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 and providing other audit services and information to City Council, the Mayor, and the public to improve all aspects of Denver’s government.

The Audit Committee is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities regarding the integrity of the City’s finances and operations, including the reliability of the City’s financial statements. The Audit Committee is structured in a manner that ensures the independent oversight of City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.

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Audit report year: 2017
AUDITOR'S REPORT

We have completed a citywide audit of special revenue funds. The objective of the audit was to determine whether there is a process in place to ensure that special revenue funds are being set up, reported, and removed in a consistent manner and to determine whether revenues and expenditures of these funds are in compliance with ordinances, laws, and other requirements.

As described in the attached report, our audit revealed that the Budget and Management Office and Controller’s Office can improve the policies and procedures for setting up, reporting, and closing special revenue funds. Testing of revenues and expenditures at the agencies showed that the transactions are generally in compliance with ordinances, laws, and other requirements. Two exceptions were found in the testing, but both could have been prevented or detected with strengthened controls over fund set-up and reporting processes. Testing also revealed areas for improvement in the policies and procedures for reporting gifts received by agencies.

Through stronger policies and procedures, the Budget and Management Office and Controller’s Office will be able to help ensure that special revenue funds are in compliance with their intended use and are reported accurately. 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 the Budget and Management Office, the Controller’s Office, and the seven other agencies mentioned in this report and their personnel who assisted and cooperated with us during the audit.

Denver Auditor's Office

Timothy M. O’Brien, CPA
Auditor
Special Revenue Funds
October 2017

Objective
The objective of the audit was to determine whether there is a process in place to ensure that special revenue funds are being set up, reported, and removed in a consistent manner and to determine whether revenues and expenditures of the funds are in compliance with ordinances, laws, and other requirements.

Background
A special revenue fund (SRF) is a government accounting tool used for administrative, financial management, and transparency purposes to separate and track incoming funds (revenue) when the expenditure of the funds is restricted to specific purposes by the source of the funds, the law, or an administrative action. The City utilizes SRFs to account for specific revenue sources, such as donations, grants, and taxes, where expenditure of the received funds is restricted. The Budget and Management Office (BMO) and the Controller's Office work together to manage and report the City's SRFs, but City agencies are responsible for ensuring that their SRF transactions are in compliance with the intended purpose of the SRF.

Highlights
Our review of special revenue fund (SRF) processes and testing of six selected SRFs did not indicate any systemic issues regarding misuse of SRFs for reasons other than the purpose for which they were set up. However, we did identify four findings relating to SRF transparency and process improvement.

FINDING 1: Transparency of Existence and Purpose of SRFs – A complete listing of all City SRFs is not available to the public. Additionally, one of the SRFs that we tested was named incorrectly in the City’s budget book; accordingly, the purpose of the fund was unclear. We offer one recommendation for this finding that would improve the transparency of SRFs to the public.

FINDING 2: SRF Opening and Closing Process Improvement – BMO does not have a formal procedure for establishing and closing out SRFs. This could cause an important step to be skipped or otherwise cause inconsistency among agencies regarding what is considered an SRF. We also learned that more than 100 existing SRFs are not active. We offer two recommendations related to this finding.

FINDING 3: Reconciliation Process Improvement – We found that improvements that can be made to the SRF reconciliation and annual certification processes within the Controller’s Office. We also identified three agencies that do not have procedures in place to guide their staff in the SRF reconciliation process, which is not in accordance with Fiscal Accountability Rule 2.2. We offer six recommendations related to this finding.

FINDING 4: Non-Compliance with Executive Order 134 and Gift Reporting Process Improvement – We discovered a large donation that was gifted to an agency but not reported to the Office of the Clerk and Recorder, as required by Executive Order 134. We also noted areas of the agency gift reporting process that could be improved to enhance associated monitoring controls. We offer three recommendations related to this finding.

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

Governments Use Special Revenue Funds to Track Incoming Funds That Are Restricted for Specific Spending Purposes

A special revenue fund (SRF) is a government accounting tool used for administrative, financial management, and transparency purposes to separate and track incoming funds (revenue) when the expenditure of the funds is restricted to a specific purpose. Spending restrictions may be established by the source of the funds, the law, or an administrative action.

Like many municipalities, the City and County of Denver (City) uses SRFs to account for specific revenue sources where expenditure is restricted. The Denver Revised Municipal Code (D.R.M.C.) establishes the use of this fund type but clarifies that SRFs are not to be used for special assessments, expendable trusts, or major capital projects. The Governmental Accounting Standards Board (GASB), in its Statement Number 54 (GASB 54), also discusses capital projects, stating that SRF funds should not be used for debt service or capital projects. However, implementation guidance from GASB 54 goes on to specify that SRFs are not required to report restricted or committed revenue. This allows municipalities like Denver to determine when and when not to use an SRF.

The City and County of Denver’s Use of Special Revenue Funds

The City utilizes SRFs to account for revenue from a variety of sources, including federal, state, local, and private grants; revenue from taxes and fees earmarked for a specific purpose; donations; and transfers from other funds, including the General Fund. When an SRF is established or changed, it must be done through an ordinance and approved by the City Council. Once approved, it will be set up as one of two types of SRFs: appropriated or cash basis, which are defined as follows:

- **Appropriated Special Revenue Funds** – Appropriated SRFs have an annual budget that is set either by the SRF’s establishing ordinance or by the Long Bill. These types of SRFs cannot spend more than the budgeted amount without requesting and receiving permission for additional expenditures.

- **Cash-Basis Special Revenue Funds** – Cash-basis SRFs do not have a budgeted amount of expenditures. However, they cannot spend more than they take in, and the expenditures must be for the purposes documented in the SRF’s establishing ordinance.

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2 D.R.M.C. § 20-18 - Fund Plan.
3 Statement No. 54 of the Governmental Accounting Standards Board: Fund Balance Reporting and Governmental Fund Type Definitions, Paragraphs 30 – 32 (February 2009).
4 Implementation Guide Z of GASB 54 only requires the use of special revenue funds when reporting the general fund of a blended component unit. GASB defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable.
5 The Long Bill is an ordinance used to transfer funding to many City programs and special revenue funds from the City’s General Fund. Amounts are determined through the City’s annual budgeting process.
The Budget and Management Office and the Controller’s Office Manage and Report Special Revenue Fund Activity

The Budget and Management Office (BMO) and the Controller’s Office work together to manage and report the City’s SRFs. However, City agencies that have SRFs are responsible for oversight of and accounting for SRF transactions in the City’s system of record. Agencies are also responsible for ensuring that the expenditures from an SRF are in accordance with the establishing ordinance and other applicable spending restrictions. The Accounting Services unit in the Controller’s Office provides accounting and reconciliation assistance for those agencies that do not have the resources or expertise to perform these tasks themselves. SRFs are reported in the annual budget book and the Comprehensive Annual Financial Report (CAFR).

