVICES

CONCERN

The Department of Local Affairs (DOLA) has not ensured that its Local Government Limited Gaming Impact Program (Local Gaming Impact Program) awards grants to eligible entities or consistently uses Program funds to address the impacts of gaming in Colorado, as statute requires. The Department of Human Services (DHS) has not ensured that its Gambling Addiction Program operates effectively or complies with statute to address problem gambling in Colorado.

KEY FACTS AND FINDINGS

- For Calendar Year 2014, DOLA awarded $236,000 in Local Gaming Impact Program grants to two ineligible grant applicants that did not have the documented gaming impacts that statute requires. DOLA also awarded about $289,000 to three other applicants that used unsuitable methods to determine their gaming impacts.
- DOLA does not have transparent grant making processes. We could not determine DOLA's rationale for awarding 40 grants and denying three applications for Calendar Year 2014 because its rationale is not communicated or documented. Further, DOLA does not have a process to consider grant funding recommendations from its Advisory Committee, as required by statute, and the Advisory Committee did not follow certain requirements of Colorado's open meetings law.
- DOLA paid five grantees $514,587 (35 percent of the $1.48 million the audit reviewed), which were unallowable payments because the grantees did not comply with their grant contracts.
- DHS' Gambling Addiction Program has not operated effectively to address problem gambling. From July 2010 to August 2013, the Program had students provide gambling addiction counseling and did not provide grants to entities with or seeking accredited counselors, as statute requires. From September 2013 to June 2015, the Program funded only $650 in counseling services (the main purpose of the Program) and granted over $20,900 to ineligible counselors. Eighteen of the 23 counselors who received grants did not get accredited.
- Since July 2010, DHS has used only 36 percent of Gambling Addiction Program funds for grants; the remaining funds were used for administrative and marketing costs or not used at all.

BACKGROUND

- The Local Gaming Impact Program and Gambling Addiction Program are competitive grant programs created by the General Assembly to address specific impacts of casino gaming in Colorado. The Programs receive funding from taxes, fees, and fines paid by Colorado casinos.
- DOLA's Local Gaming Impact Program was created in 1997 to provide financial assistance to local governments to address the impacts of gaming on their communities. For Calendar Year 2014, this Program awarded local governments 40 grants totaling about $4.9 million.
- DHS' Gambling Addiction Program was created in 2008 to help fund counseling for those affected by problem gambling and help individuals become nationally accredited gambling addiction counselors. In Fiscal Years 2014 and 2015, this Program awarded 23 counselors about $28,000 in grants to pursue accreditation.

KEY RECOMMENDATIONS

- DOLA's Local Gaming Impact Program should use standard methods to document, measure, and report gaming impacts; consider Advisory Committee recommendations when awarding grants; and communicate and document the rationale for grant decisions. DOLA should also improve oversight of grantees, review grant expenditures, and ensure grantee contracts align with statute.
- DHS' Gambling Addiction Program should provide grants for gambling addiction counseling, only give grants to eligible entities, clarify its rules, and ensure Program funds are used effectively.

DOLA and DHS agreed with these audit recommendations.

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RECOMMENDATION LOCATOR

REC. NO.	PAGE NO.	RECOMMENDATION SUMMARY	AGENCY ADDRESSED	AGENCY RESPONSE	IMPLEMENTATION DATE
1	23	Improve administration of the Local Government Limited Gaming Impact Program by (A) establishing a standard methodology and criteria for documenting, measuring, assessing, and reporting documented gaming impacts on local governments, as required by statute; (B) establishing methods for the Advisory Committee to provide clear grant funding recommendations to the Executive Director; (C) ensuring the Committee's scores and funding recommendations are considered when determining grant awards; and (D) maintaining documentation of the rationale for grant decisions and communicating the rationale to grant applicants.	DEPARTMENT OF LOCAL AFFAIRS	AGREE	DECEMBER 2015
2	32	Improve oversight of Local Government Limited Gaming Impact Program grants by (A) establishing and applying written criteria for reviewing grant expenditures and supporting documentation, and ensuring pay requests undergo supervisory review; (B) establishing and using written criteria to determine the grant projects that undergo monitoring site visits; and (C) including language in grant contracts to reflect the statutory intent of the Program to use grant funds only for costs incurred to address gaming impacts.	DEPARTMENT OF LOCAL AFFAIRS	AGREE	A DECEMBER 2016 B DECEMBER 2015 C DECEMBER 2015

REC. NO.	PAGE NO.	RECOMMENDATION SUMMARY	AGENCY ADDRESSED	AGENCY RESPONSE	IMPLEMENTATION DATE
3	39	Work with the Advisory Committee to comply with the Colorado open meetings law by (A) providing public notice of all Committee meetings; (B) maintaining complete and accurate minutes of all Committee meetings, policy discussions, and decisions; (C) making meeting minutes accessible to the public; and (D) adopting Committee bylaws that contain procedures for complying with the Colorado open meetings law.	DEPARTMENT OF LOCAL AFFAIRS	AGREE	SEPTEMBER 2015
4	54	Ensure the Gambling Addiction Program operates effectively and in accordance with statute to help address problem gambling by (A) ensuring that grants are offered primarily for providing counseling to Colorado residents as well as for pursuing national counselor accreditation, in accordance with statute; (B) revising Program rules to clarify the requirements for counselor grant applicants; (C) ensuring written agreements are executed with grantees, Program contracts align with statute, and contracts and agreements include reasonable expectations for the use of grant funds; (D) ensuring any future Program contractors provide written reports that contain specific information to allow for adequate monitoring of contracts; and (E) training staff on the statutory requirements for the Program, the requirements of the Program contract, and how to hold future contractors accountable for contract terms.	DEPARTMENT OF HUMAN SERVICES	AGREE	A NOVEMBER 2015 B DECEMBER 2015 C NOVEMBER 2015 D NOVEMBER 2015 E NOVEMBER 2015
5	62	Maximize the use of funds in the Gambling Addiction Account to fulfill the purpose of the Gambling Addiction Program by (A) evaluating the demand for counseling and accreditation grants, offering grants for both purposes as statute requires, and seeking the authority to spend Account resources to conduct the evaluation, if authority is needed; (B) ensuring that criteria for awarding grants align with the results of the evaluation in Part A; (C) seeking authority to use more of the unspent funds in the Account, either through statutory change to obtain continuous spending authority or through the annual budget request process; and (D) establishing a clear rationale for determining the amount of administrative and marketing funds to allow the Program contractor(s) to spend to fulfill contractual duties and administer an effective Program.	DEPARTMENT OF HUMAN SERVICES	AGREE	A JULY 2016 B JULY 2016 C MAY 2016 D NOVEMBER 2015

CHAPTER 1

OVERVIEW OF GAMING IMPACT GRANTS

In 1991, casinos began operating in Colorado after voters approved a constitutional amendment [Colorado Const., art. XVIII, sec. 9] authorizing limited stakes gaming in the cities of Central City, Black Hawk, and Cripple Creek. The amendment restricted casino games to slot machines, blackjack, and poker table games, set the maximum single bet at $5, and limited casino operating hours. In July 2009, pursuant to State Constitutional Amendment 50 [Colorado Const., art. XVIII, sec. 9(7)], voters in the three gaming cities revised the gaming limits for casinos within their cities by increasing the types of games and maximum bets allowed, and extending gaming hours.

Statute [Section 12-47.1-701, C.R.S.] requires that $5 million be deposited into the Local Government Limited Gaming Impact Fund each year from revenues derived from gaming taxes, licensing fees, and fines paid by Colorado casinos. This Fund is then further allocated to State grant programs to address gaming impacts, as follows:

- 98 percent to the Limited Gaming Impact Account, which funds the Local Government Limited Gaming Impact Program (Local Gaming Impact Program) to provide financial assistance to counties for gaming impacts, and
- 2 percent to the Gambling Addiction Account, which funds the Gambling Addiction Program to address problem gambling.

LOCAL GAMING IMPACT PROGRAM

In 1997, the Local Gaming Impact Program was created within the Department of Local Affairs (DOLA) to use the monies in the Limited Gaming Impact Account (Account) to provide financial assistance to local governments to address documented gaming impacts from casino gaming in Colorado. Statute defines "documented gaming impacts" as the documented expenses, costs, and other impacts incurred directly as a result of limited gaming occurring in Gilpin and Teller Counties and on tribal lands [Section 12-47.1-1601(1)(a), C.R.S.]. According to statute [Section 12-47.1-1601(4)(b), C.R.S.], the following local governments and other entities are eligible for grants:

- The counties of Archuleta, Boulder, Clear Creek, Douglas, El Paso, Fremont, Gilpin, Grand, Jefferson, La Plata, Montezuma, Park, and Teller
- Municipalities within the above counties, except the cities of Black Hawk, Central City, and Cripple Creek
- Special districts providing emergency services within the above counties

Statute specifies that monies in the Account shall be distributed to eligible local governments for grants to "finance planning,

construction, and maintenance of public facilities and the provision of public services related to the documented gaming impacts" [Section 12-47.1-1601(4)(a)(I), C.R.S.]. The Local Gaming Impact Program is a competitive grant program. DOLA awarded 40 grants totaling about $4.9 million for grant projects operating in Calendar Year 2014, the most recent year completed at the time of our audit, and denied three applications totaling about $48,700. The 40 grants were awarded to local governments to fund a variety of projects and community services, including law enforcement; fire and ambulance services; and human services such as child care, hospice, and health care.

Statute [Section 12-47.1-1602, C.R.S.], created the Limited Gaming Impact Advisory Committee (Committee), which comprises 13 members, including DOLA's Executive Director; five members from eligible counties and municipalities; two members of the General Assembly; two members appointed by the Governor; two members appointed by the Departments of Public Safety and Revenue; and one member representing emergency services special districts. The Committee is responsible for establishing a standard methodology and criteria for measuring and reporting gaming impacts on eligible local government entities; reviewing gaming impacts and grant applications; and making grant award recommendations to DOLA's Executive Director, who makes final grant award decisions [Section 12-47.1-1601(4)(a)(I), C.R.S.].

DOLA executes contracts with each grantee and pays grantees based on reimbursement requests. According to DOLA, it has nine staff who have part-time responsibilities related to the Local Gaming Impact Program.

GAMBLING ADDICTION PROGRAM

In 2008, House Bill 1314 passed, creating the Gambling Addiction Program within the Department of Human Services (DHS). Statute [Section 12-47.1-1601(4)(a.5)(I), C.R.S.] requires the Program to offer grants to (1) state and local public and private entities or programs that provide gambling addiction counseling services, and (2) individuals pursuing national accreditation as gambling addiction

counselors. In Fiscal Years 2014 and 2015, the Gambling Addiction Program awarded a combined total of about $28,000 in grants for counselors to pursue the gambling addiction counselor accreditation.

At the time of our audit, DHS was contracting with the Center for Governmental Training (Center) to administer the Gambling Addiction Program by marketing the Program, soliciting grant applications, and awarding grants.

DHS has three staff who have part-time responsibilities related to the Gambling Addiction Program, including monitoring the Program's contractor and preparing annual reports to the General Assembly as required by Section 12-47.1-1601(4)(a.5)(II), C.R.S.

AUDIT PURPOSE, SCOPE, AND METHODOLOGY

We conducted this performance audit pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of the state government. The audit was conducted in response to a legislative request. The purpose of the audit was to assess whether (1) DOLA's Local Gaming Impact Program complies with statute and legislative intent by ensuring grants address documented gaming impacts, and (2) DHS' Gambling Addiction Program operates effectively to address problem gambling in accordance with statute and legislative intent. Audit work was performed from December 2014 through July 2015. We appreciate the cooperation and assistance provided by the management and staff of the Department of Local Affairs and the Department of Human Services during this audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The key objectives of the audit were to assess:

- DOLA's controls to ensure that Local Gaming Impact Program grants are awarded only to eligible entities to address documented gaming impacts, and awarded in a consistent, equitable, and transparent manner.
- DOLA's monitoring of grantees to ensure that grant funds are used in accordance with statute, policies, and grant contracts.
- DHS' controls within the Gambling Addiction Program to ensure it operates effectively to address gambling addiction.

