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

The objective of our audit of federal Employment Services Cluster grants awarded to Denver Economic Development & Opportunity was to determine the agency’s compliance with grant requirements. I am pleased to present the results of this audit.

We found some reports required by the state were late. Additionally, while the audit found all tested expenditures were allowable, we identified two transactions associated with one conference where Denver Economic Development & Opportunity did not properly document its need to use employment services grant funds to pay for those costs.

By implementing recommendations for stronger adherence to reporting and expenditure requirements, Denver Economic Development & Opportunity will be better equipped to ensure the city follows grant requirements.

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.” We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We extend our appreciation to the personnel at Denver Economic Development & Opportunity 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
Employment Services Cluster Grants
August 2020

Objective
Our objective was to determine whether all activities and costs for Employment Services Cluster grants received by Denver Economic Development & Opportunity were consistent with grant requirements and whether all required reports were complete and submitted on time in compliance with grant requirements.

Background
Federal Employment Services Cluster grants pay for workforce development activities. This includes employment services funded through the Wagner-Peyser Act, as well as two other federal programs: the Disabled Veterans’ Outreach Program and the Local Veterans’ Employment Representative program. In Colorado, the state Department of Labor and Employment disburses federal workforce development funds to local municipalities and monitors employment programs and services to ensure they meet federal requirements. For the City and County of Denver, Denver Economic Development & Opportunity’s Division of Workforce Development implements these programs.

Report Highlights

Highlights from Audit

Denver Economic Development & Opportunity Submitted Some Reports Late to the State
Of seven reports we tested for timeliness from fiscal year 2019, Denver Economic Development & Opportunity submitted five late — ranging from one day late to 14 days late.

Staff said the reports being late was because of technology issues. However, if reports are late, it could affect the state’s ability to track grant expenditures in a timely manner and complete federal reporting.

Denver Economic Development & Opportunity Did Not Properly Document the Need for Travel Costs for a Conference
While all expenditures auditors tested were allowable, we found the transaction documentation for one conference did not justify the cost of the travel being charged to the Wagner-Peyser grant for workforce development programming and services.

If a cost is not documented as necessary to provide employment programs and services under Wagner-Peyser, it could call into question whether the cost was allowable.
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BACKGROUND

Employment Services Cluster Grants

Employment Services Cluster grants pay for workforce development activities. This includes employment services funded through the Wagner-Peyser Act, as well as two other federal programs: the Disabled Veterans’ Outreach Program and the Local Veterans’ Employment Representative program.

These programs are governed by the Workforce Innovation and Opportunity Act, which is the principal federal law enacted in 2014 to coordinate workforce development services through a one-stop service delivery system. This law superseded the Workforce Investment Act and amended the Rehabilitation Act of 1973, the Wagner-Peyser Act, and the Adult Education and Family Literacy Act.

The U.S. Department of Labor’s Employment and Training Administration oversees implementation of federal job training and grant funding to support workforce development programs and Wagner-Peyser employment services.

According to the federal compliance supplement that provides guidance on auditing federal grants, such grants are audited together in the “Employment Services Cluster.”

Wagner-Peyser Grants – Employment services funded through the Wagner-Peyser Act provide career services including job search, assessment, and career guidance. Programs are coordinated and co-located with other Workforce Innovation and Opportunity Act programs in American Job Centers across the United States, including in Denver.

Veterans Grants – Jobs for Veterans State Grants provide money to states for employing Disabled Veterans’ Outreach Program specialists and Local Veterans’ Employment Representative program staff and for deploying them, as practical, among American Job Centers.

- The Disabled Veterans’ Outreach Program provides career services to meet the employment needs of disabled veterans and other eligible veterans with significant barriers to employment.
- The Local Veterans’ Employment Representative program works with local employers to help veterans get jobs and to provide jobs, training, and placement services for veterans.

