The **Auditor** of the City and County of Denver is independently elected by the citizens of Denver. He is responsible for examining and evaluating the operations of City agencies for the purpose of ensuring the proper and efficient use of City resources and providing other audit services and information to City Council, the Mayor and the public to improve all aspects of Denver’s government. He also chairs the City’s Audit Committee.

The **Audit Committee** is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities of the integrity of the City’s finances and operations, including the integrity of the City’s financial statements. The Audit Committee is structured in a manner that ensures the independent oversight of City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.

### Audit Committee

<table>
<thead>
<tr>
<th>Chair</th>
<th>Member</th>
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<tr>
<td>Dennis Gallagher</td>
<td>Robert Bishop</td>
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<td>Maurice Goodgaine</td>
<td>Robert Haddock</td>
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<tr>
<td>Jeffrey Hart</td>
<td>Bonney Lopez</td>
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<td>Timothy O’Brien</td>
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</tbody>
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### Audit Staff

- John Carlson, Internal Audit Deputy Director, CIA
- Sonia Montano, Internal Audit Supervisor, CGAP, CICA
- Kristin Donald, Lead Internal Auditor
- Marcus Garrett, Lead Internal Auditor, CIA, CGAP
- Emily Gibson, Senior Internal Auditor, MS

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[www.denvergov.org/auditor](http://www.denvergov.org/auditor)
Honorable Guillermo (Bill) Vidal
Mayor
City and County of Denver

Dear Mayor Vidal:

Enclosed is the Auditor’s Office Audit Services Division’s report regarding the City’s management of American Recovery and Reinvestment Act (ARRA) funding. The purpose of this performance audit was to assess compliance with ARRA rules and regulations and determine whether internal controls and procedures were adequate to manage the ARRA funds received by the City.

Our audit noted several weaknesses regarding the oversight of Recovery Act funding, monitoring and reporting. Colorado is one of sixteen states where the United States Government Accountability Office (GAO) will conduct a higher-level of ARRA oversight than in other states. Monies received by these sixteen states represent about two-thirds of the total amount of available ARRA assistance. Due to this additional scrutiny and increased public exposure involved with ARRA funding, having an effective internal control environment and monitoring program for stimulus funds is essential.

If you have any questions, please call Kip Memmott, Director of Audit Services, at 720-913-5029.

Sincerely,

Dennis J. Gallagher
Auditor

DJG/et

c: Honorable Members of City Council
Members of Audit Committee
Mr. Jack Finlaw, Chief of Staff
Mr. Claude Pumilia, Chief Financial Officer
Mr. David Fine, City Attorney
Mr. L. Michael Henry, Staff Director, Board of Ethics
Ms. Lauri Dannemiller, City Council Executive Staff Director
Ms. Beth Machann, Controller

To promote open, accountable, efficient and effective government by performing impartial reviews and other audit services that provide objective and useful information to improve decision making by management and the people. We will monitor and report on recommendations and progress towards their implementation.
To promote open, accountable, efficient and effective government by performing impartial reviews and other audit services that provide objective and useful information to improve decision making by management and the people. We will monitor and report on recommendations and progress towards their implementation.

Ms. Stephanie Adams, Manager of Performance Initiatives, Budget and Management Office
Ms. Kelli Bennett, Accounting Manager, Controller’s Office
Mr. Mike Roque, Director, Denver Office of Strategic Partnerships
Mr. Shaun Sullivan, Assistant City Attorney, City Attorney’s Office
AUDITOR’S REPORT

We have completed an audit of the City’s American Recovery and Reinvestment Act (ARRA) Funding for the period July 1, 2009 through June 20, 2010. The purpose of the audit was to examine and assess the compliance with rules and regulations and determine whether internal controls and procedures were adequate and to identify possible inefficiencies and opportunities for improvement.

This performance audit is authorized pursuant to the City and County of Denver Charter, Article V, Part 2, Section 1, General Powers and Duties of Auditor, and was conducted 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 audit revealed several weaknesses in the City’s oversight and reporting of Recovery Act funding concerning both prime and sub-recipients. Specifically, audit work noted instances of non-compliance with Recovery Act and Federal guidance, untimely submissions, and inaccurate reporting of key information, such as jobs and expenditures. The Auditor’s Office recognizes the unprecedented responsibility the Act presented to the City and its employees; however, it is essential that information pertaining to ARRA is captured and reported accurately.

We extend our appreciation to the City’s ARRA Management Group and City personnel who assisted and cooperated with us during the audit.

Audit Services Division

Kip Memmott, MA, CGAP, CICA
Director of Audit Services
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EXECUTIVE SUMMARY

The American Recovery and Reinvestment Act (ARRA) is an economic stimulus package enacted by Congress and signed into law by President Barack Obama on February 17, 2009 at the Denver Museum of Nature and Science.\(^1\) The Recovery Act was intended to stimulate the U.S. economy in the wake of the largest economic downturn since the Great Depression. The fiscal impact of the Act amounted to approximately $787 billion. Wide varieties of new and existing city programs and services have received ARRA funding and as of July 2010, the City has received $76.2 million in grant allocations. With increased public exposure risks involved with ARRA funding, the Denver Auditor’s Office recognized the need to analyze the City’s internal control environment and tracking approach for stimulus funds from the day of the enactment of the Act. As such, the Office adopted a strategy based on continuous monitoring, iterative reporting and a robust audit strategy. Our office completed two assessments of ARRA funding and released interim reports known as Audit Alerts reporting the results of our reviews. The Audit Alerts can be viewed on the Denver Auditor’s Office website [http://www.denvergov.org/auditor](http://www.denvergov.org/auditor) and in Appendices C and D of the report.

Our audit activities have identified several areas where the City can improve its oversight and management of ARRA grants. These areas for improvement are outlined below.

Opportunities Exist to Improve Oversight of ARRA Funds

The City’s ARRA Oversight Committee and ARRA Management Group are responsible for overseeing the management of city ARRA funds. The ARRA Oversight Committee is responsible for high-level review of grant activities and the ARRA Management Group is responsible for more detailed reviews at the agency level. The ARRA Management Group reviews all prime recipient reports prior to submission to the Federal Government, and organizes working group meetings to discuss and provide guidance regarding various grant management topics. Audit work determined that the Management Group’s report review is inadequate and did not detect various reporting errors, which included:

- Two separate occasions where the City failed to submit required reports to the Federal Government, which resulted in the City being listed on the Federal Government’s quarterly non-reporters list.
- Repetitive errors in job calculations reported for one grant, including incorrectly reporting jobs when grant funds had not been expended.
- Repetitive errors in infrastructure reporting for a grant that did not have any infrastructure expenses.

Accurate reporting is a requirement for these grant awards and funds can be revoked for non-compliance. Recently issued Federal guidance urges Federal Agencies to

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impose penalties upon non-compliant recipients. Clearly, strong oversight of ARRA funds is imperative.

Other weaknesses identified in the City’s oversight of ARRA funds include, inaccuracies reported on the City’s ARRA website and inadequate communication of city grant management policies.

Management of ARRA Prime Recipient Grants Need Improvement

For the audit period, the City was a prime recipient of twelve ARRA grants totaling $47.8 million. Prime grant recipients have several grant management responsibilities that include submitting quarterly reports to the Federal Government no later than the 10th of the month following the end of the quarter and processing all grant expenditures.

Audit work found significant reporting errors by city agencies that included:

- Non-submission and late submission of reports.
- Incorrect reporting of job numbers.
- Inaccurate reported expenditure information, including reporting amounts and infrastructure incorrectly.

In addition to inaccurate reporting with the terms and conditions of the grant award, incorrect information regarding city ARRA funds is being provided to the public.

Further, audit work identified instances where staff was improperly paid with grant funds which should have instead been paid to vendors directly. On a positive note, our Audit work revealed that agencies with adequate policies and procedures had no exceptions during reporting test work.

Management of ARRA Sub-recipient Grants Need Improvement

The City has received twenty-eight sub-awards totaling approximately $28.4 million from various entities, mainly from the State of Colorado. The City’s sub-recipient responsibilities include reporting to the grantor and managing the sub-award in accordance with grantor and city requirements. Audit work noted several weaknesses in the City’s management of sub-recipient grants. These weaknesses included:

- Submitting reports late to the grantor resulting in incomplete grantor reports to the Federal Government.
- Violations of the City’s Fiscal Accountability Rules and Federal Requirements, including improperly tracking ARRA funds.
INTRODUCTION & BACKGROUND

Background

The American Recovery and Reinvestment Act (ARRA) is an economic stimulus package enacted by Congress and signed into law by President Barack Obama on February 17, 2009 at the Denver Museum of Nature and Science. The Recovery Act was intended to provide a stimulus to the U.S. economy in the wake of the economic downturn. The fiscal impact of the Act amounted to approximately $787 billion. The Act includes federal tax cuts, expansion of unemployment benefits and domestic spending in education, health care, infrastructure, and the energy sector. According to http://www.Recovery.gov, the Federal Government’s central ARRA tracking website, goals of the Act include but are not limited to the following:

- Save and create more than 3.5 million (59,000 in Colorado) jobs over the next two years
- As part of the $150 billion investment in new infrastructure, enact the largest increase in funding of our nation’s roads, bridges, and mass transit systems since the creation of the national highway system in the 1950s
- Provide an $800 Making Work Pay tax credit for 129 million working households, and cut taxes for families through an expansion of the Child Tax Credit
- Require unprecedented levels of transparency, oversight, and accountability

City’s ARRA Grant Process

The ARRA grant process begins with agencies identifying funding needs and potential funding sources. Federal grants are either awarded through a competitive or formula process. A competitive grant award process involves city agencies preparing and submitting a proposal to the grantor and being selected from a pool of candidates. A formula grant award process is where the City is entitled to receive funds for a specific program or activity and the amount is determined by a formula, based on several factors depending on the grant. For example, city population and poverty rates are common factors used in determining the amount of a formula grant.

For federal grants, the City can be a prime or sub-recipient. When a city agency obtains grant funds directly from a federal agency, the city agency is considered a prime recipient. When funds are granted to a city agency through a non-federal entity, such as the State of Colorado, the city agency is considered a sub-recipient. Prime recipients of federal funds have more responsibilities for grant administration, monitoring and reporting than sub-recipients. The City has received grants as both a prime and sub-recipient.

Ibid.
Once the City identifies grants the application process begins. Executive Order 15 requires a form to be completed and submitted to the Budget and Management Office and other select agencies for review. When the agency receives notification of the award, the contracting process for the grant begins. Pursuant to Executive Order 8 and Denver Revised Municipal Code (D.R.M.C.) § 20-52, prior to acceptance of any grant, City Council approval is required when the grant-in-aid is more than $500,000, when the grant requires a matching contribution from the City, or when grant approval has been requested in writing by a Council Member. The City’s grant process was reviewed in detail in the Citywide Grant Administration audit (issued in January 2010), which can be accessed on the Auditor’s Office homepage located at http://www.denvergov.org/auditor.

If sub-awards are used by city agencies to help administer the grant, a contract must be executed. Sub-awards can be granted to vendors or sub-recipients. Vendors provide services or supplies on a limited basis needed to achieve grant activities. Sub-recipients provide services on a recurring basis and are responsible for helping to achieve grant objectives. The Recovery Act requires monitoring of all sub-award entities.

City’s ARRA Funds Received

ARRA funding disbursed through contracts, grants and loans are reported by the grantees to the public through the federal government website, www.Recovery.gov. As of September 30, 2010, Colorado as a whole has been awarded over $4.8 billion and of that, approximately $2.2 billion has been received.3 The most recent information provided by the Governor’s Office shows there have been over $127 million in ARRA funds awarded within Denver County. Denver County recipients include RTD, Denver Public Schools, Denver Housing Authority and the City.4

ARRA Awarded Grants spreadsheets are periodically posted to the City’s stimulus website located at www.denvergov.org/stimulus.5 These spreadsheets contain information regarding ARRA grants received by the City including, award amount, expenditure progress, grant descriptions and estimated jobs created and retained. According to the ARRA Awarded Grants spreadsheet dated July 2010, the City received $76.2 million in grant allocations. During our audit period, July 1, 2009 through June 30, 2010, the City was awarded $47.8 million as a prime recipient through twelve grants, seven of which were competitive and five of which were formula grants. The City is a sub-recipient of twenty-eight grants for the audit period totaling $28.4

4 The City has no responsibility over grants awarded to quasi-governmental entities such as Denver Housing Authority and Denver Public Schools.
5 These spreadsheets are now called “Monthly ARRA Grant Reports.”
million in ARRA funding, 18 of which were competitively awarded and 10 of which were formula grants.\textsuperscript{6} At the end of our audit period, the City had expended 39\% of all ARRA funds. Specifically, the City has expended 51\% of its sub-recipient funding and 32\% of its prime funding. The table below shows funds awarded versus expended for both sub and prime awards:

<table>
<thead>
<tr>
<th>Awarded versus Expended Funds as of July 9, 2010</th>
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</thead>
<tbody>
<tr>
<td>$0 $10,000,000 $20,000,000 $30,000,000 $40,000,000 $50,000,000</td>
</tr>
<tr>
<td>Expended amount per July 9, 2010</td>
</tr>
<tr>
<td>Award amount</td>
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The City is continuing to apply for and receive competitive and formula ARRA funding. The City has a contract with Randall Funding, an outside consultant, for various grant-related consulting services. The scope of this consulting includes helping city agencies identify funding opportunities. In addition, many city agencies use their own in-house resources to identify and apply for grant opportunities. After our audit period, the City received several additional ARRA funds including a Head Start Grant, Justice Assistance Grants and an Energy Efficiency and Conservation Block Grant.

City’s Oversight of ARRA Funds

The City uses a decentralized internal control structure for grant administration. The Controller’s Office manages the City’s Fiscal Accountability Rules, while each agency is

\textsuperscript{6} One of the eighteen competitively awarded grants was to the City as a vendor, not a sub-recipient. See Appendix A for prime and sub award listings.
responsible for ensuring that grant programs have sufficient internal controls. The City’s Fiscal Accountability Rule 9.1 establishes guidelines for application, receipt, management and financial accounting of federal grants. This fiscal rule requires recipient agencies to have policies and procedures that address internal controls and grant management processes.

In addition, the City established an ARRA Oversight Committee for monitoring stimulus funds. The committee has been reviewing information compiled by the City’s ARRA Management Group. This ARRA Management Group receives ARRA grant information from city agencies through email and a city agency working group. Agencies are encouraged but not required to attend the working group meetings held by the ARRA Management Group.

Aside from the ARRA Management Group, the City has no central point of contact or subject matter expert assigned to monitoring ARRA compliance. Rather, city agencies are responsible for complying with ARRA requirements on a grant-by-grant basis. According to the Federal Office of Management and Budget (OMB), Federal Agencies are required to designate a “Senior Accountable Official” for Recovery activities. This could be considered a best practice to ensure compliance and transparency of ARRA funds.

Transparency and Accountability Requirements and Federal Guidance

The Recovery Act has specific regulations and OMB has issued periodic guidance for meeting and clarifying these requirements. Summarized below are key federal updates. A full listing of resources is available for review and reference on OMB’s website found at: http://www.whitehouse.gov/omb/memoranda_default/.

- October 13, 2009, Payments to State Grantees for their Administrative Costs for Recovery Act Funding.

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7 The ARRA Oversight Committee consists of representatives from the following organizations: Mayor’s office, Non-profit community, Business community, City Administration, Auditor’s office, Governor’s office, State Representative, Congresswoman DeGette’s office, Senator Udall’s office, Senator Bennet’s office, Neighborhoods, and Denver City Council.

8 The ARRA Management Group consists of members from the Mayor’s Office, Department of Finance, City Attorney’s Office, and Technology Services.


**Reporting Job Numbers**

Since the inception of the Recovery Act, measuring jobs funded by ARRA dollars has been a focal point of reporting requirements. The guidance to ARRA recipients on how to measure and correctly report job numbers has changed over time. Initially, the Federal Government asked recipients to count jobs created and retained with ARRA funding and report them in a cumulative manner, only allowing 30 days for corrections to reports. After the first reporting period in 2009, OMB refined its definition of jobs created and retained for reporting purposes to only include those jobs with salaries or wages paid directly by ARRA dollars or reimbursed by ARRA dollars. In addition, job reporting is no longer cumulative and recipients now have 90 days, or until the end of the next quarter to make reporting corrections.

**City ARRA Funding Outcomes**

A wide variety of new and existing programs and services have received ARRA funding throughout the City. All programs receiving funds aim to enhance city operations and services in some manner. Auditors selected several prime awards and sub-awards for in-depth review as part of the audit. These grants are outlined below, along with some initial outcomes of ARRA spending.

**Outcomes for Prime awards reviewed**

**Airport Improvement Projects (AIP)** – Denver International Airport received two competitive ARRA AIP grants totaling $11.4 million. The funds are being expended on airport infrastructure projects, which include repaving runways, improving drainage, and widening taxiways. The two projects are 95% and 74% complete with several job hours paid through the funding for construction contractors and sub-contractors.

**Community Development Block Grant** – The Mayor’s Office of Economic Development received a formula ARRA grant for $2.4 million through the Federal Department Housing and Urban Development. The grant projects include loans to small businesses and
funding neighborhood revitalization projects to primarily benefit low and moderate income Denver residents.

Energy Efficiency and Conservation Block Grant – The Mayor’s Greenprint Denver Office received an ARRA formula grant of $6 million to administer energy projects throughout the City. Funds have been spent on energy audits on city facilities, hiring an energy manager, and establishing bike sharing stations. The jobs funded so far are primarily project management, energy management, energy auditing and building code research jobs.

Head Start – The Mayor’s Office of Education and Children received formula and competitive Head Start grants from the Federal Department of Human Services for approximately $1.1 million. The funds have been used to provide additional childcare and education services. Jobs for these funds include childcare workers and various childcare specialist services.