This audit also reviewed DOLA's compliance with the SMART Government Act when carrying out its Local Gaming Impact Program.

To complete the audit objectives, we performed the following audit work:

- Reviewed applicable state statutes, DOLA and DHS written policies, DOLA's contracts with grantees, DHS' contracts for the Gambling Addiction Program, and progress reports submitted by Local Gaming Impact Program grantees and DHS' recent contractor.
- Analyzed grant application data and Committee scores for the 43 grant applications that DOLA's Local Gaming Impact Program received for Calendar Year 2014.
- Analyzed DOLA data for grants operating in Calendar Years 2012 through 2015, which showed the grant amounts applicants requested and were awarded, the types of projects funded and denied, and payments to grantees.
- Analyzed DHS data and documentation from Fiscal Years 2011 through 2015 regarding counselors who have received grants to obtain national accreditation and Coloradans who received counseling for problem gambling through the Gambling Addiction Program.

- Reviewed Local Gaming Impact Program financial data recorded in the Colorado Financial Reporting System (COFRS) for Fiscal Year 2014 and in the Colorado Operations Resource Engine (CORE) for Fiscal Year 2015.

- Reviewed Gambling Addiction Program financial data recorded in COFRS during Fiscal Years 2011 through 2014 and in CORE during Fiscal Year 2015.

- Reviewed trends in Gambling Addiction Program activities, its use of State funds in Fiscal Years 2011 through 2015, and the prevalence of problem gambling in Colorado.

- Interviewed DOLA and DHS management and staff, all members of DOLA's Advisory Committee, the Local Gaming Impact Program grantees that received grants for Calendar Year 2014, and the Gambling Addiction Program contractors.

We relied on sampling to support some of our audit work. Specifically, we selected a statistical, stratified random sample of 16 of the 40 grants that DOLA's Local Gaming Impact Program awarded for Calendar Year 2014. This sample included at least one grant from each of the eight counties that received a grant award that year to ensure geographic coverage of grants throughout the State. We designed our sample to provide sufficient and appropriate evidence for the purpose of evaluating DOLA's internal controls over awarding grants and monitoring and paying grantees.

We planned our audit work to assess the effectiveness of those internal controls that were significant to our audit objectives. Our conclusions on the effectiveness of those controls, as well as specific details about the audit work supporting our findings, conclusions, and recommendations, are described in CHAPTERS 2 and 3 of this report.

CHAPTER 2

LOCAL GOVERNMENT LIMITED GAMING IMPACT PROGRAM

The Department of Local Affairs (DOLA) administers the Local Government Limited Gaming Impact Program (Local Gaming Impact Program or Program) and is responsible for ensuring that Program funds are used to address the documented impacts of casino gaming on local governments and their communities [Section 12-47.1-1601(1)(a), C.R.S.]. We identified several problems with DOLA's grant making process and monitoring of grantees that need to be addressed to ensure the Program fulfills its statutory purpose. Specifically, we found that DOLA has awarded grant funds to entities that did not have documented

gaming impacts, reimbursed grantees for unallowable expenses and monitored grantees inconsistently, while the Local Gaming Impact Program's Advisory Committee (Committee) has not complied with Colorado's open meetings law that requires transparent government processes. We discuss these issues and our recommendations in the remainder of CHAPTER 2.

GRANT AWARD PROCESSES

To apply for a grant through the Local Gaming Impact Program, applicants send DOLA a written application on a standard form by May 31 for proposed projects that will operate the following calendar year. Each grant application describes the proposed project, the project budget, and the applicant's local financial commitment toward the proposed project costs. Each application also outlines the gaming impacts that the grant would address. For example, a local police department reports the number of gaming-related traffic stops it made during the previous year. DOLA staff review each application for completeness and prepare a two-page summary of each application for the Program's Committee.

The Committee holds a hearing each fall to review the applications and hear applicants' presentations. After the presentations, the Committee members score each application based on the two-page summary and the applicants' presentations, and provide the scores to DOLA staff. DOLA staff average the members' scores for each application, submit the averages to the Executive Director, and provide the Executive Director the staff's recommendations on the projects that should receive grants. By statute, the Executive Director makes the final grant award decisions [Section 12-47.1-1601(4)(a)(I), C.R.S.]. DOLA sends a letter to each applicant that states whether its application was approved or denied.

DOLA received 43 grant applications requesting a total of $7.1 million in funding for projects that would operate in Calendar Year 2014. DOLA approved 40 of the applications and awarded $4.9 million in grants, and denied three grant applications totaling $48,682. Of the 40 approved applications, 25 applicants received the full amount they requested in their applications and 15 applicants received partial funding. As shown in Exhibit 2.1, the approved grants for Calendar Year 2014 were awarded to fund a variety of services and projects including child care, hospice, and health care provided by nonprofit organizations; county sheriff patrol and jail operations; district attorneys' costs for gaming-related prosecutions; and fire and ambulance services.

EXHIBIT 2.1
LOCAL GOVERNMENT LIMITED GAMING IMPACT PROGRAM AWARDS FOR GRANTS OPERATING IN CALENDAR YEAR 2014

Grant Purpose	Number of Grants	Total Amount Awarded	
Human Services[1]	14	$	1,208,700
Law Enforcement	9	$	1,129,800
Fire & Ambulance Services	7	$	644,900
Jail Operations	5	$	1,060,700
District Attorney Operations	5	$	880,800
TOTAL	40	$	4,924,900

SOURCE: Office of the State Auditor's analysis of DOLA's grants data.
[1] Includes services provided by nonprofit organizations for child care, health care and hospice, victim services, and Court Appointed Special Advocates (CASA).

WHAT AUDIT WORK WAS PERFORMED AND WHAT WAS THE PURPOSE?

We reviewed statutes, DOLA's policies and procedures, and the grant application form to determine the criteria governing Program grants and understand how DOLA and the Committee awarded grants. We reviewed a sample of 16 approved grant applications that requested a total of $2,119,840 in funding and the three denied applications totaling $48,682 for Calendar Year 2014 to determine whether (1) grantees had documented gaming impacts and were eligible for grants;

(2) DOLA and the Committee evaluated grant applications and awarded grants consistently and equitably, based on standard criteria; and (3) award decisions were transparent, documented, and communicated to the applicants. For each sampled application, we reviewed electronic grant data and hardcopy documentation DOLA had on file, including written grant applications, documentation of DOLA staff's review of applications, and Committee score sheets. We also interviewed DOLA management and staff, Committee members, and the sampled applicants to assess DOLA's grant making processes.

HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We used the following criteria to evaluate DOLA's grant making processes.

PROGRAM GRANTS ARE FOR DOCUMENTED GAMING IMPACTS. Several sections of statute discuss the importance of grants being awarded for gaming impacts that are documented in accordance with established definitions. Specifically:

- Section 12-47.1-1601(1)(a), C.R.S., states that monies in the Limited Gaming Impact Account (Account) "shall be used to provide financial assistance to eligible local governments for DOCUMENTED GAMING IMPACTS" [emphasis added] which is defined in statute as the "documented expenses, costs, and other impacts incurred directly as a result of limited gaming permitted in Gilpin and Teller Counties and on Indian lands."

- Section 12-47.1-1601(4)(a)(I), C.R.S., states, in part "…the moneys from the [Account]…shall be distributed to eligible local governments to finance [activities] related to the DOCUMENTED GAMING IMPACTS." [emphasis added]

- Section 12-47.1-1602, C.R.S., gives the Committee specific duties that include (1) establishing a standardized methodology and

criteria for documenting gaming impacts on local governments; (2) reviewing the documented gaming impacts on local governments on a continuing basis; and (3) reviewing grant applications from local governments based, in part, on the **DOCUMENTED GAMING IMPACTS.** [emphasis added]

GRANT AWARDS SHOULD CONSIDER RECOMMENDATIONS FROM THE ADVISORY COMMITTEE. Two sections of statute specifically reference the role of the Committee in recommending grants:

- Section 12-47.1-1601(4)(a)(I), C.R.S., states, "After considering the recommendations of the [Committee]…the moneys from the [Account]…shall be distributed at the authority of the executive director of [DOLA] to eligible local governments…"

- Section 12-47.1-1602(3)(d), C.R.S., requires the Committee to make funding recommendations on a continuing basis, to the Executive Director of DOLA in making grant award decisions.

THE GRANT APPLICATION REQUIRES THE APPLICANT TO SPECIFY HOW IT DETERMINES ITS SERVICES ARE RELATED TO GAMING. DOLA's grant application requests that applicants provide a narrative response describing "what specific process is used in determining the relationship to gaming impacts." In addition, according to DOLA, staff meet with applicants to discuss the methodologies that the applicants use to document their gaming impacts.

WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

Based on our review of 16 approved and three denied grants, we found deficiencies in the grant process that indicate it is not designed or operating to fully comply with statutes requiring grants to be awarded (1) for documented gaming impacts and (2) after consideration of the Committee's funding recommendations. We detail each of these issues in the following two sections.

GRANTS AWARDED FOR UNDOCUMENTED GAMING IMPACTS

We found that for five of the 16 sampled approved grants totaling $525,111, DOLA did not award funding based on the documented gaming impacts, as described below.

- **TWO APPLICANTS WERE GRANTED A TOTAL OF $236,000 WITHOUT HAVING DOCUMENTED GAMING IMPACTS.** First, DOLA awarded one $106,000 grant to an applicant even though DOLA's management and staff noted in the grant file that the applicant did not document its gaming impacts. DOLA awarded about 50 percent of the amount that the applicant requested. DOLA did not document the basis for the grant decision but reported to us that it awarded a grant because it assumed the applicant experiences gaming impacts due to its proximity to a gaming city. Second, DOLA awarded a $130,000 grant to an applicant even though DOLA staff noted in the application summary that "the methodology used for documentation of gaming relationship is lacking." DOLA did not document and could not explain why this applicant was awarded a grant. The funds paid to the grantees for these two grants are improper and unallowable payments because the grantees did not comply with grant eligibility requirements in statute.

- **THREE APPLICANTS WERE GRANTED A TOTAL OF $289,111 BASED ON QUESTIONABLE METHODS OF DETERMINING GAMING IMPACTS.** The three applicants stated in their applications that they measured their gaming impacts by surveying clients who received services from nonprofits located in the applicants' communities. We obtained the surveys that had been used and found that they did not demonstrate gaming impacts because they asked the clients only generalized questions. For example, the surveys asked questions such as, "Do you ever enjoy going to a casino for entertainment on the weekends?", "Does your boyfriend (husband, grandparent, etc.) ever go up to Cripple Creek for fun?", and "Have you ever worked in a casino?" A "yes" answer to any of

these survey questions would not indicate that the client needed the community services due to the impact of gaming.

LACK OF CLEAR CONSIDERATION OF COMMITTEE INPUT

We identified a number of grant awards that indicate that the Committee's role in reviewing and scoring each proposed grant has little influence on DOLA's grant award decisions, despite the statutory provisions that indicate that Committee input should form a basis for the grant awards. The Committee scores each proposed grant project based on four criteria (1) project significance, which includes a clearly identified problem, solution, and documented quantifiable need; (2) project relationship to gaming impacts and evidence of impacts; (3) measurable outcomes and overall community benefit; and (4) applicant's local commitment of matching funds to the proposed project. The Committee scores each criterion between one and 10 points, with each proposed grant project receiving a maximum score of 40 points.