The Budget and Management Office Is Responsible for Special Revenue Fund Set Up, Budgeting, and Reporting in the Budget Book

BMO sets up new SRFs, closes old and unused ones, and appropriates funds to SRFs through the annual budget process. Each agency that has an SRF has an assigned BMO budget analyst to assist with the set up and monitoring of SRF budgets. BMO’s list of the City’s SRFs is maintained in a system called Questica, the City’s budget preparation software. BMO then uses Questica to generate SRF information that is included in the annual budget book. There is a section entitled “Special Revenue Funds” listing most of the City’s active SRFs, and there is another section that lists SRFs that are funded by federal, state, local, and private grants. These lists are not exhaustive; however, some SRFs are excluded from the budget book if they have not had recent activity and are not budgeted to have activity in the coming fiscal year.

SRFs are classified in the budget book into the following six categories, by purpose, as established in the D.R.M.C.:

- **General Government** – Special purposes, administrative activities, or activities not covered by the other five categories, including the City Attorney’s Office, City Council, Office of the Clerk and Recorder, Department of Community Planning and Development, Agency for Human Rights and Community Partnerships, Department of Finance, Mayor’s Office, Office of Children’s Affairs, Office of Human Resources, Department of Public Works, and Technology Services

- **Public Safety** – Public safety purposes or activities carried out by the Denver Police, Fire, and Sheriff Departments, the Denver County Courts, and the District Attorney’s Office

- **Human Services** – Administration of all forms of public assistance in the City, including the annually appropriated funds for the operations of Denver Human Services and the periodic grants that have been awarded for specific projects and programs

- **Health** – Health purposes and activities that are primarily performed by the Department of Environmental Health

- **Culture and Recreation** – Cultural and recreational purposes or activities including the Department of Parks and Recreation, Denver Public Library, and Denver Arts and Venues

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6 The City and County of Denver is currently using Workday as the system of record. However, the transactions in the audit sample occurred in the previous system of record, PeopleSoft. The conversion from PeopleSoft to Workday occurred in August 2017.
- **Economic Development** – Economic opportunity and community development purposes or activities, including the administration of Community Development Block Grants, Housing and Neighborhood Development, the Workforce Investment Act, and Temporary Assistance for Needy Families

The Controller’s Office is Responsible for Special Revenue Fund Transaction Recording and Reporting in the CAFR

The Controller’s Office is responsible for ensuring that funds meet the GASB 54 definition of an SRF when compiling financial data from PeopleSoft for reporting SRFs in the CAFR. SRFs within Denver Human Services are combined and reported as a major governmental fund. All other SRFs are reported as non-major governmental funds and combined into the following eight categories:

- **General Government** – Special purposes, administrative activities, or activities not covered by the other seven categories, including the City Attorney’s Office, City Council, Office of the Clerk and Recorder, Agency for Human Rights and Community Partnerships, Department of Finance, Mayor’s Office, Office of Children’s Affairs, Office of Human Resources, Department of Public Works, and Technology Services
- **Public Safety** – Public safety purposes or activities carried out by the Denver Police, Fire, and Sheriff Departments, the Denver County Courts, and the District Attorney’s Office
- **Health** – Health purposes and activities that are primarily performed by the Department of Environmental Health
- **Culture and Recreation** – Cultural and recreational purposes or activities including the Department of Parks and Recreation, Denver Public Library, and Denver Arts and Venues
- **Economic Development** – Economic opportunity and community development purposes or activities, including the administration of Community Development Block Grants, Housing and Neighborhood Development, the Workforce Investment Act, and Temporary Assistance for Needy Families
- **Community Development** – Proceeds to be used for community development purposes and activities
- **Special Funds** – Resources by agreement for various purposes
- **General Improvement Districts** – Financial resources segregated for the financing of improvements to properties within the general improvement district

**Special Revenue Fund Reconciliations** – The Controller’s Office is also responsible for the creation and enforcement of the City’s Fiscal Accountability Rules (FARs). FAR 2.2 outlines the rules around the periodic reconciliation of the City’s general ledger accounts, including SRFs. FAR 2.2 defines a reconciliation as “the process of comparing information that exists in two systems or locations, analyzing differences, and making corrections so that the information is accurate, complete, and consistent.”

A key rule in FAR 2.2 requires every agency to complete and submit a Reconciliation Certification Form by November 30 every year. The form requires that the agency certify that

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7 The Government Finance Officers Association describes major funds as being the most important, determined by the relative size of the fund based on quantitative and qualitative factors set forth by the municipality.
8 City and County of Denver Fiscal Accountability Rule 2.2 – Reconciliations.
fund activity in the first 10 months of the fiscal year (January through October) has been analyzed and that the PeopleSoft general ledger has been adjusted accordingly.

**City Special Revenue Funds Must Report on Gifts Received That Exceed $2,500**

SRFs that account for donations receive gifts from public and private donors as their primary revenue source. On December 20, 2007, Denver’s then-mayor, John Hickenlooper, issued Executive Order 134 titled, “Gifts to the City and County of Denver.” The order requires all agencies to report gifts of more than $2,500 to the Office of the Clerk and Recorder, which is then required to post the reports to the City’s website for public access.
OBJECTIVE

The objectives of the audit were to determine whether:

1. There is a process in place to ensure that special revenue funds are being set up, reported, and removed in a consistent manner; and

2. Revenues and expenditures for special revenue funds tracked and managed by City agencies are in compliance with ordinances, laws, and other requirements.

SCOPE

The audit reviewed special revenue funds within the context of fund creation, reporting, and removal. We audited the following six funds for compliance with regulations, governance policies, and appropriate accounting for revenue and expenditures:

- **Fleet Replacement Planned Fund** – operated by the Department of Public Works
- **Victim Assistance-D.A. Fund** – operated by the District Attorney’s Office
- **Homeless Services Donations Fund** – operated by Denver Human Services
- **Animal Shelter Donations Fund** – operated by the Department of Environmental Health
- **Workforce for ACT Title I Fund** – operated by the Office of Economic Development
- **911 Emergency Communications Trust Fund** – operated by the Department of Safety

METHODOLOGY

We utilized various methodologies during the audit to gather and analyze information pertinent to the audit scope and to assist with developing and testing the audit objectives. These methodologies included the following:

