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October 17, 2019

AUDITOR’S LETTER

The objective of our audit of the Urban Area Security Initiative grant was to determine whether the Office of Emergency Management and Homeland Security is complying with grant requirements. I am pleased to present the results of this audit.

The audit revealed the Office of Emergency Management and Homeland Security is generally in compliance but could benefit from more robust use of the City’s accounting system instead of relying on spreadsheets. The office also needs better guidance to ensure compliance with the grant’s many requirements.

Through a stronger system for grant management and more thorough policies and procedures, those in charge of compliance with the grant will be better equipped to properly track and document compliance. This would help ensure the City continues receiving the grant funding. Our report lists several related recommendations.

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 Office of Emergency Management and Homeland Security personnel 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
Objective
To determine whether Denver’s Office of Emergency Management and Homeland Security is in compliance with Urban Area Security Initiative grant requirements and has adequate controls to properly manage and track grants.

Background
The Urban Area Security Initiative, or UASI, grant is one of three grants within the larger Homeland Security Grant Program managed by the U.S. Department of Homeland Security. According to the department, the goal of UASI is “to assist high-threat, high-density urban areas in building, sustaining, and delivering the capabilities necessary to prevent, protect against, mitigate, respond to, and recover from acts of terrorism.”

The Federal Emergency Management Agency has awarded the City and County of Denver a UASI grant every year since 2003. Denver’s Office of Emergency Management and Homeland Security manages the grant for a 10-county region surrounding the Denver metro area.

Highlights
We assessed the Office of Emergency Management and Homeland Security’s compliance with federal requirements for the Urban Area Security Initiative grant, including a review of City guidance. We also reviewed performance and governance topics that could have an effect on the efficiency and effectiveness of the agency’s grant management.

For example, while reviewing whether all grant costs were allowable according to grant regulations, we took note of Emergency Management’s methods for tracking grant expenditures and grant-purchased assets. Despite Emergency Management generally following grant requirements, we found a few areas for improvement.

Although the Office of Emergency Management and Homeland Security Has Met Many Requirements of the Urban Area Security Initiative Grant, Systemic Problems Exist

- Emergency Management uses spreadsheets, which are prone to error, for grant management.
  Tracking of grant expenditures and grant-funded assets occurs in two systems, with spreadsheets used as the primary system.
- Emergency Management’s policies and procedures for grant management are insufficient and incomplete.
  Turnover and a lack of formal succession planning and cross-training result in systemic issues. Insufficient policies and procedures have contributed to questioned costs and other effects. Reimbursement requests are not submitted in a timely manner.

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

BACKGROUND 1

FINDING 10

Although the Office of Emergency Management and Homeland Security Has Met Many Requirements of the Urban Area Security Initiative Grant, Systemic Problems Exist

The Office of Emergency Management and Homeland Security’s Use of Uncontrolled Spreadsheets for Grant Management Jeopardizes Accuracy 10

The Office of Emergency Management and Homeland Security’s Policies and Procedures for Grant Management Are Insufficient and Incomplete 15

RECOMMENDATIONS 24

AGENCY RESPONSE TO AUDIT RECOMMENDATIONS 29

OBJECTIVE, SCOPE, AND METHODOLOGY 36

APPENDICES

Appendix A – Schedule of Findings and Questioned Costs 38

Appendix B – Excerpts of Uniform Guidance for Federal Grant Awards and Compliance Requirements 41
BACKGROUND

The Urban Area Security Initiative, or UASI, grant is one of three grants within the larger Homeland Security Grant Program managed by the U.S. Department of Homeland Security. The objective of UASI is to “assist high-threat, high-density urban areas in building, sustaining, and delivering the capabilities necessary to prevent, protect against, mitigate, respond to, and recover from acts of terrorism.”

On an annual basis, the federal government identifies high-risk urban areas based on an analysis of relative risk of terrorism of the 100 most populated metropolitan areas. The states in which these urban areas are located apply to the federal government for the grant money. When a state receives the funds, an urban area submits a planned project spending list to the state. The state then distributes the money to urban areas through reimbursements for grant expenditures the region incurs.

The City and County of Denver has been awarded UASI grant funds every year since 2003, receiving more than $60 million in funds in that period. Using UASI funds, the City partners with public safety organizations in the following 10-county area, as shown in Figure 1 on the next page:

- Denver County
- Adams County
- Arapahoe County
- Broomfield County
- Boulder County
- Clear Creek County
- Douglas County
- Elbert County
- Gilpin County
- Jefferson County

This group of counties is known as the North Central All-Hazards Region. Representatives from organizations in these counties make up the Urban Area Working Group that approves the annual UASI grant application, the budget prioritization of projects, and the strategies to meet grant

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objectives submitted by the Office of Emergency Management.

**UASI Grant Participants and Funding Flow**

The federal Department of Homeland Security awards the grant funds to Colorado’s Division of Homeland Security and Emergency Management, which passes funds on to the City. The City then purchases assets and organizes trainings for the North Central All-Hazards Region, as illustrated in Figure 2 on the next page.

**UASI Grant Administration within the City**

City personnel within the Office of Emergency Management and Homeland Security manage the UASI grant. As of 2019, Emergency Management has six positions dedicated to management of the grant, as seen in Figure 3, also on the next page.

Emergency Management’s positions are partially financed through grant funds, and staff members are considered limited-term employees, with their employment terminating when grant funding ends. This has not occurred since 2003. Staff positions include:

**Program manager** – The program manager is responsible for
FIGURE 2. UASI Grant Funding Flow

Grantor | Federal Department of Homeland Security

$ Homeland Security Grant Program funds

Grantee | State of Colorado’s Division of Homeland Security and Emergency Management

$ Urban Area Security Initiative grant funds

Subrecipient | City and County of Denver

Training, services, and assets | Purchased with grant funds

Project Awardees | Agencies, jurisdictions, and fire protection districts with the 10-county North Central All-Hazards Region

Source: Developed by the Auditor’s Office based on auditors’ review of federal and state UASI grant guidance and discussions with the North Central All-Hazards Region.

FIGURE 3. Office of Emergency Management Grant Program Group

Urban Area Security Initiative grant-funded staff

Grant program manager

- Project and program management
- Grant programs management
- Contract and procurement oversight
- Urban Area Security Initiative working group administration

Accountant

- Financial management
- Grant accounting
- P-Card administrator

Operations coordinator 1

- Contracting
- Grant inventory
- Project management

Operations coordinator 2

- Grant inventory
- Project management

Emergency management coordinator 1

- Urban Area Security Initiative strategy
- Risk assessment
- Capability assessment
- Urban Area Security Initiative threat and hazard risk identification and assessment

Emergency management coordinator 2

- Resource typing
- Resource inventory
- Logistics planning

Source: Office of Emergency Management and Homeland Security Grant Program Group organizational chart provided by the agency.
administration and strategic planning for the UASI grant and does so by working cooperatively with federal, state, and local stakeholders. The program manager also works with the state to complete and submit the annual grant application to the federal government. This position reports to the City’s director of the Office of Emergency Management and Homeland Security.

**Operations coordinator** – The operations coordinators are responsible for UASI project management, budgeting, procurement, contracting, inventory, and asset management as well as other specialized projects.

**Accountant** – The accountant is responsible for all financial activities related to the management of the UASI grant, such as grant accounting and administration of purchase cards. In addition to fiscal duties, they also assist the operations coordinators in processing UASI requisition requests and asset tracking documentation.

**Emergency management coordinators** – The emergency management coordinators are responsible for UASI strategy, risk, and capability assessment and logistics planning.

Other City departments and divisions also assist with or benefit from the UASI grant program, including, but not limited to:

**Department of Finance** – The Budget Management Office within Finance assists Emergency Management with budgeting, and the Controller’s Office, also under Finance, assists with grant transaction booking and other accounting issues.

**Department of General Services** – General Services’ Purchasing Division assists Emergency Management with the purchase of goods and services that require a competitive bid or sole-source procurement.

**Technology Services Agency and Department of Public Safety** – These agencies are sometimes the recipients and users of the grant equipment. They are responsible for maintaining the equipment they receive and ensuring it remains in working order.

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**UASI Grant Authority and Legal Considerations**

The Office of Emergency Management and Homeland Security must adhere to several layers of regulatory and legal requirements to maintain its UASI grant funding. As shown in Figure 4 on the next page, the federal rules take precedence over state requirements, and the state requirements supersede Denver’s policies and procedures. Emergency Management staff managing the grant must follow the most restrictive rules.

**Federal Requirements** – In 2014, the federal Office of Management
Denver Auditor

and Budget released requirements for states, local governments, and nonprofit organizations in managing federal grant money. Under these rules, the City is required to have an annual audit—known as a "single audit"—conducted by an external auditor on major grant programs that receive federal funding. The single audit is performed in conjunction with the audit of the City’s financial statements. Federal requirements also lay out the cost principles and standards for determining allowable costs for federal grants.

Of the 12 types of compliance requirements, three are not applicable to grants issued under the Homeland Security Grant Program: eligibility, procurement and suspension and debarment, and program income. As such, we did not evaluate the UASI program for compliance with these requirements. Other federal compliance requirements not evaluated in this audit were subrecipient monitoring, special tests and provisions, and cash management because of the City’s role as a grantee or because they are lower-risk areas. Reference Figure 4 for a summary of the six compliance requirements tested during this audit and see Appendix B for an excerpt of the federal compliance supplement further detailing these requirements.

As shown in Figure 5 on the next page, within the single audit, there are up to 12 types of federal compliance requirements a grant program is subject to.

The audit focused on these areas of compliance:

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

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• **Allowable Costs/Cost Principles** – Types of costs allowed with grant money and how those costs are attributed to and applied to the grant.

• **Equipment and Real Property Management** – The requirements grant recipients must follow to track, maintain, and dispose of assets (tangible personal property and real estate) with an acquisition cost of over $5,000 and a useful life of more than one year.

• **Matching, Level of Effort, Earmarking** – “Matching” is the requirement to contribute a specified amount or percentage to match federal funds (cost sharing). “Level of effort” is the requirement that a specified level of service and/or expenditures be maintained by a nonfederal entity. And, “earmarking” is the requirement for a minimum and/or maximum amount or percentage of grant funding that must or may be used for grant program activities.

• **Period of Performance** – The requirement that grant recipients are only allowed to use federal funds to pay for costs incurred during the grant period.

• **Reporting** – Requirements for reporting spending and other financial information on a regular basis.