3 2 C.F.R. § 200, Appendix XI.
Grant Administration  

In Colorado, the state Department of Labor and Employment disburses federal workforce development funds. The department is also responsible for ensuring programs and services are delivered in accordance with Workforce Innovation and Opportunity Act requirements.¹

That law requires state governors to establish workforce development boards to develop and implement state workforce development plans, as well as establish local workforce boards within their states to implement local plans.² Local boards are required to submit their workforce development plans to the governor for approval. Similarly, state boards are required to submit the state plans to the U.S. departments of Labor and Education.³

Denver Economic Development & Opportunity’s Division of Workforce Development implements these programs for the City and County of Denver. In 2016, Economic Development privatized its workforce programs and entered into a contract with ResCare to manage the job centers and implement workforce services — including Wagner-Peyser employment services, the Disabled Veterans’ Outreach Program, and the Local Veterans’ Employment Representative program.

Table 1 shows the expenditures for 2019 for each grant.

### TABLE 1. Total Employment Services Grant Expenditures for 2019

<table>
<thead>
<tr>
<th>Grant</th>
<th>2019 Amount Spent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wagner-Peyser employment services</td>
<td>$1,680,105</td>
</tr>
<tr>
<td>Disabled Veterans’ Outreach Program</td>
<td>$17,686</td>
</tr>
<tr>
<td>Local Veterans’ Employment Representative</td>
<td>$5,895</td>
</tr>
</tbody>
</table>

Source: City and County of Denver Workday financial system reports.

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¹ Workforce Innovation and Opportunity Act of 2014, Pub. L. No. 113–128 § 101(a) and (d).
² Ibid., § 107.
³ Ibid., § 101–103 and 108.
FINDING 1

Denver Economic Development & Opportunity Submitted Some Reports Late to the State

CONDITION Some Reports Were Submitted Late

We tested seven reports for timeliness that Denver Economic Development & Opportunity submitted in 2019. As shown in Figure 1 below, we found five of them were late — ranging from one day late to 14 days late.

FIGURE 1. Number of Days Denver Economic Development & Opportunity Reports Were Late

Denver Economic Development & Opportunity

Late reports Five of seven submitted reports were late

<table>
<thead>
<tr>
<th>Monthly expenditure reports</th>
<th>Due</th>
<th>Days late</th>
<th>Submitted</th>
</tr>
</thead>
<tbody>
<tr>
<td>JULY 2019</td>
<td>Aug. 21, 2019</td>
<td>1</td>
<td>Aug. 22, 2019</td>
</tr>
<tr>
<td>AUGUST 2019</td>
<td>Sept. 21, 2019</td>
<td>4</td>
<td>Sept. 25, 2019</td>
</tr>
<tr>
<td>DECEMBER 2019</td>
<td>Jan. 21, 2020</td>
<td>6</td>
<td>Jan. 27, 2020</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quarterly accrual reports</th>
<th>Due</th>
<th>Days late</th>
<th>Submitted</th>
</tr>
</thead>
<tbody>
<tr>
<td>THIRD QUARTER 2019</td>
<td>Oct. 21, 2019</td>
<td>14</td>
<td>Nov. 4, 2019</td>
</tr>
<tr>
<td>FOURTH QUARTER 2019</td>
<td>Jan. 21, 2020</td>
<td>6</td>
<td>Jan. 27, 2020</td>
</tr>
</tbody>
</table>

Source: Auditor’s Office analysis of reports.

Note: Reference the Appendix for more information about our sampling methodology. Accrual reports show the accumulation of costs incurred and billed in the current quarter that have not yet been reimbursed by the state.

CRITERIA The State Requires Grant Reports

The workforce development program agreement between the Colorado Department of Labor and Employment and the City and County of Denver says the state can set due dates for the two types of reports grant recipients must file — monthly expenditure reports and quarterly accrual reports. Accrual reports show the accumulation of costs incurred and billed in the current quarter that have not yet been reimbursed by the state.

The Colorado Department of Labor and Employment says monthly expenditure reports are due the 21st day of the following month and accrual reports are due 21 days after the end of each quarter.
CAUSE  Technology Issues Cause Late Reports

According to Denver Economic Development & Opportunity staff, the reports are late because of the following technology issues:

- The city’s Java software — which allows programs written in Java programming language to run — gets updated periodically. When Denver Economic Development & Opportunity submits the reports to the state on the due date, sometimes staff cannot upload the reports because of the Java updates and because of problems the updates caused to the uploading process of the state’s reporting system. When this happens, Denver Economic Development & Opportunity staff let the state know about the technical issues, and state personnel ask city staff to keep them posted.

