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AUDITORS 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 city agencies address audit findings through appropriate corrective action and to aid us in planning future audits.

In our follow-up effort for the “Urban Area Security Initiative Grant” audit report issued in October 2019, we determined the Office of Emergency Management and Homeland Security fully implemented only one of five recommendations it agreed to in the original audit report. I am disappointed to report that the majority of the risks associated with the audit team’s initial findings have not been fully mitigated. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure the city takes appropriate corrective action.

The Highlights page in this report provides background and summary information about the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation. We did not update the status of the two recommendations that Emergency Management disagreed with, as the agency presumably would not have acted toward implementing those; however, these recommendations are included in the status update section as a reference.

I would like to express our sincere appreciation to the personnel in the Office of Emergency Management and Homeland Security 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
Urban Area Security Initiative Grant
November 2020

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.

REPORT HIGHLIGHTS

Highlights from Original Audit
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 were not submitted in a timely manner.

1 Fully Implemented
1 Partially Implemented
3 Not Implemented
2 Disagreed; No Follow-up
The Office of Emergency Management and Homeland Security fully implemented one recommendation made in the Urban Area Security Initiative, or UASI, Grant audit report by ensuring on-time quarterly reporting to the state. However, four other recommendations Emergency Management agreed to have yet to be acted upon or are only partially implemented. This presents several lingering risks:

- The office remains at risk of introducing errors in calculations and data entry, and it also risks the possibility of using an outdated version of its spreadsheet — continuing inefficiencies and risking reimbursement from the state. The office is not coordinating with individuals in the Controller's Office who are experts on the city's system of record, Workday; it is not providing system requirements for UASI expenditure accounting and reporting to eliminate the need for manual spreadsheets; and in the meantime, it has not added controls to safeguard its spreadsheets.

- Only one of two assets was recorded properly in Workday. A lack of proper accounting of assets and related installation costs in Workday may not have a material effect on the city's capital asset ledger valuation, but data of all capital assets still needs to be accurate — including information on an asset's custodian, location, and identification number, as well as historical and book value information.

- Not updating internal policy and procedure regarding succession planning, contingency planning, and cross-training — especially for key roles — unnecessarily subjects Emergency Management to the risk of not being able to transfer institutional knowledge. This may cause inefficiencies through operational disruptions and an increased likelihood of mistakes, resulting in noncompliance with grant requirements and the city possibly not being reimbursed by the state.

Consistent periodic updates of other operational policies and procedures — such as tracking costs, prudent spending, tagging assets, and managing agreements — would help minimize noncompliance with state and UASI grant requirements.
**Finding |** Although the Office of Emergency Management and Homeland Security Has Met Many Requirements of the Urban Area Security Initiative Grant, Systemic Problems Exist

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**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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**AGENCY ACTION**

**NOT IMPLEMENTED**

**Original target date for completion: Feb. 1, 2020**

Although Emergency Management officials said this recommendation was still in progress, we found they did not develop or communicate their tracking or reporting requirements to the Department of Finance’s Workday team nor Technology Services. Doing so may have helped them move toward more reliance on the system of record for grant expenditures, with the goal of eliminating the need for manual spreadsheets.

The Emergency Management program manager said they believe Workday does not meet their needs for grant expenditures and they believe that requires Emergency Management personnel to continue using internal spreadsheets to provide grant expenditure reports to the UASI Board of Directors. The program manager said they believe this provides a better snapshot of the current financial status of the grant award and will allow for more accurate board decision-making.

Yet, Emergency Management did not provide the Department of Finance with its business and system requirements, nor did the office provide any written feedback evidencing that current Workday functionality is lacking. The Controller’s Office’s financial manager said that without obtaining the system requirements, they were not aware of any specific items that Workday cannot provide Emergency Management to make its grant process more efficient.

Additionally, without implementing controls for critical spreadsheets as discussed in the agency action for Recommendation 1.3, Emergency
Management has not mitigated the control risks inherent in manual spreadsheets nor the efficiency concerns from maintaining dual accounting systems for grant expenditures.

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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 ACTION**

No action was taken to implement this recommendation, because the agency disagreed with the recommendation made in our original report.

This was the agency’s response to the recommendation when the original report was issued in October 2019:

> 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.

For the original report, we wrote the following addendum rebutting Emergency Management’s response:

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.

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 ACTION

Original target date for completion: Jan. 1, 2020

In their response during the original audit, Emergency Management officials said they intended to start developing an internal policy and procedure related to fiscal and procedural processes, including the spreadsheet
controls listed in this recommendation, and they intended to implement that policy and procedure by Jan. 1, 2020.

However, at the time of this follow-up, this policy and procedure was still not completed. According to the Emergency Management program manager, the policy and procedure was still in draft form, and it still needed further review and approval. They said this delay was because of staffing changes since the end of the original audit and the current demands on the office due to the COVID-19 pandemic and the summer 2020 nationwide protests against racial injustice. The Emergency Management program manager said in August 2020 the goal was to release the policy and procedure by Oct. 1, 2020. However, as of the drafting of this report, Emergency Management had not provided the policy.

