AUDIT REPORT
Citywide
Governmental Activities Receivables
January 2018

Office of the Auditor
Audit Services Division
City and County of Denver

Timothy M. O’Brien, CPA
Denver Auditor
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January 18, 2018

AUDITOR’S REPORT

We have completed an audit of Citywide Governmental Activities Receivables. The objective of the audit was to determine the degree to which City agencies and the Controller’s Office properly reported governmental activities receivables and related allowances in the City’s 2016 Comprehensive Annual Financial Report (CAFR). Additionally, we assessed agencies’ compliance with internal receivables policy and procedures as well as the related Fiscal Accountability Rules issued by the Controller’s Office.

As described in the attached report, our audit revealed that three of the four agencies we tested are not in compliance with the City’s Fiscal Accountability Rules that require annual updates to their policies and procedures surrounding receivables. Policies and procedures at the Department of Public Works’ Right-of-Way Enforcement Division and the Department of Community Planning and Development should be updated and reflect current business processes, such as collectibility analysis and reconciliation. Denver Public Library also lacks specificity in its procedures for segregation of duties surrounding receivables collections and for reviewing fines and fees forgiven by circulation desk personnel, as well as the reconciliation process. We also found that agencies using third-party vendors to provide accounts receivable collection services are not requiring these vendors to provide formal assurance that their controls are sufficient and effective. Finally, audit work revealed assurance that the Office of Economic Development is reporting loans and notes receivable correctly and adhering to the relevant fiscal rules.

Through up-to-date and detailed policies and procedures, agencies will be positioned to provide better financial reporting for their receivables, be able to detect errors and irregularities, and follow existing fiscal rules. 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 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 Controller’s Office and agency personnel who assisted and cooperated with us during the audit.

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor
Governmental Activities Receivables
January 2018

Objective
The objective of the audit was to assess the degree to which City agencies and the Controller’s Office properly recorded governmental activities receivables and related allowances in the City’s 2016 Comprehensive Annual Financial Report and agency compliance with fiscal rules and agency policies and procedures.

Background
The City’s financial condition is reported in the Comprehensive Annual Financial Report, which includes disclosures about receivables in the notes to the financial statements. On December 31, 2016, governmental activities gross receivables were $790 million, with an allowance for doubtful accounts of $154 million, resulting in a net receivable of $636 million.

Generally Accepted Accounting Principles, Statements of the Governmental Accounting Standards Board, City Fiscal Accountability Rules and agency policy and procedures govern the reporting of receivables and related allowances.

Highlights
Our review of governmental activities receivables processes and testing of the financial assertions of four agencies’ notes, loans, and long-term receivables, as well as testing of general governmental short-term receivables, identified issues in three areas and assurance in one, as follows:

FINDING 1: Lack of Compliance with Fiscal Accountability Rules
- Three of the four agencies we tested do not comply with Fiscal Accountability Rule 4.1. This rule requires agency policy and procedures to be updated annually and to describe how to establish a receivable, bill an amount due, determine allowance for doubtful accounts, collect receivables, and write off uncollectible accounts. In addition, the fiscal rule requires that the receivable balances recorded in the City’s financial system of record are fully supported. We also found that two out of the four agencies tested either had out-of-date or incomplete business process documentation. Furthermore, we found that three of the four agencies did not completely reconcile their subsidiary ledger to the City’s general ledger. We offer two recommendations for this finding that will improve compliance with the fiscal rules.

FINDING 2: Denver Public Library Can Improve Processes for Change Funds and Fines and Fees Write-Offs
- We found that improvements can be made to Denver Public Library’s controls surrounding shared circulation desk change funds and compensating controls over forgiveness of library fines and fees for lost items. We offer two recommendations related to this finding.

FINDING 3: Lack of Formal Assurance from Vendors Providing Services and Financial Information
- We found that City agencies are relying on contracted service providers to process collections and to recommend the outstanding receivables balances that should be written off as uncollectible. The City agencies have not obtained independent assurance reports that the service organization’s controls provide reliable financial information. We offer one recommendation related to this finding.

FINDING 4: The Office of Economic Development Is in Compliance with Relevant Fiscal Accountability Rules
- Office of Economic Development notes and loans receivable are properly valued in accordance with City policy, and the agency is compliant with Fiscal Accountability Rule 4.1.

For a copy of this report, visit www.denvergov.org/auditor or contact the Auditor’s Office at 720.913.5000.
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BACKGROUND

Accounts Receivable Are an Important City Asset

Accounts receivable represent money owed to the City and County of Denver (the City) that has not yet been paid. Accounts receivable come from numerous sources, including taxes, grants, fees for services performed, and fines. In addition, the City may loan money to outside entities for specific purposes, often related to affordable housing and economic development. These loans are generally required to be repaid over time and are thus recorded as notes receivable.

Generally Accepted Accounting Principles (GAAP) recognize that certain conditions may exist that could lead to uncertainty about the collectibility of receivables. GAAP requires the establishment of an allowance for doubtful accounts in the financial records. The allowance is an estimate of the dollar amount of outstanding receivables that the City does not expect to be paid, generally based on an analysis of historical collections data. This allowance is netted against the gross outstanding accounts receivable, thereby reducing accounts receivable reported in the annual financial statements to the amount the City expects to receive. The City calculates separate allowances for doubtful accounts for each type of receivable. Individual receivable amounts that are deemed to be uncollectible are written off and removed from the accounting records.

The City reports its financial position in the Comprehensive Annual Financial Report, including the components of governmental activities accounts receivable and allowances for doubtful accounts. Table 1 summarizes what was reported in the notes to the financial statements in 2016.1

On December 31, 2016, according to Note B – Receivables, Table 14, governmental activities gross receivables were $790 million, with an allowance for doubtful accounts of $154 million, resulting in a net receivable of $636 million.

**Table 1.** Governmental Activity Accounts Receivable and Allowances for Doubtful Accounts, as of December 31, 2016 (dollars in thousands)

<table>
<thead>
<tr>
<th>Receivables</th>
<th>Governmental Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property taxes</td>
<td>$407,082</td>
</tr>
<tr>
<td>Other taxes</td>
<td>81,529</td>
</tr>
<tr>
<td>Notes</td>
<td>9,530</td>
</tr>
<tr>
<td>Short term</td>
<td>36,855</td>
</tr>
<tr>
<td>Long term</td>
<td>105,660</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>5,263</td>
</tr>
<tr>
<td>Loans</td>
<td>143,769</td>
</tr>
<tr>
<td><strong>Gross Receivable</strong></td>
<td><strong>789,688</strong></td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(153,688)</td>
</tr>
<tr>
<td><strong>Net Total Receivable</strong></td>
<td><strong>$636,000</strong></td>
</tr>
</tbody>
</table>

Source: 2016 CAFR, Note B - Receivables, Excerpts from Table 14, page 71.

