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AUDITOR’S LETTER

The objective of our audit of Airport Improvement Program grants at Denver International Airport was to determine whether the airport has adequate controls to properly manage and record grants. I am pleased to present the results of this audit.

The audit revealed Denver International Airport has weak internal controls over its grant administration and is not ensuring compliance with City and federal grant requirements. We found the airport sought reimbursement for $2.81 million in grant expenditures that were incurred outside the allowed time frame. This was because personnel in the airport’s Finance Division do not verify that grant expenditures occur in the appropriate period in accordance with grant requirements. Meanwhile, the airport does not submit its reimbursement requests on time to the Federal Aviation Administration, which conflicts with a City fiscal rule. Further, the Finance Division’s policies and procedures for grants are insufficient and do not ensure employees can replicate procedures.

Through implementing recommendations for stronger policies and grant monitoring, the airport will be better equipped to ensure more effective grant compliance and administration. The Finance Division needs to develop and implement a grant policy, incorporate compliance controls in its procedures, and develop a schedule to review and update its policies and procedures.

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 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Appendix A includes the schedule of findings and questioned costs based upon our audit.

We extend our appreciation to the personnel from Denver International Airport’s Finance Division who assisted and cooperated with us during the audit. 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
September 2019

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.

REPORT HIGHLIGHTS

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 airport’s Finance 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.

For a copy of this report, visit www.denverauditor.org or contact the Auditor’s Office at (720) 913-5000.
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BACKGROUND

To sustain its operations in a high-quality condition, Denver International Airport needs to maintain its infrastructure, including runways, taxiways, signage, and lighting. Denver International Airport airfield has 6 runways, with the capacity for up to 12 runways. The airfield includes both runways and taxiways and contains 6 million square yards of concrete.¹

The Federal Aviation Administration’s Airport Improvement Program helps airports—like Denver International Airport—to strengthen aviation infrastructure by providing grant funding. The FAA awards Airport Improvement Program grants to public and private agencies for planning and development or for noise-compatibility projects related to enhancing safety, capacity, and security and for addressing environmental concerns based on national priorities and objectives.

Airport Improvement Program Grant Funding

U.S. airports are entitled to a certain amount of Airport Improvement Program funding each year, based on passenger volume. For large airports, such as Denver International Airport, which had 64.5 million passengers in 2018, Airport Improvement Program grants generally cover 75 percent of eligible costs. For instance, if the airport had a runway in need of $10 million worth of repairs, an Airport Improvement Program grant might cover $7.5 million of those project costs.

Grant recipients are called airport “sponsors.” Airport sponsors work closely with the Federal Aviation Administration to identify an airport’s capital improvement needs and to understand federal priorities.

The FAA provides Airport Improvement Program grant dollars on a reimbursement basis, rather than through cash advances. Therefore, to receive this grant money, an airport must incur and pay a cost, prepare a reimbursement request for the cost incurred, and then send the request to the FAA in accordance with federal requirements.

From 2017 through 2018, the FAA awarded $61.2 million in grant funding for Denver International Airport. This funding included 10 grants for different projects, such as the lighting and rehabilitation of various runways and taxiways, as shown in Table 1 on the following page.² For this audit, we specifically evaluated grant Nos. 92 and 93.

² In addition to the FAA Airport Improvement Program grants, in 2017 and 2018, Denver International Airport also received $51.5 million in grant funding for four Transportation Security Administration grants and $50,000 for a Regional Air Quality Council grant.
As shown in Figure 1 on the following page, Denver International Airport recognized $21.3 million in Airport Improvement Program grant revenue in 2018.

**Types of Grant Funding** – Denver International Airport receives both entitlement and discretionary funds. Entitlement funds are provided by the Federal Aviation Administration based upon the number of passenger boardings at the airport. Discretionary funds make up a much smaller portion of Airport Improvement Program grants, and allocation is based on national priorities. Airports must apply for both types of funding for needs relating to specific projects.

The federal share of an Airport Improvement Program project is the
portion funded by the FAA. For large hub airports such as Denver International Airport, the federal share is generally 75 percent of the total cost of a project, which leaves 25 percent as the airport’s financial obligation.

Denver International Airport Grant Administration

Denver International Airport is an enterprise fund within the City and County of Denver’s government, which means the airport is self-supported and must generate enough revenue to cover all its costs. It is vital for the City to ensure Denver International Airport complies with grant agreement requirements and City, state, and federal regulations. Failure to comply with these regulations could result in fines and the need to pay back federal funds already expended.

The grant process at Denver International Airport involves multiple divisions and employees. The airport’s Finance Division, in regular communication with the Federal Aviation Administration, coordinates with the Airport Infrastructure Management division’s project managers to gather and submit the required documentation for the reimbursement of allowable costs to the FAA.

Grant Authority and Legal Considerations

Airports, including Denver International Airport, must adhere to the following regulatory and legal requirements to maintain their Airport Improvement Program grant funding.

Federal Aviation Administration Specific Requirements – The Airport Improvement Program is authorized under the section of federal
law that deals with airport development. The FAA, under the U.S. Department of Transportation, is responsible for administering the program. To provide guidance to airports desiring Airport Improvement Program funds, the FAA published the “Airport Improvement Program Handbook.” The handbook details policies and procedures and includes additional regulatory guidance and assorted FAA orders, which outline the requirements of the grant program.

**All Federal Grant Requirements** – In 2014, the federal Office of Management and Budget released rules and requirements for a governmentwide framework for grant management, known as “Uniform Guidance.” The Uniform Guidance lays out the details for how states, local governments, and nonprofit organizations spending federal money should manage federal grants.

Under the Uniform Guidance, the City and County of Denver is required to have an external auditor conduct an annual audit (known as a “single audit”) of the City’s major federal grant programs. The single audit is performed in conjunction with the audit of the City’s financial statements.

An audit of a federal grant performed under the single audit requirements analyzes up to 12 general compliance requirements a grant program may be subject to. Not all federal grants need to comply with all 12 general compliance requirements because they may not apply. As an example, if a federal grant does not allow for the purchase of equipment or real property, the grant does not have to comply with these compliance requirements. Therefore, only the applicable compliance requirements become the objectives of the audit.

Figure 2 on the following page outlines the 12 compliance requirements for grants and denotes those we included in our review of the Airport Improvement Program grants at Denver International Airport.

The six compliance requirements included in our review of Denver International Airport’s Airport Improvement Program grants were:

- **Activities Allowed or Unallowed** – These are types of activities specifically allowed or prohibited related to the grant program.

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FIGURE 2. Single Audit Compliance Requirements

- **Allowable Costs/Cost Principles** – These are the types of costs allowed in the grant program and how those costs are attributed to and applied to the grant.