We identified the following examples of grant awards that did not align with the Committee's scores:

- DOLA denied one application for $2,312 for fire and rescue equipment but approved a $41,959 grant to another applicant for a similar request. The Committee's average score for the denied application was 29.5 and for the approved application was 24.8. Both applicants reported similar percentages of calls for service (3.2 and 2.9 percent, respectively) as gaming-related and planned to provide similar local financial contributions (25 and 15 percent, respectively).

- DOLA awarded the grant discussed on PAGE 16 totaling $106,000, which lacked documented gaming impacts, despite the application receiving the lowest average Committee score for Calendar Year 2014 grants. This application received an average Committee score

of 17.3 out of 40 points, which was less than the three denied applicants' average scores of 19.1, 25.7, and 29.5.

- DOLA awarded one applicant $50,000 which was about one-half of the funding it requested, although the application received one of the highest Committee scores of 32.5.

- DOLA awarded one applicant the full $228,535 it requested although it received an average Committee score of 26.2 points, which was below the average scores for 13 other applications that DOLA had partially funded.

We were unable to determine the reasons for DOLA's grant awards and denials for any of these applications, as well as for the other grants and the specific funding amounts awarded for Calendar Year 2014, because DOLA does not document or communicate the rationale for any of its grant decisions. During DOLA interviews we learned that grant decisions were primarily based on the Executive Director's and staff's anecdotal knowledge of gaming impacts and the presumption that counties have gaming impacts because of their proximity to casino gaming. DOLA senior management at the time of the audit indicated that decisions about which grants to award and the amounts were not made based on consideration of Committee scores. Some Committee members told us that they did not understand how the final grant awards were determined.

WHY DID THE PROBLEMS OCCUR?

LACK OF STANDARD METHODOLOGY AND CRITERIA FOR DOCUMENTING GAMING IMPACTS. Grant applicants may not consistently document their gaming impacts because the Committee has not established a standard methodology and criteria for documenting, measuring, assessing, and reporting gaming impacts, as required by statute. During the audit, DOLA staff stated that a standard methodology and criteria had not been developed because applicants are responsible for determining their gaming impacts and developing systems for documenting gaming impacts. Some Committee members and DOLA

management told us they believe gaming impacts are not consistently measured, noting an example that some law enforcement agencies count a traffic stop as a gaming impact if the driver was traveling directly to or from a casino when stopped, while others count a traffic stop as a gaming impact if the driver had visited a casino within 24 hours of being stopped.

LACK OF PROCESSES FOR COMMITTEE TO ADVISE ON GRANT FUNDING. Due to the lack of documentation, we could not fully evaluate the extent to which the Committee influences grant decisions. However, we found that DOLA's current grant process is not designed for the Committee to fulfill its role of reviewing the grant applications and recommending funding based on such review; the process appears to be designed to significantly limit the Committee's role and input. First, the Committee does not receive or review the full grant applications; it only receives two-page application summaries prepared by DOLA staff resulting in the Committee not fulfilling its statutory responsibility to evaluate grant applications as a basis for recommending funding. As noted in RECOMMENDATION 3, since the Committee does not follow the requirements of the Colorado open meetings law to keep minutes of its meetings, we could not determine if applicants gave the Committee additional information during the grant hearing that the Committee used in its scoring. However, we compared the full applications to the summaries that staff had provided the Committee and found that the summaries did not include detailed information on gaming impacts, proposed projects, and the applicants' needs that was included in the applications, which could have been useful for the Committee to review. For example, one denied applicant's grant application took over two pages explaining how the applicant was impacted by gaming, the services it provided, fire and rescue equipment that it needed to address gaming impacts, and problems with its existing equipment, yet the summary that the Committee received condensed the details to about four lines of information that did not appear to represent the significance of the applicant's need and gaming impacts. By not reviewing whole grant applications, there is a risk that the Committee does not have a full picture for the basis of its scoring.

Second, the scoring process does not result in the Committee providing the DOLA Executive Director clear or comprehensive grant funding recommendations. Under the current process, the Committee's role is limited to providing individual scores on each proposed grant to DOLA staff, which are then averaged and combined with DOLA staff input before being conveyed to the Executive Director. There is no process for the Committee to clearly communicate to the Executive Director if members believe certain applications should not receive any funding or to recommend specific funding amounts. According to statute [Section 12-47.1-1602(1)(a), C.R.S.], the Executive Director is a member of the Committee but it is not clear in statute that the Executive Director must be an active member of the Committee. DOLA reported to us that although the Executive Director attends annual grant hearings, the Executive Director does not score the applications or participate in the hearings by questioning applicants like the other Committee members do. DOLA also reported that the Committee and the Executive Director do not discuss the grant applications during the grant hearing, which further limits the Committee's input on award decisions. Further, there is no guidance on how the Executive Director should use or interpret the scores when making award decisions.

In addition to the issues described above, DOLA management and staff could not provide an explanation on why the rationale for grant award decisions are not documented or communicated to applicants.

WHY DO THESE PROBLEMS MATTER?

The Local Gaming Impact Program was created to help local governments address the impacts of gaming on their communities such as increased crime, traffic, and need for social services. For grants operating in Calendar Year 2014, five grantees that received a total of $525,111 in awards were ineligible for the grants they received because they did not document gaming impacts, or the grantees' impacts were not supported by DOLA documentation and evidence. When DOLA awards grants to ineligible entities, there are fewer funds available to the communities that need them. With $4.9 million in

Program funds available each year, applicants compete for a fixed pool of funds. For the 2014 Grant Year, applicants requested about $7.1 million in funds from the Program.

When there is no standard methodology for measuring, assessing, documenting, and reporting gaming impacts, grant applicants are more likely to report their gaming impacts inconsistently or inaccurately. DOLA field staff are responsible for working with applicants on their applications, which includes advising them about their project budgets and financial contributions, but without written guidance or criteria, applicants could receive inconsistent guidance from different staff, and report impacts and propose grant budgets inconsistently or inaccurately. Inconsistent and inaccurate information weakens DOLA's and the Committee's ability to evaluate whether the impacts that applicants report, the grant amounts that applicants request, and applicants' financial contributions are reasonable and appropriate.

Further, when the Committee does not review the full grant applications and Committee scores are not considered in determining grant awards or amounts, the value provided by the Committee to help direct funding is diminished. Without clear guidance on how DOLA should consider the Committee's scores, there is a risk that grant award decisions will be inconsistent.

Finally, when the reasons for grant awards and denials are not documented or communicated to applicants, the Committee, and DOLA staff, applicants do not have the feedback needed to address weaknesses in their applications and improve future applications, and Committee members and DOLA staff are not aware of the basis for grant awards and denials. Understanding the basis for approvals and denials could help inform and improve the grant making process. We raised this issue in our January 2000 performance audit of Limited Gaming, which also found that DOLA did not maintain written evidence of the reasons for awarding full, partial, or no funding of grants, or support for award amounts. DOLA agreed to maintain documentation of the reasons for grant award decisions, but based on

our current audit work, that audit recommendation has still not been implemented.

RECOMMENDATION 1

The Department of Local Affairs (DOLA) should work with its Limited Gaming Advisory Committee (Committee) to improve the administration of the Local Government Limited Gaming Impact Program by:

A Establishing a standard methodology and criteria for documenting, measuring, assessing, and reporting the documented gaming impacts on local governments, as required by statute.

B Establishing methods for the Committee to provide clear, comprehensive grant funding recommendations to the DOLA Executive Director based on its review of grant applications. This should include recommendations on any applications that the Committee believes should not receive funding and specific funding levels for applications that the Committee believes should be funded.

C Establishing methods and guidance to ensure the Committee's scores and funding recommendations are considered when determining grant awards.

D Documenting and maintaining documentation of the rationale for the grant decisions made by the DOLA Executive Director, including how the Committee's recommendations were considered, and communicating the rationale for decisions to all grant applicants.

RESPONSE

DEPARTMENT OF LOCAL AFFAIRS

A AGREE. IMPLEMENTATION DATE: DECEMBER 2015.

The Department will convene the Gaming Impact Advisory Committee on September 8, 2015 to review the proposed standard methodology and criteria for documenting, measuring, assessing and reporting gaming impacts. The Department will again convene the Advisory Committee on September 30, 2015 to formally adopt the methodology and criteria for the 2016 application cycle. Applicants must complete a Service Delivery Report (SDR) to document their gaming related impacts prior to submitting an application. The Advisory Committee reviewed the grant application processes and reviewed the use of the SDR form during the Winter of 2014. When the SDR is approved during the September 2015 meetings, the Advisory Committee will officially adopt both the methodology and criteria for determining gaming impacts via the use of the SDR which the Department will document in meeting minutes. The Department will also implement a written guideline for grant applicants to clarify application requirements including how to complete the SDR and ensure documenting of impacts before applications will be brought before the Advisory Committee.

B AGREE. IMPLEMENTATION DATE: DECEMBER 2015.

The Department will provide all grant applications and executive summaries to Advisory Committee members for the current 2015 application cycle and all future cycles. The Advisory Committee worked on revisions to the scoring method for rating each application in the Winter of 2014. At the September 30, 2015 hearings, the Advisory Committee will be asked to formally approve this scoring method. This scoring method will then be incorporated into the Advisory Committee's actions. The Advisory

Committee will be required to identify a specific dollar amount when voting on the recommendation to the Executive Director for each specific grant application. All actions of the Advisory Committee will be recorded and/or written in meeting minutes.

C AGREE. IMPLEMENTATION DATE: DECEMBER 2015.

The Advisory Committee developed a scoring method for rating each application during the Winter of 2014. At their September 8 and 30, 2015 meetings, the Advisory Committee will be required to formally vote on the use of this method before reviewing any applications for the current 2015 grant cycle and all future grant cycles. The Advisory Committee will be asked to vote on the final funding recommendation, per application. All decisions of the Advisory Committee will be captured in an audio recording of the meeting and/or in written meeting minutes. Following the Advisory Committee meeting, a memorandum will be provided to the Executive Director which articulates the Advisory Committee's rationale for their funding recommendations, along with staff input, all of which will be considered by the Executive Director when making award decisions.

D AGREE. IMPLEMENTATION DATE: DECEMBER 2015.

The Advisory Committee's recommendations, along with staff feedback will be articulated in a memorandum to the Executive Director. By October 2015, the Executive Director will receive the first such memorandum for the Program. The Executive Director will consider the recommendations of the Advisory Committee in making his funding decisions. The Executive Director will provide all applicants a letter indicating the rational for his decision to either fully fund, partially fund or deny an application. The Department will continue to post all funding awards on the website.

GRANT PAYMENTS AND CONTRACT MONITORING

After DOLA's Executive Director makes grant awards for the Program, DOLA executes a contract with each grantee, which includes the scope of work and budget for the funded project. The budget outlines the amounts grantees are authorized to spend in each budget category such as personnel and operating expenses. The contracts are executed for the calendar year. DOLA staff, located in three different regions of the State where casino gaming occurs, monitor grantees' compliance with the contract terms and DOLA's written policy for submitting reimbursement requests. For grants that operated during Calendar Year 2014, DOLA executed 40 contracts ranging from $5,379 to $420,700 each. According to DOLA's grant data, most grants are awarded for personnel and operating costs of local governments' police and fire departments, district attorney offices for gaming-related prosecutions, and nonprofits who serve clients impacted by gaming, including health and hospice care, child care, victims' services, and child welfare advocacy through Court Appointed Special Advocates (CASA).

