Audit Team
  Todd Green, CPA, CIA, CFE, Audit Manager
  Ryan Barnes, CPA, Lead Auditor
  Megan Kelly, MBA, Senior Auditor
  Katie Beverlin, MPA, Associate Auditor

Audit Management
  Timothy M. O’Brien, CPA, Auditor
  Valerie Walling, CPA, Deputy Auditor
  Dawn Wiseman, CRMA, Audit Director

Audit Committee
  Timothy M. O’Brien, CPA, Chairman
  Rudolfo Payan, Vice Chairman
  Jack Blumenthal
  Leslie Mitchell
  Florine Nath
  Charles Scheibe
  Ed Scholz

You can obtain copies of this report by contacting us:
Office of the Auditor
201 West Colfax Avenue, #705
Denver CO, 80202
(720) 913-5000 | Fax (720) 913-5253

Or download and view an electronic copy by visiting our website at:
www.denverauditor.org.

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

July 7, 2022

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 “Coronavirus Relief Funding” audit report issued in July 2021, we determined the Finance Department fully implemented only one recommendation and did not implement four other recommendations it agreed to in the original audit report. Therefore, we 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 in the Finance Department 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
Coronavirus Relief Funding
JULY 2022

Objective
To assess the city’s compliance with the Coronavirus Aid, Relief, and Economic Security Act’s eligibility and documentation requirements for pandemic-related expenses in 2020, specifically those paid for through the federal Coronavirus Relief Fund.

Background
In April 2020, the City and County of Denver received $126.9 million from the Coronavirus Relief Fund. Congress established the fund as part of the CARES Act to help territories, states, local governments, and tribal governments respond to the COVID-19 pandemic.

The city’s Department of Finance developed a phased plan to spend the money throughout the year, including with input from city agencies and the Denver City Council. Denver’s aid addressed a variety of community needs, including sheltering individuals experiencing homelessness.

The Department of Finance Sufficiently Managed the City’s Process for Spending Federal Aid from the Coronavirus Relief Fund, but It Could Offer Better Guidance to Agencies on How to Document Individual Transactions

The Finance Department formed a federal funding committee and implemented a phased spending plan to use the coronavirus relief funds. The city also submitted federal reporting periodically as required.

However, we found:

- Some transactions were not documented appropriately in accordance with city fiscal rules.
- Some transactions lacked supporting information showing how the expense was related to the pandemic.

The City Failed to Properly Track Interest for Coronavirus Relief Funds

- Federal guidance and Denver’s own Fiscal Accountability Rules require the city to track interest earned, but the Department of Finance failed to track interest on the city’s coronavirus relief funds for several months.
- Bank reconciliations also were not done as required for several months.

WHY THIS MATTERS

Federal aid from the CARES Act and other sources helped Denver pay for a wide array of unexpected costs related to its pandemic response efforts at the same time the city saw drastic declines in its sales, use, and lodgers tax revenue. Ensuring the city uses its relief funds appropriately will maximize their benefit to Denver residents and businesses.

FULLY IMPLEMENTED 1
PARTIALLY IMPLEMENTED 0
NOT IMPLEMENTED 4
July 7, 2022

Action Since Audit Report
Coronavirus Relief Funding

5 recommendations proposed in July 2021

- ✔ FULLY IMPLEMENTED 1
- ⚫ PARTIALLY IMPLEMENTED 0
- ✗ NOT IMPLEMENTED 4

The Department of Finance fully implemented one recommendation made in the original audit report, but four others were not acted upon.

While the department did provide more detailed guidance on how to substantiate pandemic-related transactions with supporting documentation, several risks related to tracking interest earnings for grants remain unaddressed.

By not ensuring bank reconciliations are completed monthly, the Department of Finance risks that bank errors, erroneous transactions, or fraud against the city goes undetected. Furthermore, by also not ensuring interest is posted monthly for grants that earn interest, the city risks not following federal, state, or local requirements for the grant money it received. This puts this money at risk if it must be used by a certain date and grant managers do not know interest earnings are available for the city's use.

Because of these continued risks, the city may forfeit valuable financial resources that can otherwise be used on services and programs benefiting Denver taxpayers.