**Other Federal Requirements** – The federal Department of Homeland Security publishes a “Notice of Funding Opportunity” for the UASI grant that outlines requirements for maintaining compliance, including what can be purchased with grant funds.
These requirements also outline specific allowable costs and cost principles that grantees must follow when spending UASI grant funds. These include:

- **Management and administration** – direct costs related to the management of grant funds, such as financial management and monitoring;
- **Planning** – direct costs related to preparedness and risk assessment activities;
- **Organization** – direct costs related to program management, development of whole community partnerships, and structures and mechanisms for information sharing between the public and private sector;
- **Equipment** – direct costs for equipment used to prevent, protect, mitigate, respond to, and recover from terrorism-related events; and
- **Training and exercises** - direct costs related to development of a homeland security program, including, establishment, support, conduct, and attendance of training programs.

**State Grant Agreement** – When the state receives the UASI award, it enters into a contract with the City to distribute the funds. Along with federal compliance requirements the state and City must follow, the grant agreement contains additional terms and requirements the state imposes on the City. These terms and requirements include:

- Period of performance
- Scope of work
- Terms for payment to the City
- City reporting to the state
- Records and documentation maintenance
- Budget for the expenditure of funds

**State Grant Management Guide** – The state Division of Homeland Security and Emergency Management publishes a guide annually to centralize and provide further interpretation of grant information and regulations from federal, state, and other resources related to the Homeland Security Grant Program and the UASI grant.

**City Fiscal Accountability Rules** – The Department of Finance has established these rules to assist City agencies and their employees in conducting financial activities and in making fiscal decisions.

**Office of Emergency Management and Homeland Security’s Policies and Procedures** – The UASI program manager has developed draft policies and procedures that describe the responsibility of Emergency
Management staff and the fiscal and operational management of grant funds. While the document describes the group’s operations as they are, it is only in draft form and has not been finalized or officially implemented as policy, which we will discuss later in the findings of this audit.

UASI Grant Award Amounts to the City

As previously stated, the City has been awarded the UASI grant every year since 2003. The amounts awarded to the City for the last five years are shown in Table 1.

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$2,400,000</td>
</tr>
<tr>
<td>2017</td>
<td>$2,269,600</td>
</tr>
<tr>
<td>2016</td>
<td>$2,369,600</td>
</tr>
<tr>
<td>2015</td>
<td>$2,400,000</td>
</tr>
<tr>
<td>2014</td>
<td>$2,650,000</td>
</tr>
</tbody>
</table>

**TABLE 1. UASI Grant Awards Since 2014**

Source: Compiled by the Auditor’s Office from state grant agreements for each year.

When a grant amount is awarded, the grant agreement between the state and the City allows the total amount to be spent over the course of three grant fiscal years. The fiscal year for the UASI grant starts on September 1 and runs through August 31 of the following year, a period also known as a grant year.

This means that the $2.4 million awarded in 2015, as shown in Table 1 above, was awarded on September 1, 2015, and could be spent through August 31, 2018.

Figure 6 on the next page illustrates this concept of a three-year spending period for a grant year and how it overlaps with other years.

Under the grant agreement with the state, the City receives the funds by requesting reimbursement from the state for amounts already spent on UASI grant activities and assets. The City is also required to submit quarterly financial and narrative reports on the progress it has made in spending the award amounts.
FIGURE 6. Three-Year Spending Period per UASI Grant Year, 2015 - 2018

Source: Developed by the Auditor’s Office based on review of federal Notice of Funding Opportunity and the state grant agreement.
FINDING

Although the Office of Emergency Management and Homeland Security Has Met Many Requirements of the Urban Area Security Initiative Grant, Systemic Problems Exist

As we evaluated the Office of Emergency Management and Homeland Security’s compliance with federal requirements for the UASI grant, we determined that, of the six compliance requirement areas we tested for this audit, we had no findings regarding the “earmarking” and “period of performance” requirements.

However, we did find there is a lack of system controls over the tracking of grant expenditures and asset management and a lack of documented, comprehensive policies and procedures—which may have contributed to issues we found regarding allowable activities and costs, reporting, and equipment tracking. If the City were to ask for reimbursement for costs and activities determined to be unallowed by the state or federal government, the state may decide not to reimburse the City for funds spent, and the federal government may also request repayment of unallowed costs.

The Office of Emergency Management and Homeland Security’s Use of Uncontrolled Spreadsheets for Grant Management Jeopardizes Accuracy

As a recipient of Urban Area Security Initiative grant funds, the Office of Emergency Management and Homeland Security is responsible for establishing the project budget for the total award amount and tracking UASI grant expenditures against those projects, so it can submit periodic reimbursement requests to the state.

However, Emergency Management’s process for tracking expenditures primarily involves the use of Excel spreadsheets, which the agency also uses to report reimbursement requests to the state. When an invoice is first received from a vendor for a UASI expenditure, the transaction is captured and recorded on Emergency Management’s tracking spreadsheet. Every month, the agency’s senior accountant for grants reconciles transactions on the spreadsheet to Workday—the City’s online accounting system—entering transactions as needed into Workday.

The senior accountant enters salaries and benefits on the spreadsheet during the reconciliation as well, as these expenditures are automatically paid through Workday without manual processing by Emergency Management. This means the agency is, in effect, maintaining dual accounting systems for its UASI expenditures, a
practice that is both inefficient and risk-prone.

Additionally, we found that Emergency Management primarily tracks assets purchased with grant funds by spreadsheet and does not record and track them consistently in Workday. Assets with a book value, the net value after depreciation, of over $5,000 are tracked using spreadsheets, which are used during annual asset status updates and reporting and biannual physical assets inventories performed by the agency. The state’s grant management guide requires the City to maintain an accounting system that not only accurately accounts for awarded funds but also safeguards federal assets.

For grant assets held and managed by the City, the City’s Fiscal Accountability Rules say that grant assets the City possesses and maintains should be in Workday.³ However, during a detailed testing of grant expenditures, we were not able to trace two equipment expenditures to an asset in Workday. One was a radio communications upgrade of about $91,000 for the Denver Police Department helicopter, and the other was about $31,000 for the installation of a generator at the Denver Animal Shelter. Neither of these expenditures were recorded in Workday as an asset.

When asked why the agency has relied on these spreadsheets and not moved the functionality into Workday already, officials stated they believed the needed capability within the system did not exist or, if it did, they were unaware of it. We also noted that Emergency Management is not the only City agency that does not fully use Workday for grant tracking and that uses spreadsheets. On a related note, the second finding in the City’s 2018 single audit report states that the City’s Department of Public Works tracks its grants outside Workday, indicating an unfamiliarity with the system’s grant management and accounting capabilities that led to financial misstatements of grant activity that required adjustments.⁴

In discussions with the City’s Department of Finance and Technology Services agency, officials said Workday should be flexible enough to handle the grant tracking and reporting needs of the UASI grant, which would minimize the need for additional tracking spreadsheets. They also indicated Workday should be able to allow Emergency Management to track all assets purchased with UASI grant funds, regardless of whether Denver or other outside partner agencies possess, maintain,

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and use an asset.

However, planning and design meetings would need to be held between Emergency Management, the Department of Finance, and Technology Services to discuss what would need to be done in Workday to ensure it meets the UASI grant’s tracking and reporting needs. Representatives from Emergency Management and the Department of Finance have indicated they would be willing to have these meetings and explore what it will take to move the agency from a primarily spreadsheet-driven process for expenditure tracking and reporting to one using Workday.

After fieldwork for this audit ended and this report was being drafted, there was an update to Fiscal Accountability Rules published by the Controller’s Office that said only grant assets maintained and possessed by the City should be tracked in Workday.\(^5\) We followed up with Controller’s Office management, and they confirmed that, despite the new language, they are still willing to explore the possibility of tracking grant assets not managed by the City with the Office of Emergency Management and Homeland Security.

The risks of using spreadsheets as a primary tracking and control device include errors in calculations or data entry and the possibility of using an out-of-date version. There is also the potential for inexperienced users to use spreadsheets incorrectly, or that an unauthorized employee will have inappropriate access to files through shared networks. The use of specialized spreadsheets also increases an organization’s dependence on key personnel who could leave at any time. Having to track grant expenditures in both spreadsheets and Workday is inefficient for the agency and could lead to errors or missing data, creating inefficiencies and risking reimbursement.

For example, we noted incorrect transaction descriptions during our audit, which were caused by copying language used in a previous transaction’s description. We also noted missing invoice number and payment references for a handful of grant expenditures we performed detailed testing on. Workday may also be able to enhance the asset data by providing a more controlled structure to store location, identification, and book value information and provide an audit trail of changes that are made to this information. Workday would also continuously calculate depreciation of the assets of partner agencies, which are currently calculated and updated manually on spreadsheets through annual inventories conducted by the partner agencies.

As a best practice, the reduction of dependence on spreadsheets should be a priority, according to accounting firm PricewaterhouseCoopers. However, the firm also recommends that if spreadsheets remain a key part of operations, there should be controls to protect the accuracy and integrity of data in the spreadsheets. The National Institute of Standards and Technology, a division of the U.S. Department of Commerce, has developed a set of minimum security and privacy controls for federal information systems. The recommended controls for spreadsheets would include access controls, configuration management, back-up contingency planning, and authentication.

Additionally, U.S. Government Accountability Office standards say having data in an information technology system of record allows material to be available to the organization on a more timely basis and enhances internal control over the information by appropriately restricting access. Therefore, we make the following recommendations to increase Emergency Management’s use of grant functionality in Workday and to strengthen the controls over the existing spreadsheets the agency uses.

**RECOMMENDATION 1.1**

**Determine Workday Capability for Expenditures** – The Office of Emergency Management and Homeland Security should work with the Department of Finance and the Technology Services agency as necessary to determine how Workday can meet the operational and reporting requirements of the Urban Area Security Initiative grant expenditures currently being recorded in spreadsheets. If Workday meets these operational and reporting needs of Denver’s UASI program, Emergency Management should work with the Department of Finance and Technology Services to develop an implementation plan based on those agencies' ability to complete the project.

*Agency Response: Agree, Implementation Date – Feb. 1, 2020*

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RECOMMENDATION 1.2

Determine Workday Capability for Assets – The Office of Emergency Management and Homeland Security should work with the Department of Finance and the Technology Services agency as necessary to determine how Workday can meet the operational and reporting requirements of Urban Area Security Initiative grant asset tracking and monitoring now being recorded with spreadsheets. Emergency Management should consider the following improvements as Workday functionality is being determined:

- Recording and tracking of both Denver- and non-Denver-owned assets,
- Inclusion of more specific locations of assets, and
- The ability to track and calculate depreciation using the useful lives and depreciation methods set by partner agencies responsible for the assets.

If Workday meets these operational and reporting needs of Denver’s UASI program, Emergency Management should work with the Department of Finance and Technology Services to develop an implementation plan based on those agencies’ ability to complete the project.

