

FOLLOW-UP REPORT

Denver International Airport *Airport Improvement Program Grants*

MAY 2021



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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

A handwritten signature in black ink, appearing to read "Timothy M. O'Brien".

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.

ORIGINAL REPORT HIGHLIGHTS

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.



1

FULLY IMPLEMENTED



1

PARTIALLY IMPLEMENTED



0

NOT IMPLEMENTED



2

DISAGREED; NO FOLLOW-UP

May 6, 2021

Action Since Audit Report

Airport Improvement Program Grants

4 recommendations proposed in September 2019



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.

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.¹ 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:

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.

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.



**FULLY
IMPLEMENTED**

AGENCY ACTION

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.

¹ City and County of Denver, Fiscal Accountability Rules, "Rule 9.2 – Grant Management" (last revised 2014), accessed March 31, 2021, https://www.denvergov.org/content/dam/denvergov/Portals/344/documents/Fiscal_Rules/chapter_9_Grants/Rules/Rule_9_2_Grant_Mgmt.pdf.

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.

Office of the Auditor

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.



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