The Office of Economic Development Makes Loans in the Areas of Economic, Housing, and Neighborhood Development

The Office of Economic Development’s portfolio holds approximately 500 individual loans working to advance economic prosperity and development for the City. The Office of Economic Development achieves this by:

- Providing small business financing through Economic Development loans; and
- Furthering development of viable urban neighborhoods by providing affordable housing opportunities through Neighborhood Development and Housing Development loans.

Housing Development loan receivables are 70 percent of all Office of Economic Development loans. Recipients of affordable housing loans are targeted toward low- and moderate-income households, special needs, and the homeless. Laws require these properties to maintain affordability status for 20 years or more.

The Neighborhood, Economic, and Housing Development loans are funded from both federal Department of Housing and Urban Development grants and City monies designated for affordable housing. Table 2 shows the breakout of Office of Economic Development loans by type.

**TABLE 2.** Office of Economic Development Notes Receivable as of December 31, 2016 (dollars in thousands)

<table>
<thead>
<tr>
<th>Category</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Neighborhood Development Loans</td>
<td>$16,845</td>
</tr>
<tr>
<td>Economic Development Loans</td>
<td>29,720</td>
</tr>
<tr>
<td>Housing Development Loans</td>
<td>106,733</td>
</tr>
<tr>
<td><strong>Total Gross Office of Economic Development Notes Receivable</strong></td>
<td><strong>153,298</strong></td>
</tr>
<tr>
<td>Less allowances for delinquent loans</td>
<td>(13,014)</td>
</tr>
<tr>
<td>Less allowances for forgivable loans</td>
<td>(79,264)</td>
</tr>
<tr>
<td><strong>Total allowances</strong></td>
<td><strong>(92,278)</strong></td>
</tr>
<tr>
<td><strong>Notes Receivable, Net</strong></td>
<td><strong>$61,020</strong></td>
</tr>
</tbody>
</table>

**Source:** 2016 Comprehensive Annual Financial Report, Note B – Receivables, Table 15, page 71.

**Governmental Activities Long-Term Receivables Are Due to Be Received in a Future Reporting Period**

The City’s Comprehensive Annual Financial Report includes amounts owed to the City that are due to be received in a future reporting period. These amounts are categorized as long-term receivables. In Table 3, Governmental Activities gross long-term receivables total $106 million. Included in this category are amounts related to reimbursements owed to the City for construction costs, parking fines, court fines, and library fines.

The three types of long-term receivables we selected for test work were Public Works’ Parking Enforcement fines and fees, Denver Public Library fees, and Community Planning and Development citations and fees. These three categories comprise 26 percent of total long-term
receivables and 37 percent of long-term allowances for doubtful accounts. Long-term receivables due to other City agencies are also summarized in Table 3.

**TABLE 3.** Governmental Activities Long-Term Receivables, as of December 31, 2016 (dollars in thousands)

<table>
<thead>
<tr>
<th>Long Term Receivable</th>
<th>Receivable</th>
<th>Allowance</th>
<th>Net Receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Planning &amp; Development</td>
<td>$ 5,286</td>
<td>$(4,822)</td>
<td>$ 464</td>
</tr>
<tr>
<td>Denver Public Library</td>
<td>1,452</td>
<td>(1,397)</td>
<td>55</td>
</tr>
<tr>
<td>Public Works - Parking Enforcement</td>
<td>21,168</td>
<td>(15,709)</td>
<td>5,459</td>
</tr>
<tr>
<td>Other Agencies' Long-Term Receivables</td>
<td>77,754</td>
<td>(37,778)</td>
<td>39,976</td>
</tr>
<tr>
<td><strong>Total Gross Long-Term Receivables and Allowance</strong></td>
<td><strong>$ 105,660</strong></td>
<td><strong>$(59,706)</strong></td>
<td><strong>$ 45,954</strong></td>
</tr>
</tbody>
</table>

*Source: City and County of Denver Controller's Office.*

**Governmental Activities Short-Term Receivables Are Expected to Be Received within One Year**

Short-term receivables are amounts owed to the City that are generally expected to be received within one year. The nature of short-term receivables can be diverse, such as Parks and Recreation permits and membership fees, as well as event settlements for concerts, shows, and community events held at locations managed by Denver Arts & Venues. As shown in Table 4, total gross short-term receivables are approximately $37 million, with a related allowance for doubtful accounts of nearly $2 million, resulting in a net receivable of about $35 million.

**TABLE 4.** Governmental Activities Short-Term Receivables, as of December 31, 2016 (dollars in thousands)

<table>
<thead>
<tr>
<th>Short Term Receivable</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>$ 11,012</td>
</tr>
<tr>
<td>Human Services</td>
<td>12,301</td>
</tr>
<tr>
<td>Other Governmental Funds</td>
<td>11,409</td>
</tr>
<tr>
<td>Internal Service Funds</td>
<td>2,133</td>
</tr>
<tr>
<td><strong>Total Gross Short-Term Receivables</strong></td>
<td><strong>$ 36,855</strong></td>
</tr>
<tr>
<td><strong>Total Allowance</strong></td>
<td><strong>$(1,704)</strong></td>
</tr>
<tr>
<td><strong>Total Net Short-Term Receivable</strong></td>
<td><strong>$ 35,151</strong></td>
</tr>
</tbody>
</table>

*Source: City and County of Denver Controller's Office financial system of record.*
The City Has Decentralized the Oversight of Receivables to Agencies through Fiscal Accountability Rules

The Controller’s Office is charged with establishing, maintaining, and enforcing accounting policies, practices, and procedures to be utilized by all departments and agencies of the City. The Fiscal Accountability Rules set parameters for fiscal activities to assist officers and employees in making fiscal decisions.