- **Cash Management** – This refers to the management of funds received from the federal government and the effort to minimize the amount of time the money is held before it is spent on grant program activities.

- **Matching, Level of Effort, and Earmarking** – “Matching” is the requirement that a grant sponsor contributes a specified amount or percentage to match the federal assistance. “Level of effort” is the required specified level of service and/or expenditures a nonfederal entity must maintain. And, “earmarking” refers to the required minimum and/or maximum amount or percentage of grant funding that must or may be used for grant program activities.

- **Period of Performance** – This is the requirement that grant recipients can use federal funds to pay for costs incurred only during the period specified in the award.

**Source:** Office of Management and Budget’s Uniform Guidance.

**FOR MORE INFORMATION**

For excerpts of Uniform Guidance for federal grant awards and compliance requirements in the Airport Improvement Program Handbook, reference Appendix B.
during a specified time frame.

- **Reporting** – These are the requirements that the grant sponsor must follow to report expenditure outlays and other financial information on a periodic basis.
FINDING

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

We evaluated whether Denver International Airport’s Finance Division complies with local and federal regulations and whether reimbursement requests were submitted in accordance with grant policies and procedures.

All organizations should have their own unique set of internal controls. Internal controls are the processes used to make sure that the organization’s objectives are met in the most efficient and effective way while still complying with all laws, regulations, and policies. However, we found that the airport’s Finance Division lacks effective internal controls to ensure compliance with federal grant compliance standards.

For instance, division officials did not ensure they submitted reimbursement requests in accordance with City and federal regulations. We found, for 2018, the Finance Division submitted $2.81 million in unallowable costs for reimbursement to the Federal Aviation Administration and that the Finance Division was not submitting its reimbursement requests on time, as required under the City’s Fiscal Accountability Rules. Additionally, the Finance Division lacks sufficient policies and procedures to oversee grants.

Out of the six single audit compliance requirements included in our review of the Airport Improvement Program grants, only the “Allowable Costs/Cost Principles” and “Period of Performance” requirements led to identified internal control weaknesses. We did not find any internal control deficiencies as it related to the other four requirements.

We make recommendations to address the weaknesses in the airport’s compliance with City and federal regulations, in its grant monitoring, and in its management of grant policies and procedures.
To meet the objectives of this audit, we evaluated how adequately the Finance Division’s internal controls ensure the Airport Improvement Program grants from the Federal Aviation Administration are properly managed and recorded.

We found the airport failed to comply with federal grant requirements by seeking reimbursement for $2.81 million in project costs incurred outside the period of performance. The airport needs a grant policy that emphasizes procedures that ensure compliance with grant requirements.

In 2018, the FAA awarded the airport more than $14 million for Airport Improvement Program grant Nos. 92 and 93—the two grants we reviewed for this audit. Of that total, the airport requested $13.5 million in reimbursement from the FAA. The project costs incurred for these two grants were for 1) the rehabilitation of taxiways F and G, including lighting for those taxiways; and 2) the rehabilitation of the runway, taxiway, and lighting for runway and taxiway 7-25.

Five reimbursement requests made up the $13.5 million sought for reimbursement. The requests included 11 pay applications. Pay applications are documents used in construction that detail how a contractor will be paid and show the services and materials used under a contract agreement. Table 2 on the following page details the 2018 reimbursement requests for Airport Improvement Program grant Nos. 92 and 93.

According to Uniform Guidance, Denver International Airport may request reimbursement only for allowable costs during the period of performance. Federal law further establishes the beginning of the period of performance by stating, unless specifically allowed in relevant Airport Improvement Program legislation, all project costs must be incurred after the date a grant is executed for the cost to be considered “allowable.” Appendix B provides more detail on the specific requirements that need to be met for these grants.

The Airport Improvement Program grant agreements we reviewed were

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executed on June 28, 2018. However, we found that the airport incurred $5.27 million in costs for both grants outside the period of performance. The project costs were incurred before the grant agreements were executed and submitted to the FAA for reimbursement. The $5.27 million includes $3.28 million in costs incurred for grant 92 and $1.99 million in costs incurred for grant 93.

When we first brought this to the Finance Division’s attention, officials said exclusions in the Airport Improvement Program legislation allowed for these costs even though they were incurred before the grant agreement was executed. Out of the $5.27 million costs incurred before the grants were executed, federal regulations provided an

---

**TABLE 2. 2018 Reimbursement Requests for Airport Improvement Program Grant Nos. 92 and 93**

<table>
<thead>
<tr>
<th>Airport Improvement Program Grant No.</th>
<th>Reimbursement Request No.</th>
<th>Invoice Dates for Pay Applications</th>
<th>Amount Requested in Reimbursement</th>
<th>Total Amount Requested in Reimbursement</th>
</tr>
</thead>
<tbody>
<tr>
<td>92</td>
<td>1</td>
<td>May 1-26, 2018</td>
<td>$1.55 million</td>
<td>$3.12 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td>May 27, 2018 – June 23, 2018</td>
<td>$1.56 million</td>
<td></td>
</tr>
<tr>
<td>92</td>
<td>2</td>
<td>June 24, 2018 – July 28, 2018</td>
<td>$1.33 million</td>
<td>$3.5 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td>July 29, 2018 – Aug. 25, 2018</td>
<td>$2.17 million</td>
<td></td>
</tr>
<tr>
<td>92</td>
<td>3</td>
<td>Aug. 26, 2018 – Sept. 26, 2018</td>
<td>$511,300</td>
<td>$511,300</td>
</tr>
<tr>
<td>92</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>93</td>
<td>1</td>
<td>June 1-16, 2018</td>
<td>$859,800</td>
<td>$5.61 million</td>
</tr>
<tr>
<td></td>
<td></td>
<td>June 17-30, 2018</td>
<td>$1.41 million</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>July 1-14, 2018</td>
<td>$1.7 million</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>July 15-28, 2018</td>
<td>$957,300</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>July 29, 2018 – Aug. 11, 2018</td>
<td>$679,400</td>
<td></td>
</tr>
<tr>
<td>93</td>
<td>2</td>
<td>Aug. 12-31, 2018</td>
<td>$762,800</td>
<td>$762,800</td>
</tr>
</tbody>
</table>

**TOTAL** | **$13.5 million**

**Source:** Denver International Airport’s Finance Division.

**Note:** Dollar amounts are rounded.

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8 The total cost incurred was about $5.5 million. Reimbursement requests made to the FAA include only those costs that have been paid. The amounts paid and submitted for reimbursement are 95 percent of the costs incurred. According to the pay applications, Denver International Airport withholds 5 percent from payments to the contractor until completion of the project.