National Clean Diesel Funding Assistance – This competitive ARRA grant for $700,000 is administered by the Department of Environmental Health. These funds are used to retrofit diesel engines from the City’s fleet with green technology to reduce pollution and increase fuel economy. Vehicles retrofitted include snow plows, backhoes, dump trucks and flat bed cranes. According to the Department of Environmental Health, retrofitting the diesel engines will save the City an estimated $39,403 per year on fuel costs. Jobs funded by this grant include management jobs, engineering jobs and jobs to install diesel technologies.

National Endowment for the Arts Non-profit Recovery – The Denver Office of Culture Affairs (CA) was awarded a $250,000 ARRA competitive grant. The program is near completion and provided several local non-profits the opportunity to restore or maintain jobs. CA provided full or partial salary/contract fee support for its sub-recipients including positions for administration, education and artistic subjects.

Homeless Prevention and Re-housing Program – The Denver Department of Human Services (DDHS) will use funds from this $3,769,259 three-year formula grant to prevent homelessness and quickly re-house people who become homeless. Specifically, rental assistance and other supportive services like moving assistance, case management, outreach and engagement, and housing search and placement will be provided. In cooperation with the Colorado Coalition for the Homeless, DDHS plans to assist over 5,000 households. In addition, monies have helped support several full time positions, such as outreach case managers, prevention case managers, and housing counselors.

Outcomes for sub-awards reviewed

Justice Assistance Grants (JAG) – The City received several competitive ARRA JAG awards from the State. The agencies awarded include Denver Police, Denver Sheriff, City Attorney and the District Attorney. These funds are used on various law enforcement and
justice activities including new software systems, a teen domestic violence prevention program, maintaining court and jail staffing levels, and new K-9 unit personnel costs.

**Public Works DRCOG funding** – Public Works has received two competitive grants from the Denver Regional Council of Governments (DRCOG) through the Colorado Department of Transportation, to fund two infrastructure projects, the Central Park Boulevard/I-70 Interchange project and Bikeways Enhancement project.\(^{10}\) The Central Park Boulevard project will ultimately result in a new highway interchange, helping to provide better access to the Northfield Shopping Center at Stapleton. This project has only recently broke ground, after completion of the design phase. The Bikeways Enhancement project aims to improve roadways for bicycle transportation and public safety. Jobs funded by both ARRA projects are mostly in construction, project design and project management fields.

**Human Services funding** – DDHS is a sub-recipient for eight grants, which includes but are not limited to the Community Service Block Grant (CSBG), Food Assistance Program, Americorps Youth in Training, Child Care Assistance and Child Support. DDHS used ARRA monies to further a variety of program goals, such as the expansion of food assistance to address increased need, helping residents move out of poverty, employment services for adults and youth, and supplementation of state funding to improve access to quality childcare. For example, in addition to providing training and on the job experience, the CSBG grant helped 125 individuals obtain employment since October 2009, while creating fifty-four permanent positions.

### Benchmarking of ARRA Grants

As part of this audit, we conducted benchmarking using information reported on [www.Recovery.gov](http://www.Recovery.gov) by other municipalities for the City grants selected for review.\(^{11}\) The purpose of this benchmarking was to gauge the City’s progress in expending ARRA funds by comparing the City’s percent of funds expended on each of the awards with the percentage of funds expended for awards of similar size and dates at other municipalities. Spending progress is an important measure for monitoring grants because if the funds are not expended by the deadline they must be returned to the grantor.

The results of the benchmarking indicate that in general, the City is progressing at a similar pace as other municipalities. For example, the Airport Improvement Program grants appear to be ahead of other municipalities in terms of spending. However, the Community Development Block Grant, Homeless Prevention and Rapid Re-housing grant, and National Endowment for the Arts Nonprofit Recovery grant appear to be behind on spending compared to other municipalities.

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\(^{10}\) DRCOG is a non-profit association of local governments from the nine county Denver region funded by membership dues and state and federal grants. For additional information please see www.drcog.org.

\(^{11}\) See Appendix B for entire benchmarking results.
Denver Auditor’s Office ARRA Monitoring and Audit Activity

With increased public exposure risks involved with ARRA funding, the Denver Auditor’s Office recognized the need to analyze the City’s internal control environment and tracking approach for stimulus funds from the day of the enactment of the Act. As such, the Office adopted a strategy based on continuous monitoring, iterative reporting and a robust audit strategy. Our office completed two assessments of ARRA funding and released interim reports known as Audit Alerts reporting the results of our reviews. The Audit Alerts can be viewed on the Denver Auditor’s Office website http://www.denvergov.org/auditor and in Appendices C and D of the report.

In the first Audit Alert released October 7, 2009, we assessed the City’s readiness to receive and expend ARRA funding. We reviewed the Recovery Act’s transparency and accountability requirements, general provisions, and the City’s proposed internal controls to comply with those requirements. Our second Audit Alert released February 10, 2010, assessed the City’s first quarter federal reporting of the ARRA funding. The review included additional federal guidance issued since the release of our first Audit Alert. We conducted specific testing on both prime and sub-recipient grants for the City. Audit work identified various reportable exceptions. We found issues with reporting, data reliability and job calculations. The reportable issues identified in the Audit Alerts are also included in this report since responses to our concerns were not required or obtained. In addition, the reportable issues were found within our audit period.

Colorado is one of sixteen states where the United States Government Accountability Office (GAO) has and will continue to conduct ARRA audits and enhanced oversight. Monies received by these sixteen states represent about two-thirds of the total amount of federal assistance available. The Auditor’s Office’s efforts in auditing the City’s Recovery Act funds were noted in two GAO reports.

As part of the Auditor’s Office efforts to monitor stimulus funds, the Office co-hosted a conference in August 2010 for the Mountain Plains Intergovernmental Audit Forum (MPIAF) in conjunction with the Denver branch of the GAO. The theme of the conference was “Oversight and Monitoring of Stimulus Funds” and included a variety of presentations and panel discussions regarding stimulus funds. The conference was well attended and successful as it allowed the Denver Auditor’s Office to learn about

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12 GAO’s reviews of Recovery Act spending focus on sixteen states and the District of Columbia, which contain about sixty-five percent of the U.S. population and are estimated to receive about two-thirds of the intergovernmental federal assistance available through the Recovery Act. The states include: Arizona, California, Colorado, Florida, Georgia, Illinois, Iowa, Massachusetts, Michigan, Mississippi, New Jersey, New York, North Carolina, Ohio, Pennsylvania, and Texas. See http://www.gao.gov/recovery.

13 GAO, Recovery Act States’ and Localities’ Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability (Appendices), GAO-10-605SP, (May 2010) and GAO, Recovery Act Opportunities to Improve Management and Strengthen Accountability over States’ and Localities’ Uses of Funds (Appendices), GAO-10-10000SP, (September 2010).

14 The MPIAF is an association of local, state and federal accountability and accountant professionals. See http://www.auditforum.org/MPIAF
different approaches and challenges related to monitoring stimulus funds from other jurisdictions at the federal, state, regional and local government levels. The Auditor’s Office also was able to share Denver’s approach to monitoring stimulus funds with these other jurisdictions. The conference discussions and lessons were utilized by auditors during the course of this audit.
SCOPE

This audit examined the City’s American Recovery and Reinvestment Act (ARRA) grant funding administration practices to assess effectiveness and compliance with rules and regulations for grants administered from July 1, 2009 through June 30, 2010.15

OBJECTIVE

The objectives for this audit included:

- Determining whether the City has established policies and procedures in accordance with applicable federal compliance requirements to adequately manage ARRA funding
- Evaluating the adequacy of internal controls over ARRA management
- Determining whether the City properly managed ARRA funding
- Determining whether the City properly reported information to grantors

METHODOLOGY

We utilized several methodologies to achieve the audit objectives. These evidence gathering techniques included, but were not limited to:

- Researching Federal, State and City regulations for ARRA administration
- Interviewing personnel from the Mayor’s Office, Budget and Management Office, the Controller’s Office, City Attorney and city agencies with ARRA funding
- Reviewing Federal and State reported data on www.Recovery.gov
- Attending ARRA Working Group and Oversight Committee meetings
- Co-sponsoring the Mountain & Plains Intergovernmental Audit Forum to receive and provide training regarding stimulus funds
- Visiting sites of grant funded projects
- Reviewing and testing information reported
- Testing expenditures for grant and Recovery Act compliance
- Reviewing closeout procedures for fully expended grants

15 This includes the ARRA fund reporting through June 30, 2010, reported by July 10, 2010.
• Benchmarking with other ARRA funded municipalities¹⁶
• Issuing an Audit Alert on the City’s readiness to receive and expend ARRA funding
• Issuing an Audit Alert on the assessment of the City’s first quarter federal reporting of ARRA funding
• Reviewing the City’s 2009 Single Audit

¹⁶ A wide variety of cities and counties were benchmarked, which differed depending on the grant type. A range of jurisdictions were selected based on award date and award amount for each prime grant to ensure comparability. A full listing of jurisdictions benchmarked and outcomes are listed in Appendix B.
FINDING 1

Opportunities Exist to Improve Oversight of ARRA Funds

The City utilizes a decentralized internal control structure for grant administration and the City’s ARRA Management Group receives ARRA grant information from city agencies via email and meetings of a city agency working group. We conducted testing to verify if ARRA requirements and policies were followed and whether expenditures reported coincided with information in the City’s Financial System. Audit work identified issues with reporting, data reliability and job calculations. These issues were not detected through the City’s current review process. Specifically, three grants failed to report to federalreporting.gov, a city agency reported jobs with no expenditures and three agencies miscalculated jobs during multiple reporting periods.

Inadequate Monitoring of ARRA Reporting by the ARRA Management Group

Audit work determined that opportunities exist to enhance oversight provided by the City’s ARRA Management Group.

ARRA Management Group Did Not Monitor or Distribute Federal ARRA Updates

The ARRA Management Group does not proactively monitor and distribute Federal updates. For example, multiple job discrepancies noted during fieldwork indicates new job reporting guidance issued in December of 2009 was not effectively conveyed to city agencies. During our test work, one agency noted they were informed that keeping the documentation for checking the sub-award debarment list was a best practice at a working group meeting. Rather than being merely a best practice, this is actually a requirement of Fiscal Accountability Rule 9.1 and is necessary for compliance. As ARRA grants near completion, the ARRA Management Group must ensure it effectively communicates all Federal guidance to city agencies, such as OMB’s memorandum issued September 24, 2010, which clarifies standards that prime recipients must meet in order to satisfy all of their ARRA §1512 quarterly reporting requirements.17

ARRA Management Group Did Not Review All Reporting

The Denver ARRA Management Group implemented a reporting policy, which details their review of the information reported to grantors and/or federalreporting.gov. The City’s initial ARRA Grants Agency Reporting Policy dated September 9, 2009 stated:

At least 2 days prior to the date you are required to report to your grantor and/or to the Federal Government at the end of each quarter, you must submit all required Excel spreadsheets to the City’s ‘ARRA Reporting’ email address. These must be submitted no later than the 8th of the month

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17 Section 1512 or the Jobs Accountability Act of ARRA defines the “reports on use of funds” required of all entities that receive recovery funds directly from the Federal Government (including recovery funds received through grant, loan, or contract).
following the quarter. The Internal ARRA Management Group will review the submitted spreadsheets.

We noted for the first reporting period of 2009 that this reporting policy did not effectively communicate whether prime recipients or both sub and prime awards were to report to the ARRA Management Group. As a result, audit work found that several of the City’s sub-recipients failed to report electronically to the ARRA Management Group as required by the City’s ARRA reporting policy. After performing a root-cause analysis, we learned that the ARRA Management Group had verbally changed the City’s policy during an ARRA Working Group meeting. This change required only prime recipients to report to the ARRA Management Group. However, the City’s written reporting policy was not revised to reflect this change prior to the second reporting period elapsing. As a result, the ARRA Management Group did not review eight out of fifteen sub-recipient grants totaling $18 million in award monies for accuracy. The policy was later clarified and issued on March 16, 2010 to only include prime recipients’ reporting.

Inadequate ARRA Management Group Review

We reviewed reporting records for both the prime and sub-recipients to confirm the accuracy of information displayed on Recovery.gov for the first reporting period in 2009 and the first and second quarters of 2010. We also reviewed the information reported to the ARRA Management Group and the review process performed by the Group. Our review identified several reporting issues that were not detected through the City’s current review process conducted by the ARRA Management Group. Table 1 summarizes the City’s reporting of ARRA funds and identifies issues observed from our audit testing.

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18 According to the City’s ARRA Grants Agency Reporting Policy dated September 9, 2009.
Table 1

<table>
<thead>
<tr>
<th>Grant Description</th>
<th>Award amount</th>
<th>First Reporting 2009</th>
<th>Quarter 1 2010</th>
<th>Quarter 2 2010</th>
</tr>
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<tr>
<td>Airport Improvement Projects</td>
<td>7,000,000</td>
<td>+NO +NO</td>
<td>YES 0.00</td>
<td>YES 0.00</td>
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<td>Airport Improvement Projects</td>
<td>4,489,921</td>
<td>+NO +NO</td>
<td>YES *3.6</td>
<td>YES 25.60</td>
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<td>Brownfields LEAP</td>
<td>210,040</td>
<td>** **</td>
<td>** **</td>
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</tr>
<tr>
<td>Byrne Justice Assistance Grant</td>
<td>2,789,148</td>
<td>YES 0.00</td>
<td>YES 6.79</td>
<td>YES 5.99</td>
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<tr>
<td>Community Development Block Grant</td>
<td>2,462,903</td>
<td>YES 0.00</td>
<td>YES 0.00</td>
<td>*0.00</td>
</tr>
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<td>6,079,500</td>
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<td>YES 6.14</td>
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<td>National Clean Diesel Funding Assistance</td>
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<tr>
<td>Neighborhood Stabilization Program</td>
<td>18,994,444</td>
<td>** **</td>
<td>YES 0.00</td>
<td>#NO #NO</td>
</tr>
</tbody>
</table>

* Job calculation were not performed properly and information reported was inaccurate
** Awarded after reporting date

Specifically, DIA failed to report its two grants to federalreporting.gov by October 10, 2009 and did not report to the ARRA Management Group by October 8, 2009. The Mayor’s Office of Economic Development failed to report one grant to federalreporting.gov by July 10, 2010 and did not report to the ARRA Management Group by July 8, 2010. The ARRA Management Group did not contact the agencies after they failed to report to the City’s central email.

Further, the Mayor’s Office of Education and Children reported ARRA-related jobs for $0 dollars expended for two grants during the first 2009 reporting period. The agency inaccurately reported its jobs again for both grants in the first two quarters of 2010. In addition, expenditures reported by the Department of Environmental Health for the National Clean Diesel Funding Assistance Grant decreased from quarter one to quarter
two of 2010. The ARRA Management Group did not recognize this unusual decrease in reporting during their review or recognize the amounts did not reconcile with PeopleSoft.

**Recovery Act Fund Tracking is Not Compliant with City Procedures**

The Recovery Act requires recipients to establish separate funding accounts. Specifically, Recovery Act funds shall be established in distinct funding accounts so they can be tracked separately. The Budget and Management Office assigned ARRA grants unique fund numbers and grant ID numbers in PeopleSoft to comply with this requirement. However, our test work found the Child Care Assistance grant was already in existence so instead of assigning a separate fund for the ARRA monies the existing fund was used, meaning the ARRA funds were not tracked separately. The $5 million grant has already been expended and does not appear to have been sufficiently monitored by the ARRA Management Group since this issue was not discovered and addressed during their review of city ARRA activity during the first reporting period of 2009.

**Agencies Lack Policies and Procedures**

Recipients of Recovery Act funds are required to perform data quality reviews for material omissions and significant reporting errors. OMB guidance indicates that, “at a minimum, recipients should establish internal controls to ensure data quality, completeness, accuracy and timely reporting of all amounts funded by the Recovery Act.” Of the agencies tested, we found the ones with documented procedures properly managed and reported ARRA funds and those that did not resulted in improper management and inaccurate reporting.

**Inaccurate ARRA Data Reported on the City’s Stimulus Website**

The City maintains an ARRA website at: [http://www.denvergov.org/stimulus](http://www.denvergov.org/stimulus). The Auditor’s Office’s first ARRA Audit Alert, issued in October 2009, assessed the City’s readiness to receive and expend ARRA funding and noted several issues with the City’s website. For instance, audit work determined the City’s stimulus website was not linked to the City’s homepage and DIA had its own ARRA website with no link to the City’s site. Additionally, the City’s website was not updated in a timely manner, information posted about the Oversight Committee meetings was not consistently updated, and the ARRA Awarded Grants spreadsheet had variations each time it was posted that could be interpreted as inaccurate without additional explanatory information. Furthermore, when auditors computed award amounts for the formula, competitive, and overall total grants listed on the website, all three amounts displayed on the City website were incorrect.

Subsequently, the ARRA Management Group addressed some of these issues by placing a link to the City’s stimulus website directly on the City’s homepage, revamping the layout of the stimulus website, eliminating excess information, and placing a disclaimer on the bottom of the ARRA Awarded Grants spreadsheet. It is imperative that the ARRA Management Group continue to review, maintain, and update the City’s stimulus

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19 *ARRA, §1551.*

20 OMB, M-09-21, § 4.1 and § 4.3.

21 The agencies noted for having controls in place were: The Office of Cultural Affairs, The Mayor’s GreenPrint Denver Office, Denver Police Department, Denver Sheriff and the City Attorney’s Office.
website, as this is the primary and easiest means of communicating the progress and impact of ARRA grants and funds to Denver citizens, the media, and other jurisdictions around the country.

