To promote open, accountable, efficient and effective government by performing impartial reviews and other audit services that provide objective and useful information to improve decision making by management and the people.

We will monitor and report on recommendations and progress towards their implementation.

City and County of Denver
Office of the Auditor
Audit Services Division
March 23, 2011

Honorable Dennis J. Gallagher
Office of the Auditor
City and County of Denver

This annual report summarizes the objectives and accomplishments of the Audit Services Division of the Auditor's Office for the year ending December 31, 2010. The Division issued 26 audit reports and performed several non-audit advisory services during the year. These reports and services fully supported and helped to further the continuous improvement activities of the City and County. These reports and services are summarized herein. In addition to producing high-impact audit reports and providing a number of advisory services, the Audit Service Division had several notable accomplishments during the year.

Division accomplishments included co-hosting an Oversight Forum with the United States Government Accountability Office; the presentation of the “Denver Audit Model” at various events including a presentation provided at the request of an Alabama chapter of the Association of Government Accountants (AGA) and a presentation made in early 2011 at the Southwest, Southeastern & Mountain and Plains Intergovernmental Audit Forums Joint Conference in Santa Fe, New Mexico; presentations of data analysis techniques at an ACL users meeting and at a chapter meeting of the Institute of Internal Auditors; and establishing a progressive national reputation through the formation of strategic partnerships with federal, state, and local government auditing functions. Additional accomplishments included the initiation of a formal anti-fraud program to identify high risk areas across the city and reduce the opportunity for occupational fraud and the implementation of a Control Risk Self-Assessment training program to help employees enhance the City’s internal control environment.

The Division will continue to undergo significant transition during 2011 as we implement improved activities and processes focused on enhancing the quality of audit services. We are fully committed to meeting the expectations of the citizens of Denver related to maintaining a robust, independent internal audit function by working in a collaborative manner with City management to ensure that the City conducts business in a transparent, efficient and effective manner.

Sincerely,

Kip R. Memmott, MA, CGAP, CICA
Director of Audit Services
# Table of Contents

**OVERVIEW** 3  
**ROLE AND AUTHORITY** 5  
**MISSION, GOALS, AND ACCOMPLISHMENTS** 7  
  - Mission Statement 8  
  - 2010 Goals 8  
  - Division Highlights 10  
**STAFFING RESOURCES** 16  
  - Audit Services Division – Leadership Team 18  
  - Audit Services Division Staff 20  
**ANNUAL AUDIT PLAN and 2010 AUDITS** 28  
  - Description of Annual Audit Plan 29  
  - Description of 2010 Audits 31  
  - Program Effectiveness and Economy and Efficiency Audits 33  
  - Audit Alerts and Special Advisory Services 46
OVERVIEW

The Audit Services Division of the Auditor’s Office conducts independent performance audits of City agencies, programs, and contracts. Our audits focus on strengthening governance, enhancing efficiency, increasing revenues and reducing costs, and improving the quality of services provided to citizens by the City and County of Denver. The Division, under the leadership of the elected Auditor, strives to keep residents informed about the activities of their City and County government by adhering to a citizen centric focus. Our reports are structured to communicate the work performed by the Division in an easily understood manner and we formally present audits during the City’s audit committee meetings which are open to the public and frequently televised in order to further government transparency and accountability.

The Division utilizes a dynamic and flexible audit plan designed to significantly enhance the impact of audit services. The Division uses a realistic audit horizon strategy and approach to identify, prioritize and manage audits deemed to be critical to City operations. Specifically, using the risk-based methodology described throughout the audit plan the Division identifies and prioritizes a select number of audits for inclusion into the annual audit plan as well as listing potential audits for the ensuing two years. The plan includes significant hours for performing specially requested audits and for urgent audit issues that arise throughout the year not originally captured on the plan. This provides the Auditor with a great deal of flexibility to address emerging issues in a timely manner and for providing high quality and responsive customer service to elected officials and operational management.

