Audit Team
LaKeshia Allen Horner, MPA, Audit Supervisor
Shaun Wysong, MA, Lead Auditor
Megan O’Brien, MPP, Senior Auditor

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

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

You can obtain copies of this report by contacting us:

Office of the Auditor
201 West Colfax Avenue, #705
Denver CO, 80202
(720) 913-5000   Fax (720) 913-5253

Or download and view an electronic copy by visiting our website at: www.denverauditor.org.
November 7, 2019

AUDITOR’S LETTER

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

In our follow-up effort for the Workforce Development audit issued July 19, 2018, we determined Denver Economic Development & Opportunity — formerly the Office of Economic Development — fully implemented two of the seven recommendations made in the original audit report and only partially implemented the five others. Auditors determined the risks associated with the audit team’s initial findings have not been fully mitigated. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure appropriate corrective action is taken.

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

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

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor
Follow-Up Status
Denver Economic Development & Opportunity — formerly the Office of Economic Development — fully implemented two recommendations made in the July 2018 audit report and partially implemented five others.

Objective
To review the effectiveness and efficiency of Denver Economic Development & Opportunity’s policies and procedures for administering workforce development services and programs for the City and County of Denver. Specifically, to examine the extent to which Economic Development’s efforts align with applicable legal requirements, internal control standards, and leading practices for delivering workforce development services and programs.

Background
Workforce development intends to create and sustain a viable workforce. Economic Development coordinates and supports local workforce development activities. Consistent with changes enacted under the Workforce Innovation and Opportunity Act, Economic Development privatized workforce development in 2016.

REPORT HIGHLIGHTS

Highlights from Original Audit
In response to the Workforce Innovation and Opportunity Act, Denver Economic Development & Opportunity developed a local workforce development plan and privatized the city’s workforce development programs and services. Economic Development estimated that this shift would displace more than 100 city employees who had previously delivered programs and services to job seekers and employers in Denver. Ultimately, the agency laid off more than 30 employees. Economic Development stated that others transitioned into different positions within the agency or found work outside of the organization. Our assessment of the local workforce development plan affirmed that it incorporated almost all the elements required by federal law. Similarly, Economic Development’s workforce development programs and services reflected all but one of nearly 70 requirements established in the local plan. With a few minor additions, the city’s framework for delivering these federally funded programs would comprehensively reflect these new legal and programmatic requirements.

However, the audit identified multiple concerns with the city’s workforce development privatization effort, both regarding the decision to privatize and monitoring of the resulting contract. First, Economic Development did not thoroughly determine the full costs and benefits that would result from its decision to privatize. Further, in the year since privatization, Economic Development did not methodically analyze all contract costs and the quality of all services provided. Although different Economic Development functions gather relevant information on workforce development activities, it was not synthesized in a manner that would allow management to make sound decisions about future contracts. Finally, Economic Development could have relied on faulty data to make workforce development management decisions.

Regarding contract monitoring activities, Economic Development had established multiple strategies for monitoring ResCare’s contract performance. However, the audit revealed that those activities were not sufficient to ensure that ResCare delivered everything agreed to in the contract in three primary areas: quality control planning, policies and procedures used to guide monitoring strategies, and staff training.

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

FINDING – The Office of Economic Development Lacks a Systematic Approach for Evaluating the Effectiveness of Workforce Development Privatization

Recommendation

1.1 Aligning the Local Plan with the Law – The executive director of Denver Economic Development & Opportunity should work with the Denver Workforce Development Board to update the Denver Workforce Development Board Local Plan to include statewide rapid response coordination strategies, integrated case management information system strategies, and up-to-date performance measures.

Status: Partially Implemented (Original target date for completion: Dec. 31, 2018)

Agency Action

As discussed in the original audit report, the Workforce Innovation and Opportunity Act requires the Denver Workforce Development Board to adopt local workforce development plans. These plans include descriptions of how the board will coordinate a range of workforce programs and services to minimize disruptions associated with job loss for workers and businesses.

Among other things, federal law requires local plans to include:

- Statewide rapid response coordination strategies to help workers and businesses deal with the effects of layoffs and plant closures;
- A description of how one-stop centers are implementing and transitioning to an integrated, technology-enabled intake and case management system for core workforce development programs; and
- Performance measures to assess how well the local workforce development system is meeting its goals.

Consistent with federal law and our recommendation, Denver Economic Development & Opportunity and the Denver Workforce Development Board updated the local plan to include statewide rapid response coordination strategies and strategies for an integrated case management information system. However, the updated local plan does not include all performance measures required by the Workforce Innovation and Opportunity Act. Specifically, the local plan does not include measures for the following:

- Percentage of program participants who are in education or training programs for adults and dislocated workers;
- Effectiveness indicators for serving employers for adults, dislocated workers, and Wagner-Peyser participants;
- Median earnings of youth program participants who are in unsubsidized employment during the second quarter; and
• All performance measures for adult education and literacy or the Rehabilitation Act.