Agency Response: Disagree

Auditor’s Addendum: See page 25 under Recommendation 1.2

RECOMMENDATION 1.3

Tighten Controls over Critical Spreadsheets – Until Workday’s grant-tracking functionality is determined, the Office of Emergency Management and Homeland Security should develop the following spreadsheet controls:

1. Change controls – develop controls to highlight changes made to the spreadsheet calculations or reporting.
2. Version control – set up automated version control of all files when they are updated to allow tracking of changes made.
3. Access control – restrict users’ access to the folders where the critical files are stored, and set up password protection of individual files.
4. Input controls – Set up “check sum” totals to confirm the accuracy of data entered, and lock cells with formulas to prevent them from being accidentally changed.
5. Documentation – create documentation for each spreadsheet to describe the purpose, methodology, source of data, and outputs.
6. Backups – ensure the folders where the spreadsheets are stored are regularly backed up to a different location.

Agency Response: Agree, Implementation Date – Jan. 1, 2020
RECOMMENDATION 1.4

Ensure Recording of Two Assets in Workday – The Office of Emergency Management and Homeland Security should work with the Controller’s Office to ensure all UASI assets have been appropriately recorded in Workday, including the police helicopter radio communications system and the generator at the Denver Animal Shelter.

Agency Response: Agree, Implementation Date – Feb. 1, 2020

The Office of Emergency Management and Homeland Security’s Policies and Procedures for Grant Management Are Insufficient and Incomplete

The Office of Emergency Management and Homeland Security has not completed policies and procedures to provide its staff with guidance on a range of areas for grant management and other performance aspects, and the draft document is not sufficient to assist Emergency Management staff. Without sufficient policies and procedures, staff members lack guidance in an array of areas, including but not limited to, requirements to plan for the departure of key employees using a succession plan, how employees should account for common costs, the expectations for staff to practice prudent spending with grant funds, documentation requirements for financial transactions and asset records, exactly what constitutes allowable maintenance and administrative costs, and UASI-specific reimbursement time frames.

Out of the nine single-audit compliance requirements included in our review of this grant, the “allowable activities,” “allowable costs,” “equipment and real property,” and “reporting” requirements led to identified internal control weaknesses. We did not find any internal control deficiencies related to the other five requirements.

Turnover and a Lack of Both Formal Succession Planning and Cross-Training Are Contributing Factors to UASI’s Systemic Issues

The Office of Emergency Management and Homeland Security has not made the completion of its policies and procedures a priority, and without internal requirements to perform succession planning and cross-train employees, there is a risk of losing institutional grant management knowledge. Currently, the agency practices informal and limited succession planning and cross-training.

As shown in Figure 7 on the next page, the UASI team within Emergency Management has experienced significant employee turnover in the past three years—and especially in the last six months. The agency has
lost employees in the following positions, resulting in considerable loss of knowledge around grant requirements and grant processes:

**FIGURE 7.** UASI-funded Staff Departures, 2016 - 2019

Emergency Management does not formally groom employees to take over key roles. The agency only informally cross-trains employees.

Interviews with agency officials suggest that the former program manager who left in mid-2019 spent time mentoring the operations coordinator on key aspects of a program manager’s responsibilities. However, this mentoring and cross-training should be formal and systematic to avoid losing institutional knowledge when key employees leave the agency. With only six employees overseeing the complicated requirements across multiple grants with multiple-year life spans, each employee’s role is critical to the overall operations, and a formal cross-training plan should be created and implemented.

U.S. Government Accountability Office standards provide criteria for effective succession planning and contingency plans. They say “management defines succession and contingency plans for key roles to help the entity continue achieving its objectives. Succession plans address the need of organizations to replace competent personnel over the long term, whereas contingency plans need to address the entity’s need to respond to sudden personnel changes that could compromise the internal control system.”

Additionally, the Government Finance Officers Association offers guidance that encourages governments to address key issues and develop strategies for succession planning. In the guidance, the association suggests that organizations:

- Develop an integrated approach to succession management with key components such as workforce planning, succession

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planning, knowledge management practices, and recruitment and retention practices. The association says organizations with integrated succession plans experience higher retention rates, increased employee morale, and an environment that stimulates innovative organizational change. Critical positions should be given high priority to help ensure smoother transitions.

- Continually assess potential employee turnover. Career planning discussions as a routine ongoing performance review process can assist in evaluating potential turnover.
- Provide a formal, written succession plan as a framework for succession initiatives. Without a formal written plan, workforce and succession planning are often haphazard. Using a formal plan, the organization can identify risks and strategies. Formalizing also allows plans to be thoughtfully articulated and communicated to the organization. A formal plan also signals management’s commitment to employee development and smooth transitions during organizational change.
- Develop written policies and procedures to ease knowledge transfer. Knowledge transfer is critical for succession management to work. Job responsibilities should be documented for handoff and training purposes.
- Develop leadership skills. Organizations benefit when a leadership pool is developed to cover other positions.
- Encourage personal professional development. Employees gain the skills needed to assume increased responsibilities.
- Design better recruitment and retention practices. Offering competitive pay levels and ongoing development can help retain employees.
- Consider nontraditional hiring practices. Considering part-time positions, job sharing, volunteers, and flexible work schedules can also provide mechanisms to meet the organization’s and employees’ needs.
- Consider early retirements in succession planning.

A lack of formal succession planning and of a cross-training program has contributed to some of the systemic issues in the administration of the UASI grant program. During turnover episodes, an organization that has not transferred institutional knowledge effectively risks disruptive inefficiencies and an increased likelihood of mistakes, resulting in noncompliance with grant requirements and not being reimbursed by the state.
RECOMMENDATION 1.5

Develop Succession Planning and Cross-Training – The Office of Emergency Management and Homeland Security should develop a formal succession plan and supporting cross-training program to help reduce systemic and operational issues that may arise due to staff turnover and potential loss of institutional know-how.

Agency Response: Agree, Implementation Date – Feb. 1, 2020

Lack of Sufficient Policies and Procedures Contribute to Noncompliance with Complex Grant Requirements

Without robust internal guidance from policies and procedures, the Office of Emergency Management and Homeland Security cannot ensure compliance with myriad grant requirements, which can change annually, making compliance more difficult. During our audit, we found a few areas of noncompliance with grant requirements, which are likely the result of lacking internal guidance and institutional knowledge, as discussed previously.

Questioned Activities Due to Categorization – The test for allowable activities determines whether costs are terrorism-related and fall within one of six direct-cost categories:

- Planning;
- Organization;
- Equipment;
- Training;
- Exercises, and;
- Maintenance and administration.

According to federal and state rules, if costs are not project-related, they should not be considered a direct cost for the grant.\(^{12}\)

The state preapproves the planned project expenditure list, and we found that all major UASI projects were allowable activities by state standards. While three of 49 transactions we tested were allowable activities, we did note inconsistencies in the categorization of some smaller expenditures, specifically when looking at how administrative

Printing costs and other office supplies were charged to the grant without documentation those costs were project-related.

Costs were categorized and applied to the grant budget. This also leads to questions about the allowability of those costs.

For example, we found that printing costs and other office supplies were charged to the grant without Emergency Management being able to provide documentation those costs were project-related.

- August 2016 printing costs ($119.26)
- April 2017 printing costs ($179.13)
- June 2017 purchase of electronic kettle ($27.29)

While these costs are small, inaccurate categorization can result in the costs being unallowable based on federal grant rules.

Questioned Costs Due to Lack of Supporting Documentation – To provide evidence costs are project-related, documentation should support actual costs applied to the grant, since estimating costs is unallowed based on state rules.\(^{13}\) As previously discussed, if the agency could have proven its printing costs were grant-related by using a printer that tracks the actual breakdown of printing costs by project, we would not have found the printing costs to be a questionable activity.

Similarly, when payroll costs for certain employees are split between grant and other operations, the agency should document the actual percentage of time spent on grant operations. We found that seven of eight of the payroll costs charged to the grant used estimates of time worked, not actual hours worked and activities performed, despite draft policies and procedures requiring that actual time be recorded in the time-recording system, Kronos.

Other Minor Questioned Costs – We found two small expenditures charged to the grant that were technically noncompliant with federal regulations for prudent spending and itemizing expenditures. Federal guidance specifically states that “a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person . . . In determining reasonableness of a given cost, consideration must be given to: . . . market prices for comparable goods or services for the geographic area.”\(^{14}\) While the audit team recognizes that the following findings represent a small percentage of the overall grant budget, we believe there is still a potential there are no controls in place to review the prudence of the expenditures.

With that said, we found one small expense that did not appear


prudent. Travel expenditures are allowed costs for this grant, but costs must appear reasonable and should reflect the actions a prudent person would take in similar circumstances. While an employee was at an out-of-state conference for five days, their personal vehicle was parked in one of the garages adjacent to the airport, instead of in an economy lot nearby.

Parking in the economy lot would have saved $9 each day, or about $45, and would still have met the objective of getting to the airport and parking for the duration of the conference near the airport. In addition, this transaction lacked a detailed receipt. It is our judgment that the decision to pay an extra $9 each day would not reflect the actions a prudent person would take in similar circumstances, as federal regulations require.

Similarly, Emergency Management could not provide an itemized receipt for one meal expense incurred during work-related travel. Normally, meals during grant-related travel are allowable costs. However, without an itemized receipt from a restaurant that serves alcohol, we consider this cost at risk for noncompliance, as the meal could have included alcohol, which is not an allowable cost in any circumstance.

**Equipment and Real Property Concerns** – While the potential to improve upon the tracking of UASI-purchased assets within Workday was discussed earlier, we also found issues with the asset tags for a few assets delivered directly to third parties.

We found asset tags were not present on a few UASI-purchased assets, all of which were not handled by Emergency Management’s staff but sent directly to a partnering agency.

For example, one emergency generator, purchased in 2017, was installed without an asset tag ever being attached to the equipment. In another example, bomb-scanning equipment that originally had an asset tag was found to be defective and had to be replaced, and the replacement items did not have asset tags attached.

**Intergovernmental Agreements Expired** – We also found that six of the seven intergovernmental agreements between the City and County of Denver and its partner agencies have expired. These agreements govern the legal relationship between the City and County of Denver and those receiving UASI-purchased assets or benefiting from training, exercises, and planning events.

New intergovernmental agreements have not yet been put into place for the 2018 or 2019 UASI grant years, meaning spending of those
grant funds cannot yet occur. The previous Emergency Management
director stated at the beginning of the audit that intergovernmental
agreements with partner agencies were being updated. However the
director left before finalizing the agreements.

RECOMMENDATION 1.6

Develop Policies and Procedures – The Office of Emergency Management and Homeland
Security should further develop grant management policies and procedures. At a minimum,
newly developed policies and procedures should include guidance in the following areas:

- **Cost tracking** – Systems must be used to track actual costs applied to the grant, instead of
  using estimated amounts, so that Emergency Management can request reimbursement
  for the exact proportional amount of the expense. Examples include, but are not limited to,
splitting up printing costs (including lease fees and materials) and payroll costs (such as
benefits, salaries, cell phone stipends, etc.).

