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Cover photo by Denver Auditor’s Office staff.
AUDITOR’S LETTER

May 6, 2021

In keeping with generally accepted government auditing standards and Auditor’s Office policy, as authorized by city ordinance, the Audit Services Division has a responsibility to monitor and follow up on audit recommendations to ensure city agencies address audit findings through appropriate corrective action and to aid us in planning future audits.

In our follow-up effort for the “Airport Improvement Program Grants” audit report issued in September 2019, we determined Denver International Airport partially implemented one and fully implemented another of the two recommendations it agreed to in the original audit report. Although airport personnel disagreed with two other recommendations, we learned they did take some action to address the concerns.

However, despite the airport’s efforts, auditors determined the risks associated with the audit team’s initial findings have not been fully mitigated. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure the city takes appropriate corrective action.

The Highlights page in this report provides background and summary information about the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation.

I would like to express our sincere appreciation to the personnel at Denver International Airport who assisted us throughout the audit and the follow-up process. For any questions, please feel free to contact me at 720-913-5000.

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor
Airport Improvement Program Grants
MAY 2021

Objective
To determine whether Denver International Airport has adequate controls to properly manage and record grants.

Background
The Federal Aviation Administration's Airport Improvement Program assists U.S. airports with grant funding to strengthen the nation's aviation infrastructure. Grant amounts are based on an airport's passenger volume, as well as national priorities.

Denver International Airport served about 64.5 million passengers in 2018. As a recipient of Airport Improvement Program funding, the airport uses these dollars to maintain its infrastructure — including runways, taxiways, signage, and lighting to ensure the airport is safe, secure, and efficient.

As allowable project costs are incurred, the airport requests reimbursement from the FAA and receives the awarded funds following FAA approval.

We assessed the Denver International Airport Finance Division's compliance with city and federal requirements for Airport Improvement Program grants, as well as their policies and procedures for grant administration. We found the Finance Division has not ensured compliance with both city and federal regulations, because the airport has insufficient internal controls over its grant administration, including inadequate policies and procedures.

Denver International Airport Has Not Ensured Compliance with City and Federal Grant Rules and Has Insufficient Policies and Procedures to Oversee Grants

- The airport incurred and submitted for reimbursement to the Federal Aviation Administration $2.81 million in unallowable project costs. The airport's Finance Division does not have effective controls to ensure it is complying with federal grant requirements, including that project costs are incurred in the appropriate period. The grant reimbursement request procedures of the division are not linked to a grant policy.

- On average, reimbursement requests were submitted 50 days late — conflicting with a city Fiscal Accountability Rule and potentially costing the airport money in lost interest. The airport's processes do not ensure employees submit grant reimbursement requests on time.

- A schedule to review and update the Finance Division's grant policies and procedures — as well as a process to make changes to those documents in a timely manner — does not exist. The division's policies and procedures are incomplete, outdated, and do not accurately reflect business practices.

Why This Matters
The methods Denver International Airport uses to implement grant programs and to spend grant funds is important to ensure the safety of passengers, visitors, and employees who use the airport each day. When the airport does not spend grant money according to federal and local requirements, Denver residents, airport visitors, and federal partners cannot be assured the airport is using the grant funds for their intended purpose.
Denver International Airport fully implemented one recommendation made in the original audit report, but three others have yet to be fully implemented or acted upon.

Therefore, lingering risks remain. For example, the airport is still not ensuring all grant expenditures are submitted to the Federal Aviation Administration in a timely manner, in accordance with airport procedures. Additionally, airport officials did not ensure they received prior written authorization from the FAA for projects that started work before the grant agreement was executed.
FINDING | Denver International Airport Has Not Ensured Compliance with City and Federal Grant Rules and Has Insufficient Policies and Procedures to Oversee Grants

Recommendation 1.1

DEVELOP AND IMPLEMENT A GRANT POLICY – The senior vice president of financial management should develop and implement a grant policy that establishes controls to validate that all grant expenditures were incurred within the grant agreement period and ensures compliance with laws and regulations.

PARTIALLY IMPLEMENTED

AGENCY ACTION

Original target date for completion: Dec. 31, 2019

In the original audit, we found the airport was completing work on Airport Improvement Program Grant No. 92 before the contract began. Airport officials said in their original response to this recommendation that they would update their grants procedure and meet with the Federal Aviation Administration about grant 92.

In our follow-up work, we learned airport officials updated the procedure in December 2019. They added a step requiring the senior vice president of financial accounting to make sure the funds being reimbursed are billed under the correct period of performance for the type of funds used. There are two types of funds: discretionary and entitlement. Discretionary funds must be used for work conducted after a grant agreement is executed. Entitlement funds can be used at any time, before or after a grant agreement is executed.

We learned the FAA determined the airport overcharged the federal government for grant 92. The airport gave $761,929 back to the federal government after deducting FAA entitlement funds, airport match funds, and eligible discretionary funds from the total amount the FAA reimbursed the airport. In our original audit, we found the airport submitted $2.81 million in unallowable costs to the FAA for reimbursement for this grant. Therefore, the FAA validated at least some of the amount we reported.

FAA and airport personnel agreed that for future grant projects, the airport should use available entitlement funds and the 25% airport match before using discretionary funds.

As we describe under the agency action for Recommendation 1.2, that recommendation called on the airport to obtain the FAA’s prior approval to start work before the execution date of an Airport Improvement Program.
Although the airport disagreed with that recommendation in our original audit, the airport’s efforts to establish an agreement with the FAA demonstrates progress toward implementing the recommendation. While this agreement shows progress, some FAA grant funding is exclusively discretionary funds. Without the use of flexible funding sources like entitlement funds, the airport will either have to ensure the work on those projects is started after the agreement execution date or it will need to obtain written authorization from the FAA to start work before the execution date.