The Program reimburses grantees quarterly based on grantees' reimbursement requests. DOLA staff prepare payment vouchers and send grantees payments. Staff also monitor grantees by reviewing supporting documentation grantees submit with their reimbursement requests and conducting site visits to provide grantees with technical assistance and review samples of grantee expenditures.

WHAT AUDIT WORK WAS PERFORMED AND WHAT WAS THE PURPOSE?

We reviewed 57 payments totaling $1,482,657 that DOLA made to a sample of 16 of the 40 grantees in Calendar Year 2014 to determine whether DOLA has sufficient controls to ensure grantees use grant

funds for documented gaming impacts in compliance with grant contracts, DOLA policies, and applicable state statutes. We compared the payments to grantee reimbursement requests, supporting documentation that DOLA had on file, and DOLA's electronic payment data recorded in the Colorado Financial Reporting System (COFRS) for Fiscal Year 2014 and the Colorado Operations Resource Engine (CORE) for Fiscal Year 2015. For five grantees in our sample for which DOLA did not have supporting documentation for the grantees' expenses, we requested and reviewed documentation from these grantees. We also reviewed documentation of site visits to grantees that DOLA staff conducted and interviewed DOLA management, staff, and sampled grantees to understand how DOLA monitors grantees, reviews grantees' reimbursement requests, and pays grantees.

WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY AND HOW WERE THE RESULTS MEASURED?

Statute [Section 12-47.1-1601, C.R.S.] broadly requires the Local Gaming Impact Program to use grants to pay for costs incurred to address gaming impacts. Each grantee's contract also includes additional requirements for using Program funds. We identified payment and monitoring problems with 13 of the 16 sampled grants we reviewed, as described below.

DOLA REIMBURSED GRANTEES FOR UNALLOWABLE EXPENSES. We found that DOLA paid five of the 16 grantees we sampled a total of $514,587 (35 percent of the $1.48 million reviewed) that were unallowable payments because the grantees did not comply with the terms of their contracts in Calendar Year 2014. Specifically:

- One grantee stated in all four of its quarterly reimbursement requests for Calendar Year 2014 that it could not document its specific gaming impacts for the operating costs for which it requested reimbursement. The grantee's contract required it to

provide "direct documentation of how these operating expenses are related to gaming industry impacts." DOLA paid the grantee its full grant amount of $147,811.

- Three grantees requested reimbursement for over $366,000 in personnel expenses without having documentation showing that the expenses were related to gaming impacts, as required by their contracts. The grantees' contracts stated that "all personnel expenses…will have a direct[ly] documented relationship to the prosecution of gaming industry related crimes impacting…[the] county." We obtained documentation from two of the grantees but it did not demonstrate that the requested amounts were incurred to prosecute gaming-related crimes and we were unable to determine how the grantees had calculated the amounts they requested. DOLA reimbursed these two grantees the full $320,770 they had requested. The third grantee stated on one of its quarterly reimbursement requests that "gaming-related cases have not been identified in the second quarter" and it did not document gaming impact related expenses that quarter, yet DOLA reimbursed the grantee the $10,374 it requested. In addition, this grantee did not provide documentation supporting its gaming expenses for its other three quarterly reimbursement requests that DOLA paid totaling $34,905.

- One grantee requested $727 for reimbursement for personal services and operations expenses during one quarter without providing DOLA a description or support for the expenses. All grantee contracts state "the grantee shall submit pay requests setting forth a detailed description…of reimbursable expenses." We obtained documentation from the grantee showing $582 of the costs were for payroll for fleet maintenance staff, but the contract specified that the only personnel costs the grant would cover were for police officers and a part-time clerk. This $582 did not appear to comply with the contract. For the remaining $145 in requested expenses, the grantee told us that it was unsure what the expenses were for. DOLA reimbursed the grantee for the $727 it requested.

In addition to these problems, we found that three of the 16 grant contracts that we reviewed did not require the grantees to document that expenditures requested for reimbursement were for gaming impact related costs, or contain specific language stipulating that only expenses incurred to address gaming impacts may be reimbursed through the grant.

DOLA PAID REIMBURSEMENTS WITHOUT SUPERVISORY APPROVAL. We found that more than one-half of the amount DOLA paid to the 16 grantees in our sample did not undergo review and approval by DOLA supervisory staff. DOLA's policy requires regional field staff to first review grantees' reimbursement requests and then submit the requests to their regional managers for final payment approval. We found that $800,770 of the total $1,482,657 that DOLA paid to the grantees in our sample were reviewed and approved by field staff but were paid without a manager's approval. Supervisory reviews can help ensure that grantee reimbursement requests comply with contracts, but only if documentation of the expenses is supplied and the purpose of the supervisory review is clear.

WHY DID THE PROBLEMS OCCUR?

DOLA HAS NOT ESTABLISHED CRITERIA TO TARGET GRANT MONITORING. DOLA has two methods to monitor grantee expenditures and verify that the amounts that grantees request in reimbursements are for legitimate expenses associated with their grant projects. First, DOLA policy requires staff to review reimbursement requests, determine if the expenses are eligible for reimbursement, contact grantees with questions before paying them, and submit payments to managers for supervisory review, but DOLA does not have any criteria to guide staff's or managers' review of expenditures or submitted documents and DOLA policy does not specify the purpose of supervisory reviews. For example, there are no criteria or guidance clarifying whether supervisory reviewers should ensure an expense is appropriate for the project, or simply check that staff have reviewed the expense. DOLA staff also reported to us that they do not follow up to obtain missing documentation or deny requests that lack

documentation. Although it is likely not efficient for DOLA staff to review supporting documentation for 100 percent of grant expenditures, applying criteria to review large-dollar purchases or expenditures that may be high risk would provide more robust oversight of the reimbursement process. Clearly establishing the purpose of supervisory reviews and targeting them for high-risk grants or expenses, could also help reduce the problems we identified related to unallowable grantee expenses.

Second, DOLA has a policy on conducting site visits with grantees to evaluate contract compliance and determine whether grant expenditures are for allowable uses and supported by adequate documentation. However, DOLA has not established any criteria for selecting grantees to visit or reviewing documentation during the visits. DOLA's policy states that regional managers may choose the grantees to undergo site visits. In Calendar Year 2014, DOLA conducted site visits at the six grantees located in La Plata and Montezuma Counties to review supporting documentation for grant expenses but did not visit any of the remaining 34 grantees around the State to review their expenses. DOLA could not explain why La Plata and Montezuma County grantees were the only ones that received these site visits in 2014. The six grantees visited in 2014 were awarded a total of about $665,000 in grants in 2014, ranging from about $42,000 to $185,000 each. The 34 grantees that did not undergo site visits were awarded the remaining $4.2 million in grants, ranging from about $5,000 to $420,000 each. Using standard criteria to target site visits based on risk, such as the grantees with the highest grant award amounts or past documentation problems, would strengthen the usefulness of site visits.

DOLA STAFF DID NOT ALWAYS REVIEW REQUESTS THOROUGHLY. DOLA management and staff were unable to explain why DOLA had paid the grantees that did not provide support for gaming impacts, but DOLA reported to us that it should not have paid one grantee $147,811 when the grantee stated that it could not document its gaming impacts. For the grantee that was reimbursed $10,374 after

reporting that it did not have gaming-related cases for one quarter, DOLA reported to us that it had missed this information.

DOLA DID NOT APPEAR TO CONSIDER GRANT MONITORING TO BE A PRIORITY. There are several indicators that DOLA management and staff do not place a priority on ensuring that grant funds are spent by grantees to carry out activities to address the impact of limited gaming. First, DOLA reported to us that it believes county governments are low risk for misusing grant funds because they are required to have annual financial audits, and DOLA staff are familiar with their personnel because most grantees have had the same grants for several years. Second, DOLA did not enforce its written policy requiring supervisory reviews of grantees' reimbursement requests and it reported to us that monitoring grantees is time intensive so it plans to move in the direction of using a risk-based approach to conduct supervisory reviews. DOLA reported that the risk-based approach should be in place around December 2015, but in the meantime, supervisory reviews are inconsistent. Finally, DOLA has not ensured that all of its contracts with grantees contain consistent language that aligns with the intent of the Program to reimburse grantees for their costs related to gaming impacts.

WHY DO THESE PROBLEMS MATTER?

DOLA has a responsibility to ensure that the state monies used to fund Program grants are used effectively and efficiently to provide financial assistance to local communities impacted by casino gaming, as intended by statute. When DOLA does not implement adequate controls to ensure that all grant reimbursements are only for legitimate gaming impact related expenses associated with the grant project, there is an increased risk that grant funds will be misused. As noted above, we found $514,587, or about 10 percent of Program funds for 2014, that should not have been paid. Further, the lack of rigorous monitoring increases the risk that fraud or errors will occur and not be identified or addressed, and that grant monies will not accomplish their purposes.

RECOMMENDATION 2

The Department of Local Affairs should improve its oversight of Local Government Limited Gaming Impact Program (Program) grant projects and ensure payments to grantees are allowable by:

A Establishing and applying written criteria to determine which grant expenditures and supporting documentation should be reviewed by staff, and ensuring pay requests undergo supervisory review before being reimbursed.

B Establishing and applying written criteria to determine which grant projects should undergo monitoring site visits.

C Including specific language in all grant contracts to reflect the statutory intent of the Program to use grant funds only for costs incurred to address gaming impacts.

RESPONSE

DEPARTMENT OF LOCAL AFFAIRS

A AGREE. IMPLEMENTATION DATE: DECEMBER 2016.

The Department is evaluating its overall internal control environment and will make refinements to ensure proper procedures and systems are in place over the review and approval of the grant reimbursement process. A component of this structure is to add an electronic pay request system that will allow grantees to request payment and submit documentation electronically. This will add assurance by increasing accessibility to backup documentation, and will electronically workflow the review and approval process. As part of this evaluation the Department will develop thresholds for identifying high risk contracts and develop

procedures and checklists for consistent monitoring practices of these higher risk awards.

B AGREE. IMPLEMENTATION DATE: DECEMBER 2015.

The Department is implementing a risk based criteria and selection process for contract monitoring of contracts and revising program policies and procedures to reflect this new process for the 2015 grant cycle. A risk assessment for all contracts will be completed. Additional support and compliance monitoring will be provided for higher risk contracts. At the time of contract preparation, the Field Team will complete a risk assessment check list for every grant contract that evaluates such things as, but not limited to, the technical capacity of the local government to manage the contract, the total dollar amount of the contract award, the past compliance of the grantee with quarterly reporting and invoice management and if this is the first grant contract being provided to the local government. Program staff will then be able to ensure that higher risk contracts are receiving technical assistance and monitoring site visits as needed. Additionally, monitoring events will be documented using a checklist to include date of visit, activities, results, and recommendations for tracking purposes. The Program's policies and procedures manual will be revised to include a monitoring checklist to be completed and filed with each monitoring completed.

C AGREE. IMPLEMENTATION DATE: DECEMBER 2015.

The Department utilizes templates for grant contracts and will add specific language in all grant templates to reflect the statutory intent of the Program to use grant funds only for costs incurred to address gaming impacts by December 2015. The Department will insert into Exhibit B of every contract:

PURPOSE
1.1 Gaming Impact. Grants from the Local Government Limited Gaming Impact Fund program will be used to provide financial assistance to designated local governments for documented

gaming impacts to finance planning, construction, and maintenance of public facilities, and the provision of public services related to the documented gaming impacts.

ADVISORY COMMITTEE MEETINGS

Statute [Section 12-47.1-1602(3), C.R.S.] requires the Committee to (1) establish a standardized methodology and criteria for documenting gaming impacts on local governments, (2) review the documented gaming impacts on local governments on a continuing basis, (3) review grant applications from local governments, and (4) make funding recommendations to the DOLA Executive Director in making grant award decisions. The Committee holds a hearing each fall to hear verbal presentations from grant applicants and score grant applications. According to DOLA management and staff, the Committee occasionally meets at other times during the year to discuss application processes and criteria.