The City has decentralized the oversight of receivables to all City agencies. Especially relevant to this audit is the following rule:

- **Fiscal Accountability Rule 4.1** - Specific guidance is written in rule 4.1, which describes the accounting treatment and recording of receivables and, further, requires each agency to create and update their own receivables policies and procedures. Controls include developing their own procedures for billing, determining allowances by evaluating collectibility, and determining amounts to write off as uncollectible.

Table 5 provides a listing of these and other Fiscal Accountability Rules that are relevant to this audit.

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### TABLE 5. Fiscal Accountability Rules Relevant to Accounts Receivable

<table>
<thead>
<tr>
<th>Fiscal Accountability Rule</th>
<th>Title</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Accounting Principles and Standards</td>
<td>Requires financial reporting be based on Generally Accepted Accounting Principles promulgated by the Governmental Accounting Standards Board, with an annual certification to Controller's Office of adequate systems of internal accounting and administrative controls</td>
</tr>
<tr>
<td>1.2</td>
<td>System of Record (SOR)</td>
<td>Identifies the SOR for financial reporting and document management systems</td>
</tr>
<tr>
<td>2.2</td>
<td>Reconciliations</td>
<td>Defines the requirements for comparing information in two systems, analyzing differences, and making corrections</td>
</tr>
<tr>
<td>2.4</td>
<td>Separation and Rotation of Duties</td>
<td>Functions should be divided so no one person has control over an entire process or fiscal activity</td>
</tr>
<tr>
<td>2.5</td>
<td>Supporting Documentation</td>
<td>Requires that documentation should exist to substantiate a transaction from source documents to journals to general ledger to trial balance to financial statements</td>
</tr>
<tr>
<td>4.1</td>
<td>Accounts Receivable Allowance for Doubtful Accounts and Write-Offs</td>
<td>Defines the rules for receivables including portions that will be uncollectible, and requires agencies to maintain updated receivables policies and procedures, review collectibility quarterly, identify and timely approve amounts to be written off</td>
</tr>
<tr>
<td>11.2</td>
<td>Financial Disclosures</td>
<td>Defines the requirement to have sound accounting policies for establishing and maintaining effective internal controls over financial reporting, operations, and compliance, and preventing and detecting fraud</td>
</tr>
</tbody>
</table>

Source: City and County of Denver Fiscal Accountability Rules.
OBJECTIVE

The objective of the audit was to assess the degree to which City agencies and the Controller’s Office properly recorded governmental activities receivables and related allowances in the City’s 2016 Comprehensive Annual Financial Report. Additionally, we sought to assess agencies’ compliance with internal receivables policy and procedures as well as related Fiscal Accountability Rules issued by the Controller’s Office.

SCOPE

The audit assessed certain governmental activities receivables balances reported in the 2016 Comprehensive Annual Financial Report. Audited balances included:

- $153 million in Office of Economic Development notes and loans
- $106 million and $37 million, respectively, in long- and short-term receivables
- $154 million in allowances for uncollectible notes, loans, and receivables
- $5 million in accrued interest

Governmental activities receivable balances for property and other taxes and grants receivable were excluded from this audit. The governmental activity that we audited represents 37 percent of gross governmental activity receivables, and 100 percent of allowances and accrued interest, found in Table 1.

METHODOLOGY

We applied multiple methodologies to gather and analyze information pertinent to the audit scope, which included the following:

- Interviewing Controller’s Office and agency personnel to gain an understanding of employee roles in the day-to-day management responsibilities for operational and financial processes
- Testing agency compliance with Fiscal Accountability Rules requirements surrounding receivable and allowance balances, including supporting documentation for transactions, reconciliation of subledgers to the City’s general ledger, segregation of duties, periodic collectibility analysis, write-offs, and year-end financial reporting
- Reviewing accounts receivable and the associated allowances to ensure that they are being recorded in the financial records in accordance with Generally Accepted Accounting Principles
- Testing agency compliance to individual agency policy and related procedure requirements surrounding notes, loans, long- and short-term receivables, accrued interest, and related allowances
• Testing a sample of Office of Economic Development notes and loans receivable, long-term Community Planning and Development citation and violation receivables, and short-term receivable account entries for compliance to respective agency controls included in agency policy and procedures and the City’s Fiscal Accountability Rules

• Reviewing and testing criteria for Office of Economic Development note and loan forgiveness

• Reviewing support for subsequent payments of Office of Economic Development notes and loans and long-term Community Planning and Development receivables

• Comparing agency system detailed subledgers of receivables to amounts reported for Comprehensive Annual Financial Report reporting at December 31, 2016, at the Office of Economic Development, Department of Community Planning and Development, Denver Public Library, and the Department of Public Works’ Right of Way Enforcement Division

• Reviewing collectibility analyses to determine whether allowances are properly stated at fiscal year-end

• Reviewing and testing the propriety of the accrued interest receivable account
FINDING 1

Some City Agencies Are Not in Compliance with Fiscal Accountability Rules Applicable to Receivables

To assess the audit objectives, we selected four agencies to review their compliance with applicable Fiscal Accountability Rules and internal policy and procedures surrounding receivables. The agencies selected for testing were the Office of Economic Development, the Department of Community Planning and Development (CPD), Denver Public Library, and the Department of Public Works’ Right-of-Way Enforcement Division (or Parking Enforcement). We found issues related to Fiscal Accountability Rule 4.1, regarding agencies needing to maintain receivables policies and procedures.

Several Agencies Do Not Maintain Complete or Up-to-Date Policies and Procedures Describing Receivable Processes

Fiscal Accountability Rule 4.1 – Accounts Receivable, Allowance for Doubtful Accounts and Write-Offs, requires every City agency and department to manage their own receivables and to support the total receivable amount reported to the Controller’s Office for financial reporting purposes. Each agency is tasked with developing policies and related procedures that describe how to establish a receivable, bill an amount due, determine allowance for doubtful receivables, write off uncollectible receivables, and collect receivables. Additionally, the rule also requires each agency to review its policy and procedures at least annually to ensure that the elements align with the agency’s current business processes.

We found that CPD, Denver Public Library, and Parking Enforcement were not in compliance with Fiscal Accountability Rule 4.1. Elements of these agencies’ policies and procedures were either incomplete, lacked detailed procedural descriptions on how to complete a step, or did not assign responsibility for steps to specific employees ensuring proper segregation of duties. We found that the Office of Economic Development was in compliance with Fiscal Accountability Rule 4.1. Table 6 summarizes the results of our reviewing agency policy and procedures related to receivables and agency compliance with the key elements of the rule.