- **Prudent spending** – There is a requirement that all grant spending must be consistent with
  the actions of a prudent person, as required by the Code of Federal Regulations 200.404.
Policies and procedures should include examples or philosophies to inform staff how to
apply these guidelines to future grant spending.

- **Tagging assets** – There should be clear procedures for ensuring each of the UASI-
purchased assets that are being delivered directly to third parties are treated consistently
and have an asset tag attached. Assets found to have missing asset tags should have
asset tags applied.

- **Managing agreements** – There should be further development of policies and
  procedures for ensuring intergovernmental agreements do not expire prior to executing
  a replacement agreement. Procedures should explain the timeline for the development
  and the execution of new agreements, list major milestone meetings, players involved
  (such as safety organizations within the North Central All-Hazards Region or the City
  Attorney’s Office), and the deliverables required to keep the agreement replacements
  on track.

Agency Response: Disagree

Quarterly Financial and Narrative Reporting Is Substantially Timely and
Compliant, but Reimbursement Requests Are Not

Quarterly financial and narrative reports are required to be submitted
to the state for all open grant awards. The purpose of the reports is
to explain financial expenditures incurred and the progress made in
meeting the grant’s goals and objectives, including any delays or
problems with individual grant-funded projects.

During testing of Emergency Management’s financial reports submitted
to the state within the audit period, we found that one of 14 quarterly reports tested was submitted late by one day. Signed copies of the quarterly financial and narrative reports must be submitted to the state according to Table 2.

Additionally, the state’s grant management guide requires that requests for reimbursements be submitted to the state at least quarterly (or as often as biweekly). Expenditures should be submitted for reimbursement within the quarter in which the expenditure occurred, whenever possible.

The City’s Fiscal Accountability Rules are stricter, requiring that grant recipients draw down grant funds from the grantor no later than the end of the month following the month in which the expenditure occurred. Officials with the Controller’s Office, which sets Fiscal Accountability Rules, said discussions have begun about changing this rule to be more flexible so agencies can request reimbursements on a schedule that best meets their needs and the requirements of each grant. However, this requirement was still in place at the time of this audit.

During the testing of all reimbursement requests, we noted that seven out of the eight reports submitted for fiscal year 2015 were submitted late or included expenditures older than the previous 90 days. For fiscal year 2016, all five reimbursements submitted also were not submitted on time and, therefore, were not in compliance with either the state’s guidance or the City’s Fiscal Accountability Rules.

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Emergency Management is not in compliance with the state’s grant requirements if it submits its quarterly reporting late, and it is not in compliance with City fiscal rules if it does not submit actual expenditures for reimbursement by the end of the next month. Submitting reimbursement requests in line with City rules helps ensure quicker reimbursement from the federal government and better cash flow for the City.

RECOMMENDATION 1.7

Comply with Reporting Deadlines – The Office of Emergency Management and Homeland Security should ensure quarterly financial and narrative reports for the Urban Area Security Initiative grant are always submitted in a timely manner to the state to comply with grant reporting requirements.

Until Fiscal Accountability Rule 9.2 is modified by the Controller’s Office, the office should also submit expenditures for reimbursement to the state by the end of the following month or request a waiver from the Controller’s Office if the rule is too onerous for the agency.

Agency Response: Agree, Implemented
RECOMMENDATIONS

1.1 **Determine Workday Capability for Expenditures** - The Office of Emergency Management and Homeland Security should work with the Department of Finance and the Technology Services agency as necessary to determine how Workday can meet the operational and reporting requirements of the Urban Area Security Initiative grant expenditures currently being recorded in spreadsheets. If Workday meets these operational and reporting needs of Denver’s UASI program, Emergency Management should work with the Department of Finance and Technology Services to develop an implementation plan based on those agencies’ ability to complete the project.

**Agency Response: Agree, Implementation Date – Feb. 1, 2020**

Agency Narrative: The Office of Emergency Management and Homeland Security will continue to explore, with the Department of Finance and Technology Services, possible methods of using Workday to refine the operational and reporting processes of the Urban Area Security Initiative grant expenditures. While the current communications with the Department of Finance and Technology Services has not resulted in guidance for sole reliance upon Workday, Denver OEM will continue to revisit the discussions with these two departments in anticipation of future Workday software components, particularly for grants management, that will address the operations and reporting requirements of the State of Colorado and the federal funding agency, FEMA. In the interim, Denver OEM will continue the current use financial tracking via spreadsheets to provide a backup, not a replacement, of Workday systems. The use of internal spreadsheets have delivered clarity and accuracy on grant financial status. If Workday can meet these operational and reporting needs of the UASI grant in the future, Denver OEM will create an implementation plan with a timeline.

1.2 **Determine Workday Capability for Assets** – The Office of Emergency Management and Homeland Security should work with the Department of Finance and the Technology Services agency as necessary to determine how Workday can meet the operational and reporting requirements of Urban Area Security Initiative grant asset tracking and monitoring now being recorded with spreadsheets. Emergency Management should consider the following improvements as Workday functionality is being determined:

- Recording and tracking of both Denver- and non-Denver-owned assets,
- Inclusion of more specific locations of assets, and
- The ability to track and calculate depreciation using the useful lives and depreciation methods set by partner agencies responsible for the assets.

If Workday meets these operational and reporting needs of Denver’s UASI program, Emergency Management should work with the Department of Finance and Technology Services to develop an implementation plan based on those agencies’ ability to complete the project.
Agency Response: Disagree

Agency Narrative: The Office of Emergency Management and Homeland Security will agree to start conversations with the Department of Finance and Technology Services to find possible methods of using Workday to refine the operational and reporting processes of the Urban Area Security Initiative grant asset tracking for assets retained by the City and County of Denver. However, according to the City Financial Rule #4 (recently updated and approved in August, 2019): “Assets that are purchased with grant funds are only entered into the system of record for tracking if the city retains ownership right to the asset.” Therefore, until the Department of Finance modifies or waives FAR #4, Denver OEM will continue the current practice of using FEMA and State approved tracking spreadsheets to ensure that all UASI assets are tracked and reported to state and federal granting agencies.

Auditor’s Addendum: As stated in the report, we recognize that the newly revised city Fiscal Accountability Rule contains language that seems to restrict the tracking of grant assets not managed by the city in Workday. However, as we also stated in the report, we confirmed with the Controller’s Office that despite the new language, it is still willing to explore the possibility of tracking grant assets not managed by the city in Workday. Therefore, we do not believe the current Fiscal Accountability Rule language is a barrier to implementation of this recommendation.

1.3 Tighten Controls over Critical Spreadsheets – Until Workday’s grant-tracking functionality is determined, the Office of Emergency Management and Homeland Security should develop the following spreadsheet controls:

1. **Change controls** – develop controls to highlight changes made to the spreadsheet calculations or reporting.
2. **Version control** – set-up automated version control of all files when they are updated to allow tracking of changes made.
3. **Access control** – restrict users’ access to the folders where the critical files are stored, and set up password protection of individual files.
4. **Input controls** – Set up “check sum” totals to confirm the accuracy of data entered, and lock cells with formulas to prevent them from being accidentally changed.
5. **Documentation** – create documentation for each spreadsheet to describe the purpose, methodology, source of data, and outputs.
6. **Backups** – ensure the folders where the spreadsheets are stored are regularly backed up to a different location.

Agency Response: Agree, Implementation Date – Jan. 1, 2020

Agency Narrative: Denver OEM has started developing an internal policy and procedure related to fiscal and procedural processes, including spreadsheet control. Following adoption of the policy, Denver OEM will implement an updated procedure that will include many of the Best Practice controls suggested in Recommendation 1.3.
1.4 **Ensure Recording of Two Assets in Workday** – The Office of Emergency Management and Homeland Security should work with the Controller’s Office to ensure all UASI assets have been appropriately recorded in Workday, including the police helicopter radio communications system and the generator at the Denver Animal Shelter.

**Agency Response: Agree, Implementation Date – Feb. 1, 2020**

Agency Narrative: Denver OEM will communicate with the Controller’s Office to request that the Controller’s Office insure that all UASI assets purchased for use in the City and County of Denver are recorded in Workday. Denver OEM has no influence or access to whether the Controller’s Office or City agencies, such as the Police Department or Public Works, receiving UASI assets, are obtaining the proper asset tagging for said assets or recording the proper depreciation amount of said assets.

In regard to the two assets delineated in the audit, the upgrade to the police helicopter radio communications system and the generator for the animal shelter, the Controller’s Office did not provide a new asset tag to the helicopter radio communications system as it was an upgrade to the helicopter and considered part of the existing helicopter and covered by its current asset’s tag and the Controller’s Office stated that an asset tag should have been provided to the generator but was not. Denver OEM cannot control the decision and determinations of the Controller’s Office, however, as a best practice, we will ask if an asset tag has been provided upon purchasing a UASI asset for the City and County of Denver but cannot insure it will occur.

1.5 **Develop Succession Planning and Cross-Training** – The Office of Emergency Management and Homeland Security should develop a formal succession plan and supporting cross-training program to help reduce systemic and operational issues that may arise due to staff turnover and potential loss of institutional know-how.

**Agency Response: Agree, Implementation Date – Feb. 1, 2020**

Agency Narrative: While Denver OEM has undergone personnel disruption leading to several staff changes in the recent past at no time during this period was there disruption within the operations and management of the UASI grant nor in the management and operations of the Denver OEM. While it is important as a Best Practice for all City and County of Denver agencies to develop a formal succession plan and cross-training, Denver OEM has always supported this practice by developing and maintaining a Continuity of Operations plan which details succession planning within the organization. Denver OEM updates its COOP plan at least annually. Additionally, Denver OEM will be developing policies and procedures specifically for the operations of the financial and administration operations.

1.6 **Develop Policies and Procedures** – The Office of Emergency Management and Homeland Security should further develop grant management policies and procedures. At a minimum, newly developed policies and procedures should include guidance in the following areas:

- **Cost tracking** – Systems must be used to track actual costs applied to the grant, instead of using estimated amounts, so that Emergency Management can request
reimbursement for the exact proportional amount of the expense. Examples include, but are not limited to, splitting up printing costs (including lease fees and materials) and payroll costs (such as benefits, salaries, cell phone stipends, etc.).

- **Prudent spending** – There is a requirement that all grant spending must be consistent with the actions of a prudent person, as required by the Code of Federal Regulations 200.404. Policies and procedures should include examples or philosophies to inform staff how to apply these guidelines to future grant spending.

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- **Managing agreements** – There should be further development of policies and procedures for ensuring intergovernmental agreements do not expire prior to executing a replacement agreement. Procedures should explain the timeline for the development and the execution of new agreements, list major milestone meetings, players involved (such as safety organizations within the North Central All-Hazards Region or the City Attorney’s Office), and the deliverables required to keep the agreement replacements on track.