Meanwhile, by not having a plan to rotate job functions among staff, the department is not complying with a city fiscal rule and it risks losing institutional knowledge as employees leave the city. Employee fraud against the city might go undetected or — as we saw previously — important job functions may not be completed when employees are on leave. This leaves city resources at risk of being misused.
Finding 1 | The Department of Finance Sufficiently Managed the City’s Process for Spending Federal Aid from the Coronavirus Relief Fund, but It Could Offer Better Guidance to Agencies on How to Document Individual Transactions

**Recommendation 1.1** PROVIDE DETAILED GUIDANCE ON SUPPORTING DOCUMENTATION –
To ensure compliance with U.S. Treasury guidance and the city’s Fiscal Accountability Rule 2.5, the Department of Finance should give more detailed guidance to agencies about what is acceptable supporting documentation in Workday to substantiate pandemic-related transactions. Examples showing what is and is not acceptable should be included in this guidance to better illustrate what appropriate documentation looks like — including itemized receipts or invoices.

**AGENCY ACTION**

**FULLY IMPLEMENTED**

*Original target date for completion: Aug. 31, 2021*

The Department of Finance took several steps to implement this recommendation.

First, during a citywide meeting of the city’s federal funding committee, attendees were reminded of the requirement to include supporting documentation — that would explain each transaction — to comply with the city’s fiscal rule for supporting documentation. Attendees were also referred to one of the city’s fiscal rules that has examples of what is and is not appropriate supporting documentation for a transaction.

Meanwhile, the department created a special COVID-19 justification form to document how a transaction relates to the pandemic. Specifically, one of the questions on the form asks whether the purchase is necessary and how it responds to or addresses the pandemic emergency. Agencies were instructed to attach the form to all Coronavirus Relief Fund-related transactions in Workday, the city’s system of record. This form serves as acceptable supporting documentation to substantiate pandemic-related transactions.

Detailed guidance regarding both the COVID-19 justification form and proper supporting documentation for Coronavirus Relief Fund expenses was twice distributed to city agencies through the Financial Network email newsletter — on July 8, 2021, and again on Sept. 16, 2021. The.

---

newsletters said for upcoming COVID-19 expenses paid for with money from the Coronavirus Relief Fund and certain other funding sources, agencies should attach a completed COVID-19 justification form to the transaction in Workday.

We conclude the department fully addressed the risk from the original audit by requiring explanatory documentation with each transaction and by successfully communicating this requirement to city agencies. As a result, we consider this recommendation fully implemented.
Finding 2 | The Department of Finance Failed to Properly Track and Review Interest for Coronavirus Relief Funds

Recommendation 2.1 | CROSS-TRAIN AND ROTATE EMPLOYEE JOB FUNCTIONS – The Department of Finance should ensure agency heads and department managers in the Department of Finance develop and follow a plan to periodically have their staff members rotate jobs to ensure employees are cross-trained to perform each other’s functions in case of illness, vacation, or termination. This is required by city Fiscal Accountability Rule 2.4.

AGENCY ACTION

Original target date for completion: Sept. 30, 2021

Department of Finance staff confirmed the department has not developed a plan to periodically rotate duties as required by the city’s fiscal rule. Furthermore, while the department provided our team with evidence of employees being cross-trained on some reconciliations, we found this cross-training was for only six of the 22 reconciliations the department is responsible for.

Because the department did not develop a plan to rotate positions and could provide only limited evidence of employee cross-training on reconciliation procedures, we consider this recommendation not implemented.

Recommendation 2.2 | MONITOR AND ENSURE BANK RECONCILIATIONS ARE PERFORMED MONTHLY – The Department of Finance should implement an additional procedure that ensures all bank reconciliations are completed monthly. This should include a monitoring requirement where a supervisor verifies and signs off that all bank reconciliations are completed each month.

AGENCY ACTION

Original target date for completion: Sept. 30, 2021

The Department of Finance gave us a description of the process staff members use to complete monthly bank reconciliations. However, we found the process does not detect when reconciliations are not done. And during our follow-up work, we found some bank account reconciliations had not been done for two months or more after a month’s end.

Meanwhile, we found the documented process does not require reviewers to verify and sign off that all monthly bank reconciliations are completed, as we had also recommended. Nor does it detect when a reviewer fails to review monthly reconciliations to ensure they are completed. During our follow-up work, we found some bank account reconciliations had not been reviewed for four months or more after a month’s end.