Denver Economic Development & Opportunity’s monthly workforce development performance reports include information for three of the required performance measures — as the Colorado Department of Labor and Employment has not defined effectiveness indicators for serving employers for adults, dislocated workers, and Wagner-Peyser participants.

However, officials acknowledge these performance measures are not in the local plan, which is required by federal law. Officials said they assembled the local plan using a Colorado Department of Labor and Employment template, which did not include the measures specified.

Recommendation

1.2 Performance Reporting – The executive director of Denver Economic Development & Opportunity should coordinate with its one-stop and other service providers to ensure that monthly and quarterly reporting requirements reflect the performance measures required by the Workforce Innovation and Opportunity Act, as contained in the updated Denver Workforce Development Board Local Plan.

Status: Partially Implemented (Original target date for completion: Dec. 31, 2018)

Agency Action

In response to changes in federal law, Denver Economic Development & Opportunity privatized the city’s workforce programs and services in 2016 — entering into contracts with ResCare to manage the city’s American Job Centers and provide comprehensive workforce services for Title I Adult, Dislocated Worker, and Title III Wagner-Peyser Employment Services. In addition to ResCare, the city also relies on a network of service providers — including Denver Public Schools to provide a full scope of workforce development services to the city’s youth.

In the original audit, we found that the city’s workforce development programs and services generally aligned with state and local workforce development plan requirements. However, we found that monthly and quarterly reports for workforce development service providers did not contain all specified reporting requirements. Specifically, we found that ResCare’s monthly and quarterly reports did not include required performance information about employee retention, literacy and numeracy gains, credential achievement, or financial details. Similarly, we found that Denver Public Schools’ reports did not contain required performance information on employee retention, literacy and numeracy gains, credential achievement, or financial details.

In response to our recommendation, Denver Economic Development & Opportunity modified its contractor reporting requirements to conform with performance measures required by federal law and the local plan. ResCare updated its monthly and quarterly reports in May 2019 to conform with federal reporting requirements. Denver Public Schools began reporting updated performance information in November 2018.

However, as previously discussed, the Colorado Department of Labor and Employment has not defined...
effectiveness indicators for serving employers for adults, dislocated workers, and Wagner-Peyser participants. Consequently, the city’s workforce development contractors have been unable to assess or report on this performance measure.

Recommendation

1.3  **Evaluating Cost and Quality** – The executive director of Denver Economic Development & Opportunity should develop a formal, systematic, and comprehensive approach for evaluating the city’s privatization of workforce development programs and services, including an analysis of the full cost of the different services provided, transition costs, and costs associated with monitoring and oversight resulting from a change in provider services.

**Status: Partially Implemented (Original target date for completion: Dec. 31, 2018)**

**Agency Action**

In the original audit report, we found that Denver Economic Development & Opportunity did not conduct a thorough cost-benefit analysis before privatizing the city’s workforce development programs and services. Further, we found that the organization did not have a systematic approach for evaluating cost and quality to inform future award decisions.

In November 2018, Denver Economic Development & Opportunity contracted with a consulting firm to conduct a formal evaluation of the privatization of workforce development programs and services. Though the report — published in June 2019 — contains descriptive information on the costs associated with the privatization transition, service provision, and contract administration, the consulting firm was unable to reach conclusions in several areas due to data limitations. For example, the report states Denver Economic Development & Opportunity’s spending on workforce development programs and services decreased by $2.8 million after privatization, but the decrease may be due to a decline in federal funding or the fewer number of employees working for ResCare.

Further, though the report does provide cost information during the transition years of 2015 and 2016, it also states Economic Development’s accounting data did not clearly reflect transition costs, making it difficult to understand the full cost of privatizing. The consulting firm was unable to provide monitoring and oversight cost information due to similar accounting data limitations in Economic Development’s accounting data.

Denver Economic Development & Opportunity officials said that the organization plans to conduct a follow-up evaluation focusing on its financial data to address the evaluation report’s data limitations.
Recommendation

1.4  **Ensuring Data Reliability** — The executive director of Denver Economic Development & Opportunity should develop policies and procedures to ensure that the data used to support workforce development program operations and performance is complete, accurate, and valid.

**Status:** Partially Implemented (Original target date for completion: Sept. 30, 2018)

**Agency Action**

In the original audit, we found that Denver Economic Development & Opportunity had not established policies or procedures to ensure the completeness and accuracy of the data it collected and analyzed about workforce development.