- Interviewing Budget and Management Office and Controller’s Office personnel to gain an understanding of employee roles and operational and financial processes
- Interviewing key agency personnel with day-to-day management responsibilities over special revenue funds
- Walking through the Budget and Management Office’s process for establishing and removing special revenue funds
- Walking through the Controller’s Office’s process for reporting special revenue funds
- Comparing Denver’s special revenue fund practices to those of another city and another county to determine Denver’s relative level of transparency
- Testing relevant transactions for compliance with fiscal rules, ordinances, laws, and other requirements
- Reviewing special revenue funds with no recent activity to determine whether they should be closed
- Reviewing guiding legislation and regulatory documents, such as the Denver Revised Municipal Code, establishing ordinances, Executive Orders, and Fiscal Accountability Rules
• Reviewing agency policies and procedures for special revenue fund reconciliation
• Reviewing elements used to report the City's finances, such as the Mayor's budget book, single audit reports, and reports from software systems including Questica and PeopleSoft
• Reviewing criteria from the Government Finance Officers Association, the U.S. Government Accountability Office, and the Governmental Accounting Standards Board
FINDING 1

The Existence and Purpose of Special Revenue Funds Could Be More Transparent to the Public

In our assessment of how special revenue funds (SRFs) are being set up, reported, and removed, we found a lack of transparency. Specifically, the City’s budget book did not contain a complete listing of all SRFs. Additionally, one of the SRFs that was included in the budget book was listed under the wrong name. In the absence of full transparency about the City’s SRFs, citizens do not have a complete picture of where all the money in the City is being held and expended.

Auditors Were Unable to Establish a Complete Listing of City SRFs

Part of our audit work was establishing a complete listing of the City’s SRFs. Since the Mayor’s 2017 Budget, also referred to as the “budget book,” is a total operating budget, providing detailed information about the City’s estimated revenues and expenditures for the ensuing fiscal year, we initially expected it would include all SRFs. Although the budget book does provide the most complete list of SRFs available to the public, we found that it only includes 164 SRFs out of the 359 SRFs that are listed in Questica and active in PeopleSoft.\(^9\) We also found one instance in the 2017 budget book where an SRF was named incorrectly; this error was subsequently corrected by BMO. When asked why only a partial list of SRFs is included in the budget book, BMO personnel explained that the purpose of the budget book is to show what the City is spending and what the City has spent, and is not intended to detail all SRFs and their financial information.

To determine the extent to which some other municipalities may be more transparent about SRF activity, we compared Denver to another county and another city. Unlike Denver, we found their SRFs to be clearly accessible and comprehensively listed. Specifically, Jefferson County, Colorado’s SRFs are available on the county’s website with all the revenue and expenditures listed for each of the funds.\(^10\) Los Angeles, California also makes its SRF information available, including revenue, expenditures, purposes, and the contact information of the responsible party for each fund.\(^11\)

Although we recognize BMO’s reasoning for limiting SRF detail in the budget book, after learning how some other municipalities report publicly on their SRFs, the audit team believes that BMO could do something similar in an effort to increase transparency. Such an effort aligns well with the City’s Transparent Denver initiative, through which the administration is committed to “making city government more open, accountable and accessible to the residents of our great

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\(^9\) Questica is the City’s budget preparation software and PeopleSoft was the City’s financial system of record during the audit period. The City converted from PeopleSoft to a new system called Workday in August 2017.


This initiative makes available to the public, through a variety of web-based modules, highly detailed information on the City’s revenues, spending, financial reports and trends, investments and debt, and more. Without including a complete list of SRFs throughout the City, BMO is not in complete alignment with the spirit of the Transparent Denver initiative.

**RECOMMENDATION 1.1**

The Budget and Management Office should provide a way for citizens to access a master list of special revenue funds, such as through a link within the budget book to a master list, or adding a table as an appendix within the budget book.

*Agency Response: Agree, Implementation Date – April 1, 2018*

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RECOMMENDATION

The audit team makes the following recommendation to the Budget and Management Office:

1.1 **Provide Special Revenue Fund Listing** – The Budget and Management Office should provide a way for citizens to access a master list of special revenue funds, such as through a link within the budget book to a master list, or adding a table as an appendix within the budget book.

**Auditee Response: Agree, Implementation Date – April 1, 2018**

Auditee Narrative: We will explore the best method for providing public transparency for Special Revenue Funds and implement after year end close has completed.
FINDING 2

Controls Surrounding the Opening and Closing Processes of Special Revenue Funds Could Be Improved

In seeking to understand the Budget and Management Office’s (BMO’s) processes for opening and closing special revenue funds (SRFs), we found that BMO does not have formal documentation of these processes. BMO does, however, have informal processes in place for opening and closing SRFs. These functions are performed by a small group of long-time BMO employees who have working knowledge of the processes.

Having documented processes is an internal control recommended by the U.S. Government Accountability Office’s Standards for Internal Control in the Federal Government (the Green Book). Section 12.04 of the Green Book states that, “Those in key roles for the unit may further define policies through day-to-day procedures.” As this guidance relates to BMO, City agencies could benefit from BMO formally documenting each step of the SRF process to ensure consistency and to avoid some of the issues identified in this finding.

In determining why these procedures have not been documented, we learned that opening and closing SRFs are infrequent occurrences; it is BMO’s practice to open SRFs sparingly. Although a small group of experienced employees may be familiar with these processes, there are risks associated with not having the procedures formally documented, especially when they are not carried out frequently. First, without written steps to follow, an employee may miss or forget a step, thus carrying out the steps in a slightly different way each time. This could in turn result in inconsistency in how SRFs are ultimately established. Second, in the event of employee turnover, knowledge of these processes may not be fully or accurately transferred to new staff. If BMO had documented policies and procedures, such as a checklist detailing each step in the process of opening and closing SRFs, these risks could be mitigated.

Agencies May Benefit from Enhanced SRF Opening Procedures

In addition to mitigating risk internally, agencies working with BMO during the creation of new SRFs could also benefit from formal procedures. The process for opening an SRF is initiated when an agency requests that BMO set up an SRF for a specific revenue stream, as illustrated in detail in Figure 1. However, we found that agencies do not have clear guidance regarding when an SRF is necessary and when they should contact BMO to establish one.

The next step in the process is seeking City Council approval. We found that BMO does not consistently contact the affected agencies to provide input on or approve the proposed ordinance language before BMO presents it to City Council. If an agency is not given an opportunity to provide input on the ordinance, it is possible that the SRF will not be set up with an appropriate funding structure.

We also found that agencies could benefit from better guidance surrounding allowable expenditures. As explained in the Background section of this report, an agency utilizing an SRF is responsible for the management of that SRF, and for ensuring that the revenues and expenditures are allowable based on the guidance provided in the ordinance. However, we learned that it can be difficult for agencies to determine whether a transaction is allowable. This is because SRF ordinance language is typically broad, providing the agency some flexibility in using the fund based on need. Further, agencies are not required to have their own documented policies and procedures for managing their SRFs.