9 49 USC § 47110(b)(2)(C) and (A) (2012).
exclusion for $475,000 in costs for grant 92 and $1.99 million in costs for grant 93.\textsuperscript{10}

We found that for grant 93, the exclusion did apply to the $1.99 million, because the monies awarded were entitlement funds, and those dollars can be spent before the agreement period. However, for grant 92, a significant amount of unallowable costs remained. The $475,000 in entitlement funds reduced the amount of reviewed, approved, and submitted unallowable costs to the FAA for reimbursement to $2.81 million, as detailed in Figure 3.

**FIGURE 3.** Airport Improvement Program Grant 92: Unallowable Project Costs Incurred prior to Grant Agreement Execution

When we again brought the remaining $2.81 million in incurred project costs to the attention of airport Finance Division officials, they explained the costs are allowable because the total of both the matched amount and the awarded funds in their entirety was consistent with the grant agreement of a 25 percent match by the airport to the 75 percent awarded in federal funds.

But, shortly after we received this explanation, the airport’s Finance Division provided another explanation. Finance Division officials said

\textsuperscript{10} 49 USC § 47110(b)(2)(C) and (A) (2012). The entitlement funds for Airport Improvement Program grant 92 were $500,000. This value of $475,000 is the $500,000 reduced by retainage of 5 percent.
Finance Division officials have not provided supporting documentation to support the allowability of the $2.81 million in project costs incurred before the grant agreement was executed.

that the climate-related exclusion applies. According to federal regulations, for the climate-related exclusion to apply to project costs incurred prior to the execution of the grant agreement, the project needs to meet all legislative requirements.11

One of the legislative requirements states the grant sponsor—in this case, the City and County of Denver for a project associated with Denver International Airport—must notify the Airports District Office (a regional FAA office) before starting project work. The sponsor must complete a certain form and include it with the request—along with a grant application—at least 30 days before issuing a notice to proceed, which allows work to begin.12 Then, the Airports District Office must forward the sponsor’s request for processing.13

According to the first pay application for grant 92, construction began May 1, 2018. According to regulations, the airport’s Finance Division should have completed the required form and made the request to the Airports District Office by no later than April 1, 2018.14 However, as of the publication of this report, the airport Finance Division has not provided this supporting documentation or any other documentation to support the allowability of the $2.81 million in project costs incurred before the grant agreement was executed.

The Government Finance Officers Association recommends that policies and procedures delineate the responsibility of employees and which procedures employees are to perform.15 The Finance Division does state in its standard operating procedures for capital grant billings that before the accounts receivable accountant submits the reimbursement request, that person should circulate the required documents for reimbursement so both the Senior Vice President of Financial Management and the Grants Manager can review and approve them. However, the procedures do not clearly delineate the responsibility of what is being reviewed and how grant expenditures are verified that they occurred in the appropriate period and comply with grant requirements.

When our team asked Finance Division management officials how they evaluate whether costs are allowable under federal regulations, Finance Division officials said they do not make this determination before submitting requests for reimbursement.

12 This form is called the “Request for FAA Acknowledgement of Requirement to Issue Notice to Proceed prior to Grant Award for a Cold Weather Construction Project.”
According to the Government Finance Officers Association, “an effective grants policy provides guidance to staff as it relates to associated processes and procedures in order to maximize the benefits and minimize the risks.” These best practices further recommend that requirements should exist to make sure staff obtains a detailed understanding of grant terms and conditions, how the terms and conditions will be monitored, and procedures to support this monitoring.16

Our review of the Finance Division’s standard operating procedures for capital grant billings determined the procedures are not linked to a grant policy. Although the Finance Division has procedures for both the Senior Vice President of Financial Management and the Grants Manager to review and approve reimbursement requests, these procedures are ineffective at ensuring grant costs are incurred during the period of performance and follows grant requirements.

Absent a grant policy providing both guidance to staff and an emphasis on understanding grant requirements, the effectiveness of procedures to minimize risks is compromised. Ineffective internal controls and grant administration can lead to a lack of compliance with federal regulations and a loss of available funding or a returning of federal funds for improper payments received.

**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.

**Agency Response: Agree, Implementation Date – December 31, 2019**

A City Fiscal Accountability Rule states grant recipients—in this case, Denver International Airport—should seek reimbursement for grant-related expenditures “no later than the end of the month following the month in which the expenditure(s) occurred.”17 This means, for example, if an expense occurred in May, the reimbursement request should be submitted no later than the end of June.

However, we found that Denver International Airport did not submit reimbursement requests to the Federal Aviation Administration within the time frame the City fiscal rule requires—which has potentially resulted in a loss of interest earnings.

We tested five reimbursement requests submitted in 2018 for Airport Improvement Program grants 92 and 93 to verify whether the airport’s Finance Division followed this fiscal rule. The five reimbursement requests tested consisted of 11 pay applications. We tested the pay applications by verifying whether the reimbursement request was made by the end of the month that followed the month for each pay application’s invoice time period.

For example, if the pay application payment period was May 1-26, 2018, the fiscal rule requires that the reimbursement request be made by June 30, 2018. For all 11 pay applications tested, this was not the case. All the reimbursement requests were made after the mandatory deadline.

Table 3 on the following page shows how late the airport was in submitting the reimbursement requests. The requests were late by an average of 50 days.

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After this review, we wanted to better understand the reimbursement process and the internal controls related to the timeliness of these reimbursement requests. We inquired with the Finance Division about what the process entails. We also reviewed the standard operating procedures for capital grant billings. We learned that, every month, the Accounts Receivable Accountant, Senior Vice President of Financial Management, the Budget Director, the airport’s Grant Manager, and project managers from the Airport Infrastructure Management division meet to discuss the status of current FAA projects and possible future projects.

However, procedures do not clearly delineate who has the responsibility of ensuring reimbursement requests are submitted in a timely manner, nor was it clear when we spoke with airport Finance Division management what the expected outcomes are from management’s monthly discussions.
The Government Finance Officers Association states “communication is an essential component of a comprehensive framework of internal controls.” The association also states policies and procedures are an effective method of communication and internal control over accounting and financial reporting.\textsuperscript{18} Although airport officials meet to discuss current FAA projects, these meetings do not ensure reimbursement requests are made by the end of the month following the month in which the expenditure occurred, as required by the City fiscal rule.

Denver International Airport has not complied with the City fiscal rule, because it lacks effective internal controls to ensure the airport submits reimbursement requests in a timely manner. This has potentially resulted in the airport losing money through missed interest. The longer it takes the airport’s Finance Division to request reimbursement, the longer the airport is out money and the more money in interest is lost.

We calculated interest on the $13.5 million requested for reimbursement for grants 92 and 93 for the time frame when the Finance Division maintains control of the reimbursement process. From the time the Finance Division made the payments to when they made the late reimbursement requests, the total in interest lost came to $30,465.\textsuperscript{19}

\textbf{RECOMMENDATION 1.3}

\textbf{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.