In 2010, the Division issued 26 performance audit reports and conducted several non-audit advisory services during the year. These reports and services fully supported and helped to further the continuous improvement activities of the City and County. While the Division maintains the capability to perform financial audits and attestation engagements, we primarily conduct performance audits. Per Government Auditing Standards (GAS), promulgated by the Comptroller General of the United States, “performance audit objectives may vary widely and include assessments of program effectiveness, economy and efficiency, internal control, compliance and prospective analysis.” Specific audits issued and advisory services provided by the Division in 2010 are summarized herein.

A key goal of the Auditor’s Office, in addition to effectively executing our primary mission of providing value-added services for the citizens of the City and County of Denver, is to network and collaborate with other federal, state and local government auditing organizations and associations to enhance and evolve the auditing and accountability profession. During 2010 and continuing into 2011, in order to further this goal and to share our innovations with other audit entities, the Office made several well-received presentations discussing the “Denver Audit Model” to professional accountability organizations.
Additionally, the Denver Auditor’s Office and the United States General Accountability Office co-hosted a sold-out conference at the historic Magnolia Hotel in downtown Denver in August of 2010. The conference theme was the “Oversight and Monitoring of Stimulus Funds.” The $787 billion in stimulus funds authorized by the American Recovery and Reinvestment Act of 2009 (ARRA) has resulted in increased responsibilities for the governmental auditing profession, making this year’s theme particularly relevant.

The Division also launched several programs and initiatives to improve the City’s effectiveness of internal controls, and risk management processes. Specifically, we developed an extensive anti-fraud program designed to identify risk areas across the City and prevent occupational fraud and other detrimental activity from occurring. While measures like these are always good for an organization, they become particularly important when resources are scarce. The economic outlook for the City of Denver remains a concern and the Auditor’s Office plans to positively contribute to the City and citizen by providing assurance that City property and assets are properly safeguarded.

Additionally, the Division initiated a Control and Risk Self-Assessment (CRSA) training program for City departments and personnel intended to assist managers, supervisors and staff to better understand management controls, the relationship between those controls, the risks related to a lack of effective controls and how controls are central to the strategic vision of the City. The core objectives of this training are to help operational personnel assume accountability for risk management, regardless of title and authority, to provide City business units with skills for analyzing and reporting on internal controls and to facilitate a prioritized focus on the most significant organizational risks.

Finally, to ensure that audit engagement follow up work is completed and to assess the effectiveness and impact of audit engagements, the Division designed and implemented an enhanced follow-up program that includes significant hours for more in-depth audit work to verify that corrective actions have been taken to address prior audit findings. The program includes regular and formal reporting to the City’s elected officials, audit committee members, and operational management on the status of various audit findings and recommendations. This program also includes a trend analysis within and across City departments and programs in terms of management responsiveness and “tone at the top” related to audit findings and recommendations. The more robust audit follow-up program will also assist the Division with its on-going goal of implementing continuous improvement activities, in this case in terms of the quality and feasibility of audit recommendations.

The Division sincerely thanks Auditor Gallagher and his executive team, the Mayor’s Office, City Council members, the Clerk and Recorder, City management and employees and especially the citizens for their collaboration, trust and support throughout the year. We are committed to fully meeting the expectations of the citizenry in 2011 by working in a collaborative manner with City elected officials and personnel to ensure that the City conducts business in a transparent, efficient and effective manner.
ROLE AND AUTHORITY

City Charter, Article V, Part 2, Section 1, *General Powers and Duties of Auditor*, establishes the duties and responsibilities of the Auditor. Through the 2006 November election, Denver citizens voted to amend the City Charter to improve and streamline the City’s financial structure while enhancing the important role of the independent Auditor.