WHAT AUDIT WORK WAS PERFORMED AND WHAT WAS THE PURPOSE?

We reviewed statutes and DOLA policies to understand the Committee's core responsibilities and activities, including the requirements of Colorado's open meetings law [Section 24-6-402, C.R.S.]. We also interviewed DOLA management, staff, and Committee members to understand how the Committee functions and determine whether the Committee is operating in accordance with applicable open meetings requirements.

HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

The purpose of Colorado's open meetings law [Section 24-6-402, C.R.S.] is to ensure that all meetings of state public bodies are open to the public and that records of these meetings are kept and publicly available. Specifically, the open meetings law states:

- "Meeting" means any kind of gathering, convened to discuss public business, in person, by telephone, electronically, or by other means of communication [Section 24-6-402(1)(b), C.R.S.].

- "State public body" means any board, committee, commission, or other advisory, policy-making, rule-making, decision-making, or formally constituted body of any state agency [Section 24-6-402(1)(d), C.R.S.].

- All meetings of two or more members of any state public body at which any public business is discussed or at which any formal action may be taken are declared to be public meetings open to the public at all times [Section 24-6-402(2)(a), C.R.S.].

- Minutes of any meeting of a state public body shall be taken and promptly recorded, and such records shall be open to public inspection [Section 24-6-402(2)(d)(I), C.R.S.].

The Committee is a state public body, and its activities and meetings are considered to be public business subject to the requirements of Colorado's open meetings law.

WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY AND WHY DID THEY OCCUR?

COMMITTEE MEETINGS AND ACTIVITIES ARE NOT DOCUMENTED. According to DOLA management and staff, they publish a public notice of each annual grant review hearing on DOLA's website. However, DOLA does not keep hard copies of past notices, and the Committee did not meet during our audit, so we were unable to verify that the meetings were publicly noticed. In addition, the Committee does not take minutes of any of its meetings. DOLA staff told us that the Committee has not taken minutes of its grant review hearings or meetings because the Committee does not have decision-making authority and does not vote on grant awards and, prior to our audit,

DOLA did not believe that the requirement for minutes was applicable to the Committee.

We also found that the Committee does not have any written policies, rules, or bylaws, which could contribute to the Committee not complying with the open meetings law. The adoption of written rules or bylaws is a common practice in other grant programs in the State, such as the Colorado HIV and AIDS Prevention Grant Program; the Veteran's Trust Fund Grant Program; the Tobacco Education, Prevention and Cessation Grant Program; and the Cancer, Cardiovascular Disease, and Chronic Pulmonary Disease Prevention, Early Detection, and Treatment Grant Program. In all of these grant programs, the advisory or decision making body has written bylaws that provide guidance to the body regarding adherence to the open meetings law.

During our January 2000 performance audit of Limited Gaming, we also found that DOLA did not keep minutes of the Committee's meetings during which grant awards were discussed. DOLA agreed with our recommendation to take minutes of the Committee's grant review meetings but based on our current audit work, DOLA has not implemented that recommendation.

WHY DO THESE PROBLEMS MATTER?

Colorado's open meetings law is in place to ensure that the public has the opportunity to become more informed on issues of public importance by observing and participating in public meetings and that policymakers' decisions are transparent and documented. When DOLA does not provide public notice of Committee meetings, it can prevent the opportunity for such public participation. Further, by not keeping minutes, there is no formal record of the Committee's discussions and decisions, which may not be valid because the Committee did not follow the requirements of the open meetings law. Statute [Section 24-6-402(8), C.R.S.] states that "no… formal action of a state or local public body shall be valid unless taken or made at a meeting that meets the requirements of subsection (2) of this section."

Subsection (2) contains the requirements for announcing meetings and recording and making meeting minutes publicly available. Not following the requirements of the open meetings law leaves the Committee subject to challenge regarding grant award recommendations and Committee actions.

In addition, due to the lack of documentation of Committee meetings, we were unable to fully review the Committee's processes for evaluating grant applications as a basis for recommending grant funding to the DOLA Executive Director. As discussed in RECOMMENDATION 1, we were unable to determine how the Executive Director's final grant decisions related to the Committee's review and scoring processes.

Further, as discussed in RECOMMENDATION 1, the Committee has several important Local Gaming Impact Program responsibilities that it has not completely fulfilled, including establishing standardized methodologies and criteria for documenting gaming impacts, reviewing gaming impacts on an ongoing basis, and making funding recommendations to the Executive Director based on the ongoing review of impacts. The Committee will need to adhere to the open meetings law in its efforts to meet those responsibilities.

RECOMMENDATION 3

The Department of Local Affairs should work with its Limited Gaming Advisory Committee (Committee) to comply with the Colorado open meetings law by:

A Providing advance public notice, with detailed agenda information, of all meetings involving two or more members of the Committee to ensure the meetings are open to the public.

B Implementing a process to ensure complete and accurate minutes of all meetings of two or more members of the Committee are recorded, including detailed records of all actions, policy discussions, and decisions.

C Implementing a process to make meeting minutes accessible to the public.

D Adopting Committee bylaws that contain procedures for complying with the Colorado open meetings law.

RESPONSE

DEPARTMENT OF LOCAL AFFAIRS

A AGREE. IMPLEMENTATION DATE: SEPTEMBER 2015.

The Department has instituted its Open Meetings Checklist in July 2015, to ensure proper posting and recording of public meetings which includes the Advisory Committee. The Advisory Committee will annually designate its public notice posting location for agendas and notices. At least 24 hours before meetings an agenda will be posted at the Department's offices and at the location of the meeting (even for out of town meetings). Department staff will

post notices of the meeting on social media, and lastly Department staff will record and/or take meeting minutes and post minutes on the Department's website. On September 8, 2015, the Advisory Committee will be informed of this process and informed that meetings involving two or more members must follow this process.

B AGREE. IMPLEMENTATION DATE: SEPTEMBER 2015.

The Department has instituted its Open Meeting Checklist to ensure that all Advisory Committee meetings involving two or more committee members will be audio recorded and written meeting minutes will be maintained for all actions, policy discussions and decisions undertaken by the Advisory Committee. The Department has assigned program staff to attend meetings, audio record discussions and/or complete minutes. Additionally, the Department will revise its program operating policies and procedures to include the Open Meetings Checklist. Lastly, the Advisory Committee will adopt bylaws that will include measures so that all meetings are open to the public when two or more Advisory Committee members meet and that the meetings are recorded and/or minutes of all actions, policy discussions, and decisions are taken.

These processes will be fully implemented for the September 8, 2015 Advisory Committee meeting, and all subsequent future meetings.

C AGREE. IMPLEMENTATION DATE: SEPTEMBER 2015.

The Department has developed and implemented the Open Meetings Checklist. As part of this Checklist, recording and/or minutes of meetings must be taken at the meeting and the minutes must be posted on the Department's website following the meeting. Additionally, the Department will revise its Limited Gaming operating policies and procedures to include the Department's meeting minutes' posting. Lastly, bylaws will be adopted by the Advisory Committee to include measures so that all meetings are open to the public when two or more members meet.

D AGREE. IMPLEMENTATION DATE: SEPTEMBER 2015.

On July 28, 2015 the Department notified the Advisory Committee that bylaws will be created and adopted at the September 30, 2015 meeting. The Department will ensure that the bylaws include procedures for complying with Colorado open meetings law. Input and edits from the Advisory Committee will be received until September 23, 2015. On September 30, 2015, the Committee will be asked to formally adopt the bylaws.

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CHAPTER 3

GAMBLING ADDICTION PROGRAM

In 2008, the General Assembly created the Gambling Addiction Program within the Department of Human Services (DHS) to help address problem gambling in Colorado. The Gambling Addiction Program is funded with revenues derived from gaming taxes, licensing fees, and fines paid by Colorado casinos. Over the last 5 years, Fiscal Years 2011 through 2015, the Gambling Addiction Program received approximately $528,000 in total funding. Statute requires the Gambling Addiction Program to fund grants for gambling addiction counseling services, prevention, and education [Sections 12-47.1-1601(1)(a) and (4)(a.5), C.R.S.].

DHS is responsible for ensuring Gambling Addiction Program funds are used in an efficient and effective manner to accomplish the Program's purpose and legislative intent. However, we identified problems that weaken the Gambling Addiction Program's overall effectiveness. Specifically, we found that the Program has not awarded grants in compliance with statute or maximized the use of its resources to address problem gambling. We discuss these issues and our recommendations in the remainder of CHAPTER 3.

PROGRAM EFFECTIVENESS AND COMPLIANCE

At the time of our audit work, DHS was contracting with the Center for Governmental Training (Center) to administer the Gambling Addiction Program by marketing the Program, soliciting grant applications, and awarding grants. Prior to September 2013, DHS contracted with the University of Denver (DU) to provide counseling services through the Program. DHS has assigned three staff with part time responsibilities to monitor the Gambling Addiction Program's contractor and to write an annual Program report that DHS submits to the General Assembly.

WHAT AUDIT WORK WAS PERFORMED AND WHAT WAS THE PURPOSE?

Our audit work included reviewing (1) Gambling Addiction Program documentation and grants data from Fiscal Years 2014 and 2015; (2) Program annual reports that DHS submitted to the General Assembly for Fiscal Years 2011 through 2014; (3) the requests for proposals (RFPs) that DHS used to identify contractors for the Program; (4) the contracts that DHS executed with the Center and DU; and (5) progress reports that the Center and DU submitted to DHS in Fiscal Years 2011 to 2015, through March 2015, to understand Program operations and processes for soliciting grant applications, awarding

grants, and monitoring grantees. We also interviewed DHS staff to understand their processes for overseeing Gambling Addiction Program administration and paying the Center, and interviewed the Center's staff to determine how they administer the Program. In addition, we conducted research on statistics for problem gambling in Colorado.

The overall purpose of our audit work was to determine whether the Gambling Addiction Program operates effectively and in line with statutes and legislative intent to address problem gambling in Colorado.

HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

We applied the following criteria when assessing the Gambling Addiction Program's effectiveness and compliance with legislative intent.

PROGRAM PURPOSE, REQUIREMENTS, AND DHS RESPONSIBILITIES. Statute [Section 12-47.1-1601(1)(a), C.R.S.] created the Gambling Addiction Account to fund the Gambling Addiction Program to provide gambling addiction counseling, prevention, and education to Colorado residents. Statute designates DHS as the agency responsible for ensuring the Gambling Addiction Program follows statutory requirements and legislative intent [Section 12-47.1-1601(4)(a.5)(I), C.R.S.]. Statute [Section 12-47.1-1601(4)(a.5)(I), C.R.S.] states that the DHS Executive Director shall use Program funds for the following purposes:

- Awarding grants to state or local, public or private, entities or programs that provide gambling addiction counseling services and have or are seeking nationally accredited gambling addiction counselors.

- Using 10 percent of Program funds for grants to addiction counselors who are actively pursuing national accreditation as gambling addiction counselors. According to DHS staff, these grants help pay for training and exam costs for counselors pursuing accreditation.

Statute also requires the DHS Executive Director to adopt rules necessary for the administration of the grant applications and awards, including rules that establish grant application procedures and criteria for prioritizing applications and awarding grants [Section 12-47.1-1601(4)(a.5)(I), C.R.S.].