\textbf{Agency Response: Disagree}


\textsuperscript{19} We calculated this amount by taking the sums of the amounts the airport’s Finance Division paid for the pay applications and multiplying those sums by the COLOTRUST Prime daily dividend rate for each day between the date the payment was made to the date of the reimbursement request.
Denver International Airport’s Finance Division Has Insufficient Policies and Procedures for Grants

After evaluating the standard operating procedures for capital grant billings, we found that the policies and procedures for capital grant billings are incomplete, outdated, and do not accurately reflect business practices.

This may result in Finance Division employees not consistently replicating necessary procedures or in them lacking the ability and knowledge to do so—particularly if an employee is new and the departure of more veteran employees causes a loss of institutional knowledge.

The Finance Division’s Policies and Procedures Are Incomplete

To determine the completeness of the standard operating procedures for capital grant billings, we evaluated each procedure against the submitted reimbursement requests, and we conducted interviews with the airport’s Finance Division.

The Federal Aviation Administration requires that sponsors of Airport Improvement Program grants (i.e., Denver International Airport) make payment requests electronically using an electronic invoicing system for U.S. Department of Transportation award recipients. Sponsors must submit specific supporting documentation based on their risk level.

We found that the reimbursement requests submitted to the FAA contained the required documentation based on Denver International Airport’s “moderate” risk level, as determined by an FAA risk assessment. However, we determined the airport’s standard operating procedures for capital grant billings did not list all the necessary documentation submitted in the reimbursement requests. Therefore, the documentation listed as required for reimbursement requests in the airport’s procedures is inconsistent with the documents actually submitted in the reimbursement requests to the FAA.

The standard operating procedures require the following documents to be submitted to the FAA:

- The “To Compute Total Billed” spreadsheet,
- The Workday View Supplier Invoice,
- The pay application,
- The project management memorandum, and
- A Standard Form 271.

Our review of the reimbursement requests found that, in addition to the documents mentioned in the standard operating procedures, the

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The Finance Division Has Not Updated Its Policies and Procedures for Capital Grant Billings

The airport’s Finance Division created its standard operating procedures for capital grant billings in December 2017, while training new staff to take on the responsibility of submitting grant reimbursement requests. To evaluate whether the policies and procedures were up to date, we reviewed the date the standard operating procedures were last revised, along with the procedures’ overall content.

We found that the date of revision in the standard operating procedures was blank. We subsequently confirmed with the Finance Division that the standard operating procedures have not been updated since they were created in December 2017. This conflicts with City Fiscal Accountability Rule 4.1 that states: “Every agency/department with accounts receivable shall review its accounts receivable policies and procedures at least annually to ensure compliance with this rule.”

When we inquired with Finance Division management officials why they had not updated the standard operating procedures, they said they have no regular process to review those procedures. But, they said they intend to implement an annual review once circumstances stabilize from the August 2017 transition to Workday.

In addition to recommending annual reviews and periodic updates of policies and procedures, the Government Finance Officers Association


22 City and County of Denver; Rule 4.1 – Accounts Receivable, Allowance for Doubtful Accounts, and Write-Offs; Fiscal Accountability Rules (revised 2012); accessed May 7, 2019; https://www.denvergov.org/content/dam/denvergov/Portals/344/documents/Fiscal_Rules/chapter_4_Assets/Rules/Rule_4_1_Accts Rec_Allowance_for_Doubtful_Accts_and_Write_Offs.pdf.
recommends that changes to policies and procedures should be made promptly as changes to practices occur and that the duty of overseeing the reviewing and updating of policies and procedures should be specifically assigned to an employee with management oversight.23

In reviewing the overall content of the standard operating procedures, we identified prior processes, as well as references to prior systems. As of August 2017, the City and County of Denver and the airport transitioned to Workday as their financial system of record. The prior system of record for the airport’s Finance Division was the Airport Management System—which fed into PeopleSoft, the City’s prior financial system. Workday includes a grant module, which the airport has used since the implementation.

Along with procedures for Workday, the standard operating procedures for capital grant billings still include billing and accounting procedures for the Airport Management System and a reference to PeopleSoft in procedures listed for Workday.

Not only has the Finance Division not revised its standard operating procedures for capital grant billings since 2017, but rather than keeping those procedures current and noting when the document was last revised, the Finance Division has combined past procedures from prior systems with the current Workday procedures. This practice conflicts with best practices from the Government Finance Officers Association, which recommends that procedures should be described as they are intended to be performed.24 Procedures for systems no longer in use do not enhance accountability and consistency for processing capital grant billings.

The Finance Division’s operations do not conform to best practices because:

- The division failed to assign an employee to oversee the review and update of the standard operating procedures;
- The division lacks an annual review of its policies and procedures, it lacks periodic updates, and it has no process for making changes to procedures as changes to practices occur; and
- The division’s policies and procedures include obsolete references and outdated procedures.


The Finance Division’s Policies and Procedures Do Not Accurately Reflect Business Practices

As mentioned, the formal documentation of policies and procedures is a method of communication that is an effective internal control that can enhance accountability and consistency. From our review of reimbursement requests and Workday accounting entries and from the information we obtained from interviews, we found that the capital grant billings standard operating procedures are not reflective of business practices.

Examples of the Finance Division’s practices not being reflected in the standard operating procedures include:

- Only the portion of the supplier invoice for the grant as indicated in the project management memorandum was recorded as “unbilled grant receivable” and “grant revenue” instead of the full amount as stated in the standard operating procedures.
- Independent of when the invoice date took place relative to the award date, the recording of the transactions was the same, which is inconsistent with procedures.
- The standard operating procedures had different titles for the approvers than the approving personnel for forms and Workday customer invoices.

By not having policies and procedures that are complete, up to date, and reflective of business practices, the airport’s Finance Division runs the risk of procedures not being performed accurately and consistently. This can lead to wasted time and resources being spent correcting something not done properly the first time.

In addition, the Finance Division cannot take advantage of the documentation for the training and development of new and current staff, and it also runs the risk of losing institutional knowledge when employees leave their current positions.

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 Response: Agree, Implementation Date – December 31, 2019
RECOMMENDATIONS

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.

**Agency Response: Agree, Implementation Date – December 31, 2019**

Agency Narrative: DEN Financial management will enhance the policy and procedure related to ensuring grant expenditures are incurred within the grant agreement period. DEN Financial management will also be working closely with Federal Aviation Administration (FAA) to ensure timeliness and funding are within the grant agreements. As it relates to Grant 92, DEN is currently working with the FAA regarding the reimbursements disclosed within the report.

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.

**Agency Response: Disagree**

Agency Narrative: Currently, DEN Financial management has on going 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.

**Auditor’s Addendum:** 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.

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.