The amendment to the City Charter significantly changed the role of the Auditor as defined in Article V, Part 2, Section 1, *General Powers and Duties of Auditor* effective January 1, 2008. Historically, the Auditor served as the general accountant for the City and, as such, maintained the City’s financial records, and paid City expenses including payroll. However, in June 2007, based on the Charter revision, the accounting and payroll functions transitioned to the Controller’s Office under the Chief Financial Officer, who officially assumed Charter responsibility and authority for those functions on January 1, 2008.

In addition to making these changes to the City’s financial governance structure, the Charter revisions significantly enhanced the independent standing and authority of the Auditor. Specifically, the Charter authorizes the Auditor to conduct audits of all City entities in accordance with generally accepted governmental auditing standards promulgated by the United States Comptroller General. These standards establish clear definitions and requirements related to the independence of the audit function. The fact that the Denver City Charter now requires the Auditor to comply with these standards has resulted in the establishment of one of the most structurally independent government audit functions in the country.

Government auditing standards require an external peer review every three years. In October 2009, the Audit Services Division within the Auditor’s Office underwent its most recent external peer review, which was conducted by the Association of Local Government Auditors (ALGA). The peer review team, consisting of three accomplished managers representing local government audit functions from around the country, determined and opined that the Audit Services Division fully complied with Government Auditing Standards promulgated by the Comptroller of the United States for the review period. This determination of full compliance is the highest possible level of compliance under the ALGA peer review program.

In addition to their finding of full compliance, the peer review team identified areas where the Division excels including core audit tenets and processes that are critical for not only an effective system of internal control necessary for full compliance with professional standards but for ensuring that work activities performed by the Division add significant value to City operations. Specifically, the review team identified several best practices used by the Division, most of which were implemented during the latter part of the peer review period when the Division underwent significant internal restructuring as a result of the amendment to the City Charter. These areas include: the significant level of the structural and legal independence of the Auditor’s Office, audit planning techniques, which include the use of formal risk assessment tools and sophisticated project planning and budgeting processes, high quality and expansive

---

**City & County of Denver Auditor’s Office**  
2010 Annual Report
reporting practices, progressive management and supervisory techniques and the utilization of an automated audit project management system including electronic working papers.

In addition to the inclusion of the requirement to adhere to these standards, the Charter and resulting City ordinance citations include other provisions intended to strengthen the role and impact of the City internal audit function. These provisions include:

- The Charter authorizes the Auditor to have “access at all times to all of the books, accounts, reports, vouchers or other records or information maintained by the Manager of Finance or by any other department or agency of the City and County;”
- Ordinance (Sec. 20-276) requires that audited City agencies and departments formally respond to audit findings and recommendations. Responses must specify either agreement with findings and recommendations or reasons for disagreement with findings and recommendations, plans for implementing solutions to issues identified and a timetable to complete such activities;¹ and
- The Charter establishes a formal, independent Audit Committee chaired by the Auditor and consisting of six other members. The Mayor, City Council and Auditor each appoint two members. The Audit Committee performs several critical functions including, among other responsibilities, annually commissioning and monitoring an independent external audit of the finances of the City (known as the Comprehensive Annual Financial Report – CAFR) and communicating findings and recommendations of internal audit reports.

Under the revised Charter and ordinance provisions, the Audit Services Division has significantly expanded our performance and information technology audit capability. The continued development of these two audit specialty areas will significantly improve the Division’s ability to examine City government programs, processes, and internal controls, thereby assisting management to reduce costs, improve the quality of services, and enhance the transparency of City operations.

¹ Audit follow-up activity is an essential component of the audit process. The Division conducts audit follow-up work to evaluate the efforts made by management to address weaknesses and risks by audit reports. The follow-up process ensures that management takes action to address issues identified by audits and helps the Division to assess management responsiveness to organizational risks and issues (i.e. “tone at the top,” a key annual audit plan risk assessment criteria).
MISSION,

GOALS,

AND ACCOMPLISHMENTS
Mission Statement

To promote open, accountable, efficient and effective government by performing impartial reviews and other audit services that provide objective and useful information to improve decision making by management and the people. We will monitor and report on recommendations and progress towards their implementation.