**Agency Response: Disagree**

*Agency Narrative: There are layers of existing federal, state, and City and County of Denver rules, regulations, policies, and procedures that require, direct, and guide the management, operations, and financial processes of the UASI grant. If these rules, regulations, policies and procedures are followed consistently, all of the areas listed in Recommendation 1.6 will be mitigated. Denver OEM will insure proper training on these existing and new rules, regulations, policies and procedures as part of the development of fiscal and administrative policies and procedures as outlined in Recommendation 1.5.*

1.7 **Comply with Reporting Deadlines** – The Office of Emergency Management and Homeland Security should ensure quarterly financial and narrative reports for the Urban Area Security Initiative grant are always submitted in a timely manner to the state to comply with grant reporting requirements.

Until Fiscal Accountability Rule 9.2 is modified by the Controller’s Office, the office should also submit expenditures for reimbursement to the state by the end of the following month or request a waiver from the Controller’s Office if the rule is too onerous for the agency.

**Agency Response: Agree, Implemented**

*Agency Narrative: Denver OEM has always ensured timely submission of quarterly and final financial and narrative reports for the UASI grant to comply with grant reporting requirements. The existence of the late reporting for the third quarter of FYI 7 was due to a misunderstanding on the due date of the report. The previous team used the last day of the month (10/31) rather than the correct date of 10/30. The report was late by one day but within the month due. All future submissions will be submitted timely and a training of due dates has taken place within*
the Denver OEM UASI grant team to avoid any repeat of this issue.

The Controller’s Office has provided an exemption of Fiscal Accountability Rule 9.2 to ensure the continuation of Denver OEM’s UASI expenditure requests from the State in an elegant, effective and efficient manner in cooperation with the State. It is attached.
AGENCY RESPONSE TO AUDIT RECOMMENDATIONS

October 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 80202

Dear Mr. O’Brien,

The Office of the Auditor has conducted a performance audit of UASI 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 October 1, 2019. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING 1
Although the Office of Emergency Management and Homeland Security Has Met Many Requirements of the Urban Area Security Initiative Grant, Systemic Problems Exist

RECOMMENDATION 1.1

Determine Workday Capability for Expenditures - The Office of Emergency Management and Homeland Security should work with the Department of Finance and the Technology Services agency as necessary to determine how Workday can meet the operational and reporting requirements of the Urban Area Security Initiative grant expenditures currently being recorded in spreadsheets. If Workday meets these operational and reporting needs of Denver’s UASI program, Emergency Management should work with the Department of Finance and Technology Services to develop an implementation plan based on those agencies’ ability to complete the project.

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<td>Agree</td>
<td>2/1/2020</td>
<td>Kathleen Butterfield, 720-865-7659</td>
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Narrative for Recommendation 1.1

Office of Emergency Management and Homeland Security
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The Office of Emergency Management and Homeland Security will continue to explore, with the Department of Finance and Technology Services, possible methods of using Workday to refine the operational and reporting processes of the Urban Area Security Initiative grant expenditures. While the current communications with the Department of Finance and Technology Services has not resulted in guidance for sole reliance upon Workday, Denver OEM will continue to revisit the discussions with these two departments in anticipation of future Workday software components, particularly for grants management, that will address the operations and reporting requirements of the State of Colorado and the federal funding agency, FEMA. In the interim, Denver OEM will continue the current use financial tracking via spreadsheets to provide a back-up, not a replacement, of Workday systems. The use of internal spreadsheets have delivered clarity and accuracy on grant financial status. If Workday can meet these operational and reporting needs of the UASI grant in the future, Denver OEM will create an implementation plan with a timeline.

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Narrative for Recommendation 1.2

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311 | pocketgov.com | denvergov.org | denver8tv
Narrative for Recommendation 1.3
Denver OEM has started developing an internal policy and procedure related to fiscal and procedural processes, including spreadsheet control. Following adoption of the policy, Denver OEM will implement an updated procedure that will include many of the Best Practice controls suggested in Recommendation 1.3.

RECOMMENDATION 1.4

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Narrative for Recommendation 1.5

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Narrative for Recommendation 1.6

There are layers of existing federal, state, and City and County of Denver rules, regulations, policies, and procedures that require, direct, and guide the management, operations, and financial processes of the UASI grant. If these rules, regulations, policies and procedures are followed consistently, all of the areas listed in Recommendation 1.6 will be mitigated. Denver OEM will ensure proper training on these existing and new rules, regulations, policies and procedures as part of the development of fiscal and administrative policies and procedures as outlined in Recommendation 1.5.

**RECOMMENDATION 1.7**

**Comply with Reporting Deadlines** – The Office of Emergency Management and Homeland Security should ensure quarterly financial and narrative reports for the Urban Area Security Initiative grant are always submitted in a timely manner to the state to comply with grant reporting requirements.
Until Fiscal Accountability Rule 9.2 is modified by the Controller’s Office, the office should also submit expenditures for reimbursement to the state by the end of the following month or request a waiver from the Controller’s Office if the rule is too onerous for the agency.

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Narrative for Recommendation 1.7
Denver OEM has always ensured timely submission of quarterly and final financial and narrative reports for the UASI grant to comply with grant reporting requirements. The existence of the late reporting for the third quarter of FY17 was due to a misunderstanding on the due date of the report. The previous team used the last day of the month (10/31) rather than the correct date of 10/30. The report was late by one day but within the month due. All future submissions will be submitted timely and a training of due dates has taken place within the Denver OEM UASI grant team to avoid any repeat of this issue.

The Controller’s Office has provided an exemption of Fiscal Accountability Rule 9.2 to ensure the continuation of Denver OEM’s UASI expenditure requests from the State in an elegant, effective and efficient manner in cooperation with the State. It is attached.

Please contact Kathleen Butterfield at 720-865-7659 with any questions.

Sincerely,

Matthew Mueller
Interim Executive Director

cc: Valerie Walling, Deputy Auditor, CPA, CMC®
    Kevin Sear, CPA, CIA, CISA, CFE, CGMA, Audit Manager
    Cody Schulte, CPA, CIA, Audit Supervisor
    Kathleen Butterfield, Program Manager, Office of Emergency Management
    Crystal Reed, Operations Coordinator, Office of Emergency Management

Office of Emergency Management and Homeland Security
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OBJECTIVE

To determine whether Denver’s Office of Emergency Management and Homeland Security is in compliance with Urban Area Security Initiative grant requirements and has adequate controls to properly manage and track grants.

SCOPE

We reviewed the Office of Emergency Management and Homeland Security’s compliance with federal grant requirements of the Urban Area Security Initiative grant for fiscal years 2015 and 2016. We reviewed nine of the 12 compliance areas applicable to this grant, according to the compliance requirements, in addition to performance procedures normally associated with performance audits.

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:
  ○ Employees within the Denver Office of Emergency Management and Homeland Security
  ○ Officials with the Denver Controller’s Office

• Reviewing and analyzing the following criteria, policies, and grant documentation:
  ○ The Office of Management and Budget’s Uniform Guidance
  ○ Federal Notice of Funding Opportunity
  ○ Federal Homeland Security Grant Program compliance supplement
  ○ Grant award from the state of Colorado
  ○ State of Colorado’s grant management guide
  ○ City Fiscal Accountability Rules related to grant management
  ○ Draft policies and procedures of Emergency Management
  ○ Emergency Management’s internal grant- and asset-tracking spreadsheets
  ○ Government Finance Officers Association guidance on succession planning and accounting best practices
  ○ Best practices for spreadsheet management

During testing, we sampled 49 transactions from the total population of all UASI-related expenditures. We used our professional judgment to select 10 transactions based on the highest dollar values.
This captured equipment purchases funded by the UASI grant. The remaining 39 transactions were statistically sampled, without the use of stratification. Despite using statistical sampling, we did not attempt to project our findings to the total population.

While we based much of our audit program on the single audit questions provided in the compliance supplement, this audit mixes performance and compliance auditing.
# APPENDICES

## 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></th>
<th></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>
</tbody>
</table>

| Noncompliance material to financial statements noted? | Yes | No |

### FEDERAL AWARDS

<table>
<thead>
<tr>
<th>Internal control over major federal programs:</th>
</tr>
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<tbody>
<tr>
<td>Material weakness(es) identified?</td>
</tr>
<tr>
<td>Significant deficiency(ies) identified?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of auditor’s report issued on compliance for major federal programs:</th>
</tr>
</thead>
<tbody>
<tr>
<td>None – performance audit</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Any audit findings disclosed that are required to be reported in accordance with 2 C.F.R. § 200.516(a)?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Identification of major federal programs:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catalog of Federal Domestic Assistance (CFDA) Number(s) 97.067</td>
</tr>
<tr>
<td>Name of Federal Program or Cluster:</td>
</tr>
<tr>
<td>Homeland Security Grant Program – Urban Area Security Initiative</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Dollar threshold used to distinguish between type A and type B programs:</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3,000,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Auditee qualified as a low-risk auditee?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
</tbody>
</table>
Section II: Financial Statement Findings

None

Section III: Federal Awards Findings

Finding 2019-002:


Criteria: The Code of Federal Regulations (2 C.F.R. 200 – Uniform Guidance), annual federal grant compliance supplements, the Federal Notice of Funding Opportunity for the Homeland Security Grant Program, the contract with the state to pass through grant funding, annual State Grant Management Guides, and the City’s Fiscal Accountability Rules (4.2, 9.2).

Condition: We noted the following issues in the 49 transactions tested. The dollar effect is listed after each issue. Some of the transactions listed below have been identified as noncompliant in multiple areas and therefore were counted twice in the total of questioned costs, below.

   a. Allowable Activities: Three instances of administrative costs not having support to prove they were grant-related expenditures ($325.68)

   b. Allowable Costs:

      1. Seven instances of payroll costs that were not broken down into exact time spent on the grant and instead were estimated. ($19,457.81)

      2. Four instances of administrative costs not having support to prove they were grant-related expenditures ($374.28)

   c. Equipment & Real Property:

      Two instances where assets were not tagged properly ($227,468.17)

   d. Reporting

      1. One instance where a quarterly report was late ($0.00)

      2. Twelve instances where requests for reimbursements were late ($0.00)

Cause: Agency-specific policy and procedure for grant management is lacking and necessary to provide clarity around the myriad grant requirements. We also find a lack of succession planning and cross-training a leading cause of the questioned costs.

Effect or Potential Effect: The City and County of Denver may not be reimbursed for future costs if current costs are found to not be allowable, and the City may lose interest revenue from last reimbursement requests.
**Questioned Costs:** $247,625.94

**Context:** Out of 49 transactions, only 10 were equipment assets that were subjected to tests of compliance for UASI-purchased equipment, which was a separate test from the allowable activities and allowable costs compliance tests.