One example of how an agency might make inappropriate expenditures based on unclear ordinance language was made public in June 2016. The purpose of the Homeless Services Donation SRF, according to the ordinance, is to provide services for homelessness. The only other direction in the ordinance about how the funds should be spent is language stating that expenditures are “not to exceed the total of the deposits.” In other words, any expenditure from the Homeless Services Donation SRF is allowed, so long as there are monies in the fund to cover it.
This fund contains donations from various sources to be used to help the City’s homeless population. One source of those donations is the proceeds from several parking meters positioned throughout the City on the sidewalk, directing users to deposit spare change or electronic funds to help fund Denver’s Road Home, which is the City’s initiative to end homelessness. Figure 2 shows one of these meters.

In 2016, the City used funds from the Homeless Services Donation SRF to pay for a sweep of property owned by homeless individuals. The sweep entailed paying a company to move, store, and redistribute personal property confiscated from homeless individuals being evicted from Denver’s Ballpark neighborhood. This expenditure drew controversy after a local news station investigated whether this was an appropriate use of the Homeless Services Donation SRF. Mayor Hancock subsequently stated publicly that funds from the fund should not have been used to pay for the sweep and had the Department of Public Works reimburse the fund. If the ordinance had been written with greater detail and more clarity regarding allowable expenditures, the City could have avoided the resulting public scrutiny and potential reputational damage associated with the initial improper use of the funds.

RECOMMENDATION 2.1

The Budget and Management Office should develop formally documented policies and procedures that provide guidance regarding the opening of special revenue funds. BMO should consider creating a checklist that details all aspects of the opening process and clarifies their decision-making criteria. The checklist could include items such as:

- Documentation of decision-making criteria, including why the special revenue fund is approved or denied, why the fund is appropriated or non-appropriated, and why inactive special revenue funds are left open; and
- Preliminary approvals of the ordinance by relevant agencies prior to approval by City Council to ensure that the draft ordinance contains specific allowable revenue and expenditures that are clear to the agency managing the special revenue fund, or ensure that the managing agency has internally documented policies containing specific allowable revenue and expenditures.

Agency Response: Agree, Implementation Date – January 31, 2018

Approximately 130 Existing Special Revenue Funds Are Not Active

During our audit work, we sought to determine whether there were any SRFs that exist but do not appear to be actively used by their associated managing agencies. This assessment revealed approximately 130 funds without any activity or available funds that could be closed.
When determining why so many SRFs appear to remain open unnecessarily, we learned that the process for closing SRFs must be initiated by the managing agency. Figure 3 shows the flow of the SRF closing process. However, agencies do not always reach out to BMO to have their SRFs closed and consequently many SRFs remain open without any activity. Although BMO does not have a formal procedure for regularly screening inactive funds to determine whether they need to be closed, they recently led an effort to identify and close inactive SRFs with unused funds in them. As a result of this exercise, 115 funds were closed.

**FIGURE 3: Closing Special Revenue Funds**

<table>
<thead>
<tr>
<th>Agency</th>
<th>Budget &amp; Management Office (BMO)</th>
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<tbody>
<tr>
<td>Does SRF have a remaining balance?</td>
<td>Yes</td>
</tr>
<tr>
<td>Draft ordinance to transfer funds out of SRF</td>
<td></td>
</tr>
<tr>
<td>Bring ordinance to City Council for approval to transfer funds out of SRF</td>
<td></td>
</tr>
<tr>
<td>Controller’s Office transfers funds, verifies SRF has zero balance, and deactivates SRF in system of record</td>
<td></td>
</tr>
<tr>
<td>Controller’s Office</td>
<td></td>
</tr>
</tbody>
</table>

*Source: City and County of Denver Auditor’s Office.*

If these inactive funds remain open, it is possible that a transaction could be booked to one of them in error. Although we did not find any instances of misapplied transactions in unused SRFs, the potential for the error exists if funds are not closed out once they are no longer needed.

**RECOMMENDATION 2.2**

The Budget and Management Office should periodically review all special revenue funds to identify which funds do not have activity and consult with the responsible agencies to determine whether they should be closed. This review should be documented in the Budget and Management Office’s policies and procedures.

*Agency Response: Agree, Implementation Date – April 30, 2018*
RECOMMENDATIONS

The audit team makes the following recommendations to the Budget and Management Office.

2.1 **Develop Policies and Procedures** – The Budget and Management Office should develop formally documented policies and procedures that provide guidance regarding the opening of special revenue funds. BMO should consider creating a checklist that details all aspects of the opening process and clarifies their decision-making criteria. The checklist could include items such as:

- Documentation of decision-making criteria including why the special revenue fund is approved or denied, why the fund is appropriated or non-appropriated, and why inactive special revenue funds are left open; and

- Preliminary approvals of the ordinance by relevant agencies prior to approval by City Council to ensure that the draft ordinance contains specific allowable revenue and expenditures that are clear to the agency managing the special revenue fund, or ensure that the managing agency has internally documented policies containing specific allowable revenue and expenditures.

**Auditee Response: Agree, Implementation Date – January 1, 2018**

Auditee Narrative: We agree there needs to be guidance on special revenue funds. BMO will continue to work with agencies when they identify a funding need associated with programs and determine the appropriate course of action. When BMO determines that a special revenue is appropriate, based upon a checklist BMO will use, agencies will be informed of the guidelines for that special revenue fund.

Drafts of the ordinance will be distributed to the affected agencies for review and will contain language for allowable revenues and expenditures. It is current practice that the ordinance will also state whether the special revenue fund is appropriated or non-appropriated.

2.2 **Periodically Review Funds for Closure** – The Budget and Management Office should periodically review all special revenue funds to identify which funds do not have activity and consult with the responsible agencies to determine whether they should be closed. This review should be documented in the Budget and Management Office’s policies and procedures.

**Auditee Response: Agree, Implementation Date – April 30, 2018**

Auditee Narrative: BMO and the Controller’s Office will work with agencies on inactive special revenue fund and close them out appropriately.
FINDING 3

Controls Surrounding the Citywide Reconciliation Process Should be Improved

In order to review special revenue fund (SRF) transactions for compliance with guiding documents, such as initiating ordinances, City Code, and grant agreements, the audit team tested 65 revenue and expenditure transactions against multiple variables across SRFs from 6 different agencies, as follows:

- Fleet Replacement Planned Fund – operated by the Department of Public Works
- Victim Assistance-D.A. Fund – operated by the District Attorney’s Office
- Homeless Services Donations Fund – operated by Denver Human Services
- Animal Shelter Donations Fund – operated by the Department of Environmental Health
- Workforce for ACT Title I Fund – operated by the Office of Economic Development
- 911 Emergency Communications Trust Fund – operated by the Department of Safety

Testing of a sample of transactions within each of these SRFs revealed two misapplications of funds when comparing supporting documentation to the source and spending requirements of guiding ordinances, laws, grants, donors, and internal City rules and policies. First, one of the transactions we tested was $51,794 used from the DHS Homeless Services Donation SRF to pay for homeless property sweeps, as mentioned in Finding 2. Second, the audit team identified a $2,565 transaction that was inappropriately applied to the 911 Emergency Communications Trust SRF. This error was not identified by the Department of Safety until the auditors asked questions about the supporting documentation for the transaction.