2010 Goals

The Audit Services Division established the following continuous improvement goals for 2010 intended to enhance the Division’s ability to fulfill this mission.

<table>
<thead>
<tr>
<th>Goals</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Address the need for supplemental regulation to support enabling legislation;</td>
<td>Complete</td>
</tr>
<tr>
<td>✓ Perform routine maintenance of the Policies and Procedures Manual to enhance guidance and address Government Audit Standards Revisions;</td>
<td>Annually</td>
</tr>
<tr>
<td>✓ Implemented electronic work paper software application program to enhance audit efficiencies and timeliness;</td>
<td>Complete</td>
</tr>
<tr>
<td>✓ Reassess and update the annual risk based audit plan to prioritize audit work used to assess the adequacy and effectiveness of the City’s system of internal controls;</td>
<td>Annually</td>
</tr>
<tr>
<td>✓ Receive professional industry recognition for audit quality through the application for awards and presentations at national and local conferences and through submitting articles to professional trade publications;</td>
<td>On-going</td>
</tr>
<tr>
<td>✓ Continue to enhance utilization of electronic audit tools including data mining software and flowcharting software;</td>
<td>On-going</td>
</tr>
<tr>
<td>✓ Coordinate, facilitate, and assist the Audit Committee in carrying out their powers and duties;</td>
<td>On-going</td>
</tr>
<tr>
<td>✓ Follow up on the status of management action on findings and recommendations. Seek to increase management’s accountability to remedy findings by identifying and reporting actions taken; and</td>
<td>On-going</td>
</tr>
<tr>
<td>✓ Proactively recruit staff members to fill existing vacancies.</td>
<td>On-going</td>
</tr>
</tbody>
</table>
The Division will continue to undergo significant transition during 2011 as we strive to implement continuous improvement activities focused on enhancing the quality of audit services. In addition to the on-going goals developed for 2010, the Division has established the following improvement goals for 2011:

- Host the Mountain & Plains Intergovernmental Audit Forum;
- Partner with the U.S. Government Accountability Office (GAO) on American Recovery & Reinvestment Act (ARRA) Oversight Activities involving the City of Denver;
- Establish strong relations and communications with the City’s new Mayor and other elected officials resulting from the 2011 election;
- Fully deploy Anti-Fraud, enhanced Audit Follow-Up and Control Self Assessment Initiatives;
- Expand participation and communication with local and national external audit organizations including the Institute of Internal Auditors (IIA), the Association of Local Government Auditors (ALGA), and the U.S. Government Accountability Office (GAO). For example, the Division will continue participating in the ALGA peer review program and the Audit Services Director has recently been appointed to ALGA’s national membership committee;
- Expand performance audit services to include environmental audit capabilities and objectives;
- Update operating policies and procedures and provide comprehensive staff training on new procedures and processes and fundamental audit skills including: performance auditing methods and techniques, project management, audit report writing, and fraud detection and prevention;
- Implement an enhanced quality assessment program. The Division will be piloting our Control Self-Risk Assessment program internally as part of this effort;
- Continue to improve reports including new templates and enhanced presentation of written findings and related graphics and photographs including the implementation of a style guide;
- Continue to define our role in modeling companion legislation as referred to within the Auditor’s enabling legislation effective January 1, 2008; and
- Prepare our annual audit plan by the third Monday of October for the ensuing fiscal year and submit to the Mayor and City Council. Seek and consider special requests for audits from the Mayor, City Council, and Audit Committee during plan development.
Division Highlights

Audit Services “Denver Audit Model” Gaining National Recognition

A key goal of the Auditor’s Office in addition to our primary mission of providing value-added services for the citizens of the City and County of Denver, is to network and collaborate with other federal, state and local government auditing organizations and associations to enhance and evolve the auditing and accountability profession. During 2010 and continuing into 2011, the Office made several presentations on the “Denver Audit Model.” For example, the Director of Audit Services, Kip Memmott, made a presentation to the Association of Government Accountants (AGA) chapter in Montgomery, Alabama.