COUNSELOR ELIGIBILITY REQUIREMENTS FOR ACCREDITATION GRANTS. For an addiction counselor to be eligible for a Gambling Addiction Program grant for accreditation-related training and exam costs, statute [Section 12-47.1-1601(4)(a.5)(I), C.R.S.] and DHS' contract with the Center require the counselor to provide sufficient proof that he or she has completed at least half of the counseling hours required for national accreditation. According to the International Gambling Counselor Certification Board, counselors must have a minimum of 100 hours delivering direct treatment to problem or pathological gamblers and/or family members to qualify for accreditation. Thus, grant applicants would need to have at least 50 hours of counseling experience to be eligible for an accreditation grant. In addition, DHS' contract with the Center states that the Center "shall ensure that the applicants meet the following requirements":

- Bachelor's degree in a behavioral health field
- At least 15 hours of gambling specific training or education
- At least 2 hours of supervision or consultation with an individual who is an International Gambling Counselor Board-approved clinical consultant

WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

Overall, we found that the Gambling Addiction Program has not operated effectively or in compliance with statutes and legislative intent to address problem gambling in Colorado. The problems we identified are described below.

GRANTS NOT AWARDED FOR THE PURPOSES INTENDED BY THE GENERAL ASSEMBLY. First, we found that from September 2013 through June 2015 the Gambling Addiction Program did not offer or award any grants to provide gambling addiction counseling to Colorado residents, as required by statute. After we brought this problem to DHS' attention in March 2015, DHS allowed the Center to pay one counselor grantee $650 to cover the costs of gambling addiction counseling that had been provided to one individual. No competitive grants were awarded for gambling addiction counseling and no other Program funds were used to provide counseling services during this nearly 2 year period. Aside from this payment, during this period the Center awarded 23 grants totaling about $28,000 to individual counselors to obtain training or take exams to allow them to qualify for national accreditation as gambling addiction counselors but as of June 2015, only five of the 23 counselors had obtained accreditation. The other 18 counselors who received about $22,000 in accreditation grants did not obtain accreditation. Further, neither DHS nor the Center tracked whether the 23 counselors provided gambling addiction counseling to Colorado residents.

In addition, it is not entirely clear that the Gambling Addiction Program operated as statute intended when DHS contracted with DU. Specifically, DU did not have nationally accredited gambling addiction counselors providing treatment nor was it seeking these counselors, as required by Section 12-47.1-1601(4)(a.5)(I), C.R.S., which requires awarding grants to entities or programs that provide gambling addiction counseling services and have or are seeking nationally accredited gambling addiction counselors. From July 2010 to August

2013, DHS awarded DU an annual grant averaging about $65,500 each year to pay for gambling addiction counseling services that DU psychology students provided to problem gamblers and their families through the DU Counseling Psychology Program. DU used the grant funds to pay a professor, who was a gambling addiction counselor, to supervise students who provided counseling through the Gambling Addiction Program. Based on our review of DHS documentation and interviews with DHS and DU staff, the students who provided counseling were "counselors-in-training" who did not have and were not specifically seeking national accreditation. Through its contract with DU, DHS also did not use any Program funds to help counselors obtain national accreditation as gambling addiction counselors, as required by statute.

Exhibit 3.1 summarizes the outcomes that the Program produced to meet statutory requirements in Fiscal Years 2011 through 2015.

EXHIBIT 3.1
GAMBLING ADDICTION PROGRAM
SUMMARY OF OUTCOMES
FISCAL YEARS 2011 THROUGH 2015

	2011 [1]	2012 [1]	2013 [1]	2014 [2]	2015 [2]
Individuals Counseled through the Program	48 [3]	29 [3]	39 [3]	0	1
Counselors Who Received National Accreditation through the Program	0	0	0	1 [4]	4 [4]

SOURCE: Office of the State Auditor's analysis of data provided by DHS and the Center.
[1] From Fiscal Year 2011 through Fiscal Year 2013, DHS contracted with DU to provide Program services.
[2] In Fiscal Years 2014 and 2015, DHS contracted with the Center to administer the Program.
[3] These were individuals counseled through DHS' contract with DU. DU students who were "counselors-in-training" provided these counseling services.
[4] DHS, through its contract with the Center, awarded grants for 23 counselors to attend training and/or take exams needed for national accreditation as gambling addiction counselors. Five of the 23 grant recipients obtained accreditation as of June 2015.

Ineligible individuals received accreditation grants. The Center's grant data for Fiscal Years 2014 and 2015 showed that 17 of the 23 counselors (74 percent) who received a total of $20,956 in Gambling Addiction Program grants (74 percent of the total grant amount awarded) did not meet at least one of the grant eligibility requirements in DHS' contract with the Center. Exhibit 3.2 shows the

breakdown of counselors who did not meet one or more of the eligibility requirements during Fiscal Years 2014 and 2015.

EXHIBIT 3.2
GAMBLING ADDICTION PROGRAM
SUMMARY OF COUNSELORS WHO RECEIVED GRANTS
FISCAL YEARS 2014 AND 2015

	2014	2015	TOTAL[1]	PERCENTAGE OF TOTAL
TOTAL COUNSELORS WHO RECEIVED GRANTS	17	6	23	-
Counselors who did not have 50 hours of providing gambling addiction counseling	12	5	17	74%
Counselors who did not have at least 15 hours of gambling addiction training	8	5	13	57%
Counselors who did not have at least 2 hours of supervision or consultation with an approved clinical consultant	11	3	14	61%

SOURCE: Office of the State Auditor's analysis of data provided by DHS and the Center.
[1] For the 17 total counselors who did not meet the requirement to provide counseling, some of these counselors also did not meet other requirements and are counted in more than one category. Since some counselors are counted in more than one category, the totals for the categories will not add to the total number of counselors who received grants.

WHY DID THE PROBLEMS OCCUR?

Overall, we found that DHS management and staff did not have a sufficient understanding of the statutory requirements related to the Gambling Addiction Program. In addition, the problems we identified occurred for the following reasons:

LACK OF CLEAR, ACCURATE RULES. We found two problems related to Program rules. First, DHS did not have any rules to establish (1) the procedures for applying for grants or (2) the criteria for awarding and prioritizing applications, as required by statute, until we raised concerns during the audit regarding the lack of Program rules. DHS then began the rule-making process for the Gambling Addiction Program in May 2015 and in July adopted rules to become effective on September 1, 2015. Prior to this time, DHS had delegated the responsibility for establishing application procedures and grant criteria to the Center, but was not aware of the Center's procedures or criteria.

Second, the rules DHS adopted in July 2015 include processes for applying for grants and criteria for awarding grants, but the criteria for counseling grants are unclear, which could reduce the number of applicants taking advantage of the Program. Specifically, the rules state that counseling grants will be awarded to programs and entities that have completed a specified level of training and hold Bachelor's degrees in behavioral health. These criteria logically apply to individuals, not to programs or entities. The intent may have been for programs or entities applying for counseling grants to have COUNSELORS who meet these qualifications. However, as written, the lack of clarity in the rules could deter qualified programs or entities from applying for grants to provide counseling, as intended by statute.

INADEQUATE CONTRACTING TO ENSURE PROGRAM ALIGNS WITH STATUTES. DHS' contracts with DU and the Center did not align with statutory requirements. Specifically, the contract with DU did not require DU to use accredited counselors to provide gambling addiction treatment or to award grants for counselor accreditation, and the contract with the Center did not require the Center to offer or award grants for gambling addiction counseling. This occurred because DHS staff misinterpreted the statutory intent of the Gambling Addiction Program when developing the contracts. For example, from 2013 through 2015 DHS staff believed that statute only allowed the Program to fund accreditation grants. In addition, the contracts included limited expectations for the contractors to follow when administering the Gambling Addiction Program. Specifically, the contract with the Center did not require the Center to execute written agreements with grantees, require grantees to provide gambling addiction counseling to Colorado residents, or require grantees to begin or complete their accreditation by specified deadlines. For example, in June 2014, the Program paid a training program $2,590 for two counselors to attend online gambling addiction counseling training. According to the Center, the counselors had not started this training as of June 2015. Effective September 2015, DHS' rules will require counselors who receive these grants to obtain accreditation within 2 years of receiving the grant.

In July 2015, DHS reported to us that it was planning to issue a Request for Applications (RFA) to select one or more new contractors to administer the Gambling Addiction Program and deliver Program services.

DHS HAS NOT ADEQUATELY MONITORED ITS CONTRACT. We found that the different DHS staff with Gambling Addiction Program responsibilities did not coordinate to ensure comprehensive contract monitoring. For example, staff who reviewed the Center's progress reports did not also review the Center's invoices to ensure that the grant information the Center reported corresponded with the amount the Center billed for or verify if the grant amounts were for the actual costs of training and accreditation exams. Staff also were unaware that some counselors who received grants did not have the minimum number of counseling hours required by statute or other requirements for training and supervision required in the Center's contract. DHS has not developed guidance for its staff to follow when monitoring the Gambling Addiction Program or the Center's performance.

While DHS required the Center to submit quarterly progress reports, the Center's contract did not specify the content of the reports. We reviewed the progress reports that the Center submitted to DHS from October 2013 through March 2015 and found that they were not specific enough to allow DHS to determine whether the Center is complying with its contract or if the Gambling Addiction Program is meeting statutory requirements. For example, the progress reports noted only the number of counselors who completed different stages of the accreditation process as of the date of each report, including starting and completing training and taking the accreditation exam. The reports did not include the number of applicants and the number and amount of grants awarded each quarter, the number of distinct individual counselors who received grants each quarter, whether any counselors took but did not pass the accreditation exam, or whether any counselors had problems starting or completing the training.

WHY DO THESE PROBLEMS MATTER?

When the Gambling Addiction Program is not consistently meeting its statutory purpose, the need for gambling addiction counseling may go unmet. In 2014 the National Council on Problem Gambling published a National Survey of Problem Gambling Services (National Survey) that found that about 95,000 Coloradans, or about 2.4 percent of Colorado's adult population, had a gambling disorder that included persistent and recurrent problematic gambling behavior leading to clinically significant mental impairments or distress. Based on the National Survey's analysis, Colorado's percentage of problem gamblers is slightly higher than the national average of 2.2 percent. The National Problem Gambling Helpline, which operates a nationwide call center for people seeking help for gambling addiction, reported to us that it received about 9,300 calls from Coloradans seeking help in Calendar Year 2014.

Further, insurance coverage for gambling addiction treatment may not be available to many Coloradans. State statutes and the federal Affordable Care Act do not require health insurers to cover treatment for problem gambling. According to the State's Division of Insurance, offering coverage to treat problem gambling is optional and carriers in Colorado do not typically cover this type of treatment. In addition, reports released by Gallup and the Centers for Disease Control and Prevention found that in Calendar Year 2014, between 9.5 percent and 11.2 percent of Coloradans did not have any health insurance. We were not able to determine, and DHS did not have information on, the number of Coloradans who may need services through the Gambling Addiction Program because they do not have health insurance or their insurance does not cover all of the treatment services they would need to address their disorders.

When DHS contracts with entities that use counselors-in-training to provide counseling, the problem gamblers who receive Gambling Addiction Program services may not receive the treatment they need. When the Program does not ensure that counselors who receive accreditation grants meet eligibility requirements for those grants,

counselors may not complete training and accreditation, which is an ineffective use of Program funds that could be used for grants to eligible counselors or to provide counseling.

RECOMMENDATION 4

The Department of Human Services (DHS) should ensure that the Gambling Addiction Program (Program) operates effectively and in accordance with statute to help address problem gambling in Colorado by:

A Ensuring that grants are offered primarily for providing counseling to Colorado residents as well as for pursuing national counselor accreditation, in accordance with statute. This should include ensuring that grants for gambling addiction counseling services are awarded to entities and/or programs that have or are seeking nationally accredited counselors.

B Revising Program rules to clarify the requirements for counseling grant applicants.