<table>
<thead>
<tr>
<th>Agency</th>
<th>Last Update</th>
<th>Supporting Detail for Receivable</th>
<th>Collectibility Analysis</th>
<th>Write Off</th>
<th>Reconciliation to General Ledger</th>
<th>Current Business Processes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parking Enforcement</td>
<td>Not Dated</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Office of Economic Development</td>
<td>2016</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Community Planning and Development</td>
<td>Not Dated</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Denver Public Library</td>
<td>2015</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>N</td>
<td>N</td>
</tr>
</tbody>
</table>

Source: Auditor analysis of select agency policy and procedures related to accounts receivable.
We found that CPD, Denver Public Library, and Parking Enforcement did not comply with certain aspects of Fiscal Accountability Rule 4.1. First, we found the agency subsidiary ledger at December 31, 2016 does not equal the gross receivable balance reported in each of these agencies' annual submissions sent to the Controller's Office.

When determining why three of the four tested agencies were not in compliance with this aspect of rule 4.1, we learned the following:

- **Community Planning and Development Did Not Reconcile to the Citations and Violations Systems of Record** - CPD’s finance and accounting unit maintains two databases for administrative citations and code violations receivables. Administrative citations are initiated by a citizen complaint regarding zoning or neighborhood inspections, while code violations are initiated directly by neighborhood and building inspectors employed by the City. Code violations that require abatement by a City agency—such as securing or demolishing an unsafe building, erecting emergency fencing, or removing debris or weeds—are billed back to the property owner with an administrative fee. Although CPD’s finance and accounting personnel annually complete and sign the Reconciliation Certification Form, the reconciliation is only done to certify current year receivable activity, and erroneously does not take into account the prior unpaid accounts receivable balances of administrative citations and code violations in the agency’s databases.

- **Parking Enforcement Did Not Include All Valid Receivables in the Reconciliation** - Parking Enforcement’s subsidiary ledger of parking violation citation receivables is maintained by a third party in a system called eTIMS. This system is used to issue and record all citations issued by Parking Enforcement staff and is the repository of all citations issued. During the audit, we requested a detailed subsidiary ledger report for all outstanding parking citations issued and still outstanding to the City, which includes citations from 1998 to present. Although Parking Enforcement’s finance personnel annually complete and sign the Reconciliation Certification Form, the amount reported for year-end long-term parking citations gross receivables only includes two years of actual citations. The two years of receivables are based on an analysis performed by the agency, which estimated that most citations will not be paid after two years. However, recent collections data suggest that the collectibility period should be longer, so the reported outstanding receivables should reflect all outstanding and collectible citations.

- **Denver Public Library Did Not Include All Valid Receivables in the Reconciliation** - The Denver Public Library uses the Polaris Integrated Library System (Polaris) to track circulation of its inventory of books, periodicals, videos, newspapers, etc. Polaris is used to calculate late fees and lost items fees and is the subsidiary ledger for these receivables. Denver Public Library contracts with a third party to collect patron fees and fines balances greater than $25, which typically includes a lost item fee. Although Denver Public Library’s finance and accounting personnel annually complete and sign the Reconciliation Certification Form, during the audit we noticed an area that may result in underreporting of receivables. The Finance Director for Denver Public Library stated that not all patron balances under $25 included in Polaris are reported to the Controller’s Office in the year-end adjusting entry due to historic practice. The Denver Public Library was not able to provide a written policy to explain this practice.

We found incomplete and outdated agency policy and procedures for reconciliation processes to be the root cause for the differences in accounts receivable reported to the Controller’s Office.
by CPD, Denver Public Library, and Parking Enforcement. Agency subsidiary ledgers that do not fully reconcile to receivable balances reported in the City's general ledger are not in compliance with Fiscal Accountability Rule 4.1.

In addition, our work indicates that CPD, Denver Public Library, and Parking Enforcement's policies and procedures around accounts receivable do not include one or more key elements of Fiscal Accountability Rule 4.1, as follows:

- CPD and Parking Enforcement do not have explicit calendar dates on all or part of their policies and procedures, which would allow the Controller's Office to determine compliance with the annual review and update requirement included in rule 4.1.
- Parking Enforcement does not have sufficient supporting detail for its outstanding receivables balances.
- Neither CPD nor Parking Enforcement have explicit and formal procedures on how to conduct periodic collectibility analysis.
- Receivables reconciliation processes and procedures are not sufficient for CPD, Denver Public Library, or Parking Enforcement.

In addition, we performed audit procedures on the four agencies' allowance for doubtful accounts. These agencies based their allowance calculations on their collectibility analyses. We noted that Parking Enforcement and CPD's calculations varied significantly from actual subsequent years' collections, indicating that the allowance for doubtful accounts may not have been an accurate estimate of actual uncollectible amounts. This may result in differences in the balance of net accounts receivable reported in the City's Comprehensive Annual Financial Report.

Fiscal Accountability Rule 4.1 was designed such that the Controller's Office can assign responsibility to agencies for ensuring that policy and procedures surrounding receivables are detailed, complete, and up-to-date and reflect the various agencies' current business processes. The agencies have ultimate responsibility for compliance with the Fiscal Accountability Rule.

**RECOMMENDATION 1.1**

The Controller's Office should require a more detailed confirmation of agencies' compliance with Fiscal Accountability Rule 4.1 by updating the Controller's Office's Year-End Questionnaire to include requirements to certify that:

- The agency has a written policy for accounts receivable and estimating uncollectible accounts;
- The agency has updated its accounts receivable policy in the past 12 months or that the written policy reflects current procedures; and
- The collectibility analysis has been completed and uncollectible accounts, if any, have been written off.

**Agency Response: Agree, Implementation Date – March 2018**
RECOMMENDATION 1.2

The Controller’s Office should require a more detailed confirmation of agencies’ compliance with Fiscal Accountability Rule 4.1 for those agencies with accounts receivable by updating the Controller’s Office’s Year-End Reporting Package to include requirements to certify or describe:

- That the agency’s accounts receivable reconciliation provides support to show that it agrees back to the agency’s subsidiary system of record for tracking outstanding accounts receivable;
- That the agency has not omitted any outstanding accounts receivable or, if any amounts are omitted, explain how much was omitted and why the amount was omitted;
- All assumptions and estimates used by the agency in calculating the gross accounts receivable balance;
- The methodology used by the agency in the calculation of allowance for doubtful accounts; and
- That the agency has reviewed the methodology historically used to calculate the allowance for doubtful accounts to ensure that it appropriately estimates the actual collections in subsequent years.