**Insufficient Oversight of ARRA Funds has Several Negative Impacts**

In certain instances, the City is not compliant with Recovery Act requirements and per OMB guidance; federal agencies may revoke ARRA funds for non-compliance. Furthermore, inaccurate information has been reported to the public for the City of Denver on Recovery.gov. Due to the increased transparency of ARRA funds, any inaccuracies in reported data do not reflect well on the City.

**Several Factors Contribute to an Ineffective Oversight of ARRA Funds**

The City has a decentralized grant management structure and no central point of contact for ARRA fund oversight as recommended by the OMB to federal agencies. In addition, the ARRA Management Group’s reporting policy and the review of city agency’s reported information is limited. Although the City established an ARRA Oversight Committee, their role is only oversight, not management. Therefore, there is no citywide enforcement to ensure successful implementation of Recovery Act requirements and related audit findings and recommendations.
RECOMMENDATIONS

To help improve management of the City’s ARRA funding, we offer the following recommendations:

1.1 The ARRA Management Group should communicate all Recovery Act guidance to agencies in a standard format and in a timely manner.

1.2 The ARRA Management Group should ensure all agencies have adequate policies and procedures in place to properly manage ARRA Funds.

1.3 The ARRA Management Group should perform an all-inclusive review of expenditures and jobs reported during its review process.

1.4 The ARRA Management Group’s review should ensure reporting is performed by reviewing Recovery.gov and confirming the City is not listed on the Non-Reporters listing.

1.5 The ARRA Management Group should make certain that all Recovery Act funds have distinct funding accounts so funds can be tracked separately and accurately. ARRA expenditures should be monitored through PeopleSoft.

1.6 The ARRA Management Group should verify accuracy of information prior to posting on the City website and ensure one method is used for jobs reported in the ARRA Awarded Grants spreadsheet.
FINDING 2

Management of ARRA Prime Recipient Grants Need Improvement

No central point of contact or subject matter expert has the task of monitoring ARRA compliance within the City; rather individual city agencies are responsible for complying with ARRA requirements. During our audit period, the City was a prime recipient of twelve ARRA grants totaling $47.8 million. Prime recipients are required by the Recovery Act to report on the 10th of the following month to federalreporting.gov. We tested job calculations for all the prime awards and tested expenditures and grant requirements for four agencies. We found several of the agencies misreported, miscalculated and had no additional procedures for ARRA fund reporting. Specifically, information was not reviewed for accuracy prior to reporting and the supporting documentation was inadequate and unorganized. In addition, two agencies failed to report on three grants during the audit period tested.

Incorrect Jobs Reported for Prime Recipient Grants

Head Start Calculated and Reported Job Numbers Incorrectly For All Periods Tested

The Mayor’s Office of Education in Children (MOEC) miscalculated job information for all three reporting periods tested for both of its Head Start grants. For the first reporting period of 2009, MOEC reported 3.35 and 10.89 ARRA-related jobs created or retained for $0 dollars expended. OMB guidance provides that instances where jobs are created with no expenditures are rare. Additionally, MOEC inappropriately reported the total jobs expected for the program. Moreover, in the first and second quarters of 2010 MOEC inaccurately calculated and reported job information. The calculation and the months used were not compliant with OMB guidance.

The Chief Fiscal Officer of the Head Start Program (CFO-HS) is in charge of reporting and used inaccurate time frames and performed an improper calculation of expenditure amounts to calculate jobs for the first and second quarter reporting in 2010. Specifically, December 2009, January 2010 and February 2010 were used instead of the actual months of the first quarter, January 2010 through March 2010.\textsuperscript{22} In addition, the CFO-HS used a pay rate to calculate the hours worked based on the expenditures. These incorrect methods were also used for the second quarter reporting. The Recovery Act and OMB guidance require data for each quarter to be reported the following 10th of the month. Moreover, OMB guidance provides the specific job calculation formula, which is based on the number of hours worked during the quarter divided by 520, not an hourly wage rate. Further, Head Start performed the calculation for the jobs using Excel and hard copy written notes, which made it difficult for auditors to review the process used to report jobs.

\textsuperscript{22} Quarters are based on three calendar months beginning with the first quarter to include January, February and March.
OED Calculated and Reported Job Numbers Incorrectly

The Mayor’s Office of Economic Development (OED) reported jobs funded by ARRA monies incorrectly for the Community Service Block Grant during the second quarter of 2010. Contractors provided OED with documentation for jobs totaling 1,462 hours. Based on this data, OED calculated 1.46 full time equivalent (FTE) using an outdated job calculation methodology. In addition, OED inaccurately reported zero jobs to federalreporting.gov based on funds reimbursed by the grantor instead of on funds expended. Conversely, OED should have based their job calculation on Federal guidance issued in December of 2009, which stated as of January 1, 2010 agencies should report all jobs funded by ARRA dollars during each quarter. Based on the updated Federal guidance, audit work determined OED should have reported 2.8 FTE for the second quarter.

Airport Improvement Jobs Were Miscalculated

Denver International Airport (DIA) had problems calculating the number of jobs and receiving accurate and timely information from construction contractors for both of their ARRA grants during the first reporting period in 2009 to the Federal Aviation Administration (FAA). Specifically, for their largest grant, DIA reported a job number calculation to the FAA in November as 42.92 but subsequently recalculated the number as 41.89. During our test work, we calculated 46.73 jobs applying OMB guidance and the contractor reports DIA provided. For the other grant, the reported job number calculation to the FAA in November was 12.45 but was subsequently revised to sixty-four (64). Later, DIA recalculated the number as 1.17. However, auditors calculated 1.12 jobs applying OMB guidance and using the contractor reports provided by DIA.

DIA continued to have job calculation errors during the fourth quarter reporting period of 2009. Specifically, jobs reported were 15.88 but should have been 14.85. In addition, jobs reported for the first quarter of 2010 were 3.36 and should have been 3.34.

Reporting for PrimeRecipient Grants Not Submitted or Submission was Late

OED Submitted Information After the Federally Required Deadline

OED did not comply with the Recovery Act’s §1512 reporting requirements for the second quarter of 2010. Specifically, OED did not report information pertaining to the Neighborhood Stabilization Program II to federalreporting.gov in a timely manner. The staff member assigned to this grant was on leave during the reporting period and this responsibility remained unassigned. As a result, that person had to report directly to the grantor when they returned, meaning up to date grant information was not available on Recovery.gov.

DIA Failed to Report Data for both Airport Improvement Grants

DIA experienced issues with the federalreporting.gov website the first reporting period of 2009 and was unable to resolve them before the October 22, 2009 deadline for
corrections. The agency made several attempts to submit their information and their final submission on October 20, 2009 was rejected. The rejection from federalreporting.gov went unnoticed until November because the person responsible for ARRA reporting and the specific point of contact provided to federalreporting.gov were different. DIA submitted their final information to the FAA on November 11, 2009 and audit work found several errors in this reported data.

ARRA Grant Expenditure Reporting Inaccuracies

MOEC Misreported Infrastructure Expenditures

For Head Start grants, MOEC misreported infrastructure expenses for both the first and second reporting periods of 2010. Infrastructure expenses are defined as a type of capital asset and have specific Recovery Act requirements; however, no Head Start funds were intended for infrastructure.23 Agency officials stated the only way the report would upload to federalreporting.gov was to plug a number in the infrastructure box. These agency officials indicated they did not follow up with the help desk to resolve the reporting issue. At the close of the audit, the agency had not resolved this issue.

DIA Misreported Expenditures

As of September 30, 2009, the ARRA expenditures in DIA’s accounting system totaled $539,340. However, the expenditures reported in November to the FAA totaled $2,166,913. DIA attributed this difference to the inclusion of late expenditures through October from the contractors. However, audit work determined that even with this inclusion the totals did not reconcile to the $2,166,913 reported. As a result, DIA’s reported ARRA expenditures were overstated for September 30, 2009 by $1,627,573 and should have been reported as $539,340.

DIA continued to make expenditure reporting errors during the next reporting period. The expenditure amount stayed the same for both the last reporting period of 2009 and the first quarter reporting of 2010. The Grants Administrator claimed the project had been completed. However, testing identified additional invoices paid for the month of November 2009 and in early 2010. Therefore, the expenditure amount reported should have increased.

Audit work also identified errors in the reimbursement amounts reported in 2010. Specifically, the reimbursement amount reported for the first quarter of 2010 was $2,506,030 which is more than the expenditure amount reported. DIA should not receive more in reimbursements from the FAA than what has been expended. The actual amount from the FAA that should have been reported and been reimbursed for was $2,114,040. These issues with expenditures and reimbursements were also identified and reported in an audit of DIA’s Airport Improvement Program conducted by the Auditor’s Office earlier in 2010.24

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23 In a program such as this, infrastructure may include items such as a daycare center or playground.
24 Denver International Airport, Airport Improvement Program, Performance Audit, August 2010. 2010 Audit - Denver International Airport, Airport Improvement Program Report.
Environmental Health Misreported Expenditures

Environmental Health incorrectly reported expenditures for the second quarter of 2010 as the total for that quarter instead of as a cumulative amount as of June 30, 2010 for the National Clean Diesel Funding Assistance Program grant. Audit work also identified that payments to vendors and reimbursements did not occur in a timely manner. Initially a vendor was sending invoices to the incorrect agency so once this inaccuracy was discovered, the problem was resolved. However, the invoices were for multiple months. Only one reimbursement for $6,299 was submitted and reported for the first two quarters of 2010 when expenditures totaled over $365,000. This resulted in the City not being reimbursed until later in 2010 for expenditures paid during the first two quarters.

Improper Payments were made with ARRA Funds

MOEC Made Payments to Staff Rather Than Directly to Service Providers

The Head Start Chief Fiscal Officer (CFO-HS) received direct payments from the City for ARRA expenses. Specifically, although these payments were for childcare providers for training, the checks were issued to the CFO-HS instead of directly to the daycare providers. In addition, upon review of the expenditure documentation there was insufficient evidence the childcare providers received these payments. One payment did have written documentation noting the person was paid, however, auditors could not determine their name or title.

Payments should be made directly to providers to ensure tax filings have accurate amounts. In addition, payments should not flow through the CFO-HS. At the time of payment, the City did not require and utilize proper documentation and instead relied on email to process the payments in violation City Fiscal Accountability Rules.

Several Negative Impacts Due to Non-Compliance with Recovery Act Requirements

Non-compliance with reporting requirements are considered violations of the grant agreement. Penalties for non-compliance can include termination of the grant and debarment from future grants. The City and County of Denver was listed on Recovery.gov on the list of non-reporters for the two grants DIA failed to report during the first reporting period in 2009. Due to the incorrect reporting by city agencies Recovery.gov also displays inaccurate jobs, expenditures and infrastructure information for the City’s grants. Further payments may be disallowed due to non-compliance with the Recovery Act and the Fiscal Accountability Rules.

Prime Recipients Lack Information, Guidance, and Procedures for ARRA Reporting

Agencies where exceptions were noted did not have specific policies in place to ensure proper federal reporting. The agencies failed to implement processes to properly calculate and obtain information from sub-recipients in order to report jobs data. Audit work noted several factors contributing to inaccurate agency reporting including
disorganized and inadequate supporting documentation for jobs, agency personnel did not have a good understanding of reporting guidance, and a lack of a detailed review prior to reporting. Agency personnel were unaware of City policies regarding ARRA funds and Fiscal Accountability Rules.

**Agencies with Adequate Policies and Procedures Properly Reported on ARRA Grants**

Audit work revealed agencies with policies in place for reporting had no exceptions noted in test work. Specifically, the Denver Office of Cultural Affairs has to obtain reporting information from several sub-recipients so the agency designed processes to collect the information timely and accurately for federal reporting. Further, the Denver Police Department and the Mayor’s Greenprint Denver Office have processes in place to gather and review information from the various city agencies to properly report their ARRA funding and job information.
RECOMMENDATIONS

To help improve management of the City’s ARRA Prime recipient grants, we offer the following recommendations:

2.1 The Mayor’s Office of Education and Children should design procedures for proper ARRA reporting to include:
   - Sub-recipient job hour reporting according to OMB guidance
   - Job calculation for reporting according to OMB guidance
   - A process review prior to reporting to ensure proper calculation and back-up documentation.

2.2 The Mayor’s Office of Economic Development should ensure its job calculation method complies with OMB Guidance.

2.3 The Mayor’s Office of Education and Children should resolve infrastructure reporting issues before reporting data.

2.4 The Mayor’s Office of Education and Children should make all payments directly to recipients to ensure proper documentation and tax filings.

2.5 DIA should design and finalize written policies and procedures for ARRA reporting to include:
   - Job calculation for reporting according to OMB guidance
   - Expenditure reporting
   - City reporting requirements
   - A review process prior to reporting to ensure proper calculation and back-up documentation is appropriate.

2.6 The Department of Environmental Health should ensure ARRA expenditures are reported as a cumulative amount and require vendors to submit invoices on a periodic basis to ensure reimbursements are completed in a timely manner.

2.7 The ARRA Management Group should work with agencies to ensure they properly report to grantors any previously reported inaccuracies or omissions.
FINDING 3

Management of ARRA Sub-Recipient Grants Need Improvement

The City has received twenty-eight sub-awards totaling approximately $28.4 million from various entities, mainly from the State of Colorado (State).25 The City is considered a sub-recipient in twenty-seven of those awards and a vendor in one. While sub-recipients do not have as much responsibility over the grant as prime recipients, there are still obligations that are required with the award. Responsibilities include reporting to the prime recipient, making sub-awards to vendors or other sub-recipients and ensuring expenses incurred are allowable according to the grant. Unlike prime recipients, sub-recipients do not have to report quarterly to federalreporting.gov.26

Audit work determined that management of the City’s ARRA sub-recipient grants needs improvement. More specifically, auditors found various problems with sub-recipient grant management that includes late reporting to the grantor, violations of Fiscal Accountability Rules and federal requirements and improper tracking of grant funds.

Public Works Submitted Reports Late to Grantor

Public Works is the sub-recipient of two grants from the Colorado Department of Transportation (CDOT), the Central Park Boulevard Interchange grant and the Bikeway Enhancements grant. Audit work found that various reports required by CDOT were submitted late by the City for both grants. Specifically, CDOT requires two reports to be submitted monthly, the 1589 report and Monthly Field report.27 The 1589 report contains hours worked by city employees funded by ARRA dollars and also any of the City’s sub-contractor hours. The Monthly Field reports contain grant progress information, including estimated date of project completion. The City submitted all 1589 reports tested for both grants late to CDOT.28 In addition, Monthly Field reports tested for the Central Park Boulevard Interchange grant were submitted late to CDOT. For this same grant, sub-contractor submitted 1589 reports late to the City.

As a result of the late report submissions, CDOT quarterly reports were incomplete and inaccurate related to the City’s information. Further, not complying with grant requirements could impact the City’s chances for receiving future funding.

25 This represents ARRA activity as of June 30, 2010.
26 The prime recipient can delegate §1512 reporting responsibilities to sub-recipients. No sub-awards tested as part of this audit were delegated this responsibility.
27 1589 and Monthly Field reports are required to ensure CDOT has all information needed for their reports to the Federal Government as a prime recipient of ARRA funds. 1589 reports focus on job hours and Monthly Field reports focus on project progress.
28 May 2010 and June 2010 reports were tested.
Public Works misinterpreted CDOT guidance on reporting deadlines, causing the reports to be late. According to CDOT reporting guidance, the 1589 report is due to CDOT the first of the month for the previous month and any city sub-contractor 1589 report is due to the City on the 25th of the month they are reporting. For example, information for the month of May’s activities should be submitted May 25 by sub-contractors to the City and the City should report to CDOT by June 1. Using the same example, the Monthly field report would be due by June 5th for May’s activities, as these reports are due on the fifth of the month. However, Public Works personnel thought the reports were due the first and the fifth respectively of the following month. Using our example, Public Works thought the reports for May were due July 1st and July 5th respectively, a month later than the actual due date.

In addition, backup documentation to support city hours reported on the 1589 reports tested for the Bikeway Enhancements grant were only produced for one employee. Backup documentation for hours reported on the Central Park Boulevard grant for May 2010 tested could not be produced. However, the Department has subsequently maintained back-up documentation. Accurate reporting is a critical part of the grant award requirements and it is Public Works’ responsibility to ensure reports submitted are accurate. Without supporting documentation for hours, reports cannot be reviewed for accuracy prior to submission to CDOT.

Non-compliance with Fiscal Accountability Rules and Federal Requirements

The City’s Fiscal Accountability Rule 9.1 and various Federal requirements govern sub-awards in addition to grantor terms and conditions. Audit work found that these rules and requirements are not always adhered to by the City.

Suspension and Debarment Lists are Not Always Reviewed

Both Fiscal Accountability Rule 9.1 and the Federal Government require that grant recipients check to determine whether third parties have been suspended or debarred from receiving federal grant funding prior to making any sub-awards with those parties.29 As noted in the City’s 2009 Single Audit, Public Works personnel did not perform this check for all sub-awards made from their ARRA sub-recipient grants.

Companies, non-profits and other entities are suspended or debarred from receiving funding because of prior mismanagement of federal funds. The failure to conduct this important check prior to making sub-awards with ARRA funds increases the risk that the City will contract with or disburse funds to an ineligible party.

ARRA Funds were not Properly Tracked in Accordance to Recovery Act Requirements

The Denver Department of Human Services (DDHS) did not track ARRA funds separately for their Child Care Assistance and Child Support grants totaling $5,012,412 and $671,239, respectively. The Child Care Assistance grant was already in place when the Department received ARRA monies for expanding the program. As a result, the Department did not establish a distinct account and track the ARRA funds separately.