Although we did uncover two misuses of funds, it is important to note that our sample size of 65 transactions was not sufficient to conclude on whether there are systemic issues across the 6 SRFs that were the source of the sample. Further testing with a much larger sample size—both in transactions and funds—would be necessary to determine whether there is widespread misuse of SRF funds across the City.

Not All Reconciliation Certification Forms Were Available from the Controller’s Office

As part of our review of the SRF reconciliation process across the City, the audit team requested Reconciliation Certification Forms (RCFs) for the fiscal years 2015 and 2016. Even though the Controller’s Office maintains a tracking document for RCFs, two of the sampled RCFs that were listed as “received” in the tracking document could not be produced. When the Controller’s Office reached out to the two agencies to obtain the missing forms, only one still had their form. For the Controller’s Office to meet its primary responsibility of maintaining the City’s internal control framework, and to comply with the City’s records retention policy, all RCFs should be retained and available upon request.¹⁴

¹⁴ The Mayor’s 2017 Budget (page 363) states that it is the Controller’s Office’s responsibility to maintain the City’s internal control framework.
Based on our review of the RCFs that were available to the audit team, we determined that the Controller’s Office could do more to follow up on completeness and accuracy of SRF reconciliations. Specifically, the document in which the Controller’s Office tracks agency RCF submissions indicated that some agencies had not completely reconciled all their SRFs. We learned that limited follow-up was conducted by the Controller’s Office to ensure that the agencies had finished reconciling all SRFs. Further, the Controller’s Office is not verifying that agencies are reconciling their funds accurately or that all forms have been received. Accordingly, it is possible that some SRFs were never properly reconciled.

When we asked Controller’s Office personnel why they do not continue to follow-up on the status of these reconciliations, they explained that the year-end process does not allow them time to follow up with all agencies. Without maintaining all RCFs, and without a formal process to follow up on missing forms or incomplete reconciliations, the Controller’s Office cannot ensure that existing controls are working to identify and correct SRF-related accounting issues.

RECOMMENDATION 3.1

The Controller’s Office should take additional steps to follow up with agencies that have not completed or submitted their Reconciliation Certification Forms to enhance internal controls over the reconciliation process and ensure compliance with the City’s records retention policy.

Agency Response: Agree, Implementation Date – January 1, 2018

Controller’s Office Does Not Review Reconciliation Support Documentation

In addition to lacking SRF reconciliation document tracking controls, the audit team learned that the Controller’s Office has never requested agency reconciliation documentation to verify the quality of the agency reconciliations that are being performed. This practice runs contrary to guidance promulgated by the U.S. Government Accountability Office (GAO). GAO’s Standards for Internal Control in the Federal Government (the Green Book), which states that management should respond to risks through the design of the internal control system, specifically suggests reviewing randomly selected transactions of supporting documentation and checking supervisor reconciliations. When asked why SRF reconciliation quality is not being checked, Controller’s Office personnel explained that completed RCFs are certified by agencies to be accurate and that they consider this certification of accurate reconciliation by agencies to be a satisfactory control.

Without reviewing at least a sample of the documentation to verify the accuracy of supporting documents from these reconciliations, in addition to the lack of other controls surrounding the RCFs, the Controller’s Office cannot verify that all SRF transactions are accurately posted to PeopleSoft, which is stated as the purpose of Fiscal Accountability Rule 2.2 – “Reconciliations”. It

is also the case that two previous audits conducted by the Denver Auditor’s Office identified issues with SRF reconciliations by agencies that were outside the scope of this audit.16

Audit testing also identified one instance where a transaction was incorrectly applied to the 911 Emergency Communications Trust Fund, which should have been identified and remedied thorough reconciliation of 2016 SRF activity. Instead, the error was uncovered by the audit team when reviewing the related supporting documentation for the compliance component of this audit. The Department of Safety, upon notification of the error, told auditors that they plan to correct the error during the transition from PeopleSoft to the City’s new system of record, Workday.

Finally, while reviewing the RCF, the audit team noted that the form does not require agencies to describe how they conducted their reconciliation, nor does it require agencies to list discrepancies found during the reconciliation. The Controller’s Office does have a year-end questionnaire, which asks agencies to describe their reconciliation methods and the discrepancies they identify. However, the additional questions on the year-end questionnaire do not provide an effective control for the RCF, since the agencies are asked to complete the RCF and the year-end questionnaire at different times during the year.

GAO’s standards, again, are instructive in determining a relevant best practice. Section 3.10 of the Green Book asserts the importance of effective documentation in assisting management when designing internal controls. This documentation establishes and communicates the who, what, when, where, and why of internal control execution to personnel. Without asking agencies to document the details of discrepancies found during SRF reconciliations, the RCF does not communicate the who, what, when, where, and why of internal control execution. Factoring in the previous concern that supporting documentation is not reviewed, the potential for agency accounting errors going unrecognized increases further without requiring agencies to list the discrepancies identified during their reconciliations.

**RECOMMENDATION 3.2**

The Controller’s Office should institute a process for reviewing a sample of the supporting documentation of agency reconciliations over special revenue funds to ensure completeness and the accuracy of the reconciliation and any necessary correcting journal entries.

*Agency Response: Agree, Implementation Date – April 1, 2018*

**RECOMMENDATION 3.3**

The Controller’s Office should bolster the special revenue fund Reconciliation Certification Form to include questions about the discrepancies identified by agencies and the methods used to identify them.

*Agency Response: Agree, Implementation Date – October 1, 2018*

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Noncompliance with Fiscal Accountability Rule 2.2

Within our audit sample of six agencies, five of the agencies manage their own SRF reconciliations. Three of those five agencies do not have documented procedures in place to guide their staff in the SRF reconciliation process, despite Rule 5 of Fiscal Accountability Rule (FAR) 2.2 stating that agencies are responsible for ensuring that reconciliation training and resources are available. The three agencies lacking reconciliation procedures are the District Attorney’s Office, the Department of Safety, and the Department of Public Works.

We attribute this lack of documented reconciliation procedures in part to insufficient oversight from the Controller’s Office. Despite one of the Controller’s Office’s primary responsibilities being to maintain sound internal controls within the City, procedures for reconciliation are not required to be reviewed by the Controller’s Office.

We came across an error that may have occurred as a result of insufficient Controller’s Office oversight of reconciliation procedures at the agency level. Our testing found that the Department of Public Works was only reconciling its SRF once annually, despite FAR 2.2 requiring a monthly reconciliation. In addition, we identified several potential effects that could occur in the absence of better direction. Without any specific guidance on reconciliations from the Controller’s Office, in addition to the Controller’s Office not reviewing at least a sample of supporting documentation for reconciliations and other lacking internal controls, there is a greater risk that agencies will not be able to accurately identify and correct errors in the accounting of their SRFs. Further, as stated in the purpose of FAR 2.2, “if accounts are not reconciled and subsequently adjusted, as necessary, decision makers may be relying on inaccurate financial information which could negatively impact the City.” Instituting a process within the Controller’s Office to collect and store reconciliation procedures would create more accountability on the part of each agency to create and share their procedural documents.