In early 2011, Auditor Dennis Gallagher, Government Liaison, Clay Vigoda, and Kip Memmott, Director of Audit Services, presented the “Denver Audit Model” at a joint conference for the National Intergovernmental Audit Forum in Santa Fe, New Mexico. The conference was attended from audit professionals from Arkansas, Colorado, Georgia, Louisiana, New Mexico, Tennessee, Texas, and Wyoming. The Intergovernmental Audit Forum and AGA presentations were well received and resulted in additional collaboration and professional networking with accountability professionals around the country.

Auditor Dennis Gallagher Co-hosts Oversight Forum

During the Summer of 2010, the Audit Services Division of the Denver Auditor’s Office and the United States General Accountability Office co-hosted a sold-out conference at the historic Magnolia Hotel in downtown Denver. The conference theme was the “Oversight and Monitoring of Stimulus Funds.” The $787 billion in stimulus funds authorized by the American Recovery and Reinvestment Act of 2009 (ARRA) has resulted in increased responsibilities for the governmental auditing profession, making this year’s theme particularly relevant.
The Mountain & Plains Intergovernmental Audit Forum (MPIAF) is an association of accountability professionals drawn from federal, state, and local governments and representatives of state accountancy societies. Denver’s involvement in the Forum and the conference increased when Auditor Dennis Gallagher joined Rudy Payan from the U.S. GAO as the co-chair in 2009. Attendance was twice that of prior conferences, and attendees were very pleased with the conference and its theme. “It was great to conclude my career with such a fantastic event,” said Rudy Payan who retired at the conclusion of the conference.

The large number of attendees represents a rejuvenation of the MPIAF conference. The Denver Auditor’s Office is excited about the great turnout and has many ideas for expanding the event in the future. Auditor Gallagher noted, “I am pleased to co-chair an organization which provides timely information to enhance government accountability and I look forward to continuing and expanding MPIAF’s role in that endeavor.”

The first day of the conference began with a welcome address from former Mayor and current Governor, John Hickenlooper and music by talented bagpiper, Ryan Randall of the Pikes Peak Highlanders. Congresswoman Diana DeGette delivered the keynote address providing some background on ARRA and highlighting the positive outcomes resulting from the stimulus funds both in Colorado and nationally.

Thursday’s agenda also included several panel discussions and presentations, including: The U.S. GAO’s Role and Responsibilities on the Implementation of the Recovery Act; The American Recovery and Reinvestment Act (ARRA) Lessons Learned; Auditing the Use of ARRA Funds; and ARRA Risk Management, Auditing and Management. Panelists and presenters included professionals from the U.S. Government Accountability Office, the Denver Auditor’s Office and the Big Four public accounting firms. The panelists provided insight on how stimulus funds have impacted federal, state, and local governmental operations. In addition, the external audit firms discussed the steps they have taken to address stimulus funds on behalf of their clients. The day concluded with an interesting presentation on Investigating Government Activity, by Denver’s 7NEWS Investigative Reporter Tony Kovaleski.
After presentation of the colors by the Manual High School JROTC Color Guard, the second day began with a discussion of stimulus grants led by Colorado State Auditor, Sally Symanski. Panelists included several Colorado agency representatives who identified successful methods used to track and report ARRA funds. Tom Hackney from the GAO provided a lively and entertaining look at recent updates to the Government Auditing Standards or Yellow Book, and Rand Gambrell from BKD, the City’s external auditor, presented a fascinating module on government fraud. The conference closed with a GAO presentation on Social & New Media.