**Repeat Finding:** Not applicable

**Recommendation: Develop Policies and Procedures** – The Office of Emergency Management and Homeland Security should further develop grant management policies and procedures. At a minimum, newly developed policies and procedures should include guidance in the following areas:

- **Cost tracking** – Systems must be used to track actual costs applied to the grant, instead of using estimated amounts, so that Emergency Management can request reimbursement for the exact proportional amount of the expense. Examples include, but are not limited to, splitting up printing costs (including lease fees and materials) and payroll costs (such as benefits, salaries, cell phone stipends, etc.).

- **Prudent spending** – There is a requirement that all grant spending must be consistent with the actions of a prudent person, as required by the Code of Federal Regulations 200.404. Policies and procedures should include examples or philosophies to inform staff how to apply these guidelines to future grant spending.

- **Tagging assets** – There should be clear procedures for ensuring each of the UASI-purchased assets that are being delivered directly to third parties are treated consistently and have an asset tag attached. Assets found to have missing asset tags should have asset tags applied.

- **Managing agreements** – There should be further development of policies and procedures for ensuring intergovernmental agreements do not expire prior to executing a replacement agreement. Procedures should explain the timeline for the development and the execution of new agreements, list major milestone meetings, players involved (such as safety organizations within the North Central All-Hazards Region or the City Attorney’s Office), and the deliverables required to keep the agreement replacements on track.

**Responsible Official’s Response and Corrective Action Planned:** Disagree – There are layers of existing federal, state, and City and County of Denver rules, regulations, policies, and procedures that require, direct, and guide the management, operations, and financial processes of the UASI grant. If these rules, regulations, policies and procedures are followed consistently, all of the areas listed in Recommendation 1.6 will be mitigated. Denver OEM will insure proper training on these existing and new rules, regulations, policies and procedures as part of the development of fiscal and administrative policies and procedures as outlined in Recommendation 1.5.
Appendix B – Excerpts of Uniform Guidance for Federal Grant Awards and Compliance Requirements

The Office of Management and Budget offers this explanation of its Uniform Guidance:17

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 Emergency Management did not fully comply with the “allowable activities,” “allowable costs/cost principles,” “equipment and real property management,” and “reporting” compliance requirements, detailed in the Uniform Guidance.18

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 Office of Emergency Management and Homeland Security management officials as they address the findings noted in this audit.19 An excerpt of 2 C.F.R. Part 200,

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19 Ibid.
A. ACTIVITIES ALLOWED OR UNALLOWED

Compliance Requirements

The specific requirements for activities allowed or unallowed are unique to each Federal program and are found in the Federal statutes, regulations, and the terms and conditions of the Federal award pertaining to the program. For programs listed in this Supplement, the specific requirements of the governing statutes and regulations are included in Part 4, “Agency Program Requirements” or Part 5, “Clusters of Programs,” as applicable. This type of compliance requirement specifies the activities that can or cannot be funded under a specific program.

Source of Governing Requirements

The requirements for activities allowed or unallowed are contained in program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

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. lO1(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
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.

<table>
<thead>
<tr>
<th>Selected Cost Item</th>
<th>Uniform Guidance General Reference</th>
<th>Items of Cost Requiring Prior Approval</th>
<th>States, Local Governments, Indian Tribes</th>
<th>Institutions of Higher Education</th>
<th>Nonprofit Organizations</th>
<th>Items of Cost NOT Treated the Same Across Non-Federal Entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising and public relations costs</td>
<td>§200.421</td>
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<td>Allowable with restrictions</td>
<td>Allowable with restrictions</td>
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<td></td>
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<tr>
<td>Advisory councils</td>
<td>§200.422</td>
<td>Allowable with restrictions</td>
<td>Allowable with restrictions</td>
<td>Allowable with restrictions</td>
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</table>
### Selected Items of Cost - Exhibit 1

<table>
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<tr>
<th>Selected Cost Item</th>
<th>Uniform Guidance General Reference</th>
<th>Items of Cost Requiring Prior Approval</th>
<th>States, Local Governments, Indian Tribes</th>
<th>Institutions of Higher Education</th>
<th>Nonprofit Organizations</th>
<th>Items of Cost NOT Treated the Same Across Non-Federal Entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alcoholic beverages</td>
<td>§200.423</td>
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<td>Unallowable</td>
<td>Unallowable</td>
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<td>Alumni/ae activities</td>
<td>§200.424</td>
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<td>Audit services</td>
<td>§200.425</td>
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<td>Allowable with restrictions</td>
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<td>Unallowable</td>
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<td></td>
</tr>
<tr>
<td>Bonding costs</td>
<td>§200.427</td>
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<td>Allowable with restrictions</td>
<td>Allowable with restrictions</td>
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<td></td>
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<tr>
<td>Collection of improper payments</td>
<td>§200.428</td>
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<td>Allowable</td>
<td>Allowable</td>
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<td></td>
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<td>Commencement and convocation costs</td>
<td>§200.429</td>
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<td>Not specifically addressed</td>
<td>Not specifically addressed</td>
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<td>X</td>
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<tr>
<td>Compensation for personal services</td>
<td>§200.430</td>
<td>X (related to the salaries of admin-</td>
<td>Allowable with restrictions; Special</td>
<td>Allowable with restrictions;</td>
<td>Allowable with</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td></td>
<td>istrative and clerical staff)</td>
<td>conditions apply (e.g., §200.430(i)(5))</td>
<td>Special conditions apply (e.g.,</td>
<td>restrictions; Special</td>
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<td></td>
<td>§200.430(h)</td>
<td>conditions apply (e.g.,</td>
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<td></td>
<td></td>
<td></td>
<td>§200.430(g))</td>
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<td>Selected Cost Item</td>
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<td>Items of Cost Requiring Prior Approval</td>
<td>States, Local Governments, Indian Tribes</td>
<td>Institutions of Higher Education</td>
<td>Nonprofit Organizations</td>
<td>Items of Cost NOT Treated the Same Across Non-Federal Entities</td>
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<td>-------------------------------------------------------------</td>
</tr>
<tr>
<td>Compensation - fringe benefits</td>
<td>§200.431</td>
<td>X related to costs for IHEs</td>
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<td>Allowable with restrictions; Special conditions apply</td>
<td>Allowable with restrictions</td>
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</tr>
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<td>Conferences</td>
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<td>Allowable with restrictions</td>
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<tr>
<td>Contingency provisions</td>
<td>§200.433</td>
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<td>Unallowable with exceptions</td>
<td>Unallowable with exceptions</td>
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<tr>
<td>Contributions and donations</td>
<td>§200.434</td>
<td>Unallowable (made by non- Federal entity); not reimbursable but value may be used as cost sharing or matching (made to non- Federal entity)</td>
<td>Unallowable (made by non- Federal entity); not reimbursable but value may be used as cost sharing or matching (made to non- Federal entity)</td>
<td>Unallowable (made by non- Federal entity); not reimbursable, but value may be used as cost sharing or matching (made to non- Federal entity); with restrictions, the value of services may be considered when determining an entity’s indirect cost rate under certain circumstances</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Selected Cost Item</td>
<td>Uniform Guidance General Reference</td>
<td>Items of Cost Requiring Prior Approval</td>
<td>States, Local Governments, Indian Tribes</td>
<td>Institutions of Higher Education</td>
<td>Nonprofit Organizations</td>
<td>Items of Cost NOT Treated the Same Across Non-Federal Entities</td>
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</tr>
<tr>
<td>Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements</td>
<td>§200.435</td>
<td>Allowable with restrictions</td>
<td>Allowable with restrictions</td>
<td>Allowable with restrictions</td>
<td>Allowable with restrictions</td>
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<td>Depreciation</td>
<td>§200.436</td>
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<td>Allowable with qualifications</td>
<td>Allowable with qualifications</td>
<td>Allowable with qualifications</td>
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<td>Employee health and welfare costs</td>
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<td>Allowable with restrictions</td>
<td>Allowable with restrictions</td>
<td>Allowable with restrictions</td>
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<tr>
<td>Entertainment costs</td>
<td>§200.438</td>
<td>X</td>
<td>Unallowable with exceptions</td>
<td>Unallowable with exceptions</td>
<td>Unallowable with exceptions</td>
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<tr>
<td>Equipment and other capital expenditures</td>
<td>§200.439</td>
<td>X</td>
<td>Allowability based on specific requirements</td>
<td>Allowability based on specific requirements</td>
<td>Allowability based on specific requirements</td>
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<tr>
<td>Exchange rates</td>
<td>§200.440</td>
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<td>Allowable with restrictions</td>
<td>Allowable with restrictions</td>
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<tr>
<td>Fines, penalties, damages and other settlements</td>
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<td>X</td>
<td>Unallowable with exception</td>
<td>Unallowable with exception</td>
<td>Unallowable with exception</td>
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</tr>
<tr>
<td>Fund raising and investment management costs</td>
<td>§200.442</td>
<td>X</td>
<td>Unallowable with exception</td>
<td>Unallowable with exception</td>
<td>Unallowable with exception</td>
<td></td>
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<tr>
<td>Selected Cost Item</td>
<td>Uniform Guidance General Reference</td>
<td>Items of Cost Requiring Prior Approval</td>
<td>States, Local Governments, Indian Tribes</td>
<td>Institutions of Higher Education</td>
<td>Nonprofit Organizations</td>
<td>Items of Cost NOT Treated the Same Across Non-Federal Entities</td>
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</tr>
<tr>
<td>Gains and losses on disposition of depreciable assets</td>
<td>§200.443</td>
<td>Allowable with restrictions</td>
<td>Allowable with restrictions</td>
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</tr>
<tr>
<td>General costs of government</td>
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<td>Not specifically addressed</td>
<td>Not specifically addressed</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Goods or services for personal use</td>
<td>§200.445</td>
<td>X</td>
<td>Unallowable (goods/service s); allowable (housing) with restrictions</td>
<td>Unallowable (goods/service s); allowable (housing) with restrictions</td>
<td>Unallowable (goods/service s); allowable (housing) with restrictions</td>
<td></td>
</tr>
<tr>
<td>Idle facilities and idle capacity</td>
<td>§200.446</td>
<td></td>
<td>Idle facilities - unallowable with exceptions; idle capacity - allowable with restrictions</td>
<td>Idle facilities - unallowable with exceptions; idle capacity allowable with restrictions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance and indemnification</td>
<td>§200.447</td>
<td>X</td>
<td>Allowable with restrictions</td>
<td>Allowable with restrictions</td>
<td>Allowable with restrictions</td>
<td></td>
</tr>
<tr>
<td>Intellectual property</td>
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<td></td>
<td>Allowable with restrictions</td>
<td>Allowable with restrictions</td>
<td>Allowable with restrictions</td>
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<td>Interest</td>
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<td>Selected Cost Item</td>
<td>Uniform Guidance General Reference</td>
<td>Items of Cost Requiring Prior Approval</td>
<td>States, Local Governments, Indian Tribes</td>
<td>Institutions of Higher Education</td>
<td>Nonprofit Organizations</td>
<td>Items of Cost NOT Treated the Same Across Non-Federal Entities</td>
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<td>Lobbying</td>
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<tr>
<td>Losses on other awards or contracts</td>
<td>§200.451</td>
<td>Unallowable (however, they are required to be included in the indirect cost rate base for allocation of indirect costs)</td>
<td>Unallowable (however, they are required to be included in the indirect cost rate base for allocation of indirect costs)</td>
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<td>Maintenance and repair costs</td>
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<td>Materials and supplies costs, including computing devices</td>
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<td>Selected Cost Item</td>
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<td>Organization costs</td>
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<td>Participant support costs</td>
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<td>Plant and security costs</td>
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<td>Professional service costs</td>
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<td>Proposal costs</td>
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<td>Publication and printing costs</td>
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<tr>
<td>Rearrangement and reconversion costs</td>
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<td>X</td>
<td>Allowable (ordinary and normal)</td>
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<td>Recruiting costs</td>
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<td>Rental costs of real property and equipment</td>
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<td>Selling and marketing costs</td>
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### Selected Items of Cost - Exhibit 1

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<th>Institutions of Higher Education</th>
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<th>Items of Cost NOT Treated the Same Across Non-Federal Entities</th>
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</table>

[...]