C Ensuring written agreements are executed with the grantees, Program contracts align with statute, and contracts and agreements include reasonable expectations for the use of grant funds, such as deadlines for completing accreditation.

D Ensuring any future Program contractors provide written reports that contain specific information, as determined by DHS, to allow for adequate monitoring of the contracts.

E Training DHS staff on the statutory requirements for the Program, the requirements of the Program contract, and on how to hold future contractors accountable for the contract terms through effective oversight and monitoring.

RESPONSE

DEPARTMENT OF HUMAN SERVICES

A AGREE. IMPLEMENTATION DATE: NOVEMBER 2015.

Through the Request for Application process, the Department will ensure that grants are offered primarily for providing counseling to Colorado residents, as well as for pursuing national counselor certification, in accordance with statute. This will include ensuring that Program grants are awarded to entities, individual practitioners, and/or programs for gambling addiction counseling services provided by counselors who are nationally accredited or seeking national certification. Contracts for both aspects of the Program will be in place by November 1, 2015.

B AGREE. IMPLEMENTATION DATE: DECEMBER 2015.

The Department agrees that the rules would benefit from clarification regarding the requirements for counseling certification grant applicants, specifically making the rules clear that individual, independent qualified practitioners are eligible for certification grants, as well as practitioners that are employed by behavioral health programs or entities. The Department will begin preparing for rule revisions starting in August 2015 in order to begin the formal rule revision process in September 2015, after which time the original rules will have gone into effect. The rules originally adopted establish grant application procedures and criteria for awarding grants for gambling addiction counseling and counselor certification, as well as other aspects of Program administration.

C AGREE. IMPLEMENTATION DATE: NOVEMBER 2015.

The Department will ensure that written agreements are executed with the grantees. These agreements will contain specific language ensuring that Program contracts align with statute, and reasonable

expectations are established for the use of grants funds, such as deadlines for completing certification.

D AGREE. IMPLEMENTATION DATE: NOVEMBER 2015.

The Department agrees that contract monitoring is important to maintain program quality and effectiveness. The Department will ensure that future Program contractors provide written reports that contain specific information to allow for adequate monitoring of the contracts. Starting in November 2015, contractors will thereafter submit quarterly reports detailing data requested by the Department, including, but not limited to, the number of clients served, dollar amounts of services provided, availability of other payor sources, eligibility verifications of certification grant recipients, and status of applicant certification completion.

E AGREE. IMPLEMENTATION DATE: NOVEMBER 2015.

The Department will train staff on the statutory and contractual requirements for the Program, and how to hold future contractors accountable for the contract terms through effective oversight and training. Successful completion of training will be documented for each involved employee.

USE OF PROGRAM FUNDS

The Gambling Addiction Program began operations in Fiscal Year 2009 and is funded through the State's Gambling Addiction Account (Account) which, by statute, receives 2 percent of the Local Government Limited Gaming Impact Fund annually [Section 12-47.1-1601(1)(a), C.R.S.]. For Fiscal Year 2015, the General Assembly appropriated the Program $100,000 through the Account.

WHAT AUDIT WORK WAS PERFORMED AND WHAT WAS THE PURPOSE?

We reviewed statutes to understand how funds from the Account should be used. We also reviewed (1) electronic financial data for the Account from the Colorado Financial Reporting System (COFRS) and the Colorado Operations Resource Engine (CORE) for Fiscal Years 2011 to 2015, and (2) invoices that the Center and DU submitted to DHS in Fiscal Years 2011 through 2015, and interviewed DHS staff to determine how funds in the Account are used.

HOW WERE THE RESULTS OF THE AUDIT WORK MEASURED?

Statute created the Account within the Local Government Limited Gaming Impact Fund to provide funding for Gambling Addiction Program grants "for the provision of gambling addiction counseling, including prevention and education, to Colorado residents" [Section 12-47.1-1601(1)(a), C.R.S.]. Statute requires DHS to award grants to provide gambling addiction counseling, and contains two additional provisions about how portions of the Account shall or may be used, stating that DHS (1) shall award 10 percent of the funds in grants to addiction counselors who are actively pursuing national accreditation, and (2) may use up to 5 percent of the funds in the Account to cover its direct and indirect costs to administer the Gambling Addiction

Program [Section 12-47.1-1601(4)(a.5)(I), C.R.S.]. Aside from these requirements, it appears that statute intended the bulk of the funds in the Account to be used each year for grants to provide gambling addiction counseling to Colorado residents.

WHAT PROBLEMS DID THE AUDIT WORK IDENTIFY?

Overall, we found that DHS has not maximized the use of the monies in the Account for Gambling Addiction Program grants. As shown in Exhibit 3.3, DHS has used no more than 31 percent of the funds available in the Account each year for grants. In addition, the proportion of the available funds spent on grants has declined from 26 percent in Fiscal Year 2011 to 3 percent in Fiscal Year 2015. Over the same period, the proportion of available funds that DHS has not spent has increased and the year-end Account balance has more than doubled.

EXHIBIT 3.3
GAMBLING ADDICTION PROGRAM APPROPRIATIONS, EXPENDITURES, AND GAMBLING ADDICTION ACCOUNT BALANCES
FISCAL YEARS 2011 THROUGH 2015

	2011	2012	2013	2014	2015	Percent Change
Beginning Account Balance	$102,700	$112,900	$113,700	$118,600	$169,300	65%
Plus: Allocations Received[1]	$85,200	$72,000	$67,600	$100,000	$100,000	17%
Total Funds Available	$187,900	$184,900	$181,300	$218,600	$269,300	43%
Less: Expenditures						
DHS Administrative Costs[2]	$3,900	$3,000	$5,800	$4,200	$4,300	10%
Contractor Administrative Costs[3]	$10,800	$10,400	$7,400	$11,200	$25,500	136%
Contractor Marketing Costs[3]	$11,400	$1,000	$0	$7,200	$4,900	-57%
Contractor Administrative and Marketing Costs as a Percent of "Total Funds Available"	12%	6%	4%	8%	11%	-8%
Program Grants and Services[4]	$48,900	$56,800	$49,500	$26,700	$7,300	-85%
Program Grants as a Percent of "Total Funds Available"	26%	31%	27%	12%	3%	-88%
Total Expenditures	$75,000	$71,200	$62,700	$49,300	$42,000	-44%
Ending Account Balance	$112,900	$113,700	$118,600	$169,300	$227,300	101%
Appropriations[5]	$151,100	$151,000	$64,200	$70,000	$100,000	-34%

SOURCE: Office of the State Auditor's analysis of data and invoices provided by DHS and the Center, and financial data from the Colorado Financial Reporting System (COFRS) and Colorado Operations Resource Engine (CORE).
[1] "Allocations Received" shows the funds that the Program's Gambling Addiction Account received from the Local Government Limited Gaming Impact Fund. The Account's allocations declined in Fiscal Years 2011 through 2013 due to diversion of some appropriated Account funds to help balance the State's budget and an overall decline in casino tax revenue.
[2] These funds were used to pay for part of the salaries and benefits for DHS staff who monitored the Gambling Addiction Program contractor.
[3] From July 2010 to August 2013, these expenditures were for DU's costs. From September 2013 to June 2015, these expenditures were for the Center's costs.
[4] From July 2010 to August 2013, these funds were used for a grant to DU to provide training and supervision to counseling students who provided counseling to Colorado residents, and to pay personnel costs for a professor who supervised the students. From September 2013 to June 2015, these funds were primarily used for grants to counselors to obtain gambling addiction counseling training and seek national accreditation.
[5] "Appropriations" shows the Gambling Addiction Program's spending authority that was approved in the Long Bill. According to Joint Budget Committee staff, in 2013 and 2014 the Program's appropriation was based on gaming tax revenue forecasts.

In addition, it is unclear that the administrative and marketing costs that DHS pays its contractor are warranted based on the level of services the contractor provides. During Fiscal Years 2014 and 2015, the Center's combined administrative and marketing costs represented more than one-half of the Gambling Addiction Program's $91,300 in expenditures, and represented about $600 per month to market the

Program and about $1,500 per month for the Center to process applications and award grants. In Fiscal Year 2015, the Center was paid more than $25,000 to administer only $7,300 in grants.

WHY DID THE PROBLEMS OCCUR?

We identified several reasons for DHS not using more of the funds in the Account to provide grants in the years we reviewed. First, DHS awarded small contract amounts to the Center for Fiscal Years 2014 and 2015 ($55,420 and $66,500, respectively) because DHS underestimated the Program's appropriations. According to DHS, it did not increase the contract amounts after receiving higher spending authority than it estimated because it believed that demand for counselor accreditation grants was low. However, DHS could not provide any evidence that it had evaluated demand and reported to us that it would need specific authority to spend funds from the Account so that it could conduct a thorough assessment of demand.

Second, in recent years, DHS has not requested spending authority to use more of the unspent Account funds for awarding grants for gambling addiction counseling and counselor accreditation. DHS told us that it believed it was limited to using only the portion of the Account that it was allocated each year, even though DHS was appropriated more than the yearly allocated amounts in Fiscal Years 2011 and 2012. One option to ensure that DHS has ongoing access to funds in the Account would be for DHS to seek statutory change to obtain continuous spending authority for the Gambling Addiction Account. Under statute [Section 12-47.1-1601(4)(a)(I), C.R.S.] DOLA has continuous spending authority for its portion of the Local Government Limited Gaming Impact Fund, which is held in the Limited Gaming Impact Account.

Third, DHS could not provide a clear rationale for how it determined the amount of administrative funds or marketing funds the contractors needed to fulfill their contractual responsibilities. For marketing, DHS reported that it determined the amount of marketing it would allow the Center to spend based on the marketing costs that DU had

incurred. However, the purposes of the two contracts were different (DU's for providing counseling, the Center's for helping counselors pursue national accreditation) so it is unclear that the marketing costs for the contracts should be similar.

WHY DO THESE PROBLEMS MATTER?

When a significant proportion of Gambling Addiction Account funds are not used as intended by statute, the ability of the Program to accomplish its purpose to address problem gambling is limited. In its 2013 annual Gambling Addiction Program report, DU stated that it began charging clients for counseling because it could no longer provide free counseling funded through the Program. Between Fiscal Years 2011 and 2015, the Account had a total of about $528,000 available, but DHS spent only $189,200 or 36 percent for grants. Further, by allowing a significant portion of total expenditures to be used for the contractor's administrative and marketing costs, ranging from 30 percent in Fiscal Year 2011 to 72 percent in Fiscal Year 2015, DHS limits the funds available to provide Gambling Addiction Program grants for gambling addiction counseling and accreditation.

RECOMMENDATION 5

The Department of Human Services (DHS) should maximize the use of funds in the Gambling Addiction Account (Account) to fulfill the purpose of the Gambling Addiction Program (Program) by:

A Evaluating the demand for both counseling and accreditation grants, and offering grants for both purposes as required by statute. DHS should seek specific authority to spend Account resources to conduct this evaluation, if the authority is needed.

B Ensuring that criteria for awarding grants align with the results of the evaluation in PART A.

C Seeking authority to use more of the unspent funds in the Account, either through statutory change to obtain continuous spending authority or through the annual budget request process.

D Establishing a clear rationale for determining the amount of administrative and marketing funds DHS will allow the Program's contractor(s) to spend to fulfill contractual duties and administer an effective Program.

RESPONSE

DEPARTMENT OF HUMAN SERVICES

A AGREE. IMPLEMENTATION DATE: JULY 2016.