29 The Federal requirements are contained in the Code of Federal Regulations, Title 2, Chapter 1(F), Part 180.
Although the City handles eligibility for Child Care Assistance, the State issued payments directly which made tracking difficult. However, once the funds had been expended, an entry should have been made to properly reflect the ARRA funds received by the City. The Recovery Act, §1551 states, “all funds appropriated in this Act shall be established in separate Treasury accounts, unless a waiver from this provision is approved by the Director of the Office of Management and Budget.”

DDHS personnel maintain State officials advised the Department that the separate ARRA funds tracking requirement did not apply to the Child Care Assistance and Child Support grants. Specifically, according to DDHS correspondence with the State’s Program Accounting Unit, Child Support is exempt from §1512 reporting because it is considered entitlement funding. As a result, DDHS did not account for ARRA funds separately for either grant. However, auditors consulted with the State’s Program Account Unit Accountant who stated while these grants are exempt from §1512 reporting, ARRA funds should still be tracked separately. Additionally, in accordance to the meeting minutes of a City Financial Reporting Committee meeting on March 25, 2010, in reference to a discussion on the Single Audit, it was noted that the City officials agreed these funds should be recorded separately in PeopleSoft and an entry would be prepared.

**DDHS did not Fully Comply with Grant Close-Out Policies**

DDHS did not properly close out a Food Assistance Program grant. DDHS provided correspondence requesting that the Controller's Office close out the grant. The method of this request was non-compliant with established procedures found in Fiscal Accountability Rule 9.1. However, the Controller's Office processed the request without receiving proper documentation from the Department. The failure to adhere to established procedures increases the risk that grant funds will not be or have not been properly reconciled, accounted for, and consistently documented by the City. In addition, unused ARRA funds should be returned to the grantor for other uses.

**Agencies with Adequate Policies and Procedures Properly Reported to Grantors**

Auditors tested several sub-recipients of Justice Assistance Grants (JAG) awarded to the Denver Police Department, Denver Sheriff Department and the City Attorney’s Office. No exceptions were noted as part of this test work. All three agencies had documented procedures specific to ARRA grants and a specific process in place to review reports before submission to the grantor.

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30 The Financial Reporting Committee was established by the City to improve communication among agencies responsible for financial reporting. Attendees may include representatives from the Auditor’s Office, Finance Department, and Treasury Division, among others.
RECOMMENDATIONS

To help improve management of the City’s ARRA Sub-recipient Grants, we offer the following recommendations:

3.1 Public Works should work with the Colorado Department of Transportation to create written policies and procedures for report submission, in addition to the flow chart already created, providing more clarity regarding reporting deadlines. This should include a follow-up process for ensuring sub-contractor reports are received by the deadline.

3.2 Public Works should provide training for project managers and sub-contractors on reporting deadlines to ensure all parties involved understand reporting deadlines.

3.3 Public Works should provide training to contract administration employees to ensure compliance with contract procurement internal policies and procedures, as well as Fiscal Accountability Rules.

3.4 The Denver Department of Human Services should ensure all ARRA Sub-recipient Grants are assigned distinct funding accounts to track the funds in PeopleSoft.

3.5 The Denver Department of Human Services should ensure all grants are closed-out in compliance with the City’s Fiscal Accountability Rules and applicable grant requirements.

3.6 The ARRA Management Group should monitor the closeout process for ARRA grants to ensure compliance with the applicable requirements and update the ARRA Reporting Policy to reflect grant closeout procedures.
APPENDICES

Appendix A – Listing of the City’s ARRA Prime and Sub Awards

Prime Awards

<table>
<thead>
<tr>
<th>Grant Description</th>
<th>Type</th>
<th>Award amount</th>
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<td>Airport Improvement Projects – Denver International Airport</td>
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<td>7,000,000</td>
</tr>
<tr>
<td>Airport Improvement Projects – Denver International Airport</td>
<td>C</td>
<td>4,489,921</td>
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<td>Energy Efficiency and Conservation Block Grant – Mayor’s Greenprint Denver Office</td>
<td>F</td>
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<tr>
<td>Head Start – Mayor’s Office of Education and Children</td>
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<tr>
<td>National Clean Diesel Funding Assistance – Department of Environmental Health</td>
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<td>National Endowment for the Arts Nonprofit Recovery – Department of Cultural Affairs</td>
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<td>Neighborhood Stabilization Program – Mayor’s Office of Economic Development</td>
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Type - Competitive-C, Formula-F
## Sub Awards

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<td>Brownfields LEAP – Department of Environmental Health</td>
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<td>Child Support – Denver Department of Human Services</td>
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<td>CO State Forest Service Recovery Funding – Department of Parks &amp; Recreation</td>
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<td><strong>Community Service Block Grant</strong> – Denver Department of Human Services</td>
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<td>Corporation for National and Community Service – Denver Department of Human Services</td>
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<td>DRCOG STP Metro – Department of Public Works</td>
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<td>Strengthening Communities Fund – Denver Office of Strategic Partnerships</td>
<td>Vendor</td>
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<td>Victims of Crime Act – District Attorney</td>
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<td>Violence Against Women Act – District Attorney</td>
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<td><strong>Total</strong></td>
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Type - Competitive-C, Formula-F
Appendix B – Benchmarking of ARRA Funds

### Airport Improvement Projects
#### Quarter 1 2010

<table>
<thead>
<tr>
<th>City/County</th>
<th>Award Date</th>
<th>Award Amount</th>
<th>Expenditure</th>
<th>% of Award Expended</th>
<th>Jobs</th>
</tr>
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<tbody>
<tr>
<td>Denver, CO</td>
<td>4/1/2009</td>
<td>7,000,000</td>
<td>6,523,466</td>
<td>93.2%</td>
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<tr>
<td>Denver, CO</td>
<td>4/1/2009</td>
<td>4,489,921</td>
<td>2,506,030</td>
<td>55.8%</td>
<td>3.36</td>
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<tr>
<td>Los Angeles, CA</td>
<td>6/12/2009</td>
<td>10,832,000</td>
<td>1,330,994</td>
<td>12.3%</td>
<td>19.19</td>
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<tr>
<td>Greenville, NC</td>
<td>7/1/2009</td>
<td>7,616,822</td>
<td>1,726,166</td>
<td>22.7%</td>
<td>11.00</td>
</tr>
<tr>
<td>Dallas, TX</td>
<td>6/17/2009</td>
<td>7,369,600</td>
<td>3,865,098</td>
<td>52.4%</td>
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</tr>
<tr>
<td>Chicago, IL</td>
<td>4/15/2009</td>
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<td>12,294,387</td>
<td>100.0%</td>
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</table>

#### Quarter 2 2010

<table>
<thead>
<tr>
<th>City/County</th>
<th>Award Date</th>
<th>Award Amount</th>
<th>Expenditure</th>
<th>% of Award Expended</th>
<th>Jobs</th>
</tr>
</thead>
<tbody>
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<td>Denver, CO</td>
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<td>30.44</td>
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<tr>
<td>Greenville, NC</td>
<td>7/1/2009</td>
<td>7,616,822</td>
<td>3,618,495</td>
<td>47.5%</td>
<td>25.00</td>
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<tr>
<td>Dallas, TX</td>
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### Byrne Justice Assistance Grant
#### Quarter 1 2010

<table>
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<th>Award Date</th>
<th>Award Amount</th>
<th>Expenditure</th>
<th>% of Award Expended</th>
<th>Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denver, CO</td>
<td>10/1/2009</td>
<td>2,789,148</td>
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<tr>
<td>Seattle, WA</td>
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<td>4,882,208</td>
<td>620,103</td>
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<td>25.95</td>
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<tr>
<td>Tulare, CA</td>
<td>6/2/2009</td>
<td>1,170,879</td>
<td>698,061</td>
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<td>6.29</td>
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<tr>
<td>Dayton, OH</td>
<td>6/25/2009</td>
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<tr>
<td>San Francisco, CA</td>
<td>7/8/2009</td>
<td>3,000,314</td>
<td>123,641</td>
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<td>3.18</td>
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#### Quarter 2 2010

<table>
<thead>
<tr>
<th>City/County</th>
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<th>Award Amount</th>
<th>Expenditure</th>
<th>% of Award Expended</th>
<th>Jobs</th>
</tr>
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<tr>
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<tr>
<td>San Francisco, CA</td>
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<td>313,122</td>
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</table>
### Community Development Block Grant

**Quarter 1 2010**

<table>
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<th>City/County</th>
<th>Award Date</th>
<th>Award amount</th>
<th>Expenditure</th>
<th>% of Award Expended</th>
<th>Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denver, CO</td>
<td>9/4/2009</td>
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<td>0</td>
<td>0.0%</td>
<td>0.00</td>
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<tr>
<td>Cincinnati, OH</td>
<td>7/10/2009</td>
<td>3,490,694</td>
<td>583,840</td>
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<td>4.92</td>
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<tr>
<td>Seattle, WA</td>
<td>6/12/2009</td>
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<td>615,423</td>
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<tr>
<td>Spokane, WA</td>
<td>8/4/2009</td>
<td>1,022,299</td>
<td>426,996</td>
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<td>3.77</td>
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<tr>
<td>Indianapolis, IN</td>
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<td>2,575,447</td>
<td>24,186</td>
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</table>

<table>
<thead>
<tr>
<th>City/County</th>
<th>Award Date</th>
<th>Award amount</th>
<th>Expenditure</th>
<th>% of Award Expended</th>
<th>Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denver, CO</td>
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<td>2,462,903</td>
<td>302,305</td>
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<td>Cincinnati, OH</td>
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### Energy Efficiency and Conservation Block Grant

**Quarter 1 2010**

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<tr>
<th>City/County</th>
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<th>Award amount</th>
<th>Expenditure</th>
<th>% of Award Expended</th>
<th>Jobs</th>
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</thead>
<tbody>
<tr>
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<tr>
<td>Fairfax, VA</td>
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<td>86,611</td>
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<tr>
<td>Cobb, GA</td>
<td>9/8/2009</td>
<td>5,288,500</td>
<td>132,721</td>
<td>2.5%</td>
<td>2.77</td>
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**Quarter 2 2010**

<table>
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<tr>
<th>City/County</th>
<th>Award Date</th>
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<th>Expenditure</th>
<th>% of Award Expended</th>
<th>Jobs</th>
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<tbody>
<tr>
<td>Denver, CO</td>
<td>8/24/2009</td>
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<td>Ft. Worth, TX</td>
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<tr>
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<tr>
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### Head Start
**Quarter 1 2010**

<table>
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<th>City/County</th>
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<tbody>
<tr>
<td>Denver, CO</td>
<td>7/1/2009</td>
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<td>89,552</td>
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<tr>
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<td>Baltimore, MD</td>
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<tr>
<td>Chattanooga, TN</td>
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<tr>
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<td>5/28/2009</td>
<td>835,101</td>
<td>54,155</td>
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**Quarter 2 2010**

<table>
<thead>
<tr>
<th>City/County</th>
<th>Award Date</th>
<th>Award amount</th>
<th>Expenditure</th>
<th>% of Award Expended</th>
<th>Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denver, CO</td>
<td>7/1/2009</td>
<td>487,622</td>
<td>229,449</td>
<td>47.1%</td>
<td>3.57</td>
</tr>
<tr>
<td>Denver, CO</td>
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<td>612,000</td>
<td>296,684</td>
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<tr>
<td>Baltimore, MD</td>
<td>6/23/2009</td>
<td>1,914,720</td>
<td>935,674</td>
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<tr>
<td>Chattanooga, TN</td>
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<td>835,101</td>
<td>500,590</td>
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### Homeless Prevention and Rehousing Program
**Quarter 1 2010**

<table>
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<th>Award Date</th>
<th>Award amount</th>
<th>Expenditure</th>
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<th>Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denver, CO</td>
<td>7/17/2009</td>
<td>3,769,259</td>
<td>124,319</td>
<td>3.3%</td>
<td>9.50</td>
</tr>
<tr>
<td>Detroit, MI</td>
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<td>15,234,947</td>
<td>851,061</td>
<td>5.5%</td>
<td>22.30</td>
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<tr>
<td>Honolulu, HI</td>
<td>7/10/2009</td>
<td>4,016,074</td>
<td>550,895</td>
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<tr>
<td>Snohomish, WA</td>
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<td>1,262,714</td>
<td>214,776</td>
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<tr>
<td>Oklahoma City, OK</td>
<td>7/16/2009</td>
<td>2,161,404</td>
<td>341,358</td>
<td>15.7%</td>
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</tbody>
</table>

**Quarter 2 2010**

<table>
<thead>
<tr>
<th>City/County</th>
<th>Award Date</th>
<th>Award amount</th>
<th>Expenditure</th>
<th>% of Award Expended</th>
<th>Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denver, CO</td>
<td>7/17/2009</td>
<td>3,769,259</td>
<td>498,339</td>
<td>13.2%</td>
<td>10.66</td>
</tr>
<tr>
<td>Detroit, MI</td>
<td>7/16/2009</td>
<td>15,234,947</td>
<td>856,128</td>
<td>5.6%</td>
<td>22.30</td>
</tr>
<tr>
<td>Honolulu, HI</td>
<td>7/10/2009</td>
<td>4,016,074</td>
<td>1,103,180</td>
<td>27.4%</td>
<td>13.52</td>
</tr>
<tr>
<td>Snohomish, WA</td>
<td>7/20/2009</td>
<td>1,262,714</td>
<td>331,306</td>
<td>26.2%</td>
<td>1.10</td>
</tr>
<tr>
<td>Oklahoma City, OK</td>
<td>7/16/2009</td>
<td>2,161,404</td>
<td>465,634</td>
<td>21.5%</td>
<td>7.00</td>
</tr>
</tbody>
</table>
### National Clean Diesel Funding Assistance

**Quarter 1 2010**

<table>
<thead>
<tr>
<th>City/County</th>
<th>Award Date</th>
<th>Award amount</th>
<th>Expenditure</th>
<th>% of Award Expended</th>
<th>Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denver, CO</td>
<td>9/1/2009</td>
<td>700,000</td>
<td>201,161</td>
<td>28.7%</td>
<td>2.90</td>
</tr>
<tr>
<td>Lincoln, NE</td>
<td>7/20/2009</td>
<td>1,000,000</td>
<td>114,186</td>
<td>11.4%</td>
<td>1.65</td>
</tr>
<tr>
<td>Portland, OR</td>
<td>6/1/2009</td>
<td>1,622,348</td>
<td>103,695</td>
<td>6.4%</td>
<td>2.41</td>
</tr>
<tr>
<td>Mecklenburg, NC</td>
<td>6/26/2009</td>
<td>1,116,600</td>
<td>69,059</td>
<td>6.2%</td>
<td>1.00</td>
</tr>
<tr>
<td>San Diego, CA</td>
<td>7/10/2009</td>
<td>1,563,652</td>
<td>306,130</td>
<td>19.6%</td>
<td>0.60</td>
</tr>
</tbody>
</table>

**Quarter 2 2010**

<table>
<thead>
<tr>
<th>City/County</th>
<th>Award Date</th>
<th>Award amount</th>
<th>Expenditure</th>
<th>% of Award Expended</th>
<th>Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denver, CO</td>
<td>9/1/2009</td>
<td>700,000</td>
<td>168,836</td>
<td>24.1%</td>
<td>0.83</td>
</tr>
<tr>
<td>Lincoln, NE</td>
<td>7/20/2009</td>
<td>1,000,000</td>
<td>119,552</td>
<td>11.9%</td>
<td>5.21</td>
</tr>
<tr>
<td>Portland, OR</td>
<td>6/1/2009</td>
<td>1,622,348</td>
<td>582,693</td>
<td>35.9%</td>
<td>5.33</td>
</tr>
<tr>
<td>Mecklenburg, NC</td>
<td>6/26/2009</td>
<td>1,116,600</td>
<td>N/A</td>
<td>0.0%</td>
<td>N/A</td>
</tr>
<tr>
<td>San Diego, CA</td>
<td>7/10/2009</td>
<td>1,563,652</td>
<td>374,832</td>
<td>23.9%</td>
<td>0.50</td>
</tr>
</tbody>
</table>

N/A – Could not locate report on www.Recovery.gov

### National Endowment for the Arts Nonprofit Recovery

**Quarter 1 2010**

<table>
<thead>
<tr>
<th>City/County/Non-profit</th>
<th>Award Date</th>
<th>Award amount</th>
<th>Expenditure</th>
<th>% of Award Expended</th>
<th>Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denver</td>
<td>9/4/2009</td>
<td>250,000</td>
<td>177,617</td>
<td>71.0%</td>
<td>9.06</td>
</tr>
<tr>
<td>Georgia Council for the Arts</td>
<td>4/29/2009</td>
<td>342,000</td>
<td>221,369</td>
<td>64.7%</td>
<td>10.70</td>
</tr>
<tr>
<td>Minnesota Board for Arts</td>
<td>5/4/2009</td>
<td>316,200</td>
<td>316,200</td>
<td>100.0%</td>
<td>13.97</td>
</tr>
<tr>
<td>South Carolina Arts Commission</td>
<td>4/29/2009</td>
<td>311,500</td>
<td>224,284</td>
<td>72.0%</td>
<td>16.40</td>
</tr>
<tr>
<td>Commonwealth of Virginia</td>
<td>4/29/2009</td>
<td>331,100</td>
<td>281,435</td>
<td>85.0%</td>
<td>11.00</td>
</tr>
</tbody>
</table>