Based on this analysis, we conclude the recommendation is partially implemented. If the airport does not take the proper authorization steps moving forward, it will risk further penalties from the Federal Aviation Administration.

**Recommendation 1.2**

**OBTAIN PRIOR WRITTEN AUTHORIZATION** – The deputy chief financial officer should ensure prior written authorization from the Federal Aviation Administration is obtained by the airport for projects that start work prior to final execution of the grant agreement.

**DISAGREED**

**AGENCY ACTION**

Although the airport disagreed with this recommendation, we learned officials established an agreement with the Federal Aviation Administration on the timing for spending future grant funds. FAA and airport personnel agreed the airport should use entitlement funds and the 25% airport match before spending discretionary funds. As we described in the agency action for Recommendation 1.1, this action demonstrates the airport’s progress toward implementing Recommendation 1.2, but risks remain when the funding is exclusively discretionary funds.

This was the agency’s response to the recommendation when the original report was issued in September 2019:

> Currently, DEN Financial management has ongoing meetings with the FAA to discuss future capital projects and possible funding available under the Airport Improvement Program (AIP). The determination of AIP funding source (entitlement vs discretionary) is made by the FAA. The airport must keep to its program schedules to ensure the safety and timely completion of airfield projects and due to the construction season cannot always wait for written authorization for projects that start work prior to final execution of the grant agreement. Under the entitlement funding requirements, any project cost after September 30, 1996 that were incurred prior...
to the execution of the agreement are considered allowable and exempt from the grant execution requirements. DEN
Financial management will continue to work with the FAA on timing of grant execution and funding sources.

For the original report, we wrote the following addendum rebutting the agency’s response:

As stated in our audit report, Uniform Guidance requires that reimbursement requests include only allowable costs incurred during the period of performance. Sections in the Airport Improvement Handbook provide for exceptions to this requirement. Specifically, as it relates to grants 92 and 93, entitlement funds may be used prior to the execution of the grant agreement and subsequently submitted as allowable costs for reimbursement to the Federal Aviation Administration. Airport personnel have also recognized this use of entitlement funds in their response.

Our audit found that the airport incurred $5.27 million in costs for both grants outside of the period of performance. The entitlement funds awarded for grants 92 and 93 reduced the unallowable portion of costs to the finding of $2.81 million in discretionary funds for grant 92. These $2.81 million in costs were requested for reimbursement and reimbursed by the FAA.

Both Uniform Guidance and the handbook further provide for the remaining discretionary funds that the FAA, as the awarding agency, can authorize for the allowability of these costs incurred before the grant agreement execution. However, the airport’s discretionary funds were not authorized by the FAA for this purpose and did not meet the allowability requirements. Therefore, the $2.81 million remains unallowable costs.

Recommendation 1.3

ENSURE TIMELY REQUESTS FOR GRANT REIMBURSEMENT – The senior vice president of financial management should develop a grant policy requiring reimbursement requests (i.e., drawdowns) to be completed by the airport’s Finance Division in a timely manner and in accordance with city Fiscal Accountability Rule 9.2.

DISAGREED

AGENCY ACTION
During our follow-up work, we found airport officials took action to address this recommendation despite disagreeing to it in the original audit.

As airport officials pledged to do in their original response to the recommendation, they sought an exemption in December 2019 from the grant drawdown requirement in the city's Fiscal Accountability Rules. In February 2021, the Controller’s Office granted that exemption. Although the airport received the exemption, airport officials did not incorporate the waiver into their Finance Division's grant policy. The grants policy and procedure still requires the timely drawdown of grant funds.

Furthermore, the airport continues to submit pay applications to the Federal Aviation Administration almost three months after the period of performance on the application. This is not compliant with the procedure as written.

This was the agency’s response to the recommendation when the original report was issued in September 2019:

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\text{DEN Financial management has been following the FAA reimbursement request requirements. Since the FAA’s requirements do not follow the City’s Fiscal Accountability Rule 9.2, DEN Financial management will submit a waiver request to the Controller’s Office related to drawdown requirement and incorporate the waiver into DEN Financial management grant policy.}
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**Recommendation 1.4**

**REVIEW AND UPDATE POLICIES AND PROCEDURES** – The senior vice president of financial management should develop a schedule to review and update the grant policies and procedures annually. In addition, implement processes to update policies and procedures as changes occur to ensure processes are documented and accurately reflect current business practices.

**AGENCY ACTION**

**FULLY IMPLEMENTED**

*Original target date for completion: Dec. 31, 2019*

Airport officials developed a schedule to review and update their grants procedure each December. Upon reviewing the updated procedures for 2019 and 2020, we found the airport is reviewing the procedures on an annual basis.

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The airport does not update the procedure as changes occur, but affected staff are informed in real time of any changes. The intent of the procedure is to ensure staff are informed of the current process to complete their jobs, so this practice of communicating with staff in real time meets that intent.

Therefore, we consider this recommendation fully implemented.
The Auditor of the City and County of Denver is independently elected by the residents of Denver. He is responsible for examining and evaluating the operations of city agencies and contractors for the purpose of ensuring the proper and efficient use of city resources. He also provides other audit services and information to City Council, the mayor, and the public to improve all aspects of Denver's government.

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

Our Mission

We deliver independent, transparent, and professional oversight in order to safeguard and improve the public's investment in the City and County of Denver. Our work is performed on behalf of everyone who cares about the city, including its residents, workers, and decision-makers.