Agency Response: Agree, Implementation Date – March 2018
RECOMMENDATIONS

We make the following recommendations to the Controller’s Office to improve adherence to the Fiscal Accountability Rules for receivables financial reporting:

1.1 Update Comprehensive Agency Receivables Policy and Procedures—The Controller’s Office should require a more detailed confirmation of agencies’ compliance with Fiscal Accountability Rule 4.1 by updating the Controller’s Office’s Year-End Questionnaire to include requirements to certify that:

- The agency has a written policy for accounts receivable and estimating uncollectible accounts;
- The agency has updated its accounts receivable policy in the past 12 months or that the written policy reflects current procedures; and
- The collectibility analysis has been completed and uncollectible accounts, if any, have been written off.

Agency Response: Agree, Implementation Date – March 2018

Auditee Narrative: We agree with the finding. The year-end questionnaire will be updated to include a certification that each agency has a written policy for accounts receivable and estimating uncollectible accounts. It will include a certification that the accounts receivable policy has been reviewed and updated, when necessary, in the twelve months and that a collectibility analysis has been performed and uncollectible accounts have been analyzed and written off where applicable.

1.2 Reconcile Agency Subsidiary Ledgers to Receivables Annually Reported to the Controller’s Office—The Controller’s Office should require a more detailed confirmation of agencies’ compliance with Fiscal Accountability Rule 4.1 for those agencies with accounts receivable by updating the Controller’s Office’s Year-End Reporting Package to include requirements to certify or describe:

- That the agency’s accounts receivable reconciliation provides support to show that it agrees back to the agency’s subsidiary system of record for tracking outstanding accounts receivable;
- That the agency has not omitted any outstanding accounts receivable or, if any amounts are omitted, explain how much was omitted and why the amount was omitted;
- All assumptions and estimates used by the agency in calculating the gross accounts receivable balance;
- The methodology used by the agency in the calculation of allowance for doubtful accounts; and
- That the agency has reviewed the methodology historically used to calculate the allowance for doubtful accounts to ensure that it appropriately estimates the actual collections in subsequent years.

**Agency Response: Agree, Implementation Date - March 2018**

Auditee Narrative: We agree with the finding. The Controller's Office will update the year-end reporting package to capture additional information that will help ensure that assumptions and estimates used by agencies are reasonable. The reporting package will require a description of the methodology used to calculate both the receivable balance and the allowance for doubtful accounts.
FINDING 2

Denver Public Library Has Inadequate Segregation of Duties in Receivables Collections and Lacks Controls over Fees and Fines Write-Offs

Denver Public Library lacks segregation of duties in receivables collections at circulation desks at the central library and the 24 branch libraries located throughout the City. Additionally, Denver Public Library does not regularly analyze write-offs of fines and fees of outstanding receivable balances performed by branch personnel to ensure that write-off decisions are proper and in accordance with internal policy and procedures. As a result of these control deficiencies, Denver Public Library may be at risk of cash receipts intended to pay off outstanding receivables being misappropriated or receivables being improperly forgiven, costing the City money.

Insufficient Segregation of Duties

User IDs are required to log-in to Polaris, Denver Public Library’s integrated library system. This system manages Denver Public Library’s receivables, including late fees and fines for overdue or lost materials. The Manager of Books and Borrowing explained that it is standard practice for staff to log out of Polaris during shift changes, and for the next clerk to log in with his or her own credentials. However, with reduced branch staffing, these controls may break down, and a different employee may inadvertently process a transaction under another employees’ user ID.

The City’s Fiscal Accountability Rule 2.4 – Separation and Rotation of Duties requires that functions should be divided so that no one person has control over an entire fiscal process by assigning responsibilities to encourage checks and balances. This acts as a deterrent to fraud and concealment, since collusion with another individual is required to complete a fraudulent act. Additionally, the rule states that in small agencies or departments, where separation is difficult to achieve, a high level of management oversight of financial related activities is required as a compensating control activity. Agency heads and department managers need to ensure that duties are assigned to different individuals to process, authorize, and reconcile transactions in the accounts’ records, for at least two consecutive weeks during each calendar year.

Although Polaris is not a typical cash register-type point-of-sale system, it does track daily cash and credit card payments received in customer accounts. Denver Public Library’s central library and branch locations maintain manual change funds, or change boxes, which are used jointly by circulation desk personnel to collect fines and fees from library patrons. Daily payment reconciliations are completed between activity recorded in Polaris and actual cash and credit card receipts. However, with shared change funds, over- or under-reconciliation errors are more difficult to assign to individual circulation desk employees. Shared change funds violate the segregation of duties requirements of Fiscal Accountability Rule 2.4.

Insufficient Controls Surrounding Accounts Receivable Write-Offs

Polaris automatically calculates overdue fines once an item is returned and scanned back in by circulation personnel. Currently, if a patron has $5 in overdue fines or fees, the patron is barred from checking out more materials until a circulation desk employee either collects a fine from the patron or forgives the fine by writing it off in Polaris. Circulation desk employees are given discretion regarding when to forgive a fine, and there are no amount thresholds that require supervisory approval. When forgiving a fine, Denver Public Library procedures dictate that the employee
includes a reason for the waiver, such as making a hardship exception, along with the employee’s initials and work area. This reason is recorded in a note field in a dialog box within the program. The system’s waive function then automatically dates the write-off transaction.

The forgiveness of a fine is a write-off of the receivable in the Polaris system. This reduces Denver Public Library’s outstanding receivable balance and no revenue will be recorded related to the forgiven amount. There is a risk that a circulation desk employee could improperly forgive fines for customers who could otherwise pay, which reduces the amount of revenue that Denver Public Library could collect. Combined with the segregation of duties issue previously noted, there is also a risk that an employee could misappropriate cash collected to pay an outstanding receivable balance and mark the outstanding balance as forgiven.

Standards established by the U.S. Government Accountability Office in the Green Book suggest that management consider the potential for fraud, including theft. Management should consider three fraud risk factors—incentive, opportunity, and rationalization—to identify fraud risks and then effectively mitigate them. Denver Public Library has not established a threshold of maximum waivers allowed by employee or branch in a period, and does not periodically review and analyze forgiven fines and fees to ensure that waivers are following established guidelines. In addition, Denver Public Library management is not reviewing patterns of write-offs at branches or by circulation desk employees to identify potential fraud.