**Quarter 2 2010**

<table>
<thead>
<tr>
<th>City/County/Non-profit</th>
<th>Award Date</th>
<th>Award amount</th>
<th>Expenditure</th>
<th>% of Award Expended</th>
<th>Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denver</td>
<td>9/4/2009</td>
<td>250,000</td>
<td>191,340</td>
<td>76.5%</td>
<td>6.37</td>
</tr>
<tr>
<td>Georgia Council for the Arts</td>
<td>4/29/2009</td>
<td>342,000</td>
<td>342,000</td>
<td>100.0%</td>
<td>10.70</td>
</tr>
<tr>
<td>Minnesota Board for Arts</td>
<td>5/4/2009</td>
<td>316,200</td>
<td>316,200</td>
<td>100.0%</td>
<td>9.23</td>
</tr>
<tr>
<td>South Carolina Arts Commission</td>
<td>4/29/2009</td>
<td>311,500</td>
<td>311,500</td>
<td>100.0%</td>
<td>15.37</td>
</tr>
<tr>
<td>Commonwealth of Virginia</td>
<td>4/29/2009</td>
<td>331,100</td>
<td>331,100</td>
<td>100.0%</td>
<td>9.87</td>
</tr>
</tbody>
</table>
### Neighborhood Stabilization Program

#### Quarter 1 2010

<table>
<thead>
<tr>
<th>City/County</th>
<th>Award Date</th>
<th>Award amount</th>
<th>Expenditure</th>
<th>% of Award Expended</th>
<th>Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denver, CO</td>
<td>2/11/2010</td>
<td>18,994,444</td>
<td>0</td>
<td>0.0%</td>
<td>0.00</td>
</tr>
<tr>
<td>Milwaukee, WI</td>
<td>2/11/2010</td>
<td>25,000,000</td>
<td>0</td>
<td>0.0%</td>
<td>0.00</td>
</tr>
<tr>
<td>St. Paul, MN</td>
<td>2/11/2010</td>
<td>18,031,623</td>
<td>0</td>
<td>0.0%</td>
<td>0.00</td>
</tr>
<tr>
<td>Long Beach, CA</td>
<td>2/11/2010</td>
<td>22,249,980</td>
<td>0</td>
<td>0.0%</td>
<td>0.00</td>
</tr>
<tr>
<td>Boston, MA</td>
<td>1/14/2010</td>
<td>13,610,343</td>
<td>0</td>
<td>0.0%</td>
<td>0.00</td>
</tr>
</tbody>
</table>

#### Quarter 2 2010

<table>
<thead>
<tr>
<th>City/County</th>
<th>Award Date</th>
<th>Award amount</th>
<th>Expenditure</th>
<th>% of Award Expended</th>
<th>Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denver, CO</td>
<td>2/11/2010</td>
<td>18,994,444</td>
<td>Failed</td>
<td>Failed</td>
<td>Failed</td>
</tr>
<tr>
<td>Milwaukee, WI</td>
<td>2/11/2010</td>
<td>25,000,000</td>
<td>0</td>
<td>0.0%</td>
<td>0.00</td>
</tr>
<tr>
<td>St. Paul, MN</td>
<td>2/11/2010</td>
<td>18,031,623</td>
<td>0</td>
<td>0.0%</td>
<td>0.00</td>
</tr>
<tr>
<td>Long Beach, CA</td>
<td>2/11/2010</td>
<td>22,249,980</td>
<td>353,441</td>
<td>1.5%</td>
<td>0.00</td>
</tr>
<tr>
<td>Boston, MA</td>
<td>1/14/2010</td>
<td>13,610,343</td>
<td>1,579,696</td>
<td>11.6%</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Failed – The City failed to report the grant for the reporting period – see Finding 2
AUDIT ALERT:  
American Recovery and Reinvestment Act Readiness & Governance  
October 7, 2009

Summary

The City and County of Denver’s Office of the Auditor has assessed the City’s readiness to receive and expend American Recovery and Reinvestment Act (ARRA) funding. We reviewed the Recovery Act’s transparency and accountability requirements, general provisions, and the City’s proposed internal controls to comply with those requirements.

As a result of our preliminary review, we developed recommended actions to assist the City in monitoring ARRA funding. City agencies should designate specific personnel responsible for reporting, ensure they receive proper training, and that documented procedures are in place in order to comply with Federal reporting guidance. Also, the ARRA Management Group should ensure the City’s stimulus website contains accurate ARRA information and is easily accessible for the public.

The Auditor’s Office will continue to monitor the City’s progress and as programs are funded, we will perform audits of the City’s compliance with Recovery Act requirements. In addition, the Auditor’s Office is currently conducting an audit examining the City’s Grant Process, which will assess specific performance measures for the entire process.

Overview

The City and County of Denver’s Office of the Auditor has assessed the City’s readiness to receive and expend American Recovery and Reinvestment Act (ARRA) funding. We also evaluated ARRA governance requirements.

Colorado is one of 16 states where the United States Government Accountability Office (GAO) will conduct ARRA audits. Monies received by these 16 states represent about two-thirds of the total amount of federal assistance available. Due to this additional scrutiny and the increased public exposure risks involved with ARRA funding, the Auditor’s Office

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Audit Alert
ARRA Readiness & Governance
Page 2

recognized the need to analyze the City’s internal control environment and tracking approach for stimulus funds, criteria used to apply for and expend these funds, and the performance measurement system being utilized to ensure these funds have the intended beneficial impacts on the community.

We reviewed the Recovery Act’s transparency and accountability requirements, general provisions, and the City’s proposed internal controls to comply with those requirements. Specifically, we assessed whether internal controls in place address the Recovery Act’s requirements or whether there is a need for additional or enhanced controls. Additionally, auditors held a collaborative meeting with GAO analysts who are reviewing the State of Colorado’s ARRA monitoring process.

Background

The Recovery Act is an economic stimulus package enacted by Congress and signed into law by President Barack Obama on February 17, 2009 at the Denver Museum of Nature and Science. The Recovery Act was intended to provide a stimulus to the U.S. economy in the wake of the economic downturn. The measures included in the Act nominally amounted to approximately $787 billion.

The Act includes federal tax cuts, expansion of unemployment benefits and domestic spending in education, health care, infrastructure, and the energy sector. According to http://www.Recovery.gov, the Federal Government’s central ARRA tracking website, goals of the Act include but are not limited to the following:

- Save and create more than 3.5 million (59,000 in Colorado) jobs over the next two years;
- As part of the $150 billion investment in new infrastructure, enact the largest increase in funding of our nation’s roads, bridges, and mass transit systems since the creation of the national highway system in the 1950s;
- Provide an $800 Making Work Pay tax credit for 129 million working households, and cut taxes for families through an expansion of the Child Tax Credit; and
- Require unprecedented levels of transparency, oversight, and accountability.

The City of Denver is in the process of applying for stimulus funds. The Recovery Act does not allow ARRA funds to be used to alleviate the City’s general fund budget obligations. ARRA funds awarded will help support various projects throughout the City. The Recovery Act states that all federal funding should be expended or obligated by September 30, 2010.

The ARRA grant process begins with agencies identifying funding needs and funding sources. For federal grant awards, the City can be a prime or sub-recipient. When a city agency obtains grant funds directly from a federal agency, the city agency is considered a prime recipient. When funds are granted to a city agency through a non-federal entity, such as the State of Colorado, the city agency is considered a sub-recipient. Prime recipients of federal funds have more responsibilities for grant administration, monitoring and reporting than sub-recipients. The City has received grants as both a prime and sub-recipient.

Once the City identifies grants and the application process begins, Executive Order 15 requires a form to be completed and submitted to the Budget and Management Office and other select agencies for review. Once the Agency receives notification of the award, the contract process for grant agreement begins. In accordance with Executive
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ARRA Readiness & Governance
Page 3

Order 8 and Denver Revised Municipal Code (D.R.M.C.) § 20-52, prior to acceptance of any grant, City Council approval is required when the grant-in-aid is more than $500k. when it requires a matching contribution from the City, or when approval has been required through written request of a Council Member. If sub-recipients or vendors are used to administer the grant, a contract must be executed. The Recovery Act requires monitoring of sub-award entities.

Summary of Grants spreadsheets are posted to the City’s stimulus website periodically. These spreadsheets contain information regarding ARRA grants received by the City including, awarded amount, expenditure progress, grant descriptions and estimated jobs created and retained data. According to the most recent Summary of Grants spreadsheet provided to the Auditor’s Office, the City had received $54,94 million in grant allocations and was continuing to apply for additional funding. The City’s ARRA website is located at http://www.denvergov.org/stimulus. Additional information on ARRA funds and projects taking place at the Denver International Airport (DIA) can be found at http://www.flydenver.com/diabiz/stats/financials/amerirecovery.asp.

Oversight

The City uses a decentralized internal control structure for grant administration. The Controller’s Office manages the City’s fiscal rules, while each agency is responsible for ensuring that grant programs have sufficient internal controls. The City’s Fiscal Rule 9.1 establishes guidelines for application, receipt, management and financial accounting of Federal grants. The fiscal rule requires recipient agencies to have policies and procedures that address internal controls and grant management processes.

The City has established an ARRA Oversight Committee for monitoring stimulus funds. The committee has been reviewing information put together by the City’s ARRA Management Group. This management group receives ARRA grant information from city agencies through email and a city agency working group. Agencies are encouraged but not required to attend the working group meetings held by the ARRA Management Group.

No central point of contact or subject matter expert has the task of monitoring ARRA compliance but rather, city agencies are responsible for complying with ARRA requirements on a grant-by-grant basis. According to the Office of Management and Budget (OMB), Federal Agencies are required to designate a “Senior Accountable Official” for recovery activities. This could be considered as a best practice for the City to ensure compliance and transparency of the City’s ARRA funds.

The following table summarizes the oversight compliance requirements, provisions and guidance for the Recovery Act along with the City’s established or proposed internal

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2 The ARRA Oversight Committee consists of representatives from the following organizations: Mayor’s office, Non-profit community, Business community, City Administration, Auditor’s office, Governor’s office, State Representative, Congressman DeGette’s office, Senator Udall’s office, Senator Bennet’s office, Neighborhoods, and Denver City Council.

3 The ARRA Management Group consists of members from the Mayor’s Office, Department of Finance, City Attorney’s Office, and Technology Services.

controls to address them. In this report, these tables are used to specifically show the key accountability and transparency requirements and general provisions for recipients and OMB guidance for federal agencies that may be relevant to the City’s compliance with the Recovery Act. As OMB or federal agencies provide further guidance there may be additional requirements, or those listed in the tables may change.

**Significant Oversight Recovery Act Transparency and Accountability Requirements and Associated City and County of Denver Internal Controls**

<table>
<thead>
<tr>
<th>Compliance Requirement</th>
<th>City Procedure</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recovery Act Requirements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mayor shall certify that the infrastructure investment has received the full review and vetting required by law and that the Mayor accepts responsibility that the infrastructure investment is an appropriate use of taxpayer dollars. Certification shall be posted on a website and linked to Recovery.gov (ARRA, § 1511).</td>
<td>Certification for Denver International Airport (DIA) projects were certified and posted on DIA’s stimulus website. Certification for the City’s other infrastructure projects were certified by the Governor and posted on the State’s website.</td>
<td>Implemented – Certification for the City is not posted on the City’s website, but rather on DIA’s website.</td>
</tr>
<tr>
<td>Whistleblower Protection - An employee of any non-Federal employer receiving covered funds may not be discharged, demoted, or otherwise discriminated against as a reprisal for disclosing, including a disclosure made in the ordinary course of an employee’s duties (ARRA, § 1553).</td>
<td>D.R.M.C., Article VII, §§ 2-106 – 2-110 provides protection for whistleblowers and notes examples of appropriate reporting authorities. The City does not have a fraud hotline at this time.</td>
<td>Implemented</td>
</tr>
<tr>
<td><strong>Additional Requirements the Federal Agencies may require of Prime Recipients</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agencies must take steps, beyond standard practice, to initiate additional oversight mechanisms in order to mitigate the unique implementation risks of the Recovery Act. Use internal control assessments to assess the risk of program waste, fraud and abuse in grants (OMB, M-09-15, § 5.4).</td>
<td>A few agencies have developed additional procedures. In addition, the ARRA Management Group developed an Agency Reporting Policy. Specific internal control assessments have yet to be performed. The ARRA Management Group believes this is the</td>
<td>Partially Implemented</td>
</tr>
</tbody>
</table>
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ARRA Readiness & Governance
Page 5

<table>
<thead>
<tr>
<th>Compliance Requirement</th>
<th>City Procedure</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agencies should not use funds to pay fixed costs (OMB, M-09-15, § 4.8).</td>
<td>Oversight of costs is the responsibility of the agencies.</td>
<td>TBD</td>
</tr>
<tr>
<td>Agencies must ensure they comply with provisions of the Recovery Act when they pay for administrative costs. In general, Recovery Act funds should not be used for Telecommunications services or IT desktop support, or for the incidental administrative costs, e.g. paper for copy machines (OMB, M-09-15, § 4.9).</td>
<td>Oversight of costs is the responsibility of the agencies.</td>
<td>TBD</td>
</tr>
</tbody>
</table>

Contract Requirements

The City made limited changes to its contracting process as a result of the Recovery Act. Generally, the City’s Municipal Code and Executive Orders were sufficient to address ARRA requirements. However, either the City or the grant recipient is responsible for implementing specific grant or contract requirements, such as certifying infrastructure projects and Buy American clauses, as applicable.

As a possible best practice, the OMB indicates that, “agreements must spell out the assignment of agency roles and responsibilities to fulfill the unique requirements of the Recovery Act. These include, but are not limited to, report development and submission, accurate and timely data reporting, and special posting requirements to agency websites and Recovery.gov.” In addition, OMB recommends agencies actively monitor contracts to ensure that performance, cost, and schedule goals are met.

The City Attorney’s Office (CAO) works in conjunction with the agency working group and the ARRA Oversight Committee in providing legal guidance and advice on ARRA information and related projects. Though there have been noted delays in the City’s overall contracting process, the CAO attempts to coordinate with agencies and City Council to expedite the approval of ARRA grants in order to meet designated timelines.

The following table summarizes the contract compliance requirements, provisions and guidance for the Recovery Act along with the City’s established or proposed internal controls to address them.

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5 OMB, M-09-15, § 5.1(3).
6 OMB, M-09-15, § 6.3.
## Significant Contract Recovery Act Transparency and Accountability Requirements and Associated City and County of Denver Internal Controls

<table>
<thead>
<tr>
<th>Compliance Requirement</th>
<th>City Procedure</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Give special attention to contractor responsibility determination in awarding contracts (OMB, M-09-15, § 6.2).</td>
<td>A responsible contractor is defined in the D.R.M.C., Article IV, § 20-61(f).</td>
<td>Implemented</td>
</tr>
<tr>
<td>Risk Management is covered in Executive Order 8.</td>
<td></td>
<td>Implemented</td>
</tr>
<tr>
<td>Fixed Price Contracts – To the maximum extent possible, contracts funded under this Act shall be awarded as fixed-price contracts through the use of competitive procedures (ARRA, § 1554).</td>
<td>Competitive selection process is covered in D.R.M.C., Article IV, § 20-56.</td>
<td>Implemented</td>
</tr>
<tr>
<td></td>
<td>Competitive bids are covered in City Executive Order 8.</td>
<td>Implemented</td>
</tr>
<tr>
<td></td>
<td>D.R.M.C., Article IV, § 20-62.</td>
<td>Implemented</td>
</tr>
<tr>
<td>Note: Fixed price contracts are not required, but contracts should be reviewed for “best value” to the City.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The Summary of Grants spreadsheet shows if an RFP was issued.</td>
<td>In Progress</td>
</tr>
<tr>
<td>Payment of not less than the prevailing wage to “all laborers and mechanics employed by contractors and subcontractors on projects funded directly by or assisted in whole or in part by and through the Federal Government pursuant to the [Recovery Act].” (OMB, M09-15 § 1.7).</td>
<td>D.R.M.C., Article IV, § 20-76.</td>
<td>Implemented</td>
</tr>
<tr>
<td>Buy American – None of the funds appropriated or otherwise made available by this Act may be used for a project for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States unless certain requirements are met (ARRA, § 1605).</td>
<td>The City is working to incorporate “Buy American” clauses into RFPs, sub-contracts, and applicable grant agreements.</td>
<td>In Progress</td>
</tr>
</tbody>
</table>
Reporting

All recipients of ARRA funds are required to report on certain elements about funds received. Reporting occurs within 10 days after the end of each calendar quarter, the first deadline being October 10, 2009.

Reporting correct data on or before the deadline is essential for city agencies. According to guidance issued by the OMB, no waivers will be granted and extensions will only be granted for extraordinary circumstances, i.e. a natural disaster. Non-compliance with reporting requirements are considered violations of the grant agreement. Penalties for non-compliance can include termination of the grant and debarment from future grants.

Since reporting has not occurred thus far, auditors conducted an initial assessment of reporting preparation and found that generally city agencies are prepared to report on ARRA funds.

For example, a few agencies have detailed review and reporting processes in place, such as the Department of Environmental Health, Denver International Airport and the Denver Police Department. These departments utilized several techniques to develop their review processes. These include:

- Viewing all Federal informational webinars on reporting requirements;
- Regular communication with grantor;
- Coordinating with all agencies receiving funding and establishing a reporting structure;
- Planning for reviewing and verifying data; and
- Having a central person for the whole agency designated to monitor ARRA funds.

However, some agencies are still unclear about specific reporting requirements. Additionally, some weaknesses have been identified in data quality review processes. For example, while observing ARRA working group meetings, auditors noted that with only a month left before the first reporting cycle, some agencies were still confused as to whether they were a prime or sub-recipient of funds. Additionally, some agencies did not know if reporting should commence from when the grant was awarded or when they start expending funds.

Data review processes varied greatly between agencies interviewed. A few agencies addressed all internal control requirements, others addressed a portion of the required controls, while others had no review process in place.

The following table summarizes the reporting compliance requirements, provisions and guidance for the Recovery Act along with the City’s established or proposed internal controls to address them.