**Agency Response: Disagree**

*Agency Narrative: 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.*

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 Response: Agree, Implementation Date – December 31, 2019**

*Agency Narrative: DEN Financial management will incorporate an annual process for reviewing and updating the grant policies and procedures.*
AGENCY RESPONSE TO AUDIT RECOMMENDATIONS

September 9, 2019

Auditor Timothy M. O’Brien, CPA
Office of the Auditor
City and County of Denver
201 West Colfax Avenue, Dept. 705
Denver, Colorado 80220

Dear Mr. O’Brien,

The Office of the Auditor has conducted a performance audit of Denver International Airport – Airport Improvement Program Grants.

This memorandum provides a written response for each reportable condition noted in the Auditor’s Report final draft that was sent to us on August 15, 2019. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING 1
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.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>December 31, 2019</td>
<td>Michael Biel, SVP of Financial Accounting (303) 342-2158</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 1.1
DEN Financial management will enhance the policy and procedure related to ensuring grant expenditures are incurred within the grant agreement period. DEN Financial management will also be working closely with Federal Aviation Administration (FAA) to ensure timeliness and funding are within the grant agreements. As it relates to Grant 92, DEN is currently working with the FAA regarding the reimbursements disclosed within the report.
### 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.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
</table>
| Disagree                              | N/A                                                                                             | Adam Gionvetti  
Deputy CFO  
(303) 342-2456                                                   |

**Narrative for Recommendation 1.2**
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.

### 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.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
</table>
| Disagree                              | N/A                                                                                             | Michael Biel  
SVP Financial Accounting  
(303) 342-2158                                                     |

**Narrative for Recommendation 1.3**
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 requirements 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.

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Agree</td>
<td>December 31, 2019</td>
<td>Michael Biel SVP Financial Accounting (303) 342-2158</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 1.4
DEN Financial management will incorporate an annual process for reviewing and updating the grant policies and procedures.

Please contact Sonia Montano at (720)913-5157 with any questions.

Sincerely,

[Signature]
Adam Giombetti
Deputy Chief Financial Officer

cc: Valerie Walling, Deputy Auditor, CPA, CMC®
Sonia Montano, Internal Audit Supervisor
Kevin Sear, CPA, CIA, CISA, CFE, CGMA, Audit Manager
OBJECTIVE

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

SCOPE

The audit examined and evaluated the adequacy and effectiveness of the internal controls that Denver International Airport’s Finance Division has for its responsibilities over federal Airport Improvement Program grants.

For the purposes of this audit, we selected two Airport Improvement Program grant projects from 2018 to evaluate: Grant No. 92 (to rehabilitate taxiways F and G, including lighting for those taxiways) for $7.5 million, and Grant No. 93 (to rehabilitate runway 7-25) for $6.7 million.

METHODOLOGY

We used several methodologies to gather and analyze information related to the audit objective, including but not limited to:

- Interviewing and/or observing the following individuals:
  - Senior Vice President of Financial Management and Financial Analyst Associate of Financial Management
  - The City’s Finance Department personnel (to obtain an understanding of the Workday grant module)

- Reviewing the following criteria:
  - Federal Aviation Administration regulations under the U.S. Department of Transportation
  - The Airport Improvement Program Handbook
  - Title 49, Subtitle VII, Part B, Chapter 471 of U.S. Code (federal law)
  - The Office of Management and Budget’s Uniform Guidance for single audit requirements
  - Airport Improvement Program grant agreements for Denver International Airport
  - City Fiscal Accountability Rules related to grant management

- Analyzing the following:
  - Grant reimbursements for Airport Improvement Program grants to ensure proper supporting documentation, timeliness, and appropriate review
  - The airport’s Finance Division’s standard operating procedures for capital grant billings to ensure compliance with current practices and other rules and regulations
Appendix A – Schedule of Findings and Questioned Costs

Section I: Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles, or GAAP: No report was issued on the financial statement. Work was performed as part of a performance audit.

<table>
<thead>
<tr>
<th>Internal control over financial reporting:</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Material weakness(es) identified?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Significant deficiency(ies) identified?</td>
<td>Yes</td>
<td>None Reported</td>
</tr>
<tr>
<td>Noncompliance material to financial statements noted?</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

FEDERAL AWARDS

<table>
<thead>
<tr>
<th>Internal control over major federal programs:</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Material weakness(es) identified?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Significant deficiency(ies) identified?</td>
<td>Yes</td>
<td>None Reported</td>
</tr>
<tr>
<td>Type of auditor’s report issued on compliance for major federal programs:</td>
<td>None – performance audit</td>
<td></td>
</tr>
<tr>
<td>Any audit findings disclosed that are required to be reported in accordance with 2 C.F.R. § 200.516(a)?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Identification of major federal programs:</td>
<td>Name of Federal Program or Cluster:</td>
<td></td>
</tr>
<tr>
<td>Catalog of Federal Domestic Assistance (CFDA) Number(s) 20.106</td>
<td>Airport Improvement Program – Grant Numbers: 3-08-0086-092-2018 and 3-08-0086-093-2018</td>
<td></td>
</tr>
<tr>
<td>Dollar threshold used to distinguish between type A and type B programs:</td>
<td>$3,000,000</td>
<td></td>
</tr>
<tr>
<td>Auditee qualified as a low-risk auditee?</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>
Section II: Financial Statement Findings

None

Section III: Federal Awards Findings

Finding 2019-001:


Criteria: The FAA provides Denver International Airport with Airport Improvement Program grant dollars on a reimbursement basis and agrees to pay 75 percent of the allowable costs incurred for accomplishing a project. Denver International Airport is responsible for ensuring costs submitted for reimbursement are allowable. The grant agreement’s period of performance and allowable cost rules, unless specifically allowed in Airport Improvement Program related legislation, 49 U.S.C. § 47110(b)(2), require that all project costs must be incurred after the grant execution date.

Condition: The airport submitted $2.81 million in project costs that were incurred prior to the grant execution date.

Cause: The review and subsequent approval of reimbursement requests by the Senior Vice President of Financial Management and the Grants Manager was ineffective at ensuring grant spending occurred in the appropriate time period and complied with grant requirements.

Effect or Potential Effect: Denver International Airport may be required by the FAA to return the $2.81 million in Airport Improvement Program grant funds received as reimbursement for unallowable costs incurred outside of the period of performance.

Questioned Costs: $2,809,340.03

Context: We tested five reimbursement requests for the two grants listed above. The sample test included 11 pay applications that covered expenditures of $13.5 million.

Repeat Finding: Not applicable

Recommendation: 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. Also, 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.

Responsible Official’s Response and Corrective Action Planned: Agree – DEN Financial management will enhance the policy and procedure related to ensuring grant expenditures are incurred within the grant agreement period. DEN Financial management will also be working closely with Federal Aviation
Administration (FAA) to ensure timeliness and funding are within the grant agreements. As it relates to Grant 92, DEN is currently working with the FAA regarding the reimbursements disclosed within the report.