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17 The sixth agency uses Accounting Services to handle its annual accounting procedures. This is common among the City’s smaller agencies.
RECOMMENDATION 3.6

The Department of Public Works should create formal, documented reconciliation procedures for the financial management of the special revenue funds for which it is responsible.

Agency Response: Agree, Implementation Date – December 31, 2017
RECOMMENDATIONS

The audit team makes the following recommendations to the Controller’s Office:

3.1 **Ensure All Reconciliation Certification Forms Are Submitted** – The Controller’s Office should take additional steps to follow up with agencies that have not completed or submitted their Reconciliation Certification Forms to enhance internal controls over the reconciliation process and ensure compliance with the City’s records retention policy.

**Auditee Response: Agree, Implementation Date – January 1, 2018**

Auditee Narrative: The Controller's Office will continue to contact any agencies that have not submitted the Reconciliation Certification Form on time as required by Fiscal Rule 2.2 - Reconciliations. Additional procedures will include escalating outstanding requests to agency management and ensuring that, at the end of each annual cycle, a review is performed to ensure that all forms are properly maintained on the network in accordance with the City's records retention policy.

3.2 **Reviewing Supporting Documentation** – The Controller’s Office should institute a process for reviewing a sample of the supporting documentation of agency reconciliations over special revenue funds, to ensure completeness and the accuracy of the reconciliation and any necessary, correcting journal entries.

**Auditee Response: Agree, Implementation Date – April 1, 2018**

Auditee Narrative: The Controller's Office will update the Reconciliation Certification Form to include fields to capture additional information such as what type of specific reconciliation activities are being performed and what discrepancies, if any, were identified. Once we can evaluate the City’s information as a whole we will review it to determine the best process going forward to ensure completeness and accuracy.

3.3 **Bolster Questions on Reconciliation Certification Form** – The Controller’s Office should bolster the special revenue fund Reconciliation Certification Form to include questions about the discrepancies identified by agencies and the methods used to identify them.

**Auditee Response: Agree, Implementation Date – October 1, 2018**

Auditee Narrative: The Controller's Office will update the Reconciliation Certification Form to include fields to capture additional information such as whether the funds are reconciled to an external system, what type of specific reconciliation activities are being performed, and what discrepancies were identified, if any. This update will occur within the 2018 fiscal year activities.
3.4 **Create Missing Policies and Procedures for Reconciliation** – The District Attorney’s Office should create formal, documented reconciliation procedures for the financial management of the special revenue funds for which it is responsible.

**Auditee Response: Agree, Implementation Date – December 31, 2017**

Auditee Narrative: The Denver District Attorney’s Office agrees to develop a formal policy that documents reconciliation procedures. This will be completed by December 31, 2017.

3.5 **Create Missing Policies and Procedures for Reconciliation** – The Department of Safety should create formal, documented reconciliation procedures for the financial management of the special revenue funds for which it is responsible.

**Auditee Response: Agree, Implementation Date – December 31, 2017**

Auditee Narrative: The Department of Safety agrees to develop a formal policy that documents reconciliation procedures. This will be completed by December 31, 2017.

3.6 **Create Missing Policies and Procedures for Reconciliation** – The Department of Public Works should create formal, documented reconciliation procedures for the financial management of the special revenue funds for which it is responsible.

**Auditee Response: Agree, Implementation Date – December 31, 2017**

Auditee Narrative: We agree that there were not any formal documented reconciliation procedures in place. We are working on creating the formal documented procedures and will have those completed by December 31, 2017. In addition, we will make sure that the person who actually performs the reconciliation will be the person who signs the Reconciliation Certification Form which is submitted to the Controller’s Office.
FINDING 4

Improvements Needed to Public Reporting of Donations Made to City Agencies

In 2007, Denver’s then-mayor, John Hickenlooper, put in place an executive order regarding gifts to the City and County of Denver (City). The purpose of this order was to place the same level of ethical responsibility on City agencies as is placed on the City’s officers, officials, and employees through the Denver Code of Ethics. Executive Order 134 requires public disclosure of gifts exceeding $2,500 that are made to City agencies, as opposed to an individual working for the City. Since many special revenue funds (SRFs) are funded by donations, we wanted to assess whether any gifts were made to SRFs that exceeded the limit, thus requiring public disclosure.

Two of the SRFs in our test sample—the Animal Care and Control Donation Fund and the Homeless Services Donation Fund—receive donations as their primary source of revenue. While testing the associated donations that exceeded $2,500 to determine whether they were disclosed to the public, we identified a variety of concerns regarding the agency gift reporting process.

$250,000 Gift to Denver Animal Shelter Not Reported – During our testing, we discovered that a charitable gift of more than $250,000 was made to the Animal Care and Control Donation Fund by an individual who named the Denver Animal Shelter as an estate beneficiary. Although the dollar amount put the gift well above the threshold for disclosure established by Executive Order 134, this bequest was not reported to the Office of the Clerk and Recorder by the Department of Environmental Health (DEH) or the Denver Animal Shelter. The lack of controls regarding the entire agency gift reporting process may have been why the gift was also not posted on the City’s website, another requirement of the order. When agency gift disclosures are not posted to the website, it decreases the public’s access to financial disclosure information that enhances transparency.

After assessing how this noncompliance may have occurred, the audit team identified several contributing factors to the lack of controls around agency gift reporting, as follows:

- **No Form for Reporting** – Although Executive Order 134 requires agency directors to file a gift report annually with the Office of the Clerk and Recorder, the City does not have an official form for agencies to use for reporting agency gifts.

- **Lack of Authority** – In the event that a gift disclosure is identified as missing, the Office of the Clerk and Recorder does not have the authority to request one, unless a complaint is filed with the Office of the Clerk and Recorder and the City Attorney’s Office. Further, the Denver Revised Municipal Code (D.R.M.C.) does not contain any provisions pertaining to

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The purpose of Executive Order 134 was to place the same level of ethical responsibility on City agencies as is placed on the City’s officers, officials, and employees.

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18 The Animal Care and Control Donation Fund was originally named the Environmental Health Donations Fund and is managed by the Department of Environmental Health. If referencing the 2014 through 2017 Mayor’s Budgets, the Animal Care and Control Donation Fund was mislabeled as the Environmental Health Donations Fund.
agency gift reporting. Since executive orders do not apply to independent agencies within the City, the D.R.M.C. would provide broader authority.