<table>
<thead>
<tr>
<th>Compliance Requirement</th>
<th>City Procedure</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Separate Funding Accounts – Recovery Act funds shall be established in distinct funding accounts so they can be tracked</td>
<td>The Budget and Management Office is assigning ARRA grants</td>
<td>Implemented</td>
</tr>
</tbody>
</table>

Office of the Auditor
<table>
<thead>
<tr>
<th>Compliance Requirement</th>
<th>City Procedure</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>separately (ARRA, § 1552).</td>
<td>unique fund numbers and grant ID numbers in PeopleSoft.</td>
<td>Implemented</td>
</tr>
<tr>
<td>Agencies must register on FederalReporting.gov, the nationwide data collection system in order to submit reports. Reporting must commence the same quarter the award is made. The OMB 06/22/09 guidance contains more detailed information on reporting. See also OMB 09/11/09 guidance.</td>
<td>Registration is delegated to the agencies. All agencies surveyed were registered if it was required at that time.</td>
<td></td>
</tr>
</tbody>
</table>
| No later than 10 days after the end of each calendar quarter, each recipient that received recovery funds from a Federal agency shall submit a report to FederalReporting.gov that contains (ARRA, § 1512 & the City’s Agency Reporting Policy):  
  - The amount of recovery funds received and amount expended or obligated.  
  - A detailed list of all projects or activities to include project name, description, completion status and estimates of the number of jobs created and jobs retained.  
  - Detailed information on any subgrants or contracts awarded.  
  (OMB, M-09-21, § 2.1) | Reporting is delegated to the agencies. | TBD |
| Recipients of Recovery Act funds are required to perform data quality reviews for material omissions and significant reporting errors. At a minimum, recipients should establish internal controls to ensure data quality, completeness, accuracy and timely reporting of all amounts funded by the Recovery Act (OMB, M-09-21, § 4.1 and § 4.3). | Two days before submitting reports to grantor and no later than the 8th day following the end of the quarter, the ARRA Management Group will review reports and compare data to PeopleSoft financials. Most agencies interviewed had internal plans for data review. | In Progress |

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<table>
<thead>
<tr>
<th>Compliance Requirement</th>
<th>City Procedure</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recipients using ARRA funds for infrastructure projects are subject to</td>
<td>Only two agencies currently have infrastructure projects.</td>
<td>TBD</td>
</tr>
<tr>
<td>additional reporting requirements (OMB, M-09-21, § 2.1).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>However, various agencies did not address all internal control aspects required.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Stimulus Website

Although the City is not required to develop a new website dedicated to stimulus efforts, the OMB established the following best practices for the display of ARRA information:

- Agencies should have a prominent link to their Recovery Act page from their home page and from other relevant sections of their site where visitors are likely to look for this information.
- Content should be written in plain language and follow government-wide best practices for plain language.
- Agencies should ensure that all content, including printable reports, is accessible to people with disabilities and meets requirements of Section 508 of the Rehabilitation Act of 1973.
- Agencies should ensure that large documents are presented in a way for users to easily scan their contents and download them.
- To ensure maximum transparency and accountability, agencies should provide contact information for the person or office responsible for maintaining their agency’s Recovery Act content.9

The City maintains an ARRA website; however, it is not linked to the City’s homepage. This is because the City’s homepage is constantly updating. Currently, the City’s ARRA website is not linked to any department websites. Instead, visitors must type in the direct URL, www.denvergov.org/stimulus, or search for “stimulus” using the search bar located in the upper right-hand corner.

Auditors noted that the City’s stimulus website is not always updated in a timely manner. According to the website, “As Denver receives funds and as programs and projects progress, this page will be updated. Please check back regularly for additional information.” However, as of October 2, 2009, the grants listed on the website do not match all grants listed in the latest Summary of Grants spreadsheet posted on the website. Additionally, the total amount of ARRA funds received as stated on the latest Summary of Grants spreadsheet differs from the total displayed on the website. Also, information posted about the Oversight Committee meetings is not always up to date.

Further, there appears to be some mathematical errors with the data on the City’s website. When auditors computed award amounts for the formula, competitive, and overall total grants listed on the website, all three amounts displayed were incorrect.

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9 OMB, M-09-16, Appendix 2.
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Auditors also noted the Summary of Grants spreadsheet has variations each time it has been posted that could be interpreted as inaccurate without additional explanatory information. Some variations noted included decreasing or increasing award amounts over time and decreasing total grant fund amounts.

<table>
<thead>
<tr>
<th>Compliance Requirement</th>
<th>City Procedure</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Website linked to the federal Recovery.gov website (OMB, M-09-15, § 2.2).</td>
<td>Denver.gov/stimulus created &amp; maintained by the Mayor’s Office.</td>
<td>Implemented</td>
</tr>
</tbody>
</table>

Recommended Actions

This initial Audit Alert is intended to provide a current assessment of the City’s control and governance environment prior to the first ARRA reporting phase. As a result of our preliminary review, we offer the following recommended actions to assist the City in monitoring ARRA funding:

- City agencies should ensure that documented procedures are in place for data review addressing data quality, completeness, accuracy and timely reporting.
- City agencies should designate specific personnel responsible for reporting and ensure such persons view Federal training webinars and review published Federal reporting guidance.
- The ARRA Management Group should place a permanent link to the City’s stimulus website on the homepage or on a related department website, such as the Mayor’s Office or Budget Management Office. In addition, a link should be established between the City and DIA’s ARRA websites.
- The ARRA Management Group should verify accuracy of information presented on the City’s ARRA website prior to display or clearly note that information presented is estimated as of the date of upload.

Next Steps

The Auditor’s Office will continue to monitor the City’s progress and as programs are funded, we will perform audits of the City’s compliance with Recovery Act requirements. Upon completion of audit testing, we will identify and report additional issues related to ARRA funding. In addition, the Auditor’s Office is currently conducting an audit examining the City’s Grant Process, which will assess specific performance measures for the entire process.

We would like to thank the city personnel that we have interacted with up to this point for their cooperation. We encourage all city personnel to work together and to continue their commitment to ensure the City and County of Denver complies with ARRA funding requirements.
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Contact
If you have any questions, please contact me at 720-913-5029.

Kip Memmott, MA, CGAP, CICA
Director of Audit Services

Purpose of Audit Alerts
To quickly communicate significant audit issues or concerns about fraud, waste, or abuse which have come to the attention of the Division through an audit or otherwise which require immediate action or review by management.

Distribution
Honorable John Hickenlooper, Mayor
Honorable Members of the City Council
Members of the Audit Committee
ARRA Oversight Committee
Claude Pumilia, Chief Financial Officer
David Fine, City Attorney
Stephanie Adams, Manager of Performance Initiatives, Budget and Management Office
Kelli Bennett, Accounting Manager, Controller’s Office
Amy Mueller, Deputy Chief of Staff, Mayor’s Office
Shaun Sullivan, Assistant City Attorney, City Attorney’s Office
AUDIT ALERT:
American Recovery and Reinvestment Act
Readiness & Governance

February 10, 2010

Summary
The City and County of Denver’s Office of the Auditor has assessed
the City’s first quarter federal reporting of the American Recovery and
Reinvestment Act (ARRA) activity. We reviewed the Recovery Act’s
transparency and accountability requirements and the City’s internal
controls in place for reporting. In addition, we followed up on
recommended actions from our previous ARRA audit alert issued on
October 7, 2009, and posted on the Auditor’s Office website

Based on our review, we have developed additional recommended
actions to assist the City in monitoring and reporting ARRA funding.
The ARRA Management Group should enhance the oversight process
by focusing on expenditures and jobs reported, ensuring all Recovery
Act funds have distinct, separate, and tracked fund accounts in
accordance with applicable guidance, and verifying accuracy of
information displayed on the City’s ARRA website. In addition, City
agencies should designate specific personnel responsible for
reporting, and ensure documented procedures are in place for data
review and reporting.

The Auditor’s Office will continue to monitor the City’s progress as
ARRA programs and projects are funded and completed. Additional
audits of the City’s compliance with Recovery Act requirements will
also be performed.

Overview
The City and County of Denver’s Office of the Auditor has assessed
the City’s first quarter federal reporting of the American Recovery and
Reinvestment Act (ARRA) funding.1 We also evaluated ARRA
governance requirements, which included additional guidance.

February 2009 (hereinafter ARRA).
issued since the release of our first audit alert in October 2009. We conducted specific testing on both prime and sub-recipient grants for the City. The grants tested account for over 85% (approximately $45.8 million) of the total ARRA funding received by the City through the first reporting period.

We reviewed the Recovery Act's transparency and accountability requirements and the City's internal controls in place for reporting. Additionally, we conducted testing to verify if these requirements and policies were followed and verified whether expenditures reported coincide with the City's financial system. Audit work identified various reportable exceptions, which are described in more detail throughout this audit alert.

Colorado is one of sixteen states where the United States Government Accountability Office (GAO) conducted ARRA audits. In December 2009, GAO issued a report titled “Status of States’ and Localities’ Use of Funds and Efforts to Ensure Accountability,” which included specific Colorado test work. The GAO report highlighted difficulties related to recipient reporting, data quality, and inconsistent application of Office of Management and Budget (OMB) guidance in several areas.

Background

The Recovery Act is an economic stimulus package enacted by Congress and signed into law by President Barack Obama on February 17, 2009 at the Denver Museum of Nature and Science. The Recovery Act was intended to provide a stimulus to the U.S. economy in the wake of the economic downturn. The measures included in the Act nominally amounted to approximately $787 billion.

The Recovery Act does not allow ARRA funds to be used to alleviate the City’s general fund budget obligations. ARRA funds awarded will help support various projects throughout the City. The Recovery Act states that all federal funding should be expended or obligated by September 30, 2010.

The ARRA grant process begins with agencies identifying funding needs and funding sources. For federal grant awards, the City can be a prime or sub-recipient. When a city agency obtains grant funds directly from a federal agency, the city agency is considered a prime recipient. When funds are granted to a city agency through a non-federal entity, such as the State of Colorado, the city agency is considered a sub-recipient. Prime recipients of federal funds have more responsibilities for grant administration, monitoring and reporting than sub-recipients. The City has received grants as both a prime and sub-recipient. The City’s grant process was reviewed in detail in the recent Citywide Grant Administration audit (issued in January 2010), which can be accessed on the Auditor’s Office homepage.

ARRA recipients were required to register at www.federalreporting.gov to meet the requirements of Section 1512 of the Recovery Act. This website is the only central government-wide data system intended for collecting ARRA spending information directly from recipients. The data submitted each quarter is used to populate www.Recovery.gov, which is the website the public can access in order to “give

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3 recovery Act status of states' and localities' use of funds and efforts to ensure accountability GAO-10-231 December 10, 2009.

3 Section 1512 of ARRA states that “not later than 10 days after the end of each calendar quarter, each recipient that received recovery funds from a Federal agency shall submit a report to that agency.”
taxpayers the user-friendly tools to track Recovery funds—how and where they are spent. The website also provides an online mechanism for citizens to report suspected fraud, waste or abuse related to Recovery funding and projects. Recovery.gov is operated and maintained by the Recovery Accountability and Transparency Board.\(^4\)

Job calculations and methodologies used for determining jobs created/retained by city agencies were unclear and inconsistent during the first reporting period; however, such issues were not limited to Denver. Although federal guidance was available, both internal and external agencies found accurately calculating jobs created or retained by ARRA funding proved difficult. The job reporting issues that directly affected the City are discussed in the body of this audit alert. In December 2009, the federal government released additional guidance to clarify the job calculation process. The City’s compliance with the latest guidance will be assessed in subsequent audit reports.

**ARRA Funds Non-Expended vs. Expended**

Source: ARRA Awarded Grants spreadsheet dated December 10, 2009

ARRA Awarded Grants spreadsheets are periodically posted to the City’s stimulus website. These spreadsheets contain information regarding ARRA grants received by the City including award amount, expenditure progress, grant descriptions and estimated jobs created and retained. According to the most recent ARRA Awarded Grants spreadsheet dated December 10, 2009, the City has received $55.6 million in grant allocations. The City’s ARRA website is located at [http://www.denvergov.org/stimulus](http://www.denvergov.org/stimulus).

Additional information on ARRA funds and projects taking place at the Denver International Airport (DIA) can be located on the DIA website at [http://business.flydenver.com/stats/financials/americarecovery.asp](http://business.flydenver.com/stats/financials/americarecovery.asp).

**New Federal Guidance**

The Recovery Act has specific regulations and the federal government has continually issued guidance to agencies for meeting these requirements. Since our October 7, 2009 Audit Alert, OMB has released the following guidelines:

- **October 13, 2009, Payments to State Grantees for their Administrative Costs for Recovery Act Funding.** This memorandum clarifies how States may recover administrative costs for Recovery Act funds. ([http://www.whitehouse.gov/omb/memoranda_default.1](http://www.whitehouse.gov/omb/memoranda_default.1))

\(^4\) The Recovery Accountability and Transparency Board was created by the Recovery Act to coordinate and conduct oversight of funds distributed under this law in order to prevent fraud, waste and abuse.
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- November 30, 2009, Improving Compliance in Recovery Act Recipient Reporting. This memorandum outlines a process for federal agencies to identify non-compliant recipients, assess the severity of non-compliance and monitor subsequent reporting periods. The guidance also states that non-compliant recipients “are subject to federal action, up to and including the termination of Federal funding or the ability to receive Federal funds in the future.” [http://www.whitehouse.gov/omb/assets/memoranda_2010/m10-05.pdf]
- December 18, 2009, Updated: Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates. The guidance describes requirements for federal agencies to provide key information to recipients and to take steps to improve reporting compliance. In addition, the guidance describes in detail job calculation definitions and formulas. [http://www.whitehouse.gov/omb/assets/memoranda_2010/m10-08.pdf]
- Recovery Act Frequently Asked Questions (FAQ): These questions are organized by topic and address the OMB guidance released in April 2009 and June 2009, the recipient reporting solution (federalreporting.gov), State notification of federal awards, recovering State administrative costs, aggregation of recipient reports and other general Recovery Act issues. [http://www.whitehouse.gov/omb/recovery_faq/]

City ARRA Oversight

The City uses a decentralized internal control structure for grant administration. The Controller’s Office manages the City’s Fiscal Accountability Rules while each agency is responsible for ensuring that grant programs have sufficient internal controls. The City’s Fiscal Accountability Rule 9.1 establishes guidelines for application, receipt, management and financial accounting of federal grants. The fiscal rule requires recipient agencies to have policies and procedures that address internal controls and grant management processes.

The City has established an ARRA Oversight Committee for monitoring stimulus funds. The committee has been reviewing information put together by the City’s ARRA Management Group. This management group receives ARRA grant information from city agencies through email and a city agency working group. Agencies are encouraged but not required to attend the working group meetings held by the ARRA Management Group.

Our previous audit alert determined that no central point of contact or subject matter expert has the task of monitoring ARRA compliance. Rather, city agencies are responsible for complying with ARRA requirements on a grant-by-grant basis. According to the OMB, Federal Agencies are required to designate a “Senior Accountable Official” for recovery activities. This could be considered as a best practice for the City to ensure compliance and transparency of the City’s ARRA funds.

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1 The ARRA Oversight Committee consists of representatives from the following organizations: Mayor’s Office, Non-profit community, Business community, City Administration, Auditor’s office, Governor’s office, State Representative, Congresswoman DeGette’s office, Senator Udall’s office, Senator Bennet’s office, Neighborhoods, and Denver City Council.
2 The ARRA Management Group consists of members from the Mayor’s Office, Department of Finance, City Attorney’s Office, and Technology Services.
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The Denver ARRA Management Group implemented a reporting policy, which details their review of the information reported to grantees and/or federalreporting.gov. The City’s ARRA grants Agency Reporting Policy states:

At least 2 days prior to the date you are required to report to your grantor and/or the Federal Government at the end of each quarter, you must submit all required Excel spreadsheets to the City’s ‘ARRA Reporting’ email address. These must be submitted no later than the 8th of the month following the quarter. The Internal ARRA Management Group will review the submitted spreadsheets.

We reviewed reporting records for both the prime and sub-recipients to confirm the accuracy of information displayed on Recovery.gov. We also reviewed the information reported to the ARRA Management Group and the review process performed by the Group and noted several issues in both areas. Table 1 lists all of the City’s prime recipients, if they reported to the ARRA Management Group, federalreporting.gov and the information on Recovery.gov.

Table 1: Prime Recipient Grant Reporting

<table>
<thead>
<tr>
<th>Grant Description</th>
<th>Award Amount</th>
<th>Reported to Denver ARRA Management Group</th>
<th>Reported to Federal Government</th>
<th>Expenditures Reported to Federal Government</th>
<th>Jobs Reported to the Federal Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Endowment for the Arts nonprofit recovery</td>
<td>$250,000</td>
<td>Y</td>
<td>Y</td>
<td>$177,617</td>
<td>2.08</td>
</tr>
<tr>
<td>National Clean Diesel Funding</td>
<td>$700,000</td>
<td>Y</td>
<td>Y</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Homeless Prevention &amp; Rehousing</td>
<td>$3,769,259</td>
<td>Y</td>
<td>Y</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Airport Improvement Projects</td>
<td>$7,000,000</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Airport Improvement Projects</td>
<td>$4,469,921</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Byrne Justice Assistance Grant</td>
<td>$2,789,148</td>
<td>Y</td>
<td>Y</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Energy Efficiency and Conservation Block Grant</td>
<td>$6,079,500</td>
<td>Y</td>
<td>Y</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>Head Start- formula</td>
<td>$487,622</td>
<td>Y</td>
<td>Y</td>
<td>0</td>
<td>3.35</td>
</tr>
<tr>
<td>Head Start- competitive</td>
<td>$612,000</td>
<td>Y</td>
<td>Y</td>
<td>0</td>
<td>10.89</td>
</tr>
<tr>
<td>Community Development Block Grant</td>
<td>$2,462,903</td>
<td>Y</td>
<td>Y</td>
<td>0</td>
<td>0.00</td>
</tr>
</tbody>
</table>

*Inadequate ARRA Management Group Review* – The review identified several reporting issues that were not detected through the City’s current review process. Specifically, DIA failed to report its two grants to federalreporting.gov by October 10, 2009 and did not
report to the ARRA Management Group by October 8, 2009. DIA was unaware that they were non-compliant with this reporting requirement until the Auditor’s Office notified them as part of this review in December 2009.