Disagree – 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.

**Planned Implementation Date of Corrective Action:** December 31, 2019

**Person Responsible for Corrective Action:** Michael Biel, SVP Financial Management and Adam Giombetti, Deputy CFO
Appendix B – Excerpts of Uniform Guidance for Federal Grant Awards and Compliance Requirements in the Airport Improvement Program Handbook

The following grant policy excerpt from OMB Uniform Guidance (2014) can be found at www.grants.gov:26

The Office of Management and Budget’s (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (commonly called “Uniform Guidance”) was officially implemented in December 2014 by the Council on Financial Assistance Reform (COFAR – now dissolved /[web/grants/learn-grants/grant-policies/omb-grantmemoranda.html]). The Uniform Guidance – a “government-wide framework for grants management” – is an authoritative set of rules and requirements for Federal awards that synthesizes and supersedes guidance from earlier OMB circulars.*

The reforms that comprise the Uniform Guidance aim to reduce the administrative burden on award recipients and, at the same time, guard against the risk of waste and misuse of Federal funds. Among other things, the OMB’s Uniform Guidance does the following:

- Removes previous guidance that is conflicting and establishes standard language;
- Directs the focus of audits on areas that have been identified as at risk for waste, fraud and abuse;
- Lays the groundwork for Federal agencies to standardize the processing of data;
- Clarifies and updates cost reporting guidelines for award recipients.

*The Guidance was drawn from OMB Circulars A–21, A–87, A–110, and A–122 (which have been placed in past OMB guidances): Circulars A–89, A–102, and A–133; and the guidance in Circular A–50 on Single Audit Act follow-up.

For this audit, we noted that the airport did not comply with the allowable cost/cost principles and period of performance requirements, detailed in the Uniform Guidance.27

Excerpts of these requirements from the 2017 Compliance Supplement, Appendix XI, of 2 C.F.R. Part 200, are reprinted below to provide guidance to Denver International Airport management officials as they address the findings noted in this audit.28

B. ALLOWABLE COSTS/COST PRINCIPLES

Applicability of Cost Principles

The cost principles in 2 CFR part 200, subpart E (Cost Principles), prescribe the cost accounting requirements associated with the administration of Federal awards by:

a. States, local governments, and Indian tribes

b. Institutions of higher education (IHEs)

c. Nonprofit organizations

As provided in 2 CFR section 200.101, the cost principles requirements apply to all Federal awards with the exception of grant agreements and cooperative agreements providing food commodities; agreements for loans, loan guarantees, interest subsidies, insurance; and programs listed in 2 CFR section 200.101(d) (see Appendix I of this Supplement). Federal awards administered by publicly owned hospitals and other providers of medical care are exempt from 2 CFR part 200, subpart E, but are subject to the requirements 45 CFR part 75, Appendix IX, the Department of Health and Human Services (HHS) implementation of 2 CFR part 200. The cost principles applicable to a non-Federal entity apply to all Federal awards received by the entity, regardless of whether the awards are received directly from the Federal awarding agency or indirectly through a pass-through entity. For this purpose, Federal awards include cost-reimbursement contracts under the Federal Acquisition Regulation (FAR). The cost principles do not apply to Federal awards under which a non-Federal entity is not required to account to the Federal awarding agency or pass-through entity for actual costs incurred.

Source of Governing Requirements

The requirements for allowable costs/cost principles are contained in 2 CFR part 200, subpart E, program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

The requirements for the development and submission of indirect (facilities and administration (F&A)) cost rate proposals and cost allocation plans (CAPs) are contained in 2 CFR part 200, Appendices III-VII as follows:

- Appendix III to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs).
- Appendix IV to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations
- Appendix V to Part 200—State/Local Government-Wide Central Service Cost Allocation Plans
- Appendix VI to Part 200—Public Assistance Cost Allocation Plans
- Appendix VII to Part 200—States and Local Government and Indian Tribe Indirect Cost Proposals

Except for the requirements identified below under “Basic Guidelines,” which are applicable to all types of non-Federal entities, this compliance requirement is divided into sections based on the type of non-
Federal entity. The differences that exist are necessary because of the nature of the non-Federal entity organizational structures, programs administered, and breadth of services offered by some non-Federal entities and not others.

**Basic Guidelines**

Except where otherwise authorized by statute, cost must meet the following general criteria in order to be allowable under Federal awards:

1. Be necessary and reasonable for the performance of the Federal award and be allocable thereto under the principles in 2 CFR part 200, subpart E.
2. Conform to any limitations or exclusions set forth in 2 CFR part 200, subpart E or in the Federal award as to types or amount of cost items.
3. Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the non-Federal entity.
4. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
5. Be determined in accordance with generally accepted accounting principles (GAAP), except, for State and local governments and Indian tribes only, as otherwise provided for in 2 CFR part 200.
6. Not be included as a cost or used to meet cost-sharing or matching requirements of any other federally financed program in either the current or a prior period.
7. Be adequately documented.

**Selected Items of Cost**

2 CFR sections 200.420 through 200.475 provide the principles to be applied in establishing the allowability of certain items of cost, in addition to the basic considerations identified above. (For a listing of costs, by type of non-Federal entity, refer to Exhibit 1 of this part of the Supplement). These principles apply whether or not a particular item of cost is treated as a direct cost or indirect (F&A) cost. Failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable; rather, determination of allowability in each case should be based on the treatment provided for similar or related items of cost and the principles described in 2 CFR sections 200.402 through 200.411.

**List of Selected Items of Cost Contained in 2 CFR part 200**

The following exhibit provides a listing of selected items of cost contained in the cost principles in 2 CFR part 200, subpart E. Several cost items are unique to one type of entity (e.g., commencement and convocation costs are applicable only to IHEs).

The exhibit lists the selected items of cost along with a brief description of their allowability. The reader is strongly cautioned not to rely exclusively on the summary but to place primary reliance on the referenced 2 CFR part 200 text.
H. PERIOD OF PERFORMANCE

Compliance Requirements

A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity (2 CFR section 200.309).

Unless the Federal awarding agency or pass-through entity authorizes an extension, a non-Federal entity must liquidate all obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award (2 CFR section 200.343(b)). When used in connection with a non-Federal entity’s utilization of funds under a Federal award, “obligations” means orders placed for property and services, contracts and subawards made, and similar transactions during a given period that require payment by the non-Federal entity during the same or a future period (2 CFR section 200.71).

Source of Governing Requirements

The requirements for the period of performance are contained in 2 CFR section 200.71 (definition of “obligations”), 2 CFR section 200.77 (definition of “period of performance”), 2 CFR section 200.309 (period of performance), 2 CFR section 200.343 (closeout), program legislation, Federal awarding agency regulations; and the terms and conditions of the award.