In the interim, we did not find critical access and input controls in the July 31, 2020, UASI expenditure workbook provided by Emergency Management, and we did not receive a draft procedure explaining proposed critical spreadsheet controls. Therefore, Emergency Management has not mitigated the risks of using manual spreadsheets — including the risks of introducing errors in formulas and data entry, using outdated versions of the spreadsheet, and unauthorized employees making changes to the spreadsheet or having inappropriate access through shared networks.

Using both manual spreadsheets and Workday for expenditure tracking and reporting is also inefficient, as we discussed in the agency action for Recommendation 1.1.

### 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 ACTION**

**Original target date for completion: Feb. 1, 2020**

Although Emergency Management shares the responsibility of properly accounting for assets with the Controller’s Office and other agencies that benefit from UASI grant funds, the risk here has not been mitigated.

When the original audit report was released, Emergency Management officials said they would ask the Controller’s Office to ensure all UASI assets purchased for use in the City and County of Denver are recorded in Workday, but they noted they had no influence or access to ensure that city agencies
receiving these assets properly received an official tag, that they tagged the asset as purchased with grant funds, and that they ensured the assets were depreciated properly for grant requirements.

During our follow-up work, we verified with the Controller’s Office that the police helicopter radio communications system was not individually tagged as a grant-funded asset and that it was transferred to a new helicopter placed in service in August 2019. The Controller’s Office confirmed that an asset is not registered as a distinct asset if it is part of a system or if it is not a stand-alone asset. In their reports to the federal government, Emergency Management officials listed assets purchased with grant funds that are over $5,000. A Workday asset number was provided for the helicopter radio system, and we verified the specifications included the radio and that the value was properly recorded.

Meanwhile, installation costs for the Denver Animal Shelter’s generator were not added to the value of the asset when it was placed into service in August 2017. This does not properly account for the overall asset in Workday in line with the city’s Fiscal Accountability Rule 4.2 — which requires that additional costs needed to place a capital asset in its intended state of operation shall be added to the cost of the asset. After we followed up with the Controller’s Office, officials there said they intended to correct the historical cost of this asset by adding the installation costs to it.

Emergency Management officials said they received training from the Controller's Office in mid-August 2020 on how to remove grant-funded UASI assets from the Emergency Management cost center in Workday and properly transfer them to the proper city agency’s cost center. Additionally, they also received training on how to remove assets in Workday and correctly transfer them to other participating agencies such as Douglas County, etc., for proper recording, tracking, and depreciation calculations.

Emergency Management officials also said in August 2020 that a new grant-funded logistics coordinator created a new asset tagging and mapping process that was to be used in the September annual asset review to track and record related depreciation through the agency that houses and maintains the asset. However, we were not provided any documentation describing these new processes.

**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 ACTION

Original target date for completion: Feb. 1, 2020

Before and during the original audit, Emergency Management had significant personnel changes, but officials stressed in their original response to this recommendation that at no time during this period was there disruption in the operations and management of the UASI grant or in the management and operations of the office itself.

In their initial response during the audit, Emergency Management officials said they developed and maintained a continuity of operations plan, which detailed succession planning within the organization, and they said it is updated at least annually. Emergency Management agreed to develop policies and procedures specifically for financial and administration operations by Feb. 1, 2020.

However, during our follow-up work, Emergency Management did not provide the new continuity of operations plan for examination.

Meanwhile, the Emergency Management program manager said that they worked with the city’s Office of Human Resources to create a workforce readiness action plan and leadership integration plan and training, which was scheduled to be completed by Aug. 17, 2020. However, Emergency Management also did not provide this plan for examination.

Without the documentation, we cannot confirm whether the plans were implemented on time and are enough to mitigate the risk of a lack of succession planning in the Office of Emergency Management and Homeland Security. Not updating internal policy and procedure regarding succession planning, contingency planning, and cross-training — especially for key roles in the organization — unnecessarily subjects an organization to the risk of not being able to transfer institutional knowledge.

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 ACTION**

No action was taken to implement this recommendation, because the agency disagreed with the recommendation made in our original report. This was the agency’s response to the recommendation when the original report was issued in October 2019:

> 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.

**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 ACTION**

**Original target date for completion:** The Office of Emergency Management and Homeland Security said at the time of the original audit in October 2019 that this was already completed.

Emergency Management officials committed to ensuring all future submissions would be on time in accordance with grant requirements. During our follow-up work, they provided state system reports of submission dates for three quarterly reporting periods representing the three grants open as of June 30, 2020. All reports were submitted within the reporting deadlines listed in grant requirements.

Before the release of the original audit report, the Controller’s Office exempted Emergency Management from Fiscal Accountability Rule 9.2. This allows Emergency Management to request reimbursement of grant expenditures on a quarterly basis versus monthly.
Office of the Auditor

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