Potential shared log-ins to Polaris as well as lack of management oversight on fine and fees write-offs violate the segregation of duties requirement of Fiscal Accountability Rule 2.4. Without these controls in place, Denver Public Library risks loss through unjustified write-offs, such as allowing friends and family to forego paying fines and fees assessed. In addition, the potential of fraud exists where a circulation desk employee accepts and pockets cash collected from a patron while writing off the receivable in Polaris.

**RECOMMENDATION 2.1**

Denver Public Library should strengthen segregation of duties in receivables payment processing by expressly prohibiting employees from entering information into Polaris using another employee’s user ID.

*Agency Response: Agree, Implementation Date – January 2018*

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RECOMMENDATION 2.2

Denver Public Library should strengthen controls surrounding fines and fees forgiveness by circulation desk employees by requiring periodic review and analysis of fines and fees write-off trends at branch and employee levels. This review could identify potential outliers that might indicate fraud or abuse.

Agency Response: Agree, Implementation Date - June 2018
RECOMMENDATIONS

We make the following recommendations to the Denver Public Library to improve adherence to the Fiscal Accountability Rules by ensuring proper segregation of duties and periodic reviews of fines and fees write-offs:

2.1 **Improve Segregation of Duties in Receivables Payment Processing**—Denver Public Library should strengthen segregation of duties in receivables payment processing by expressly prohibiting employees from entering information into Polaris using another employee’s user ID.

*Agency Response: Agree, Implementation Date - January 2018*

Auditee Narrative: The is currently Denver Public Library’s procedure. However, there is no function to stop this from happening in Polaris (our library system). We agree that it needs to be enforced through more frequent communication and training. Also, supervisors will spot check that staff are logged into Polaris under their own credentials.

2.2 **Implement Compensating Controls Over Fines and Fees Forgiveness**—Denver Public Library should strengthen controls surrounding fines and fees forgiveness by circulation desk employees by requiring periodic review and analysis of fines and fees write-off trends at branch and employee levels. This review could identify potential outliers that might indicate fraud or abuse.

*Agency Response: Agree, Implementation Date - June 2018*

Auditee Narrative: DPL will develop a periodic review and analysis of fines and fees write-off activity.

It should be noted that the purpose of late fines is to motivate the customer to return the item and keep the customer’s account open enabling continued use of the library. With this core library value, front line staff are empowered to use informed judgment to waive fines. DPL plans to work with the City in early 2018 to eliminate late fines leaving lost item fees as the only revenue staff will collect. This will change the focus of front line staff from negotiating late fines to collecting money to replace lost materials. The new procedures for lost fee negotiation will greatly reduce the latitude of front line staff to waive these fees making the tracking and analysis for waives more effective.
FINDING 3

City Agencies Have Not Obtained Formal Assurance Regarding the Reliability of Financial Information Provided by Vendors Contracted to Provide Accounts Receivable Collection Services

Many City agencies contract with third-party service providers to process accounts receivable collections. These service providers also recommend to agencies receivables that should be written off as uncollectible. Although this type of contracting is common, agencies must comply with the City’s fiscal rules. One in particular—Fiscal Accountability Rule 1.1—requires that “all independent agencies shall annually certify to the Controller as to the adequacy of its system of internal accounting and administrative control”. Thus, the agencies using third parties for accounts receivable collections need to confirm that these vendors can prove the adequacy of their system of internal accounting and administrative control. Vendors can do this by providing assurance that the system or processes they use include sufficient effective internal controls that will ultimately provide the City with accurate and reliable accounts receivable information.

In order to help service providers offer this type of assurance to their clients, the American Institute of Certified Public Accountants developed the Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization. This statement requires that service providers must provide an independent audit report attesting to the suitability of the design and operating effectiveness of the controls in their processing system. This assurance is formally provided by an independent firm, which produces a Service Organization Controls (SOC) I report after an examination engagement.

The American Institute of Certified Public Accountants also developed the Service Organization Controls (SOC) II report on internal control as a method for a service organization to provide assurance of the security, availability, process, integrity, confidentiality, or privacy of data being processed by the vendor.4 Table 7 describes the types of reports that can be prepared that describe a service organization’s organizational, system, or hosting control environment.

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4 SOC 2- SOC for Service Organizations: Trust Services Criteria, Report on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality or Privacy, AICPA. HTTP://WWW.AICPA.ORG/INTERESTAREAS/FRC/ASSURANCEADVISORYSERVICES/PAGES/AICPASOC2REPORT.ASPX, last accessed November 2, 2017
**TABLE 7.** Types of Service Organization Control Reports for Service Organizations

<table>
<thead>
<tr>
<th>Report Type</th>
<th>Report Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOC I, Type I</td>
<td>Independent audited report that provides assurance over the design of the internal control environment over the financial reporting process provided by a contracted service provider, without testing of the effectiveness of the control implementation.</td>
</tr>
<tr>
<td>SOC I, Type II</td>
<td>Independent audited report that provides assurance over the design and implementation of the effectiveness of the internal control environment over the financial reporting process provided by a contracted service provider.</td>
</tr>
<tr>
<td>SOC II, Type I</td>
<td>Independent audited report that provides assurance regarding the design of the controls over security, availability, processing integrity, confidentiality, and privacy of data being processed by a contracted service provider without testing of the effectiveness of the control implementation based on specific standards issued by the American Institute of Certified Public Accountants.</td>
</tr>
<tr>
<td>SOC II, Type II</td>
<td>Independent audited report that provides assurance regarding the effectiveness of the design and implementation of the controls over security, availability, processing integrity, confidentiality, and privacy of data being processed by a contracted service provider based on specific standards issued by the American Institute of Certified Public Accountants.</td>
</tr>
</tbody>
</table>

Source: SSAE 16 Guidance & SOC 2- SOC for Service Organizations: Trust Services Criteria, American Institute of Certified Public Accountants.