- Other times, the issues originate from problems with the state’s system. In those cases, the state lets all local municipalities know it is having problems. In one email between Denver Economic Development & Opportunity and the state, a state employee offered to upload the report for Economic Development. However, in another example, a state employee explained the entire system was down, and the report could not be uploaded on its due date.

EFFECT  Monitoring Activities Are Delayed When Reports Are Delayed

The monthly expenditure reports and the quarterly accrual reports are required in the workforce development contract so the state can track how grants funds are being spent. If reports are late, it could affect the state’s ability to track grant expenditures in a timely manner and complete federal reporting.

RECOMMENDATION 1.1

Work with the State to Address Technology Issues – Denver Economic Development & Opportunity should work with the Colorado Department of Labor and Employment to address technology issues to improve the timely upload of reports. In case of system issues, an alternate method of submission should be arranged — such as sending the report directly to Colorado Department of Labor and Employment staff for them to upload, when feasible — to ensure on-time delivery.

Agency Response: Agree, Implementation Date – Sept. 30, 2020
FINDING 2
Denver Economic Development & Opportunity Did Not Properly Document the Need for Travel Costs for a Conference

CONDITION  Two Travel Expenditures for One Conference Needed Additional Explanation to Justify the Use of Grant Funds

Documentation of two transactions for a data analytics conference did not justify the cost of the travel being charged to the Wagner-Peyser grant. By comparison, all other transactions we tested that included travel had documentation referencing services related to employment or workforce development programs.

For the expenditures related to this one conference, auditors were unable to determine — based on the documentation attached to the transactions — how an advanced data analytics conference was justified as necessary under the Wagner-Peyser employment grant.

Both transactions were for the 2019 Transforming Data with Intelligence Conference. The conference agenda and travel request form did not explain why the conference was reasonable and necessary for Denver Economic Development & Opportunity’s successful grant performance under the federal award, and the documentation for travel did not justify the costs being necessary.

For example, the travel request form said that the purpose and/or benefit to the city and/or agency was: “[The conference] deliver[s] training we need to overcome our top data and analytics challenges, taught by the industry’s most respected thought leaders and practitioners. We plan to walk away with the skills and best practices needed to advance our data and analytics initiatives today.”

Although Denver Economic Development & Opportunity staff explained that the employees sent to the conference were analyst staff who went to discuss

DESPITE TWO DOCUMENTATION ISSUES WE IDENTIFIED, ALL EXPENDITURES WERE ALLOWED

Auditors tested 37 expenditures for allowable costs and activities, and we found all were allowable according to federal regulations and state and local requirements. However, we noted two expenditures lacked adequate documentation related to a conference, as described here in Finding 2.

Reference the Appendix for more information about our sampling methodology.
data reporting, the justification of their need to attend the conference using Wagner-Peyser grant funds was not explained in the documentation.

CRITERIA  Federal Regulations Require Specific Documentation

- **U.S. Code of Federal Regulations, Cost Principles** – Conferences are allowed if the purpose is to learn technical information beyond the knowledge of the government organization and if the conferences are necessary and reasonable for successful performance under the federal award. Travel costs are allowed if they are reasonable and do not exceed charges that a government organization would normally allow in its regular operations. In addition, the documentation must justify the costs being necessary.\(^7\)

- **U.S. Code of Federal Regulations, Employment Services** – Wagner-Peyser activities are to be used for employment services for employees and employers.\(^8\)

**CAUSE  Denver Economic Development & Opportunity Did Not Include Specific Documentation Tying the Grant To Employment Services**

Although upper management approved the transactions, Denver Economic Development & Opportunity staff did not include documentation that was specific enough to tie the travel expenses to employment services and justify the need to spend Wagner-Peyser employment services grant funds on this conference.

**EFFECT  Grant Spending May Not Have Been Allowable**

If a cost is not documented as necessary to provide employment programs and/or services for Wagner-Peyser, it could call into question whether the cost was allowable and whether the cost could have been spent on a different, allowed employment service.

Further, inadequate documentation could also result in a penalty for improper use of grant funds or in Denver Economic Development & Opportunity not receiving future funds.