Additional Grant Specific Guidance

In addition to the Uniform Guidance, these grants also must comply with the version of the Federal Aviation Administration’s Airport Improvement Program Handbook that took effect September 30, 2014. Excerpts of the handbook reprinted below are the specific requirements related to the period of performance for these grants.

This detail is provided to assist airport officials in determining the specific requirements that need to be met and how they can best design their internal controls to meet these requirements.

Section 13. Costs Incurred after Grant Executed (Allowable Cost Rule #2).

3-101. Rules for Reimbursing Project Costs Prior to the Grant (or LOI) Execution Date.

Unless specifically allowed in the Act, 49 USC § 47110(b)(2) requires that all project costs must be incurred after the grant execution date. Table 3-60 list the entire set of rules regarding when project costs can be incurred in relationship the grant execution date, the type of funding, and the type of project.

Table 3-60 Rules for Reimbursing Project Costs Prior to the Grant Execution Date

<table>
<thead>
<tr>
<th>For...</th>
<th>The following rules apply...</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Allowable costs using any or all of the following types of funds:</td>
<td>Per 49 USC § 47110(b)(2)(C), project costs must have been incurred after 9/30/1996.</td>
</tr>
<tr>
<td>• Passenger Entitlement</td>
<td>All allowable costs after this date may be reimbursed with these types of funds, regardless of whether they were incurred before the grant was executed as long as all other applicable AIP requirements have been met.</td>
</tr>
<tr>
<td>• Cargo Entitlement</td>
<td></td>
</tr>
<tr>
<td>• Nonprimary Entitlement</td>
<td></td>
</tr>
<tr>
<td>b. Allowable costs using any or all of the following types of funds:</td>
<td>Per 49 USC § 47110(b)(2)(A), project costs must have been incurred after the grant execution date. The only exception for these three types of funding are (these exceptions are statutory and are the only exceptions allowed):</td>
</tr>
<tr>
<td>• Discretionary</td>
<td>(11) 14 CFR part 150 Projects. Per 49 USC § 47110(b)(2)(B), if the project is specifically contained in an FAA approved 14 CFR part 150 program, all of the project costs can be reimbursed. This does not apply to schools or medical buildings unless they are approved within an FAA approved 14 CFR part 150 program.</td>
</tr>
<tr>
<td>• State Apportionment (including Insular)</td>
<td>(12) Project Formulation (Development Projects). Per 49 USC § 47110(c), project formulation costs must be directly related to the project. These are costs that are normally incurred before the project starts and would not have been incurred otherwise. Examples of allowable project formulation costs are included in Paragraph 3-87. Per FAA policy, only land acquisition may be reimbursed under a stand-alone grant.</td>
</tr>
<tr>
<td>• Alaska Supplemental</td>
<td>(13) Project Formulation (Planning Projects). Per 49 USC § 47110(c), costs necessary and directly incurred in developing the work scope of a planning project can be reimbursed.</td>
</tr>
<tr>
<td></td>
<td>(14) Land Acquisition. Per 49 USC § 47110(c), land acquisition is considered a project formulation cost and can therefore be reimbursed with all types of funding. The sponsor must have purchased the land after May 13, 1946. Per FAA policy, land acquisition may be reimbursed under a stand-alone grant for land acquisition.</td>
</tr>
<tr>
<td></td>
<td>(15) Letters of Intent. Per 49 USC § 47110(e), all costs incurred after the LOI execution date, and only project formulation costs incurred before the LOI execution date, may also be reimbursed with any type of funding.</td>
</tr>
<tr>
<td></td>
<td>(16) Design-Build Projects. The FAA believes that under 49 USC § 47142(b), the design and construction costs may be reimbursed with these types of funds if this contracting method is approved in advance by the ADO and all other applicable AIP requirements have been met. ADO approval is not a commitment of funds. Approval in advance by the ADO does not guarantee that the project will be considered or given priority for discretionary by the ADO. Therefore, the sponsor must have an alternative funding source available to fund the project without discretionary funding.</td>
</tr>
<tr>
<td></td>
<td>(17) Certain MAP Projects. Per 49 USC § 47118(f)(2), the FAA has the option to use discretionary to reimburse approved MAP projects if the sponsor incurred the costs during fiscal years 2003 and 2004.</td>
</tr>
</tbody>
</table>
(18) Climate-Related Conditions. In very limited circumstances, 49 USC § 47110(b)(2)(D) provides the FAA with the option to allow reimbursement for a project if the project meets all of the conditions in Table 3-61 through Conditions Table.

Table 3-61 Sponsor Assumption of Risk

<table>
<thead>
<tr>
<th>The sponsor acknowledges that it assumes all risk by…</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sponsor Assumes All Risk.</strong> The sponsor must include a statement in the request for FAA acknowledgement of its request to be considered for reimbursement that includes the following sponsor assumption of risk:</td>
</tr>
<tr>
<td>“Because the FAA cannot guarantee the availability of any types of AIP funding on the project, the sponsor must be prepared to complete the project using other sources of funds even if the sponsor meets all of the requirements for discretionary reimbursement. There are no circumstances under which the sponsor can infer that the project will be funded with discretionary funds.”</td>
</tr>
</tbody>
</table>

Table 3-62 Legislative Requirements that Must be Met for FAA to Consider Reimbursement Based on Climate-Related Conditions