Citywide Asset Recovery Program Administered by the Treasury Division Does Not Collect a SOC I or SOC II Report

The Asset Recovery Program, administered by the Treasury Division and performed by a contracted third-party vendor, handles the bulk of the past due accounts receivable collections for the City. The Asset Recovery Program provides collection services for any City debt, including returned checks, fines, fees, delinquent invoices, and aged receivables, with the intent of collecting 100 percent of the referred debt for the originating agency. The Treasury Division administers this centralized collection service for City agencies that do not want to devote staff and resources to collection efforts or individually contract for collection services. Participation in the program is voluntary. Any City agency may use the program so long as it adheres to the program structure and rules, which are agreed to using a service level agreement signed by both the agency head and the Asset Recovery Program administrator.

Collected monies are returned to participating agencies monthly with detailed documentation showing specific agency account information and monies collected on each account. Agencies can then update their subsidiary ledgers. When the program administrator deems that an account is uncollectible, program personnel make recommendations to the agency to write-off the account balance in its subsidiary ledger.
During this audit, we confirmed with the Treasurer that the Asset Recovery Program administrator does not collect a SOC I or SOC II report for the program, citing the lack of an interface between the vendor’s systems and the City’s various financial systems. Both the Office of Economic Development and the Department of Community Planning and Development use the Asset Recovery Program, in addition to agency collection efforts, to collect receivables and obtain suggestions for write-offs. Because these agencies are relying on the internal controls for the vendor processing the accounts receivable data, the administrator should obtain a SOC I and, if available, a SOC II report from the third-party vendor to assess the effectiveness of the internal controls over the accounts receivable processing.

Denver Public Library Does Not Collect SOC Reports for Its Accounts Receivable Collection Systems

The Denver Public Library uses the Asset Recovery Program to handle collections on not-sufficient-funds checks. However, assessed library fines and fees that exceed $25 are pursued for collection by a company specializing in these types of collections. This vendor also provides the details of the accounts that should be written off and reports on the collection of money or the return of loaned materials.

We requested SOC I report for this third-party vendor from Denver Public Library. However, the vendor was unable to provide a SOC I report to the library.

Parking Enforcement Does Not Receive SOC Reports from the Two Vendors It Uses to Handle Collections

Parking Enforcement contracts with two vendors to handle collections of parking violation fines. The first vendor provides collection services for initial collection efforts up to one year, but it also provides Parking Enforcement with the eTIMS system. eTIMS is used to issue and record all citations issued by Parking Enforcement staff and serves as the repository and subsidiary ledger of all citations issued.

The second vendor is responsible for collections efforts that exceed one year. It also provides Parking Enforcement with annual recommendations for receivable write-offs, which are mandated by the Denver Revised Municipal Code. These write-off recommendations are brought before the Denver County Court to be officially deemed uncollectible. This decision ceases all collection efforts; however, the debt still remains valid.

After requesting SOC reports for both of Parking Enforcement’s vendors, we obtained a SOC I from the one that provides services for receivables outstanding for greater than a year. Upon review, we noted that the SOC I provided was prepared for use by a different entity—not the City. As such, it was not valid for use by the City. As for the eTIMS application, we were only provided a SOC I report for the data hosting center of the system. No SOC I was available for the eTIMS system.

To further strengthen controls surrounding accounts receivable collection activities and financial systems such as the eTIMS parking violation fines subledger, the Treasury Division, Denver Public Library, and Parking Enforcement should obtain assurance reports, such as SOC I and SOC II, or implement further manual compensating controls to verify the reliability of financial information provided by these services. In the absence of the assurance provided by these reports, risk exists that subsidiary ledgers are not reliable, collections are not being conducted to maximize revenues, and recommendations for write-offs may not be appropriate resulting in financial information errors.
RECOMMENDATION 3.1

We recommend that the Controller's Office work with the Treasury Division, Denver Public Library, and the Parking Enforcement Division to ensure that the Divisions annually request, obtain, and review SSAE 16 SOC I Type II and SOC II Type II reports for financial processing services provided by third-parties. If these SSAE reports are unavailable, agencies should work with the providers to secure such reporting or develop a framework of compensating controls to ensure that financial data and collections reporting are reliable.

Agency Response: Agree, Implementation Date – March 2018
RECOMMENDATION

We make the following recommendations to city agencies contracting vendors providing accounting and collection services:

3.1 **Obtain Assurance Reports or Implement Compensating Controls**—We recommend that the Controller’s Office work with the Treasury Division, Denver Public Library, and the Parking Enforcement Division to ensure that the Divisions annually request, obtain, and review SSAE 16 SOC-I Type II and SOC II Type II reports for financial processing services provided by third parties. If these SSAE reports are unavailable, agencies should work with the providers to secure such reporting or develop a framework of compensating controls to ensure that financial data and collections reporting are reliable.

**Agency Response: Agree, Implementation Date - March 2018**

Auditee Narrative: We agree with the finding. The Controller’s Office will add a certification to the year-end questionnaire that will help ensure that agencies obtain SSAE 16 SOC-1 Type II and SOC-2 Type II reports when necessary or have compensating controls. In addition, the Controller’s Office will consider if a fiscal rule regarding these reports would be appropriate.
FINDING 4

Office of Economic Development Notes and Loans Receivable Are Properly Valued in Accordance with City Policy, and the Agency Is Compliant with Agency Policies and Relevant Fiscal Accountability Rules

As noted in Finding 1, we tested four agencies, including the Office of Economic Development, to review their compliance with applicable Fiscal Accountability Rules and internal policy and procedures surrounding their receivables. In a previous audit in 2009, we found some deficiencies in the Office of Economic Development’s compliance with the Fiscal Accountability Rules, specifically regarding missing documentation in the agency’s loan files. Our current audit found significant improvements in the documentation for loan files tested.

For those loans issued after 2009, we found that the Office of Economic Development had proper documentation in all files tested. This supports our observation that the Office of Economic Development has adequate and detailed policies and procedures that are up-to-date with current internal business processes, as required by Fiscal Accountability Rule 4.1. This strong internal control environment and employee adherence to the internal controls has resulted in proper agency financial reporting for agency’s notes and loans.

We selected 25 of 493 notes and loans for affordable housing development as well as small business economic development for proper oversight and documentation, including internal approval of loan amounts by program directors and other City officials. We also tested to ensure that loans and notes exceeding $500,000 were approved by City Council. Our testing sought to obtain assurance that:

- Contracts were properly executed in writing, complying with requirements of Executive Order No. 8 – Contracts and Other Written Instruments of and for the City and County of Denver;
- Loan disbursements, both initial draws and subsequent periodic draw-downs, were properly reviewed by responsible program authorizers;
- Supporting documentation was available and justified the disbursement of funds;
- Subsequent payments of loans were properly recorded in the subsidiary ledger;
- The subsidiary ledger was reconciled to the City’s financial system general ledger; and
- Monthly collectibility analyses and loan and note deferrals and write-offs, including forgiveness, were in accordance with agency policy.