### F. EQUIPMENT AND REAL PROPERTY MANAGEMENT

#### Compliance Requirements

**Equipment Management - Grants and Cooperative Agreements**

Equipment means tangible personal property, including information technology systems, having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes or $5,000 (2 CFR section 200.33). Title to equipment acquired by a non-Federal entity under grants and cooperative agreements vests in the non-Federal entity subject to certain obligations and conditions (2 CFR section 200.313(a)).

**States**

A State must use, manage, and dispose of equipment acquired under a Federal award in accordance with State laws and procedures (2 CFR section 200.313(b)).
Non-Federal Entities Other than States

Non-Federal entities other than States must follow 2 CFR sections 200.313(c) through (e) which require that:

1. Equipment, including replacement equipment, be used in the program or project for which it was acquired as long as needed, whether or not the project or program continues to be supported by the Federal award or, when appropriate, under other Federal awards; however, the non-Federal entity must not encumber the equipment without prior approval of the Federal awarding agency (2 CFR sections 200.313(c) and (e)).

2. Property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the Federal award identification number), who holds title, the acquisition date, cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sales price of the property (2 CFR section 200.313(d)(1)).

3. A physical inventory of the property must be taken and the results reconciled with the property records at least once every 2 years (2 CFR section 200.313(d)(2)).

4. A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated (2 CFR section 200.313(d)(3)).

5. Adequate maintenance procedures must be developed to keep the property in good condition (2 CFR section 200.313(d)(4)).

6. If the non-Federal entity is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return (2 CFR section 200.313(d)(5)).

7. When original or replacement equipment acquired under a Federal award is no longer needed for a Federal program (whether the original project or program or other activities currently or previously supported by the Federal government), the non-Federal entity must request disposition instructions from the Federal awarding agency if required by the terms and conditions of the award. Items of equipment with a current per-unit fair market value of $5,000 or less may be retained, sold, or otherwise disposed of with no further obligation to the Federal awarding agency. If the Federal awarding agency fails to provide requested disposition instructions within 120 days, items of equipment with a current per-unit fair market value in excess of $5,000 may be retained or sold. The Federal awarding agency is entitled to the Federal interest in the equipment, which is the amount calculated by multiplying the current market value or sale proceeds by the Federal agency’s participation in total project costs (2 CFR section 200.313(e) and 200.41).

The COFAR’s Frequently Asked Questions includes the following, which addresses the relationship between the requirement for property records to show the percentage of Federal participation in the project costs and the calculation of the Federal interest.
.313-2 Changes to Equipment Inventory Systems.

Section 200.313(d)(l) of the guidance specifies the attributes that must be maintained in property records of the non-Federal entity. For non-Federal entities that have followed Circular A-110, there are two changes: “percentage of Federal participation in the project costs” (Uniform Guidance) versus “information from which one can calculate the percentage of Federal participation in the cost of the equipment” (A-110.34(/)(l)(vi), and “the location, use and condition of the property” (Uniform Guidance) versus “location and condition of the equipment and the date the information was reported” (A-110.34(/)(l)(vii). Are non-Federal entities expected to change the attributes of their property records and ultimately be required to implement costly changes to their existing equipment inventory systems?

No. The requirements for property records have not substantively changed in the Uniform Guidance. The requirements for property records are meant to ensure that the non-Federal entity maintains an equipment inventory system that demonstrates the Federal entity has an effective system of controls to account for and track equipment that has been acquired with Federal funds. Non-Federal entities are not expected to change their equipment inventory systems or the data elements contained in those systems, if they are in compliance with the current requirements in Circular A-110. In the examples in question:

- The percentage of Federal participation in the cost of equipment in Circular A-110 was identical to the percentage of Federal participation in the cost of the original project or program. One could infer that from the amount of compensation a recipient was required under 2 CFR 215.34(g) to make to a Federal agency at the time of disposition-i.e., “compensation shall be computed by applying the percentage of Federal participation in the cost of the original project or program to the current fair market value of the equipment.” The A-110 requirement in 2 CFR 215.34 for the recipient’s records to have information from which one could calculate the percentage of Federal participation in the cost of the equipment then required two numbers, the percentage of Federal participation in the original project or program and information from which one could derive the current fair market value. The Uniform Guidance makes that more explicitly clear through the definition of Federal interest in 2 CFR 200.41; and

- “the location, use and condition of the property” is referring to an indicator in the property records that the specific equipment item I active and linked with the appropriate Federal award, identical to the requirement in Circular A-110.

Note: Intangible property that is acquired under a Federal award, rather than developed or produced under the award, is subject to the requirements of 2 CFR section 200.313(e) regarding disposition (2 CFR section 200.315(a)).

Real Property Management -- Grants and Cooperative Agreements

Title to real property acquired or improved by non-Federal entities under grants and cooperative agreements vests in the non-Federal entity subject to the obligations and conditions specified in 2 CFR section 200.311 (2 CFR section 200.311(a)). Real property will be used for the originally authorized
purpose as long as needed for that purpose, during which time the non-Federal entity must not dispose of or encumber title to or other interests in the real property (2 CFR section 200.311(b)).

When real property is no longer needed for the originally authorized purpose, the non-Federal entity must obtain disposition instructions from the Federal awarding agency or the pass-through entity, as applicable. When real property is sold, sales procedures must be followed that provide for competition to the extent practicable and result in the highest possible return. If sold, non Federal entities must compensate the Federal awarding agency for the portion of the net sales proceeds that represents the Federal agency’s interest in the real property, which is the amount calculated by multiplying the current market value or sale proceeds by the Federal agency’s participation in total project costs. If the property is retained, the non-Federal entity must compensate the Federal awarding agency for the Federal portion of the current fair market value of the property. Disposition instructions may also provide for transfer of title to the Federal awarding agency or a designated third party, in which case the non-Federal entity is entitled to the non-Federal interest in the property, which is calculated by multiplying the current market value or sale proceeds by the non-Federal entity’s share in total project costs (2 CFR section 200.311(c)(3)).

**Equipment and Real Property Management - Cost-Reimbursement Contracts under the Federal Acquisition Regulation**

Equipment and real property management requirements for cost-reimbursement contracts are specified in the FAR clause at 48 CFR section 52.245-1. Federal government property as defined in the FAR includes both equipment and real property. Title to Federal government property acquired by a non-Federal entity normally vests in the Federal government, unless otherwise noted in the contract terms and conditions. The FAR requires:

1. A system of internal controls to manage (control, use, preserve, protect, repair, and maintain) Federal government property and a process to enable the prompt recognition, investigation, disclosure and reporting of loss of Federal government property.

2. Federal government property must be used for performing the contract for which it was acquired unless otherwise provided for in the contract or approved by the Federal awarding agency.

3. Property records must be maintained and include the name, part number and description, and other elements as necessary and required in accordance with the terms and conditions of the contract, quantity received, unit acquisition cost, unique-item identifier, accountable contract number, location, disposition, and posting reference and date of transaction.

4. A physical inventory must be periodically performed, recorded, and disclosed.

Except as provided for in the contract, the non-Federal entity must not dispose of inventory until authorized by the Federal awarding agency. The non-Federal entity may purchase the property at the unit acquisition cost if desired or make reasonable efforts to return unused property to the appropriate supplier at fair market value.
Source of Governing Requirements

The requirements for equipment and real property are contained in 2 CFR section 200.313 (equipment), 2 CFR section 200.311 (real property), 48 CFR section 52.245-1 (equipment and real property), program legislation, Federal awarding agency regulations, and the terms and conditions of the Federal award.

[...]
the FFR as a standardized format to report expenditures under Federal awards, as well as, when applicable, cash status (Lines 10.a, 10.b, and 10c). References to this report include its applicability as both an expenditure and a cash status report unless otherwise indicated.

Electronic versions of the standard forms are located on OMB’s home page (http://www.whitehouse.gov/omb/grants forms).

Financial reporting requirements for cost reimbursement contracts subject to the FAR are contained in the terms and conditions of the contract.

**Performance and Special Reporting**

Non-Federal entities may be required to submit performance reports at least annually but not more frequently than quarterly, except in unusual circumstances, using a form or format authorized by OMB (2 CFR section 200.328(b)(l)). They also may be required to submit special reports as required by the terms and conditions of the Federal award.

Compliance testing of performance and special reporting are only required for data that are quantifiable and meet the following criteria:

1. Have a direct and material effect on the program.
2. Are capable of evaluation against objective criteria stated in the statutes, regulations, contract or grant agreements pertaining to the program.


**Source of Governing Requirements**

Reporting requirements are contained in the following:

3. Program legislation.
4. Federal awarding agency regulations.
5. The terms and conditions of the award.

[…]
The following is reprinted from section 430 of 2 C.F.R. Part 200, describing the tracking and documentation cost principles of personnel compensation.

§ 200.430 Compensation - personal services.

(a) General. Compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the Federal award, including but not necessarily limited to wages and salaries. Compensation for personal services may also include fringe benefits which are addressed in § 200.431 Compensation - fringe benefits. Costs of compensation are allowable to the extent that they satisfy the specific requirements of this part, and that the total compensation for individual employees:

(1) Is reasonable for the services rendered and conforms to the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities;

(2) Follows an appointment made in accordance with a non-Federal entity’s laws and/or rules or written policies and meets the requirements of Federal statute, where applicable; and

(3) Is determined and supported as provided in paragraph (i) of this section, Standards for Documentation of Personnel Expenses, when applicable.