- **Zero Reporting Is Recent** – Prior to 2017, agencies were not required to report $0 received in gifts. Accordingly, during the period of our audit testing sample (2015 and 2016), if an agency did not submit a gift disclosure report, we do not know if it was because they did not receive any gifts or failed to report on gifts received in excess of $2,500.

- **Gift Aggregation Is Unclear** – Executive Order 134 does not specify whether the $2,500 threshold is intended to include all gifts received in the aggregate per year, or if the limit should be applied to each individual gift received during the reporting period. In other words, we question whether it is permissible under the order for an agency to receive multiple gifts of $2,499 from the same donor without requiring that the gifts be reported.

### RECOMMENDATION 4.1

The Mayor’s Office should work to improve the agency gift reporting process by:

- Clarifying whether a series of gifts from the same source should be summed before applying the $2,500 threshold;
- Granting an agency, such as the Clerk and Recorder’s Office, the authority to follow up with agencies that have not reported gifts as required; and
- Creating and implementing an official, standardized form for agency gift reporting.

**Agency Response:** Agree, Implementation Date – January 31, 2018

### RECOMMENDATION 4.2

The Mayor’s Office should increase the applicability of the agency gift reporting process so that all City agencies are required to report gifts over $2,500. This could be accomplished by updating the Denver Revised Municipal Code, Fiscal Accountability Rules, Executive Order 134, or another suitable method to ensure compliance.

**Agency Response:** Agree, Implementation Date – January 31, 2018

### RECOMMENDATION 4.3

The Office of the Clerk and Recorder should ensure that all gift disclosures are available on the City’s website as required by Executive Order 134.

**Agency Response:** Agree, Implementation Date – November 30, 2017
RECOMMENDATIONS

The audit team makes the following recommendations to the Mayor’s Office and the Office of the Clerk and Recorder:

4.1 **Improvements to Executive Order 134** – The Mayor’s Office should work to improve the agency gift reporting process by:

- Clarifying whether a series of gifts from the same source should be summed before applying the $2,500 threshold;
- Granting an agency, such as the Clerk and Recorder’s Office, the authority to follow up with agencies that have not reported gifts as required; and
- Creating and implementing an official, standardized form for agency gift reporting.

**Auditee Response:** Agree, Implementation Date – January 31, 2018

**Auditee Narrative:** We agree that more clarity can and should be provided in reporting gifts/donations to city agencies. Work is already underway to explore a proposed fiscal rule for reporting of solicited gifts or donations that we will now look to expand to cover unsolicited gifts as well, ensuring all gifts are properly and consistently reported. Appropriate subject matter experts will be convened to determine the best tool for effectively managing gift reporting and develop the rule or updated policy and all necessary tracking and accountability. Executive Order 134 will be revised or rescinded as necessary.

4.2 **Add Agency Gift Reporting to Denver Revised Municipal Code** – The Mayor’s Office should increase the applicability of the agency gift reporting process so that all City agencies are required to report gifts over $2,500. This could be accomplished by updating the Denver Revised Municipal Code, Fiscal Accountability Rules, Executive Order 134, or another suitable method to ensure compliance.

**Auditee Response:** Agree, Implementation Date – January 31, 2018

**Auditee Narrative:** As stated above, work is underway to determine potential use of a fiscal rule to govern gifts and donations to city agencies. Fiscal rules apply to all agencies, officers and employees of the city.

4.3 **Gift Disclosures Posted to Website** – The Office of the Clerk and Recorder should ensure that all gift disclosures are available on the City’s website as required by Executive Order 134.

**Auditee Response:** Agree, Implementation Date – November 30, 2017

**Auditee Narrative:** OCR agrees with recommendation 4.3 and will ensure that all filed gift disclosures are available on the City’s website as required by Executive Order 134.
October 5, 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 Special Revenue Funds.

This memorandum provides a written response for each reportable condition noted in the Auditor’s Report final draft that was sent to us on September 15, 2017. This response complies with Section 20-276(c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING 1
The Existence and Purpose of Special Revenue Funds Could Be More Transparent to the Public

The response and narrative to recommendation 1.1 was provided by the Budget Management Office.

RECOMMENDATION 1.1
The Budget and Management Office should provide a way for citizens to access a master list of special revenue funds, such as through a link within the budget book to a master list, or adding a table as an appendix within the budget book.

<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>April 1, 2018</td>
<td>Tom Migaki 720-913-5538</td>
</tr>
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</table>

Narrative for Recommendation 1.1
We will explore the best method for providing public transparency for Special Revenue Funds and implement after year end close has completed.

AUDIT FINDING 2
Controls Surrounding the Opening and Closing Processes of Special Revenue Funds Could Be Improved
The responses and narratives to recommendations 2.1 and 2.2 were provided by the Budget Management Office.

**RECOMMENDATION 2.1**
The Budget and Management Office should develop formally documented policies and procedures that provide guidance regarding the opening of special revenue funds. BMO should consider creating a checklist that details all aspects of the opening process and clarifies their decision-making criteria. The checklist could include items such as:

- Documentation of decision-making criteria including why the special revenue fund is approved or denied, why the fund is appropriated or non-appropriated, and why inactive special revenue funds are left open; and
- Preliminary approvals of the ordinance by relevant agencies prior to approval by City Council to ensure that the draft ordinance contains specific allowable revenue and expenditures that are clear to the agency managing the special revenue fund, or ensure that the managing agency has internally documented policies containing specific allowable revenue and expenditures.

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<tbody>
<tr>
<td>Agree</td>
<td>January 31, 2018</td>
<td>Tom Migaki 720-913-5538</td>
</tr>
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</table>

**Narrative for Recommendation 2.1**
We agree there needs to be guidance on special revenue funds. BMO will continue to work with agencies when they identify a funding need associated with programs and determine the appropriate course of action. When BMO determines that a special revenue is appropriate, based upon a checklist BMO will use, agencies will be informed of the guidelines for that special revenue fund.

Drafts of the ordinance will be distributed to the affected agencies for review and will contain language for allowable revenues and expenditures. It is current practice that the ordinance will also state whether the special revenue fund is appropriated or non-appropriated.

**RECOMMENDATION 2.2**
The Budget and Management Office should periodically review all special revenue funds to identify which funds do not have activity and consult with the responsible agencies to determine whether they should be closed. This review should be documented in the Budget and Management Office’s policies and procedures.

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<tbody>
<tr>
<td>Agree</td>
<td>Annually to be completed by April 30 of each year.</td>
<td>Tom Migaki 720-913-5538</td>
</tr>
</tbody>
</table>
Narrative for Recommendation 2.2
BMO and the Controller’s Office will work with agencies on inactive special revenue fund and close them out appropriately.

AUDIT FINDING 3
Controls Surrounding the Citywide Reconciliation Process Should be Improved

The responses and narratives to recommendations 3.1, 3.2, and 3.3 were provided by the Controller’s Office.