In October 2018, the organization developed a policy for data reliability in the form of data quality standards. The purpose of these standards is to assess the quality of data the organization relies on for decision-making and outcome reporting. Additionally, Economic Development officials developed corresponding procedures aimed at standardizing procedures for monthly case file reviews.

Further, when the data quality standards were finalized, Denver Economic Development & Opportunity distributed the information to staff and contracted entities.

Despite the establishment of the data quality standards, the organization continues to lack detailed procedures for ensuring the data used to support workforce development program operations and performance is complete, accurate, and valid. For example, the standards require Denver Economic Development & Opportunity to incorporate the standards into service provider contracts. However, officials said the organization has not developed contract terms that reflect this aim. Moreover, the standards state that the organization will provide staff training and technical assistance on data quality. However, Denver Economic Development & Opportunity officials were unable to provide documentation of specific training contents or technical assistance the organization will provide to staff.

Recommendation

1.5  **Contract Monitoring Policies and Procedures** — The executive director of Denver Economic Development & Opportunity should develop detailed, contract-specific policies and procedures to guide its contract monitoring activities related to the provision of the city’s workforce development programs and services. The policies and procedures should identify the precise contract provisions to be monitored and the evidence required to demonstrate that all terms have been met.

**Status:** Partially Implemented (Original target date for completion: Sept. 30, 2018)
Agency Action

In the original audit, we found that Denver Economic Development & Opportunity did not have policies and procedures detailed enough to address all terms and conditions of the ResCare contract, and the agency did not include a comprehensive list of contract terms. In addition, during the original audit, we found it challenging to assess what kind of documentation had been reviewed to prove the contract requirements had been met.

Economic Development developed a policy for contract monitoring, but the procedures do not establish required evidence to ensure contract compliance.

Economic Development created a Workforce Innovation and Opportunity Act, or WIOA, internal and subrecipient monitoring policy to be effective in February 2019. The policy states Denver Workforce Services will monitor its WIOA subrecipients by reviewing financial and performance reports from its service providers, conducting on-site reviews, and conducting audits on federal awards. The policy also contains a series of procedures to perform monitoring that include a contract monitoring checklist, an on-site file review template, and a scope-of-work tracking sheet template, complete with contract provisions to be tested.

Recommendation

1.6 Contract Monitoring Reporting – After developing detailed, contract-specific policies and procedures to guide contract monitoring activities related to the provision of the city’s workforce development programs and services, the executive director of Denver Economic Development & Opportunity should establish deadlines for reporting that will enable timely identification and resolution of compliance and performance issues.

Status: Implemented (Original target date for completion: Sept. 30, 2018)

Agency Action

Our original audit found that Denver Economic Development & Opportunity had issued its most recent contract monitoring report in March 2017, covering the program year from July 1, 2016, to June 30, 2017. At that time, the report for the current program year would not be issued until the contract period ended. We found that best practices emphasized the importance of identifying and addressing compliance and performance issues in a timely manner.

To address our recommendation, Economic Development established deadlines for contract monitoring reporting. The “Annual Workforce Innovation and Opportunity Act Monitoring Workflow” incorporated into Economic Development’s WIOA internal and subrecipient monitoring policy states that Denver Workforce Services’ final annual WIOA monitoring report should be issued by March 31 of each year. The policy specifies that the report should include data on the compliance of contracted services; an analysis of funds drawn, outcomes achieved, and time elapsed on the contract; and identification of any potential problems or compliance issues.
Recommendation

1.7 **Contract Monitoring Training** – The executive director of Denver Economic Development & Opportunity should establish and require participation in a formal training or certification program for staff engaged in contract monitoring for workforce development program and services contracts.

**Status: Implemented (Original target date for completion: Nov. 30, 2018)**

**Agency Action**

In our original audit, we found that Denver Economic Development & Opportunity had not established a formal training program for staff who monitor workforce development program and services contracts, even though this is a best practice.

Since the original audit, Economic Development has established and required annual training for contract monitoring staff. Denver Workforce Services staff responsible for contract monitoring participated in a two-day grant management training in September 2018. Economic Development provided evidence that all employees with contract monitoring responsibilities attended the training.

In addition, Economic Development provided a policy that states staff who are responsible for monitoring and managing workforce development-related contracts are required to attend a minimum of one contract management/monitoring training per year. Staff are required to document the training through Workday, the city’s system of record, or by submitting documentation to their direct supervisor.
CONCLUSION

While Denver Economic Development & Opportunity implemented two recommendations made in the Workforce Development Audit Report, five others have yet to be fully implemented. Despite the organization’s efforts, auditors determined the risk associated with the audit team’s initial findings has not been fully mitigated. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure appropriate corrective action is taken.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from Denver Economic Development & Opportunity for their cooperation during our follow-up effort and for their dedicated public service.
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.

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.