(b) Reasonableness. Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the non-Federal entity. In cases where the kinds of employees required for Federal awards are not found in the other activities of the non-Federal entity, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the non-Federal entity competes for the kind of employees involved.

(c) Professional activities outside the non-Federal entity. Unless an arrangement is specifically authorized by a Federal awarding agency, a non-Federal entity must follow its written non-Federal entity-wide policies and practices concerning the permissible extent of professional services that can be provided outside the non-Federal entity for non-organizational compensation. Where such non-Federal entity-wide written policies do not exist or do not adequately define the permissible extent of consulting or other non-organizational activities undertaken for extra outside pay, the Federal Government may require that the effort of professional staff working on Federal awards be allocated between:

(1) Non-Federal entity activities, and

(2) Non-organizational professional activities. If the Federal awarding agency considers the extent of non-organizational professional effort excessive or inconsistent with the conflicts-of-interest terms and conditions of the Federal award, appropriate arrangements governing compensation will be negotiated on a case-by-case basis.

(d) Unallowable costs. (1) Costs which are unallowable under other sections of these principles must not be allowable under this section solely on the basis that they constitute personnel compensation.

(2) The allowable compensation for certain employees is subject to a ceiling in accordance with statute. For the amount of the ceiling for cost-reimbursement contracts, the covered compensation subject to the ceiling, the covered employees, and other relevant provisions, see 10 U.S.C. 2324(e)(1)(P), and 41 U.S.C. 1127 and 4304(a)(16). For other types of Federal awards, other statutory ceilings may apply.

(e) Special considerations. Special considerations in determining allowability of compensation will
be given to any change in a non-Federal entity’s compensation policy resulting in a substantial increase in its employees’ level of compensation (particularly when the change was concurrent with an increase in the ratio of Federal awards to other activities) or any change in the treatment of allowability of specific types of compensation due to changes in Federal policy.

(f) Incentive compensation. Incentive compensation to employees based on cost reduction, or efficient performance, suggestion awards, safety awards, etc., is allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the non-Federal entity and the employees before the services were rendered, or pursuant to an established plan followed by the non-Federal entity so consistently as to imply, in effect, an agreement to make such payment.

(g) Nonprofit organizations. For compensation to members of nonprofit organizations, trustees, directors, associates, officers, or the immediate families thereof, determination must be made that such compensation is reasonable for the actual personal services rendered rather than a distribution of earnings in excess of costs. This may include director’s and executive committee member’s fees, incentive awards, allowances for off-site pay, incentive pay, location allowances, hardship pay, and cost-of-living differentials.

(h) Institutions of higher education (IHEs). (1) Certain conditions require special consideration and possible limitations in determining allowable personnel compensation costs under Federal awards. Among such conditions are the following:

(i) Allowable activities. Charges to Federal awards may include reasonable amounts for activities contributing and directly related to work under an agreement, such as delivering special lectures about specific aspects of the ongoing activity, writing reports and articles, developing and maintaining protocols (human, animals, etc.), managing substances/chemicals, managing and securing project-specific data, coordinating research subjects, participating in appropriate seminars, consulting with colleagues and graduate students, and attending meetings and conferences.

(ii) Incidental activities. Incidental activities for which supplemental compensation is allowable under written institutional policy (at a rate not to exceed institutional base salary) need not be included in the records described in paragraph (i) of this section to directly charge payments of incidental activities, such activities must either be specifically provided for in the Federal award budget or receive prior written approval by the Federal awarding agency.

(2) Salary basis. Charges for work performed on Federal awards by faculty members during the academic year are allowable at the IBS rate. Except as noted in paragraph (h)(1)(ii) of this section, in no event will charges to Federal awards, irrespective of the basis of computation, exceed the proportionate share of the IBS for that period. This principle applies to all members of faculty at an institution. IBS is defined as the annual compensation paid by an IHE for an individual’s appointment, whether that individual’s time is spent on research, instruction, administration, or other activities. IBS excludes any income that an individual earns outside of duties performed for the IHE. Unless there is prior approval by the Federal awarding agency, charges of a faculty member’s salary to a Federal award must not exceed the proportionate share of the IBS for the period during which the faculty member worked on the award.

(3) Intra-Institution of Higher Education (IHE) consulting. Intra-IHE consulting by faculty is assumed to be undertaken as an IHE obligation requiring no compensation in addition to IBS. However, in unusual cases where consultation is across departmental lines or involves a separate or
remote operation, and the work performed by the faculty member is in addition to his or her regular responsibilities, any charges for such work representing additional compensation above IBS are allowable provided that such consulting arrangements are specifically provided for in the Federal award or approved in writing by the Federal awarding agency.

(4) Extra Service Pay normally represents overload compensation, subject to institutional compensation policies for services above and beyond IBS. Where extra service pay is a result of Intra-IHE consulting, it is subject to the same requirements of paragraph (b) above. It is allowable if all of the following conditions are met:

(i) The non-Federal entity establishes consistent written policies which apply uniformly to all faculty members, not just those working on Federal awards.

(ii) The non-Federal entity establishes a consistent written definition of work covered by IBS which is specific enough to determine conclusively when work beyond that level has occurred. This may be described in appointment letters or other documentations.

(iii) The supplementation amount paid is commensurate with the IBS rate of pay and the amount of additional work performed. See paragraph (h)(2) of this section.

(iv) The salaries, as supplemented, fall within the salary structure and pay ranges established by and documented in writing or otherwise applicable to the non-Federal entity.

(v) The total salaries charged to Federal awards including extra service pay are subject to the Standards of Documentation as described in paragraph (i) of this section.

(5) Periods outside the academic year. (i) Except as specified for teaching activity in paragraph (h)(5)(ii) of this section, charges for work performed by faculty members on Federal awards during periods not included in the base salary period will be at a rate not in excess of the IBS.

(ii) Charges for teaching activities performed by faculty members on Federal awards during periods not included in IBS period will be based on the normal written policy of the IHE governing compensation to faculty members for teaching assignments during such periods.

(6) Part-time faculty. Charges for work performed on Federal awards by faculty members having only part-time appointments will be determined at a rate not in excess of that regularly paid for part-time assignments.

(7) Sabbatical leave costs. Rules for sabbatical leave are as follow:

(i) Costs of leaves of absence by employees for performance of graduate work or sabbatical study, travel, or research are allowable provided the IHE has a uniform written policy on sabbatical leave for persons engaged in instruction and persons engaged in research. Such costs will be allocated on an equitable basis among all related activities of the IHE.

(ii) Where sabbatical leave is included in fringe benefits for which a cost is determined for assessment as a direct charge, the aggregate amount of such assessments applicable to all work of the institution during the base period must be reasonable in relation to the IHE’s actual experience under its sabbatical leave policy.

(8) Salary rates for non-faculty members. Non-faculty full-time professional personnel may also earn “extra service pay” in accordance with the non-Federal entity’s written policy and consistent with paragraph (h)(1)(i) of this section.

(i) Standards for Documentation of Personnel Expenses (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:
(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;

(ii) Be incorporated into the official records of the non-Federal entity;

(iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE’s definition of IBS);

(iv) Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity’s written policy;

(v) Comply with the established accounting policies and practices of the non-Federal entity (See paragraph (h)(1)(ii) above for treatment of incidental work for IHEs.); and

(vi) [Reserved]

(vii) Support the distribution of the employee’s salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

(viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that:

(A) The system for establishing the estimates produces reasonable approximations of the activity actually performed;

(B) Significant changes in the corresponding work activity (as defined by the non-Federal entity’s written policies) are identified and entered into the records in a timely manner. Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term; and

(C) The non-Federal entity’s system of internal controls includes processes to review after-the-fact interim charges made to a Federal awards based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.

(ix) Because practices vary as to the activity constituting a full workload (for IHEs, IBS), records may reflect categories of activities expressed as a percentage distribution of total activities.

(x) It is recognized that teaching, research, service, and administration are often inextricably intermingled in an academic setting. When recording salaries and wages charged to Federal awards for IHEs, a precise assessment of factors that contribute to costs is therefore not always feasible, nor is it expected.

(2) For records which meet the standards required in paragraph (i)(1) of this section, the non-Federal entity will not be required to provide additional support or documentation for the work performed, other than that referenced in paragraph (i)(3) of this section.

(3) In accordance with Department of Labor regulations implementing the Fair Labor Standards Act (FLSA) (29 CFR part 516), charges for the salaries and wages of nonexempt employees, in addition to the supporting documentation described in this section, must also be supported by records indicating the total number of hours worked each day.

(4) Salaries and wages of employees used in meeting cost sharing or matching requirements on
Federal awards must be supported in the same manner as salaries and wages claimed for reimbursement from Federal awards.

(5) For states, local governments and Indian tribes, substitute processes or systems for allocating salaries and wages to Federal awards may be used in place of or in addition to the records described in paragraph (1) if approved by the cognizant agency for indirect cost. Such systems may include, but are not limited to, random moment sampling, “rolling” time studies, case counts, or other quantifiable measures of work performed.

(i) Substitute systems which use sampling methods (primarily for Temporary Assistance for Needy Families (TANF), the Supplemental Nutrition Assistance Program (SNAP), Medicaid, and other public assistance programs) must meet acceptable statistical sampling standards including:

(A) The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results except as provided in paragraph (i)(5)(iii) of this section;
(B) The entire time period involved must be covered by the sample; and
(C) The results must be statistically valid and applied to the period being sampled.

(ii) Allocating charges for the sampled employees’ supervisors, clerical and support staffs, based on the results of the sampled employees, will be acceptable.

(iii) Less than full compliance with the statistical sampling standards noted in subsection (5)(i) may be accepted by the cognizant agency for indirect costs if it concludes that the amounts to be allocated to Federal awards will be minimal, or if it concludes that the system proposed by the non-Federal entity will result in lower costs to Federal awards than a system which complies with the standards.

(6) Cognizant agencies for indirect costs are encouraged to approve alternative proposals based on outcomes and milestones for program performance where these are clearly documented. Where approved by the Federal cognizant agency for indirect costs, these plans are acceptable as an alternative to the requirements of paragraph (i)(1) of this section.

(7) For Federal awards of similar purpose activity or instances of approved blended funding, a non-Federal entity may submit performance plans that incorporate funds from multiple Federal awards and account for their combined use based on performance-oriented metrics, provided that such plans are approved in advance by all involved Federal awarding agencies. In these instances, the non-Federal entity must submit a request for waiver of the requirements based on documentation that describes the method of charging costs, relates the charging of costs to the specific activity that is applicable to all fund sources, and is based on quantifiable measures of the activity in relation to time charged.

(8) For a non-Federal entity where the records do not meet the standards described in this section, the Federal Government may require personnel activity reports, including prescribed certifications, or equivalent documentation that support the records as required in this section.
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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Our Mission

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.