Further, a city agency with two grants reported that 3,35 and 10.89 ARRA-related jobs were created and/or retained for $0 dollars expended. Per OMB guidance, instances where jobs are created with no expenditures should be rare and limited. However, the ARRA Management Group did not review the job numbers for reasonableness. We followed up with the agency, the Mayor’s Office of Education and Children (MOEC), and determined the agency had incorrectly reported their job estimate for ARRA grants at the end of the project, but by the time, the error was realized the federal reporting timeframe for error correction had elapsed. MOEC did not receive feedback from the ARRA Management Group about the inaccurate reporting of these job numbers.

Table 2 lists the sub-recipients whose reporting to their grantor was not reviewed by the ARRA Management Group and their grant award amounts.

<table>
<thead>
<tr>
<th>Grant</th>
<th>Award Amount (Dollars)</th>
<th>Reported to ARRA management Group</th>
<th>Data Reported by Grantor to Recovery.gov</th>
</tr>
</thead>
<tbody>
<tr>
<td>State of Colorado- Violence Against Women Act</td>
<td>105,658</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>State of Colorado- Violence Against Women Act</td>
<td>185,961</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>State of Colorado- Victims of Crime Act</td>
<td>50,909</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Child Care Assistance</td>
<td>5,012,412</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Corporation for National and Community Service</td>
<td>175,231</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>State of Colorado- Violence Against Women Act</td>
<td>286,323</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Denver Regional Council of Governments- Central Park Blvd</td>
<td>12,000,000</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Denver Regional Council of Governments- Bikeway Enhancement</td>
<td>258,773</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Total awards not reviewed</td>
<td>$18,075,267</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**ARRA Management Group Did Not Review All Reporting** – Audit work found that several of the City’s sub-recipients failed to report to the ARRA Management Group email address as required by the City’s ARRA reporting policy. Upon performing a root-cause analysis, we were informed that the ARRA Management Group had verbally changed the City policy in an ARRA Working Group meeting. This change required only prime recipients to report to the ARRA Management Group. However, the City’s written
reporting policy has not been revised to reflect this change and the record reporting period has elapsed. As a result, eight out of 15 sub-recipient grants totaling $18 million in award monies were not reviewed by the ARRA Management Group for accuracy.

**Recovery Act Fund Tracking Is Not Compliant with City Procedures** – The Recovery Act requires recipients to establish separate funding accounts. Specifically, “Recovery Act funds shall be established in distinct funding accounts so they can be tracked separately.”  The Budget and Management Office assigned ARRA grants unique fund numbers and grant ID numbers in PeopleSoft to comply with this requirement. However, our test work found the Child Care Assistance grant was already in existence so instead of assigning a separate fund for the ARRA monies the existing fund was used, meaning ARRA funds were comingled with other funds. The $5 million grant has already been expended and does not appear to have been sufficiently monitored by the Management Group since this issue was not discovered and addressed during their review of City ARRA activity during the first reporting period.

Per the City’s reporting policy, the ARRA Management Group is to review reported information for completeness and accuracy. To accomplish this, the Group used PeopleSoft reports to verify expenditures. Auditors reviewed the PeopleSoft reports used to review reporting and noted that not all ARRA grants were included in the reports. For example, DIA’s ARRA grant expenditures cannot be separately tracked in the PeopleSoft system due to how DIA’s accounting system interfaces with PeopleSoft. The ARRA Management Group relies completely on DIA to review and confirm the accuracy of expenditure amounts included in required reporting. Currently, it appears the review of DIA ARRA expenditures is incomplete with over $8 million already expended.

**Recovery Act Reporting to the Public has Data Errors** – One issue identified concerns the accuracy of the calculation on the City’s December 10, 2009 ARRA Awarded Grants spreadsheet’s “total jobs impacted” column. The methodology for calculating this column varied depending on the agency. For most of the grants listed, the total jobs impacted column appears to be calculated by adding the projected jobs created and/or retained inside and outside the City; however for some agencies, these reported numbers do not reconcile based on this calculation methodology. For example, Denver’s Office of Cultural Affairs showed 7,1 total jobs projected. However, their total jobs impacted column showed 143 jobs. This discrepancy appears to exist because the methodology they used for this column was designed to reflect the total number of people impacted by stimulus funds, because many were part-time positions. Job calculations were based on full-time equivalents, not part-time positions. Conversely, agencies such as the Mayor’s Office of Economic Development used generally accepted approaches for estimating jobs. Additionally, audit work determined an agency attempted to correct job numbers for the spreadsheet prior to its release, but these corrections did not appear on the final version.

In addition, a review of the ARRA Awarded Grants spreadsheets determined some grant award amounts contained in the spreadsheet did not coincide with what was reported to the grantor. For example, the ARRA Awarded Grants spreadsheet total for four OED grants was $4,663,257; but OED was allocated $4,663,257 in March and $28,161 in July of 2009 for a total of $4,691,418.³ The most recent ARRA Awarded Grants spreadsheet

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³ ARRA, § 1605
⁴ Grants tested include: ARRA Workforce Investment Act Youth, ARRA Workforce Investment Act Adult, ARRA Workforce Investment Act Dislocated, ARRA Wagner-Peyser, and ARRA Wagner-Peyser.
dated December 10, 2009 understated these OED grants by $28,161. Reporting accurate and consistent information to the public reflects positively on the City, helps reduce confusion, and increases transparency.

City ARRA Reporting

All recipients of ARRA funds are required to report on certain elements about funds received. Reporting occurs within 10 days after the end of each calendar quarter, the first deadline was October 10, 2009.

Reporting correct data on or before the deadline is essential for city agencies. According to guidance issued by OMB, no waivers will be granted for this requirement and extensions will only be granted for extraordinary circumstances, i.e. a natural disaster. Non-compliance with reporting requirements are considered violations of the grant agreement. Penalties for non-compliance can include termination of the grant and debarment from future grants.

We reviewed select grants from both prime and sub-recipients for their first reporting period and related grant procedures. We noted one agency failed to report two ARRA grants, which resulted in the City being listed twice on the List of Non-Reporters on Recovery.gov. We also noted some agencies do not have documented review processes in place to ensure reported data is accurate.

Lack of Documented Data Review Process – Recipients of Recovery Act funds are required to perform data quality reviews for material omissions and significant reporting errors. OMB guidance indicates that, “at a minimum, recipients should establish internal controls to ensure data quality, completeness, accuracy and timely reporting of all amounts funded by the Recovery Act.” Having documented procedures for data review was a recommended action from the previous audit alert. However, we noted that the following three agencies still had poor data review processes:

- Public Works is responsible for reporting contractor and internal information. The agency is still in the process of putting review procedures in place to review subcontractor and internal reports.

- DIA had several issues with reported data resulting in non-compliance with federal regulations (described below).

- While the Mayor’s Office did not have much data to report, they currently do not have a documented data review process, which could be problematic due to the funds being distributed to several City agencies from the Mayor’s Office.

DIA is Non-Compliant with ARRA Reporting Requirements – DIA experienced issues with the [federalreporting.gov](http://federalreporting.gov) website and was unable to resolve them before the October 22, 2009 deadline for corrections. The agency made several attempts to submit their information and their final submission on October 20, 2009 was rejected. The rejection notice from [federalreporting.gov](http://federalreporting.gov) went unnoticed until November because the person responsible for ARRA reporting and the specific point of contact provided to [federalreporting.gov](http://federalreporting.gov) were different people. DIA submitted their final information to the Federal Aviation Administration (FAA) in November 2009 and audit work found several errors in this reported data, which are described below.

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10OMB, M-09-21, § 4.1 and § 4.3.
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**Grant Expenditure Error** – As of September 30, 2009, the ARRA expenditures in DIA’s accounting system totaled $59,340. However, the expenditures reported in November to the FAA totaled $2,166,913. DIA personnel stated since reporting was submitted late expenditures through October from the contractors were included in the totals but information provided still did not reconcile to the $2,166,913. As a result, DIA’s reported ARRA expenditures were overstated for September 30, 2009 by $1,627,573 and should have been reported as $59,340.

**Job Calculation Errors** – Per federal requirements, jobs created and/or retained are to be reported. DIA had problems calculating the number of jobs and receiving accurate and timely information from construction contractors.

- For their largest grant, DIA reported a job number calculation to the FAA in November as 42.92 but subsequently recalculated the number as 41.89 during our testwork. We calculated 46.73 jobs created/retained per OMB guidance and using the DIA provided contractor reports.

- For the other grant, the reported job number calculation to the FAA in November was 12.45 but was subsequently revised to 64 at a later date. Then DIA recalculated the number one more time as 1.17. We calculated 1.12 per OMB guidance and using the DIA provided contractor reports.

The following factors contributed to errors with DIA’s ARRA reporting:

- DIA did not view webinars or guidance provided by OMB;
- Written ARRA procedures are still in draft form and do not include the City’s ARRA reporting policy;
- A clear job calculation formula was not finalized until after reporting incorrectly to the FAA several times;
- Issues with obtaining accurate information from contractors; and
- Incomplete and undocumented reviews of reported information.

Because of these errors, the City and County of Denver had two grants listed in the List of Non-Reporters on Recovery.gov and per OMB guidance, could be subject to termination of their current and future funding.

**Recommended Actions from Prior Audit Alert**

The initial audit alert was intended to provide an assessment of the City’s control and governance environment prior to the first ARRA reporting phase. As a result of our preliminary review, we offered recommendations to assist the City in monitoring ARRA funding. As discussed below, it appears that several of these recommendations were not acted upon.

- Recommendation: City agencies should ensure that documented procedures are in place for data review addressing data quality, completeness, accuracy and timely reporting.

As described in the Reporting section of this report, this recommendation has not been fully addressed at the central or agency level and the City should consider implementing controls to ensure reporting is accurate and performed timely by following OMB guidance.
Recommendation: City agencies should designate specific personnel responsible for reporting and ensure such persons view federal training webinars and review published federal reporting guidance.

As illustrated in the Oversight and Reporting sections of this report, not all agencies have viewed webinars or published federal guidance causing the City to fail to report on time and to report inaccurate information.

Recommendation: The ARRA Management Group should place a permanent link to the City’s stimulus website on the homepage or on a related department website, such as the Mayor’s Office or Budget Management Office. In addition, a link should be established between the City and DIA’s ARRA websites.

This recommended action has been partially addressed. A link has been placed on the City’s homepage to the stimulus website. However, DIA’s ARRA webpage is not linked with the City’s website. Additionally, DIA’s ARRA webpage is difficult to find. The only link to their ARRA page is on the financial information page within DIA’s business center. Any site searches for “ARRA” or other related key words do not yield any results.

Recommendation: The ARRA Management Group should verify accuracy of information presented on the City’s ARRA website prior to display or clearly note that information presented is estimated as of the date of upload.

As noted in the Oversight section of this report, there are still data errors being reported to the public. This recommendation has been partially addressed by the ARRA Management Group by placing a disclaimer at the bottom of the ARRA Awarded Grants Spreadsheet stating, “The information on the spreadsheet is as accurate as possible but subject to change based on updates from the Federal Government or individual agencies.” While the disclaimer does clarify for readers that spreadsheet information is subject to change, the disclaimer does not appear on spreadsheets posted to the website prior to October 2009.

The effect of this could result in citizens, oversight groups or the media not having timely and accurate information. Further, in the last audit alert, auditors identified mathematical errors on the City’s stimulus website. While the grant information displayed has been updated to incorporate new grants awarded to the City, mathematical errors are still present. For example:

- The total amount displayed for formula grants, as of December 29, 2009, was $27.54 million. When auditors computed the formula grants listed, the result was $27.49 million, which is an error in excess of $40,000.

- Auditors could not replicate the $548k figure displayed for Food Assistance Grants. According to the December 10, 2009 ARRA Awarded Grants spreadsheet, the Food Assistance Grants should total $556k, approximately $8,000 more than what is listed on the City’s stimulus website.
Audit Alert
ARRA Readiness & Governance
Page 11

There are errors in job calculations with inconsistent methodologies being used by the City to report this information.

Recommended Actions

This second audit alert provides an updated assessment of the City’s control and governance environment and the first ARRA reporting period. As a result of our review and in addition to recommendations that have not been fully addressed from the initial alert, we offer the following recommendations to assist the City in monitoring ARRA funding:

- The ARRA Management Group should perform an all inclusive review of expenditures and jobs reported. This review should include action for ensuring city agencies accurately reported ARRA information and on time by reviewing Recovery.gov. Immediate action should be taken to ensure that the City is not listed on the federal Non-Reporter listing.

- The ARRA Management Group should ensure all Recovery Act funds have distinct funding accounts so they can be tracked separately and make sure it is able to accurately monitor all agencies expenditures through a single accounting system (PeopleSoft).

- City agencies should designate specific personnel responsible for reporting and ensure such persons view federal training webinars and review published federal reporting guidance.

- The ARRA Management Group should verify the accuracy of information presented on the City’s ARRA website prior to display and ensure a consistent methodology is used by agencies to generate job projections in the ARRA Awarded Grants Spreadsheet.

- City agencies should ensure that documented procedures are in place for data review addressing data quality, completeness, accuracy and timely reporting.

- DIA should coordinate with the ARRA Management Group to ensure their ARRA webpage is easily accessible from the City’s website and from DIA’s homepage.

- DIA should design and finalize written policies and procedures for ARRA reporting which should include:
  - Job calculation methodology;
  - Expenditure reporting;
  - Documented review processes; and
  - City reporting requirements.

Next Steps

The Auditor’s Office will continue to monitor the City’s progress and as programs are funded, we will perform audits of the City’s compliance with Recovery Act requirements.
Audit Alert
ARRA Readiness & Governance
Page 12

Upon completion of audit testing, we will identify and report additional issues related to ARRA funding.

We thank the city personnel that we have worked with for their cooperation. We encourage all city personnel to continue their commitment to ensure the City and County of Denver complies with ARRA provisions and safeguards.

Audit Services Division Contact

If you have any questions, please contact me at 720-913-5029.

Kip Memmott, MA, CGAP, CIA
Director of Audit Services

Purpose of Audit Alerts

To quickly communicate significant audit issues or concerns about fraud, waste, or abuse which have come to the attention of the Division through an audit or otherwise which require immediate action or review by management.

Distribution

Honorable John Hickenlooper, Mayor
Honorable Members of the City Council
Members of the Audit Committee
ARRA Oversight Committee
Claude Fumilla, Chief Financial Officer
David Fine, City Attorney
Stephanie Adams, Manager of Performance Initiatives, Budget and Management Office
Kelli Bennett, Accounting Manager, Controller’s Office
Amy Mueller, Deputy Chief of Staff, Mayor’s Office
Shaun Sullivan, Assistant City Attorney, City Attorney’s Office
January 7, 2011

Mr. Kip R. Memmott, MA, CGAP, CICA
Director of Audit Services
Office of the Auditor
City and County of Denver
201 West Colfax Avenue, Dept. 705
Denver, Colorado 80220

Dear Mr. Memmott:

The Office of the Auditor has conducted a performance audit of the City and County of Denver’s American Recovery and Reinvestment Act (“ARRA”) funding for the audit period July 1, 2009 through June 30, 2010.

Thank you for the opportunity to discuss Denver’s participation in ARRA and for your evaluation of how we are implementing the program. We are pleased with the fact that your audit produced no findings of a material deficiency in the City’s implementation of the $92 million ARRA program including 47 individual grants from almost 20 different grantors.

As your office is aware, Denver made several decisions and committed itself to several principals that shaped the City’s implementation of the ARRA program from its inception:

- **Transparency**: While Denver was not required to create an oversight committee or a dedicated website to report ARRA funding to our community, the City made a decision to establish these important oversight tools and to update them monthly. The members of the City’s ARRA Oversight Committee, including a representative from the Auditor’s Office, are public officials or their designees and leaders of community organizations. The ARRA Oversight Committee provides insights and guidance on how ARRA funds are being spent and it seeks to measure program outcomes. The committee meetings are open to the public. Committee members have been strong advocates of the ARRA program and they understand the complexity of tracking these funds and communicating to the public and our constituency.

- **Leverage existing resources and policies**: The City did not need to create many new policies that were ARRA specific because existing fiscal policies apply to these grants and ensure accountability. Given the short-term nature of the ARRA program, the magnitude of the dollars to be received, the spirit of
the program to stimulate the economy and the City's budget challenges, the City decided not to use funding (ARRA or otherwise) to create and hire a staff of new employees to run the program or to otherwise use ARRA funding to fund City administrative costs so that all of the funds could be put to work in our community. Instead, the City chose to administer the ARRA program by its current employees and through its decentralized grant management system that allows agencies to respond to the needs of each individual grantor and manage their unique programs using their expertise. City staff who track and spend the ARRA grants are some of the most knowledgeable grants resources in the City, as evidenced by the policies and procedures developed by several of these staff members as noted in the audit. The monthly ARRA Working Group meetings allow the staff members who are implementing these grants to share their knowledge and experiences. The bi-weekly ARRA Management Group meetings ensure that policies are promulgated and adhered to and that grants are being spent in a timely way.

The City is pleased with the outcomes that the ARRA program has achieved in the community with minimal administrative overhead. Over $82 million has been invested in the community to stimulate Denver’s economy as a result of the American Recovery and Reinvestment Act. We will continue to seek opportunities to improve the ARRA program. Thank you for your participation in this process.