RECOMMENDATION 3.1
The Controller’s Office should take additional steps to follow up with agencies that have not completed or submitted their Reconciliation Certification Forms to enhance internal controls over the reconciliation process and ensure compliance with the City’s records retention policy.

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<tbody>
<tr>
<td>Agree</td>
<td>January 1, 2018</td>
<td>Kelli Bennett 720-913-5156</td>
</tr>
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</table>

Narrative for Recommendation 3.1
The Controller’s Office will continue to contact any agencies that have not submitted the Reconciliation Certification Form on time as required by Fiscal Rule 2.2 - Reconciliation. Additional procedures will include escalating outstanding requests to agency management and ensuring that, at the end of each annual cycle, a review is performed to ensure that all forms are properly maintained on the network in accordance with the City’s records retention policy.

RECOMMENDATION 3.2
The Controller’s Office should institute a process for reviewing a sample of the supporting documentation of agency reconciliations over special revenue funds to ensure completeness and the accuracy of the reconciliation and any necessary correcting journal entries.

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<tr>
<td>Agree</td>
<td>April 1, 2018</td>
<td>Kelli Bennett 720-913-5156</td>
</tr>
</tbody>
</table>
Narrative for Recommendation 3.2
The Controller’s Office will update the Reconciliation Certification Form to include fields to capture additional information such as what type of specific reconciliation activities are being performed and what discrepancies, if any, were identified. Once we can evaluate the City’s information as a whole we will review it to determine the best process going forward to ensure completeness and accuracy.

RECOMMENDATION 3.3
The Controller’s Office should bolster the special revenue fund Reconciliation Certification Form to include questions about the discrepancies identified by agencies and the methods used to identify them.

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<tbody>
<tr>
<td>Agree</td>
<td>October 1, 2018</td>
<td>Kelli Bennett 720-913-5156</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 3.3
The Controller’s Office will update the Reconciliation Certification Form to include fields to capture additional information such as whether the funds are reconciled to an external system, what type of specific reconciliation activities are being performed, and what discrepancies were identified, if any. This update will occur within the 2018 fiscal year activities.

The response and narrative to recommendation 3.4 was provided by the District Attorney’s Office.

RECOMMENDATION 3.4
The District Attorney’s Office should create formal, documented reconciliation procedures for the financial management of the special revenue funds for which it is responsible.

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<tr>
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<tbody>
<tr>
<td>Agree</td>
<td>December 31, 2017</td>
<td>Liza C. Willis 720-913-9021</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 3.4
The Denver District Attorney’s Office agrees to develop a formal policy that documents reconciliation procedures. This will be completed by December 31, 2017.
The response and narrative to recommendation 3.5 was provided by the Department of Safety.

**RECOMMENDATION 3.5**
The Department of Safety should create formal, documented reconciliation procedures for the financial management of the special revenue funds for which it is responsible.

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<tbody>
<tr>
<td>Agree</td>
<td>December 31, 2017</td>
<td>Laura Wachter 720-913-6445</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 3.5
The Department of Safety agrees to develop a formal policy that documents reconciliation procedures. This will be completed by December 31, 2017.

The response and narrative to recommendation 3.6 was provided by the Department of Public Works.

**RECOMMENDATION 3.6**
The Department of Public Works should create formal, documented reconciliation procedures for the financial management of the special revenue funds for which it is responsible.

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<tbody>
<tr>
<td>Agree</td>
<td>December 31, 2017</td>
<td>Lynn Doyle 720-913-1758</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 3.6
We agree that there were not any formal documented reconciliation procedures in place. We are working on creating the formal documented procedures and will have those completed by December 31, 2017. In addition, we will make sure that the person who actually performs the reconciliation will be the person who signs the Reconciliation Certification Form which is submitted to the Controller’s Office.

**AUDIT FINDING 4**
Improvements Needed to Public Reporting of Donations Made to City Agencies

The responses and narratives to recommendations 4.1 and 4.2 were provided by the Mayor’s Office.

**RECOMMENDATION 4.1**
The Mayor’s Office should work to improve the agency gift reporting process by:
- Clarifying whether a series of gifts from the same source should be summed before applying the $2,500 threshold;
- Granting an agency, such as the Clerk and Recorder’s Office, the authority to follow up with agencies that have not reported gifts as required; and
• Creating and implementing an official, standardized form for agency gift reporting.

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<tbody>
<tr>
<td>Agree</td>
<td>January 31, 2018</td>
<td>Skye Stuart 720-865-9058</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 4.1
We agree that more clarity can and should be provided in reporting gifts/donations to city agencies. Work is already underway to explore a proposed fiscal rule for reporting of solicited gifts or donations that we will now look to expand to cover unsolicited gifts as well, ensuring all gifts are properly and consistently reported. Appropriate subject matter experts will be convened to determine the best tool for effectively managing gift reporting and develop the rule or updated policy and all necessary tracking and accountability. Executive Order 134 will be revised or rescinded as necessary.

RECOMMENDATION 4.2
The Mayor’s Office should increase the applicability of the agency gift reporting process so that all City agencies are required to report gifts over $2,500. This could be accomplished by updating the Denver Revised Municipal Code, Fiscal Accountability Rules, Executive Order 134, or another suitable method to ensure compliance.

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<td>Agree</td>
<td>January 31, 2018</td>
<td>Skye Stuart 720-865-9058</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 4.2
As stated above, work is underway to determine potential use of a fiscal rule to govern gifts and donations to city agencies. Fiscal rules apply to all agencies, officers and employees of the city.

The response and narrative to recommendation 4.3 was provided by the Office of the Clerk and Recorder.

RECOMMENDATION 4.3
The Office of the Clerk and Recorder should ensure that all gift disclosures are available on the City’s website as required by Executive Order 134.

<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>November 30, 2017</td>
<td>Rose-Etta Horn 720-865-2597</td>
</tr>
</tbody>
</table>
Narrative for Recommendation 4.3
Response from the Office of the Clerk and Recorder

OCR agrees with recommendation 4.3 and will ensure that all filed gift disclosures are available on the City's website as required by Executive Order 134.

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

Sincerely,

Beth Machann
City Controller

cc: Valerie Walling, CPA, CMC®, Deputy Auditor
Heidi O’Neil, CPA, CGMA, Director of Financial Audits
Dawn Wiseman, Audit Manager
Brendan Hanlon, Chief Financial Officer
Stephanie Adams, Budget Director, Department of Finance
Skye Stuart, Administration Officer, Mayor’s Office
Debra Johnson, Clerk and Recorder
Liza Willis, District Attorney
Laura Wachter, Financial Executive, Dept. of Safety
Christopher Lujan, Safety Administration Executive Manager, Dept. of Safety
Barbara Puls, Financial Director, Public Works