\(^7\) 2 C.F.R. § 200.432.

RECOMMENDATION 2.1

Document Specific Evidence Tying Spending to Grant – For all expenditures funded by the Wagner-Peyser program, Denver Economic Development & Opportunity should include within its documentation specific evidence tying the expenditure to employment services and workforce development activities under the grant.

Agency Response: Agree, Implementation Date – Aug. 31, 2020
RECOMMENDATIONS

The agency narratives below are reprinted verbatim from the agency’s response letter, shown in the next section of this report.

1.1 **Work with the State to Address Technology Issues** – Denver Economic Development & Opportunity should work with the Colorado Department of Labor and Employment to address technology issues to improve the timely upload of reports. In case of system issues, an alternate method of submission should be arranged — such as sending the report directly to Colorado Department of Labor and Employment staff for them to upload, when feasible — to ensure on-time delivery.

**Agency Response: Agree, Implementation Date – Sept. 30, 2020**

**Agency Narrative:** Denver Economic Development & Opportunity (DEDO) acknowledges the Colorado Department of Labor and Employment’s (CDLE) requirement to upload disbursements monthly to CLEAR by the 21st of the month (or following business day if on a weekend or holiday), as noted in the CDLE policy guidance letter FIN-2019-08. In the event of technical issues, DEDO will ensure on-time delivery by sending appropriate reports for upload to the CDLE Finance Program Accountant for upload.

2.1 **Document Specific Evidence Tying Spending to Grant** – For all expenditures funded by the Wagner-Peyser program, Denver Economic Development & Opportunity should include within its documentation specific evidence tying the expenditure to employment services and workforce development activities under the grant.

**Agency Response: Agree, Implementation Date – Aug. 31, 2020**

**Agency Narrative:** Denver Economic Development & Opportunity (DEDO) has established extensive review procedures to ensure travel-related expenditures are used in accordance with grant provisions. In the single instance noted from the finding, the travel documentation did not specifically reference why the conference was necessary under the Wagner-Peyser employment grant. DEDO will update our Travel Request Form to include identification of grant funding being utilized and the specific reason why that grant funding was chosen.
AGENCY RESPONSE TO AUDIT RECOMMENDATIONS

July 31, 2020

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 Employment Services Cluster 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 July 16, 2020. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING 1
Denver Economic Development & Opportunity Submitted Some Reports Late to the State

RECOMMENDATION 1.1
Work with the State to Address Technology Issues – Denver Economic Development & Opportunity should work with the Colorado Department of Labor and Employment to address technology issues to improve the timely upload of reports. In case of system issues, an alternate method of submission should be arranged — such as sending the report directly to Colorado Department of Labor and Employment staff for them to upload, when feasible — to ensure on-time delivery.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>09/30/20</td>
<td>Laddie Somorin 720-913-1610</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 1.1
Denver Economic Development & Opportunity (DEDO) acknowledges the Colorado Department of Labor and Employment’s (CDLE) requirement to upload disbursements monthly to CLEAR by the 21st of the month (or following business day if on a weekend or holiday), as noted in the CDLE policy guidance letter FIN-2019-08. In the event of technical issues, DEDO will ensure on-time delivery by sending appropriate reports for upload to the CDLE Finance Program Accountant for upload.
DEDO also acknowledges the need for continued efforts to address the technical issues that resulted in delays and will work with CDLE to ensure future compliance. The agency has assessed the finding and will follow CDLE protocol to resolve potential issues related to this finding in the future.

AUDIT FINDING 2
Denver Economic Development & Opportunity Did Not Properly Document the Need for Travel Costs for a Conference

RECOMMENDATION 2.1

Document Specific Evidence Tying Spending to Grant – For all expenditures funded by the Wagner-Peyser program, Denver Economic Development & Opportunity should include within its documentation specific evidence tying the expenditure to employment services and workforce development activities under the grant.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
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<tr>
<td>Agree</td>
<td>08/31/20</td>
<td>Laddie Somorin 720-913-1610</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 2.1
Denver Economic Development & Opportunity (DEDO) has established extensive review procedures to ensure travel-related expenditures are used in accordance with grant provisions. In the single instance noted from the finding, the travel documentation did not specifically reference why the conference was necessary under the Wagner-Peyser employment grant. DEDO will update our Travel Request Form to include identification of grant funding being utilized and the specific reason why that grant funding was chosen.