This letter provides a written response for each reportable condition noted in the Auditor’s Report final draft that was sent to us on December 16, 2010. This response complies with Section 20-276 (b) of the Denver Revised Municipal Code (DRMC).

AUDIT FINDING 1: Opportunities Exist to Improve Oversight of ARRA Funds

RECOMMENDATION 1.1: The ARRA Management Group should communicate all Recovery Act guidance to agencies in a standard format and in a timely manner.

RESPONSE/ACTION PLAN: It is City policy that grant management and compliance is the responsibility of the agencies receiving ARRA grants. The ARRA Management Group communicates Recovery Act guidance to the members of the ARRA Working Group as it is made aware of new or changing guidance from the federal government. While the ARRA Management Group would like to be able to proactively search Recovery Act guidance, put it into a consistent format, and assist in reconciling it with the guidance received by agencies from each of their grantors, there are no budget or staff resources available for this task. The ARRA Management Group simply does not have the budget or staff resources to fulfill this recommendation. We will continue to have monthly ARRA Working Group meetings in which participating agencies share information on any Recovery Act guidance they have received.

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<tr>
<th>State your agreement or reason for disagreement with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 90 days)</th>
<th>Name and phone number of primary individual responsible for implementation</th>
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</thead>
<tbody>
<tr>
<td>Agree, but lack resources to implement</td>
<td>A working group meeting occurred on January 4, 2011 and will continue monthly</td>
<td>Stephanie Karayannis Adams 720.913.6532</td>
</tr>
</tbody>
</table>
RECOMMENDATION 1.2: The ARRA Management Group should ensure all agencies have adequate policies and procedures in place to properly manage ARRA Funds.

➢ RESPONSE/ACTION PLAN: The ARRA Management Group uses agencies as a resource for each other. The ARRA Working Group meeting met on January 4, 2011 and agencies that have been identified as having adequate policies and procedures in place were asked to share copies of those policies. We will require agencies that have been identified as lacking in policies and procedures to have them in place 60 days from January 4, 2011.

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<th>State your agreement or reason for disagreement with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of primary individual responsible for implementation</th>
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</thead>
<tbody>
<tr>
<td>Agree</td>
<td>March 1, 2011</td>
<td>Stephanie Karayannis Adams 720.913.5632</td>
</tr>
</tbody>
</table>

RECOMMENDATION 1.3: The ARRA Management Group should perform an all-inclusive review of expenditures and jobs reported during its review process.

➢ RESPONSE/ACTION PLAN: Agency grant administrators have the most up-to-date information on their expenditures and jobs created. The ARRA Management Group must rely on the grant administrators to compile the information, but it reviews the reports to make sure the information is timely provided and appears to be reasonable. The ARRA Management Group will continue to review expenditures on the 1512 reports monthly and compare them to the City’s financial system as a check for reasonableness. The ARRA Management Group does not have the budget or staff resources to conduct a more detailed review of expenditures and jobs. The City chose to rely on existing financial management controls and grant administrators to manage the ARRA program’s grants instead of hiring additional staff that would impose additional overhead and reduce the amount of money that is invested directly into the community. The City added the ARRA Management Group, the ARRA Working Group and the ARRA Oversight Committee to ensure additional checks on the expenditure of ARRA funds, to provide a forum to discuss ARRA issues and exchange information, and to add transparency to the process.

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<th>State your agreement or reason for disagreement with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of primary individual responsible for implementation</th>
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<tr>
<td>Agree</td>
<td>30 days</td>
<td>Kelli Bennett 720.913.5156</td>
</tr>
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</table>
RECOMMENDATION 1.4: The ARRA Management Group’s review should ensure reporting is performed by reviewing Recovery.gov and confirming the City is not listed on the Non-Reporters listing.

➢ RESPONSE/ACTION PLAN: The ARRA Management Group will continue to monitor the ARRA inbox for the initial 1512 report and the confirmation that the 1512 report has been accepted by federalreporting.gov. Because the ARRA Management Group does not have the resources to continuously check the Recovery.gov website, it relies on agencies to file their reports and on the email confirmation of the acceptance of the 1512 report as the primary assurance that the agency met the deadline for submittal. The ARRA Management Group will also check the non-reporters listing quarterly. The next quarterly report is due by January 14, 2011. The non-reporters listing will be reviewed once it is published.

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<th>State your agreement or reason for disagreement with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of primary individual responsible for implementation</th>
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<tbody>
<tr>
<td>Agree</td>
<td>March 1, 2011* contingent upon posting of report</td>
<td>Stephanie Karayannis Adams 720.913.5532</td>
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</tbody>
</table>

RECOMMENDATION 1.5: The ARRA Management Group should make certain that all Recovery Act funds have distinct funding accounts so funds can be tracked separately and accurately. ARRA expenditures should be monitored through PeopleSoft.

➢ RESPONSE/ACTION PLAN: We disagree with the implication of this finding because the City has complied with the requirement to separately track all ARRA funds. Separate fund and grant IDs have been assigned to all ARRA dollars.

With respect to the child care grant mentioned in the audit report, whether funds are ARRA or non-ARRA dollars, this grant does not get recorded in the City’s financial system. The City handles eligibility for Child Care Assistance, but the City neither receives the funds from the State nor makes the actual payments to the child care vendors. It would be improper and misleading in our financial statements to record revenues and expenditures that are not processed through our system.

We will continue to use separate funds and grant IDs for all ARRA grants that are recorded in our financial system.

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<tr>
<th>State your agreement or reason for disagreement with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 90 to 90 days)</th>
<th>Name and phone number of primary individual responsible for implementation</th>
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<tbody>
<tr>
<td>Disagree</td>
<td>N/A</td>
<td>Kelli Bennett 720.913.5156</td>
</tr>
</tbody>
</table>
RECOMMENDATION 1.6: The ARRA Management Group should verify accuracy of information prior to posting on the City website and ensure one method is used for jobs reported in the ARRA Awarded Grants spreadsheet.

➢ RESPONSE/ACTION PLAN. As noted in the audit report, the ARRA Management Group has addressed this by “revamping the layout of the stimulus website, eliminating excess information and placing a disclaimer on the bottom of the ARRA Awarded Grants spreadsheet.” (page 17)

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<tr>
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<th>Name and phone number of primary individual responsible for implementation</th>
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<tbody>
<tr>
<td>Agree</td>
<td>Completed</td>
<td>Stephanie Karayannis Adams 720.913.5632</td>
</tr>
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</table>

AUDIT FINDING 2: Management of ARRA Prime Recipient Grants Need Improvement

RECOMMENDATION 2.1: The Mayor’s Office of Education and Children should design procedures for proper ARRA reporting to include:

- Sub-recipient job hour reporting according to OMB guidance
- Job calculation for reporting according to OMB guidance
- A process review prior to reporting to ensure proper calculation and back-up documentation.

➢ RESPONSE/ACTION PLAN. MEC agrees that Sub-recipient job hour reporting and job calculation procedures that comply with the OMB Guidance should be written. MEC will develop written procedures that will provide a review prior to reporting to ensure proper calculation and back-up documentation.

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<th>State your agreement or reason for disagreement with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of primary individual responsible for implementation</th>
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<tbody>
<tr>
<td>Agree</td>
<td>January 30, 2011</td>
<td>Kay Franklin 720.913.0885</td>
</tr>
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</table>
RECOMMENDATION 2.2: The Mayor’s Office of Economic Development should ensure its job calculation method complies with OMB Guidance.

- **RESPONSE/ACTION PLAN:** The Mayor’s Office of Economic Development will ensure that all future job reporting complies with all applicable OMB Guidance.

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<th>State your agreement or reason for disagreement with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of primary individual responsible for implementation</th>
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<tr>
<td>Agree</td>
<td>January 14, 2011</td>
<td>Ami Webb</td>
</tr>
</tbody>
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RECOMMENDATION 2.3: The Mayor’s Office of Education and Children should resolve infrastructure reporting issues before reporting data.

- **RESPONSE/ACTION PLAN:** MOEC agrees that infrastructure reporting should not be part of the Head Start 1512 report. MOEC has notified the ARRA help line as of October 2010 and has not yet been provided a definitive remedy for correction on the Recovery.gov website. Subsequent reports will not include infrastructure reporting.

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<th>State your agreement or reason for disagreement with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of primary individual responsible for implementation</th>
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</thead>
<tbody>
<tr>
<td>Agree</td>
<td>Request for resolution has been completed</td>
<td>Kay Franklin 720.913.0885</td>
</tr>
</tbody>
</table>

RECOMMENDATION 2.4: The Mayor’s Office of Education and Children should make all payments directly to recipients to ensure proper documentation and tax filings.

- **RESPONSE/ACTION PLAN:** Since June 2010, MOEC has made all payments for child care services directly to the recipients.

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<th>State your agreement or reason for disagreement with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of primary individual responsible for implementation</th>
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<tbody>
<tr>
<td>Agree</td>
<td>Completed</td>
<td>Kay Franklin 720.913.0885</td>
</tr>
</tbody>
</table>
RECOMMENDATION 2.5: DIA should design and finalize written policies and procedures for ARRA reporting to include:
- Job calculation for reporting according to OMB guidance
- Expenditure reporting
- City reporting requirements
- A review process prior to reporting to ensure proper calculation and back-up documentation is appropriate

RESPONSE/ACTION PLAN: We agree with the finding and DIA is taking steps to address these issues. The ARRA grants are administered by the FAA as part of the Airport Improvement Program (AIP) and DIA has worked collaboratively with the FAA in mapping out work flow diagrams and now is in process of developing written policies and procedures for the AIP, which will include a subset for the ARRA grants should any of these type of grants be active in the future. The ARRA policies will reference OMB guidelines, delineate the difference between FAA ARRA reporting and OMB ARRA reporting, and reference City reporting requirements. DIA’s CIP manager will now review entries before input by the new AIP manager.

<table>
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<tr>
<th>Statement of Agreement</th>
<th>Target Date to Complete Implementation Activities (Generally expected within 60 to 90 days)</th>
<th>Name and Phone Number of Primary Individual Responsible for Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>January 31, 2011</td>
<td>Don Wood 303.342.2464</td>
</tr>
</tbody>
</table>

RECOMMENDATION 2.6: The Department of Environmental Health should ensure ARRA expenditures are reported as a cumulative amount and require vendors to submit invoices on a periodic basis to ensure reimbursements are completed in a timely manner.

RESPONSE/ACTION PLAN: Department of Environmental Health (DEH) identified and promptly corrected the cumulative expenditure error that occurred during second quarter 2010. The DEH project manager developed a spreadsheet reporting tool designed to prevent future errors. The effectiveness is demonstrated by the fact that this error did not occur during any subsequent reporting periods. The EPA approved work plan for this grant requires the Fleet Manager and a Lead Heavy Mechanic to inspect and approve all equipment installations and vehicle retrofits prior to the vendor submitting invoices to DEH for processing. The vehicles being modified through this grant need to be deployed in the fleet during normal business hours in order to prevent disruption to City services; therefore, the vendors completed equipment installs and vehicle retrofits during non-business hours (evenings and weekends). The Fleet Manager and Lead Heavy Mechanic are not generally on-site during these hours. DEH, Denver Public Works, DIA and Denver Water have developed an agreement that the necessary fleet personnel will perform these inspection duties and report results back to DEH within one week of completion. As for prompt payment issues with invoices received, the various project managers have agreed to a process that ensures that invoices are entered.
and approved (by DEH) within 15 days of invoice receipt provided that the proposed changes described below are adopted. Requirements for vendors to submit invoices on a periodic basis are set forth in the Purchase Order (PO), which will be amended to include a requirement that vendors submit invoices on a periodic basis.

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<th>State your agreement or reason for disagreement with Recommendation</th>
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<tr>
<td>Agree</td>
<td>Completed</td>
<td>Sabrina Williams</td>
</tr>
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**RECOMMENDATION 2.7:** The ARRA Management Group should work with agencies to ensure they properly report to grantees any previously reported inaccuracies or omissions.

- **RESPONSE/ACTION PLAN:** Those agencies who have been cited as having inaccurate reporting in the audit will discuss the inaccuracy with their respective grantor to assure there is clarity on reporting moving forward and to address inaccuracies in any manner that the grantor deems appropriate.

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<th>State your agreement or reason for disagreement with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of primary individual responsible for implementation</th>
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<tbody>
<tr>
<td>Agree</td>
<td>March 1, 2011</td>
<td>Stephanie Karayannis Adams 720.913.5532</td>
</tr>
</tbody>
</table>

**AUDIT FINDING 3: Management of ARRA Sub-Recipient Grants Need Improvement**

**RECOMMENDATION 3.1:** Public Works should work with the Colorado Department of Transportation to create written policies and procedures for report submission, in addition to the flow chart already created, providing more clarity regarding reporting deadlines. This should include a follow-up process for ensuring sub-contractor reports are received by the deadline.

- **RESPONSE/ACTION PLAN:** Public Works will develop a monthly reporting calendar which will clearly define due dates for all reporting criteria, including sub-contractor and CDOT deadlines. Public Works will also develop a written review policy designed to ensure all deadlines are met. The combination of flow chart, report calendar and review policy will help guarantee accuracy and timeliness in ARRA reporting. The flow chart has already been implemented, the reporting calendar and written policy will be in place by June 30, 2011.
### RECOMMENDATION 3.2

Public Works should provide training for project managers and subcontractors on reporting deadlines to ensure all parties involved understand reporting deadlines.

- **RESPONSE/ACTION PLAN**: Public Works will provide both internal and external training on the flow chart, reporting calendar, and written policies to communicate reporting deadlines for all ARRA projects. Training will occur concomitantly with the development of the training tools and will be completed by June 30, 2011.

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<th>State your agreement or reason for disagreement with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of primary individual responsible for implementation</th>
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<tr>
<td>Agree</td>
<td>June 30, 2011</td>
<td>Roger Mutz</td>
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</tbody>
</table>

### RECOMMENDATION 3.3

Public Works should provide training to contract administration employees to ensure compliance with contract procurement internal policies and procedures, as well as Fiscal Accountability Rules.

- **RESPONSE/ACTION PLAN**: Public Works has implemented a review process that coincides with the Contract Administration checklist as of January 1, 2010, which includes review to determine if a contractor has been suspended or debarred. Documentation of this review has been provided for all ARRA expenditure contracts as of this date.

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<th>State your agreement or reason for disagreement with Recommendation</th>
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<th>Name and phone number of primary individual responsible for implementation</th>
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<tbody>
<tr>
<td>Agree</td>
<td>Completed</td>
<td>Terri Goodwin</td>
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</table>

### RECOMMENDATION 3.4

The Denver Department of Human Services should ensure all ARRA Sub-recipient Grants are assigned distinct funding accounts to track the funds in PeopleSoft.

- **RESPONSE/ACTION PLAN**: See response to Recommendation 1.5 regarding the Child Care Assistance grant, which explains that these funds are not to be recorded on the City’s financials.
In regards to the child support grant, there was some confusion regarding whether or not the City was required to track these funds separately because they were not reportable on the 1512. The City was aware that the State of Colorado was going to ‘refinance’ child support grant dollars with ARRA funds and that this would happen after expenditures had already occurred. The City tracked these expenditures on the state system and in state reports. During the 2009 annual external audit, several discussions involving DHS, the Controller’s Office, the auditors, and the state occurred, at which time we all agreed that the approach would be to transfer child care expenditures to an ARRA designated grant ID in PeopleSoft. In September 2010, the state began “refinancing” the child support dollars and the City is recording those expenditures under an ARRA designated grant ID in PeopleSoft.

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<th>State your agreement</th>
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<td>Recommendation</td>
<td>within 60 to 90 days)</td>
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<tr>
<td>Agree</td>
<td>Completed</td>
<td>Kelli Bennett 720.913.5156</td>
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RECOMMENDATION 3.5: The Denver Department of Human Services should ensure all grants are closed-out in compliance with the City’s Fiscal Accountability Rules and applicable grant requirements.

- **RESPONSE/ACTION PLAN:** The Food Assistance Program grant was closed as part of the overall grant closure project that happened in 2010. As part of this special one-time effort to close expired grants, the Controller’s Office initiated many grant closures without requiring that the agency submit the closure form. DHS and the Controller’s Office still did its due diligence in reviewing the financial information prior to closure. With that project winding down, the DHS will submit future grant closure requests using the grant closure form.

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<tr>
<td>Agree</td>
<td>Contingent upon close</td>
<td>Each Agency ARRA Contact</td>
</tr>
<tr>
<td></td>
<td>out date of each grant</td>
<td></td>
</tr>
</tbody>
</table>

RECOMMENDATION 3.6: The ARRA Management Group should monitor the closeout process for ARRA grants to ensure compliance with the applicable requirements and update the ARRA Reporting Policy to reflect grant closeout procedures.

- **RESPONSE/ACTION PLAN:** The Controller’s Office will ensure compliance with the Fiscal Accountability Rule on Grant Closures. The Food Assistance Program grant was closed as part of the overall grant closure project that happened in 2010. As part of this special one-time effort to close expired grants, the Controller’s Office initiated many grant closures without requiring that the agency submit the closure form. DHS and the Controller’s Office still did their due diligence in reviewing the financial information prior to closure. With that project winding down, the Controller’s
Office will once again enforce the requirement that the agency complete a closure form.

<table>
<thead>
<tr>
<th>State your agreement or reason for disagreement with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of primary individual responsible for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>Completed</td>
<td>Kelli Bennett 720.913.5156</td>
</tr>
</tbody>
</table>

Sincerely,

[Signature]

Jack Finlaw  
Chief of Staff  
Office of the Mayor  
City and County of Denver

cc: Edward Scholz, Deputy Chief Finance Officer  
Beth Maciariel, Controller