February 10, 2015

TO: CSM Sponsor

RE: OMB Circular A-133 Audit Report for Fiscal Year 2014

Dear Madam or Sir:

The Colorado School of Mines has completed its annual audit in accordance with the Office of Management and Budget (OMB) Circular A-133 for fiscal year 2014 (July 1, 2013 to June 30, 2014). The audit was conducted under the authority of Section 2-3-103, C.R.S., which authorized the State Auditor to conduct audits of all state departments, institutions, and agencies of state government. This report can be viewed at the website:


To comply with OMB Circular A-133 reporting requirements, we are notifying your agency/institution that there was one audit finding on Suspension and Debarment in procurement transactions. A copy of the recommendation and our response is provided.

If you have any questions or concerns, please contact the undersigned at awards@mines.edu

Sincerely,

Ralph L. Brown
Director, Office of Research Administration
Members of the Legislative Audit Committee:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of the Colorado School of Mines (a higher education institution of the State of Colorado) (the School) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School’s basic financial statements, and have issued our report thereon dated December 1, 2014, which contained a paragraph emphasizing a matter regarding the financial statements and a reference to the report of other auditors. The financial statements the Colorado School of Mines Foundation, Incorporated, the discretely presented component unit of the School, were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.
Members of the Legislative Audit Committee:

**Compliance and Other Matters**

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

We also noted certain matters that we reported to the School’s management in a separate letter dated December 1, 2014.

**Purpose of this Report**

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

*KD, LLP*

Denver, Colorado
December 1, 2014
INTERNAL CONTROL OVER COMPLIANCE

In planning and performing our audit, we considered the School’s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the School’s internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

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

We observed the following matter that we consider to be a material weakness.

Compliance with Procurement, Suspension, and Debarment

The federal Research and Development activities at the Colorado School of Mines are subject to federal procurement, suspension, and debarment requirements. Suspension and debarment actions protect the government from doing business with individuals, companies, or recipients who pose a business risk to the government. During Fiscal Year 2014, the School issued approximately $5.5 million in purchase orders that were paid using federal Research and Development grant dollars.

What was the purpose of the audit work?

The purpose of the audit work was to test the School’s compliance with federal Research and Development grant procurement, suspension, and debarment requirements during Fiscal Year 2014.
What audit work was performed and how were results measured?

The audit work consisted of selecting a sample from a population of 60 contracts entered into during the fiscal year and ensuring proper documentation was maintained by the School. Proper documentation includes evidence that the award went through a competitive bid process or was part of an initial proposal submitted prior to receipt of funding, as well as evidence that the subaward/subcontractor or vendor was verified against suspension and debarment records.

Federal requirements specify that suspension and debarment checks must be performed at the time the awards are made via certification included in the subaward agreement or review of the Excluded Parties List System (EPLS). The School’s Office of Research and Administration’s policy is to perform the review at the time the award is entered into and the review may utilize either method described above.

What problem did the audit work identify?

During our testwork, we found that the School did not maintain documentation in all cases that subawards/subcontractors and/or vendors suspension and/or debarment status was verified against the federal database. Specifically, we selected six contracts for testing and noted that two of the six did not have proper documentation to verify that they were checked against the suspension or debarment records and that they were not suspended or debarred.

Why did the problem occur?

The School experienced turnover in procurement staff during Fiscal Year 2014 and there appeared to be a lack of training for the new employee surrounding this requirement and the School does not have an automated system to check suspension or debarment.

Why does this problem matter?

By not following procedures to ensure subawards/subcontractors or vendors have not been suspended or debarred, the School risks contracting with and making payments to an entity that has been suspended or debarred which is a violation of federal regulations and could result in the School not receiving reimbursements for expenditures incurred or potential loss of future federal funding.

R&D Cluster. Classification of Finding: Material Weakness and Material Noncompliance; total known questioned costs of $0.

Recommendation No. 1:

The Colorado School of Mines should ensure it is meeting federal procurement, suspension, and debarment requirements for the Research and Development program. This should include performing training for all applicable employees to ensure they are aware of the requirements and by considering the implementation of a third-party system that automatically checks the suspension and debarment status of all subawardees/subcontractors and vendors used by the School.
Colorado School of Mines
Auditor's Findings and Recommendations
Year Ended June 30, 2014

Colorado School of Mines Response:

Agree. The School completed additional training for all applicable staff to ensure they are aware of the federal requirements in October 2014. The School is in the process of implementing a third-party system that will provide the School with the tools to perform this check in a more efficient and effective manner. Fully implemented by March 2015.