The Department agrees that evaluating the demand for counseling and accreditation grants would be helpful in determining how best to allocate these funds, and will seek specific spending authority to conduct this evaluation. The evaluation will include exploration of the needs for gambling counseling services, as well as the range of professionals, training, license, and credential categories that

render a practitioner eligible for a certification grant and/or to provide counseling, so as to ensure adequate capacity of providers. In the wake of Medicaid expansion, as a result of the Affordable Care Act, the Department will consider pursuing a review of the statute to ensure maximum impact of the Program as it was intended. The Department will seek specific authority to spend Account resources to conduct this evaluation.

B AGREE. IMPLEMENTATION DATE: JULY 2016.

The Department will ensure that grant criteria align with the results of the evaluation in Part A. The results of the evaluation will be available in July 2016 and will inform the establishment of grant criteria at that time.

C AGREE. IMPLEMENTATION DATE: MAY 2016.

The Department will seek spending authority through a Supplemental Budget Request to use more of the unspent funds in the Account. The Department will seek statutory change or other administrative changes to obtain continuous spending authority of fund balance.

D AGREE. IMPLEMENTATION DATE: NOVEMBER 2015.

The Department will establish a rationale and evaluate administrative and marketing funds for contractual and program effectiveness during the procurement process, which is planned to begin on September 1, 2015. Specifically, the Department will develop evaluation criteria that will be used for scoring during the Request for Application process.

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APPENDIX A

STATE · OF · COLORADO
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LOCAL GOVERNMENT LIMITED GAMING IMPACT PROGRAM APPLICATIONS AND AWARDS FOR GRANTS OPERATING IN CALENDAR YEAR 2014					
	Applicant/County	Proposed Project and Gaming-Related Impact Reported by Applicant	Advisory Committee Average Score	Grant Amount Requested by Applicant	Grant Amount Awarded
1	Gilpin County	District Attorney's office operations for gaming-related prosecutions.	33.3	$ 485,231	$ 420,700
2	Teller County	Jail operations for gaming-related incarcerations.	24.4	$ 602,303	$ 318,560
3	Gilpin County	Jail personnel for gaming-related incarcerations.	27.1	$ 1,192,632	$ 288,071
4	City of Golden	Fire department operations for gaming-related emergency calls.	27.9	$ 471,840	$ 273,500
5	Mountain Family Health Center, Gilpin County	Health center treating individuals impacted by gaming.	36.4	$ 232,977	$ 232,977
6	Teller County	District Attorney's office operations for gaming-related prosecutions.	26.2	$ 228,535	$ 228,535
7	City of Victor	Law enforcement for gaming-related crimes.	29.8	$ 224,288	$ 224,288
8	Teller County	Law enforcement patrols for gaming-related crimes.	28.7	$ 222,740	$ 222,740
9	Clear Creek County	Jail operations for gaming-related incarcerations.	27.9	$ 207,100	$ 207,100
10	Community of Caring, Teller County	Community service center operations for individuals impacted by gaming.	30.4	$ 198,250	$ 198,250
11	La Plata County	Jail personnel for gaming-related incarcerations.	25.8	$ 185,018	$ 185,018
12	Southwest Teller County Hospital District	Emergency medical personnel and operations for gaming-related emergency calls.	35.7	$ 150,000	$ 150,000
13	La Plata County	Law enforcement patrols for gaming-related crimes.	21.7	$ 185,018	$ 150,000
14	Gilpin County	Law enforcement dispatch personnel for gaming-related emergency calls.	29.8	$ 316,846	$ 147,811
15	Town of Ignacio	Law enforcement personnel for gaming-related crimes.	30.0	$ 133,400	$ 133,400
16	Clear Creek County	Law enforcement patrols for gaming-related crimes.	27.4	$ 199,080	$ 130,000
17	Nederland Teen Center, Boulder County	Teen resource center for teenagers impacted by gaming.	33.3	$ 116,680	$ 116,580
18	Eagle's Nest Early Learning Center, Gilpin County	Child care services for families impacted by gaming.	33.9	$ 114,900	$ 114,900

LOCAL GOVERNMENT LIMITED GAMING IMPACT PROGRAM APPLICATIONS AND AWARDS FOR GRANTS OPERATING IN CALENDAR YEAR 2014					
	Applicant/County	Proposed Project and Gaming-Related Impact Reported by Applicant	Advisory Committee Average Score	Grant Amount Requested by Applicant	Grant Amount Awarded
19	El Paso County	District Attorney's office operations for gaming-related prosecutions.	17.3	$ 211,457	$ 106,000
20	CASA, El Paso County	Court Appointed Special Advocates for children impacted by gaming.	30.5	$ 103,887	$ 103,887
21	La Plata County	District Attorney's office operations for gaming-related prosecutions.	25.4	$ 80,281	$ 80,281
22	Gilpin County Ambulance Authority	Emergency medical operations for gaming-related emergency calls.	34.6	$ 287,178	$ 78,178
23	Montezuma County	Law enforcement for gaming-related crimes.	28.7	$ 81,000	$ 75,000
24	CASA, Teller County	Court Appointed Special Advocates for children impacted by gaming.	31.0	$ 68,644	$ 68,644
25	Jefferson County	Jail expenses for gaming-related incarcerations.	28.9	$ 61,910	$ 61,910
26	Tessa, El Paso County	Victims services for individuals impacted by gaming-related crimes.	31.9	$ 60,734	$ 60,734
27	Prospect Homecare Hospice, Teller County	Hospice services for families impacted by gaming.	32.7	$ 60,000	$ 60,000
28	Peak Vista Community Health Centers, Teller County	Health centers treating individuals impacted by gaming.	33.8	$ 57,506	$ 57,506
29	Clear Creek County Advocates	Victims services for individuals impacted by gaming-related crimes.	34.3	$ 56,892	$ $56,892
30	RE-1 School District, Gilpin County	School counseling services for children impacted by gaming.	33.3	$ 53,047	$ 50,674
31	Ute Pass Regional Ambulance District	Emergency medical equipment for gaming-related emergency calls.	32.5	$ 95,512	$ 50,000
32	Clear Creek County	District Attorney's office operations for gaming-related prosecutions.	31.8	$ 45,279	$ 45,279
33	Home Health and Hospice, Clear Creek County	Hospice services for families impacted by gaming.	34.9	$ 42,070	$ 42,070
34	Cortez Fire Protection District	Emergency rescue equipment for gaming-related emergency calls.	24.8	$ 41,959	$ 41,959

LOCAL GOVERNMENT LIMITED GAMING IMPACT PROGRAM APPLICATIONS AND AWARDS FOR GRANTS OPERATING IN CALENDAR YEAR 2014					
	Applicant/County	Proposed Project and Gaming-Related Impact Reported by Applicant	Advisory Committee Average Score	Grant Amount Requested by Applicant	Grant Amount Awarded
35	Rock House, Clear Creek County	Youth mentoring outreach for children impacted by gaming.	32.8	$ 40,240	$ 40,240
36	Timberline Fire Protection District	Emergency roadway safety operations for roads impacted by gaming traffic.	30.4	$ 50,395	$ 35,900
37	City of Golden	Law enforcement patrols for gaming-related crimes.	30.4	$ 28,655	$ 28,655
38	Gilpin County	Victims services for individuals impacted by gaming-related crimes.	32.0	$ 31,312	$ 17,920
39	Divide Fire Protection District	Emergency medical equipment for gaming-related emergency calls.	29.9	$ 22,846	$ 15,356
40	Tessa, Teller County	Victims services for individuals impacted by gaming-related crimes.	31.9	$ 5,379	$ 5,379
41	Nederland Fire Protection District	Emergency rescue equipment for gaming-related emergency calls.	29.5	$ 2,312	$ 0
42	Gilpin County	Law enforcement personnel for gaming-related crimes.	25.7	$ 30,992	$ 0
43	Gilpin County	Digitizing property records to decrease gaming-related wear on hardcopy records.	19.1	$ 15,378	$ 0

SOURCE: Office of the State Auditor's analysis of the Department of Local Affairs' grant applications and awards data.

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APPENDIX B

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SUMMARY OF FINDINGS RELATED TO THE SMART GOVERNMENT ACT
LOCAL GOVERNMENT LIMITED GAMING IMPACT PROGRAM
PERFORMANCE AUDIT
DEPARTMENT OF LOCAL AFFAIRS
AUGUST 2015

The SMART Government Act [Section 2-7-204(5), C.R.S.] requires the State Auditor to annually conduct performance audits of one or more specific programs or services in at least two departments. These audits may include, but are not limited to, the review of:

- The integrity of the department's performance measures audited.
- The accuracy and validity of the department's reported results.
- The overall cost and effectiveness of the audited programs or services in achieving legislative intent and the department's goals.

We selected the Local Government Limited Gaming Impact Program (Local Gaming Impact Program or Program) at the Department of Local Affairs (DOLA or Department) for focused audit work related to the SMART Government Act. The scope of the SMART Government Act audit work was limited to the Department's administration of the Program. This document outlines responses to five key questions that can assist legislators and the general public in assessing the value received for the public funds spent by the Program.

What is the purpose of this program?

According to statute [Section 12-47.1-1601(1)(a), C.R.S.], the purpose of the Local Gaming Impact Program is to provide financial assistance to local governments to address the documented expenses, costs, and other impacts incurred directly as a result of limited gaming occurring in Gilpin and Teller Counties, and on tribal lands. DOLA awarded 40 grants totaling about $4.9 million for grant projects operating in Calendar Year 2014.

What are the costs to the taxpayer for this program?

According to statute [Sections 12-47-1601(1)(a) and 12-47.1-701(2)(a), C.R.S.], the Local Gaming Impact Program receives a portion of the annual revenues

derived from gaming taxes, licensing fees, and fines paid by Colorado casinos, which are deposited into the Local Government Limited Gaming Impact Fund. In Fiscal Year 2015, the Program received about $4.9 million.

How does the Department measure the performance of this program?

According to the SMART Government Act, state agencies' performance plans should include performance measures related to their major functions. DOLA's Fiscal Year 2015 SMART Government Act performance plan does not include any goals or performance measures specific to the Local Gaming Impact Program because DOLA does not consider the Program a major function. Although DOLA has not established any performance measures for the Program, it does have some processes in place designed to ensure that Program funds are granted and spent in accordance with the broad statutory goal of the Program—to provide financial assistance to local governments to address documented gaming impacts from casino gaming in Colorado. We discuss these processes more in the next sections.

Is the Department's approach to performance measurement for this program meaningful and are the Department's data reliable?

DOLA does not measure or report on the Program in its SMART Government Act performance plan because it is not a major program. However, DOLA has internal processes to track the Program grants it awards and monitor grantees' compliance with their grant contracts. As discussed in RECOMMENDATION 2, we found deficiencies with DOLA's processes designed to ensure that grant funds are spent only for documented gaming impacts, as required by statute. In many cases, DOLA does not obtain sufficient data or documentation from grantees to evaluate whether funds were spent in accordance with statute.

Is this program effective in achieving legislative intent and the Department's goals?

Overall, as discussed in CHAPTER 2 of this report, we found that the Local Gaming Impact Program has not been effective in meeting legislative intent because it:

- Awarded $236,000 in grants to ineligible applicants that did not have documented gaming impacts.
- Made $514,587 in unallowable payments to grantees.

As discussed in RECOMMENDATION 1, DOLA needs to improve its grant making processes to ensure that Program grants are awarded based on documented gaming impacts. As discussed in RECOMMENDATION 2, DOLA needs to improve its monitoring and payment processes to ensure that grantees are reimbursed only for allowable expenses. In addition, DOLA does not fully meet the statutory goal of the Program to provide financial assistance to local governments to address documented gaming impacts. When the Program awards competitive grants to ineligible entities and makes unallowable grant payments, it reduces the grant funds available for eligible entities and allowable expenses, which decreases local governments' ability to address gaming impacts.

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