<table>
<thead>
<tr>
<th>The ADO has determined that the sponsor has met all of the following legislative requirements…</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Per 49 USC § 47110(b)(2)(D), construction of the project must have started in the same fiscal year as execution of the grant agreement. A construction project for which construction started in a prior fiscal year cannot be reimbursed with discretionary funding.</td>
</tr>
<tr>
<td>b. Per 49 USC § 47110(b)(2)(D)(i), the airport must be in an area that experiences a shortened construction season due to climatic conditions, which the FAA has determined to mean cold weather. To make this determination, the FAA reviewed reports from the American Association of State Highway and Transportation Officials (AASHTO) and the Federal Highway Administration on construction impacts due to weather and found that shortened construction season was understood to be related to work such as earthwork that is shut down or suspended during the winter cold weather.</td>
</tr>
<tr>
<td>c. Per 49 USC § 47110(b)(2)(D)(ii), all other applicable AIP requirements have been met.</td>
</tr>
<tr>
<td>d. Per 49 USC § 47110(b)(2)(D)(iii), the sponsor must notify the Airports District Office or regional office (ADO) in advance of starting the work of the sponsor’s intent to request discretionary funding for this project. The sponsor must complete the attached Request for FAA Acknowledgement of Requirement to Issue Notice to Proceed prior to Grant Award for a Cold Weather Construction Project form and include it with the request, and a grant application, at least 30 calendar days prior to issuing a Notice to Proceed. The ADO must forward the sponsor’s request to APP-500 for processing.</td>
</tr>
<tr>
<td>e. Per 49 USC § 47110(b)(2)(D)(iv), the sponsor must have an alternative funding source available to fund the project. Because the sponsor has agreed to fully fund the complete project if AIP discretionary funding is not provided, the sponsor’s alternative funding plan may include AIP future year entitlement funding or Passenger Facility Charge funding. If the sponsor’s alternative funding plan does include future AIP entitlement funding which then impacts other future project requests, the sponsor will need to consider other options of funding those future projects.</td>
</tr>
<tr>
<td>f. Per 49 USC § 47110(b)(2)(D)(v), the sponsor’s decision to proceed with the project in advance of execution of the grant agreement does not raise the priority assigned to the project by the FAA.</td>
</tr>
</tbody>
</table>
| g. Per 49 USC § 47120, the FAA will give lower priority to discretionary project requests if the sponsor is using its entitlement funds for projects that have a lower priority than the projects for which discretionary funds are being requested. Therefore, this cold weather provision cannot be requested in a year when the sponsor is using its entitlement funds on a lower priority project.
### Table 3-63 Implementation Requirements that Must be Met for FAA to Consider Reimbursement Based on Climate-Related Conditions

<table>
<thead>
<tr>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>a. The request is not due to short-term disruptions.</strong> Short-term disruptions that prevent construction from occurring, including but not limited to rain, wind, tropical weather, fog, snowfall, ice, or high temperatures do not satisfy the requirement of a shortened construction season due to climatic conditions. This is because construction project specifications, including the FAA standard specifications, include provisions for inclement weather and temporary shutdowns.</td>
</tr>
<tr>
<td><strong>b. The request is not due to operational considerations.</strong> Operational or coordination considerations, such as the desire to reopen before winter, to allow planned construction sequencing, or to meet a particular aeronautical chart publication date do not satisfy the requirement of a shortened construction season due to climatic conditions.</td>
</tr>
<tr>
<td><strong>c. The request is for a project that may be impacted.</strong> The FAA has generally identified paving projects or pavement rehabilitation projects as those that are most likely to be impacted by a shortened construction season due to climatic conditions. In reviewing the request, APP-500 will consider the type of construction included in the project, the duration of the construction activities that may be impacted by a shortened construction season and the date by when the sponsor indicates that construction must begin to avoid impacts of a shortened construction season.</td>
</tr>
<tr>
<td><strong>d. The airport is in an impacted area.</strong> Generally, the APP-500 will consider issuing an acknowledgement if there is at least one month in the average calendar year with an average high temperature below 40 degrees Fahrenheit and specific construction activities required for the project would be impacted by the cold temperatures.</td>
</tr>
<tr>
<td><strong>e. An early start may be justified.</strong> The sponsor has demonstrated that the project requires an early start in order to fit the construction schedule into the construction season by providing the length of the construction project, date by which construction must begin in order to avoid being negatively impacted by cold weather conditions.</td>
</tr>
<tr>
<td>1. For example, this provision would not likely be justified for a 90-day paving project where the ADO anticipates that a grant could be issued in May.</td>
</tr>
<tr>
<td>2. The ADO may determine that this provision is justified for a 180-day paving project and grants are not expected to be able to be issued until July.</td>
</tr>
</tbody>
</table>

### Table 3-64 Alternative Funding Requirements that Must be Met for FAA to Consider Reimbursement Based on Climate-Related Conditions

<table>
<thead>
<tr>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>a. The sponsor may include future year entitlements in the alternative funding plan. However, if the sponsor’s Capital Improvement Program (CIP) previously identified projects that the sponsor planned to fund with those entitlements, the sponsor must revise their CIP accordingly.</strong></td>
</tr>
<tr>
<td><strong>b. If the sponsor proposes using future year entitlements, in those future years, the requested reimbursement may impact the sponsor’s ability to fund other projects that year with discretionary funds, based on the requirement to fund the highest priority projects first with the sponsor’s entitlement funds.</strong></td>
</tr>
<tr>
<td><strong>c. If the sponsor has started construction and discretionary funding is not provided in the year in which the construction started, the project is ineligible for discretionary funding in this, or future years.</strong></td>
</tr>
<tr>
<td><strong>d. For phased projects, the requirements of this PGL must be applied individually to each phase or grant request. Funding of one phase of a phased project under this PGL does not establish eligibility for funding either prior or subsequent phases.</strong></td>
</tr>
</tbody>
</table>
### Table 3-65 Request Requirements that Must be Met for FAA Consideration of Reimbursement Based on Climate-Related Conditions

<table>
<thead>
<tr>
<th>The requirements are…</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. The sponsor must submit the written request to the ADO before contract award and before issuing Notice to Proceed to the selected contractor.</td>
</tr>
<tr>
<td>b. The sponsor must allow at least 30 calendar days following the submittal of a complete and accurate submittal to the ADO to receive a determination from APP-500.</td>
</tr>
<tr>
<td>c. Upon receipt of a sponsor’s request for consideration, the ADO must review the request for completeness. If the request is incomplete, the ADO must return the request to the sponsor for correction. If the request is complete, the ADO must forward the request to APP-500. The ADO must submit the completed sponsor request, with ADO Staff Recommendation to APP-500 within nine business days of receiving the sponsor request.</td>
</tr>
</tbody>
</table>

### Table 3-66 APP-500 Acknowledgement Process for Requests for Reimbursement Based on Climate-Related Conditions

<table>
<thead>
<tr>
<th>The requirements are…</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. APP-500 will notify the ADO whether or not the proposed project can be considered for reimbursement based on climate related conditions.</td>
</tr>
<tr>
<td>b. After APP-500 notifies the ADO whether or not the proposed project can be considered under this limited exception, the ADO must advise the sponsor of the determination. The ADO notification to the sponsor may be in writing or by e-mail. The determination is solely a determination as to whether the sponsor has met the necessary requirements for the FAA to be able to consider AIP discretionary funding subsequent to contract award or NTP, and does not in any way represent an actual commitment of discretionary funds.</td>
</tr>
<tr>
<td>c. APP-500 will attempt to respond to a sponsor’s request within 30 days after receipt of the request. However, only actual receipt by a sponsor of an APP-500 determination that the project will be acknowledged by the FAA as having been requested for consideration for discretionary funding for a Cold Weather Construction Project constitutes FAA acknowledgement. The sponsor cannot consider lack of a response within 30 days is the equivalent of APP-500 acknowledgement.</td>
</tr>
</tbody>
</table>
Office of the Auditor

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 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 citizen confidence and avoiding any appearance of a conflict of interest.

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