We found that Office of Economic Development Notes and Loans Receivables manual contract file support is complete for all tested loans fulfilling internal and City approval, contract execution, City Council ordinance, and disbursement and drawdown documentation requirements. The subsidiary ledger in PORTFOL, the agency’s portfolio management system, is reconciled to the City’s financial general ledger, and collectibility analysis and write-offs are completed monthly.

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⁵ City and County of Denver, Department of Finance Fiscal Accountability Rules, last accessed 10/25/2017
December 19, 2017

Auditor Timothy 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 Citywide Governmental Activities Receivables.

This memorandum provides a written response for each reportable condition noted in the Auditor’s Report final draft that was sent to us on November 28, 2017. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING 1
Some City Agencies Are Not in Compliance with Fiscal Accountability Rules Applicable to Receivables.

RECOMMENDATION 1.1
The Controller’s Office should require a more detailed confirmation of agencies’ compliance with Fiscal Accountability Rule 4.1 by updating the Controller’s Office’s Year-End Questionnaire to include requirements to certify that:

- The agency has a written policy for accounts receivable and estimating uncollectible accounts;
- The agency has updated its accounts receivable policy in the past 12 months or that the written policy reflects current procedures; and
- The collectability analysis has been completed and uncollectible accounts, if any, have been written off.

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<tbody>
<tr>
<td>Agree</td>
<td>3/18/18</td>
<td>Shanna Tohill 720-913-5008</td>
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Narrative for Recommendation 1.1
We agree with the finding. The year-end questionnaire will be updated to include a certification that each agency has a written policy for accounts receivable and estimating uncollectible accounts. It will include a certification that the accounts receivable policy has been reviewed and updated, when necessary, in the last twelve months and that a collectability analysis has been performed and uncollectible accounts have been analyzed and written off where applicable.

RECOMMENDATION 1.2
The Controller’s Office should require a more detailed confirmation of agencies' compliance with Fiscal Accountability Rule 4.1 for those agencies with accounts receivable by updating the Controller’s Office’s Year-End Reporting Package to include requirements to certify or describe:

- That the agency’s accounts receivable reconciliation provides support to show that it agrees back to the agency’s subsidiary system of record for tracking outstanding accounts receivable;
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<td>Sharna Tohill 720-912-5008</td>
</tr>
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Narrative for Recommendation 1.2
We agree with the finding. The Controller’s Office will update the year-end reporting package to capture additional information that will help ensure that assumptions and estimates used by agencies are reasonable. The reporting package will require a description of the methodology used to calculate both the receivable balance and the allowance for doubtful accounts.

AUDIT FINDING 2
Denver Public Library Has Inadequate Segregation of Duties in Receivables Collections and Lacks Controls over Fees and Fines Write-Offs
RECOMMENDATION 2.1
Denver Public Library should strengthen segregation of duties in receivables payment processing by expressly prohibiting employees from entering information into Polaris using another employee’s user ID.

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<tr>
<td>Agree</td>
<td>1/31/18</td>
<td>Amber Lindberg 720-865-2030</td>
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Narrative for Recommendation 2.1
This is currently Denver Public Library’s procedure. However, there is no function to stop this from happening in Polaris (our library system). We agree that it needs to be enforced through more frequent communication and training. Also, supervisors will spot check that staff are logged into Polaris under their own credentials.

RECOMMENDATION 2.2
Denver Public Library should strengthen controls surrounding fines and fees forgiveness by circulation desk employees by requiring periodic review and analysis of fines and fees write-off trends at branch and employee levels. This review could identify potential outliers that might indicate fraud or abuse.

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<tbody>
<tr>
<td>Agree</td>
<td>6/30/18</td>
<td>Ron Miller 720-865-2020</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 2.2
DPL will develop a periodic review and analysis of fines and fees write-off activity.

It should be noted that the purpose of late fines is to motivate the customer to return the item and keep the customer’s account open enabling continued use of the library. With this core library value, front line staff are empowered to use informed judgment to waive fines. DPL plans to work with the City in early 2018 to eliminate late fines leaving lost item fees as the only revenue staff will collect. This will change the focus of front line staff from negotiating late fines to collecting money to replace lost materials. The new procedures for lost fee negotiation will greatly reduce the latitude of front line staff to waive these fees making the tracking and analysis for waivers more effective.
AUDIT FINDING 3
City Agencies Have Not Obtained Formal Assurance Regarding the Reliability of Financial Information Provided by Vendors Contracted to Provide Accounts Receivable Collection Services.

RECOMMENDATION 3.1
We recommend that the Controller’s Office work with the Treasury Division, Denver Public Library, and the Parking Enforcement Division to ensure that the Divisions annually request, obtain, and review SSAE 16 SOC-1 Type II and SOC-2 Type II reports for financial processing services provided by third-parties. If these SSAE reports are unavailable, agencies should work with the providers to secure such reporting or develop a framework of compensating controls to ensure that financial data and collections reporting are reliable.

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Narrative for Recommendation 3.1
We agree with the finding. The Controller’s Office will add a certification to the year-end questionnaire that will help ensure that agencies obtain SSAE 16 SOC-1 Type II and SOC-2 Type II reports when necessary or have compensating controls. In addition, the Controller’s Office will consider if a fiscal rule regarding these reports would be appropriate.

Please contact me at 720-913-5515 with any questions.

Sincerely,

Beth Machann, CGFM
City Controller

cc: Valerie Walling, CPA, CMC, Deputy Auditor
Heidi O’Neil, CPA, CGMA, Director of Financial Audits
Kevin Sear, CPA, CIA, CISA, CFE, CGMA, Audit Manager
Jeremy Creamann, CPA, Audit Supervisor
Beth Machann, City Controller
Steve Ellington, Treasurer
Kelli Bennett, Financial Director, Controllers Office
Shanna Tohill, Manager of Accounting & Reporting, Controllers Office
Janice Cornell, Director, CPD
Ian Dougherty, Fiscal Administrator II, Public Works
Chiquita McGowin, Financial Director, OED
Ron Miller, Finance Director, DPL