Please contact Tony Anderson at 720-913-5410 with any questions.

Sincerely,

Tony Anderson
Director – DEDO Workforce Services

cc: Valerie Walling, CPA, Deputy Auditor
    Dawn Wiseman, CRMA, Audit Director
    Cody Schulte, Audit Supervisor
    Eric Hiraga, DEDO Executive Director
    Deborah Cameron, DEDO Chief Business Development Officer
    Matthew Karnes, DEDO Chief Operating Officer

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Timothy M. O’Brien, CPA
Denver Auditor
OBJECTIVE

Our objective was to determine whether all activities and costs for Employment Services Cluster grants received by Denver Economic Development & Opportunity were consistent with grant requirements and whether all required reports were complete and submitted on time in compliance with grant requirements.

SCOPE

We assessed Denver Economic Development & Opportunity's compliance with federal grant requirements for Employment Services Cluster grants for fiscal year 2019.

METHODOLOGY

We applied several methodologies during the audit process to gather and analyze pertinent information related to our audit objectives. The methodologies included but were not limited to:

- Reviewing and documenting grant regulations regarding allowable activities, allowable costs, reporting, and subrecipient monitoring
- Selecting a sample of expenditures and testing whether they were spent on allowable activities and costs. For the methodology used for our expenditure sample selection, reference the Appendix.
- Selecting a sample of monthly reports to review and reviewing all quarterly reports for 2019. For the methodology used for our reports sample selection, reference the Appendix.
- Reviewing all sampled reports for timeliness, completeness, and proper format
- Emailing staff from the Colorado Department of Labor and Employment to verify the timely submission of reports
APPENDIX
Sampling Methodologies

ALLOWABLE ACTIVITIES AND COSTS

To test for allowable activities and allowable costs, we reviewed a random sample of 37 transactions from a population of 545 transactions that included transactions from the Wagner-Peyser program, the Disabled Veterans’ Outreach Program, and the Local Veterans’ Employment Representative program. These were grouped as a single population because the workforce development grants are administered together with similar controls and, therefore, have similar risks.

Specifically, we sampled:

- Thirty-four transactions from the Wagner-Peyser expenditures;
- Two transactions from Disabled Veterans’ Outreach Program; and
- One transaction from the Local Veterans’ Employment Representative program.

We used a stratified random sampling method — splitting the population by the type of expenditure — and then we sampled proportionately by the type of expenditure as a portion of the total population. For example, regular compensation was 69% of total expenditures, so our sample included about 69% compensation expenditures. The types of expenditures included:

- Regular compensation
- Benefits/billings
- Professional services
- Indirect charges
- Maintenance agreements and licensing
- Utilities
- Travel and transportation
- Employee training
- Building and construction
- Supplies and equipment
- Office supplies and fixtures
- Technology supplies and equipment
- Billing for services

Auditors chose to split the population by expenditure type because the same types of transactions are likely to have the same types of controls.
We used a random number generator to select the 37 tested transactions. Each item was then tested for the following attributes: allowable activity under federal regulations, allowable cost under federal regulations, consistency with approved state and local plans, and adequate documentation.

We selected 37 items that would allow us to determine whether the error rate for each attribute tested in the population of 545 expenditures was below 5% at an 85% confidence level. For each attribute, if we found one error, we could not conclude with confidence that the error rate for that attribute was below 5%.

**TIMELINESS, COMPLETENESS, AND PROPER USE OF FORMATTING FOR REPORTING**

To test for the timeliness, completeness, and proper use of formatting for reporting for the Employment Services Cluster grants, we reviewed six reports, one work plan, and one workbook. Specifically, those items were:

- Three of the 12 monthly expenditure reports from Denver Economic Development & Opportunity owed to the state of Colorado for 2019 fiscal year activity
- One grant closeout report from 2019
- The only two accrual reports for 2019
- The work plan due July 31, 2019
- The most recent workbook for the period of performance (July 2019 through June 2021), which was last updated April 28, 2020

We did not test the workbook for timeliness, because it did not have a due date.
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.