As we said in our original audit report: Bank reconciliations are an important procedure in any accounting system. When staff do not complete bank reconciliations on time, it increases the risk of bank errors or erroneous transactions going undetected by the city. Additionally, the city may not detect fraud, and accounts may miss interest earnings.

Therefore, we consider this recommendation not implemented.

Recommendation 2.3

IMPLEMENT PROCEDURES TO POST INTEREST – The Department of Finance should implement procedures that ensure the posting of interest complies with Fiscal Accountability Rule 6.2. These procedures should include a list of all funds that have an interest posting requirement to ensure all of those funds have interest posted accurately and in a timely manner each month.

AGENCY ACTION

Original target date for completion: Sept. 30, 2021

The Department of Finance created a new procedure meant to ensure interest is posted accurately and in a timely manner each month. We found it has most of the necessary steps, such as several checks to help ensure the posting of interest complies with the city’s fiscal rule. These checks include having the accountant:

• Search for the fund in Workday, the city’s system of record, to find out who is responsible for the grant to obtain relevant details.
• Research the fund ordinance to determine how investment earnings should be treated.

• Reach out to the federal grants manager to get further clarification, if necessary, on grant allocation requirements.

The procedure also requires that a list of the funds that have interest-posting requirements is included in the information for grant-fund earnings, which was a key part of the recommendation.

Despite these well-developed steps, we identified two significant problems with the new procedure:

• It does not have checks to ensure this process is completed every month, as specified by both the fiscal rule and our recommendation from the original audit report.\(^4\)

When we looked at interest postings after the date the Department of Finance told our team this recommendation was implemented, we found interest was still not being posted in a timely manner. As of April 24, 2022, none of the grants with an interest-posting requirement have had their interest posted since December 2021.

• The procedure’s steps do not specify who should receive the information for grant earnings once they are posted. This is key because a separate procedure — discussed in the implementation of Recommendation 2.4 — relies on this detail. Once grant managers receive the information by email, they can then monitor the interest postings.

Because this procedure does not list who should receive the email notification, it is a critical omission.

Although the new procedure includes important steps as specified in the audit recommendation, we also found it was missing crucial components. Because the procedure does not achieve its intended purpose of ensuring interest is posted in a timely and accurate manner each month, we consider this recommendation not implemented.

---

**Recommendation 2.4**

**MONITOR INTEREST ON GRANTS** – The Department of Finance should implement procedures requiring grant managers to monitor postings of interest to their grants to ensure those funds have had interest posted accurately and in a timely manner each month.

**AGENCY ACTION**

**NOT IMPLEMENTED**

*Original target date for completion: Sept. 30, 2021*

\(^4\) City and County of Denver, Fiscal Accountability Rules, “Rule 6.2 – Investment Earnings Allocation.”
The Department of Finance developed another new procedure to have grant managers monitor interest postings to their grants.

The procedure instructs grant managers to tell the Controller’s Office when a grant has an interest-earning requirement. Additionally, grant managers also then update their grant budgets with interest earnings on the grant funds. This helps grant managers to monitor interest earnings for their grants, which is a key component of the recommendation.

However, we also noted several problems:

• This procedure relies on another one the department created in response to Recommendation 2.3. That first procedure calls for an email to be sent with information on grant earnings once they are posted. But, as we discussed, that procedure fails to specify that grant managers are supposed to receive the email. If grant managers do not receive the email, this second procedure may not be triggered.

  Complicating this problem, no instructions exist for grant managers to follow if they do not receive the email notification.

• Neither of these two procedures have steps that will detect when grant managers fail to update the amount of interest earnings in a month. An example of such a step would be a supervisor reviewing to ensure the update is done.

As discussed regarding the implementation of Recommendation 2.3: As of April 24, 2022, none of the grants with an interest-posting requirement have had their interest posted since December 2021. The Department of Finance could have implemented a supervisory review or other steps to alert relevant staff that interest earnings were not being posted monthly.

Because this new procedure for grant managers has notable defects and does not ensure grant managers monitor their grants and post interest accurately and in a timely manner each month, we consider this recommendation not 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.

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.