The 2010 MPIAF conference was a sold-out event

Conference attendees represented a cross-section of local, state and federal agencies, as well as private-sector firms. Outside of Denver and the surrounding areas, accountability professionals came from as far away as Washington, DC, California, Washington, Utah, Wyoming, Montana, North Dakota, South Dakota, Missouri, Kansas, Texas and Pennsylvania.

Consistent with the MPIAF Charter, the forum was created to provide an organizational means of fostering coordination and communication within the governmental audit community, and facilitate the effectiveness, efficiency, and economy of federal, state, and local audits. A few functions of the MPIAF forum include:

- Developing mechanisms and administrative procedures to facilitate, among themselves, day-to-day cooperation and exchange of information on matters relating to audits
- Identification of specific projects or problems, for joint development and resolution, that are characterized by a high degree of interagency and intergovernmental involvement, the advancement of which will contribute significantly to the efficiency, economy, and effectiveness of audit at all levels of government
- Promoting acceptance, uniform interpretation and implementation of all professionally accepted audit standards, including the “Standards for Audit of Governmental Organizations, Programs, Activities, and Functions” issued by the Comptroller General

Additional information about the forum, conference materials, and speaker presentations are available on the MPIAF website at http://www.auditforum.org/mountain/mtn_home.htm.
Data Analysis Presented at User Group and IIA Chapter Meetings

Our audit of Denver’s Emergency Medical Response System (911) was featured in January 2010 at the Denver ACL / Audit Analytics User Group and again in February at the Colorado Springs Chapter of the Institute of Internal Auditors. Our presentation entitled, “How Data Analytics Produced Significant Audit Findings,” was presented by Stephen Coury, our IT Audit Supervisor, to an audience of mostly private sector audit and data analysis professionals from around the Denver and Colorado Springs metropolitan areas. Both sessions were well-attended and received favorable feedback as we highlighted performance auditing and the application of data analytics in measuring performance, both major tenants in the City of Denver’s audit program. This presentation also provided us a forum to describe and promote the Denver Model of the independent auditor as a best practice for both government and private sectors alike.

Denver Auditor’s Office Anti-Fraud Program

In 2010, the Denver Auditor’s Office launched an extensive anti-fraud program designed to identify risk areas across the City and prevent occupational fraud and other detrimental activity from occurring. While measures like these are always good for an organization, they become particularly important when resources are scarce. The economic outlook for the City of Denver remains a concern and the Auditor’s Office plans to positively contribute to the City and citizen by providing assurance that city property and assets are properly safeguarded.

Fraud & Occupational Fraud

Fraud is generally defined as an intentional misrepresentation of facts made for the purpose of inducing a person to act which results in some type of damage. Occupational fraud is the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of an organization’s resources or assets. 2 Statistics indicate that organizations lose an estimated five percent of revenues to occupational fraud and the median length of time to discover a fraud scheme is eighteen months. 3 Consequently, it is important that organizations detect and deter fraud, and continuously identify and reevaluate areas where risks of fraud and abuse exist.

Program Background

In the past, there has been no formal anti-fraud program within the City and County of Denver. The Auditor’s Office has changed that. In addition to performing a fraud assessment as part of every performance audit, the Audit Services Division of the Auditor’s Office has initiated a formal Anti-Fraud program. Our research indicates there are few, if any, public entities nationwide that have a similar anti-fraud program dedicated to fraud detection and prevention. Our progressive program stands unique with its efforts to identify and reduce opportunity for fraud.

---

3 James D. Ratley, President ACFE, 2010 ALGA Conference, Fraud in Government Presentation.
Program Goals

The goals for our anti-fraud initiatives are to develop a program to identify high risk areas throughout the city where potential fraud may exist, reduce the opportunity for fraudulent activity and create a plan to continuously evaluate and identify on-going fraud risks within the city.

The Fraud Triangle & Precursors to Fraudulent Activity

The situation commonly used to depict the three elements necessary for fraud to occur is referred to as the Fraud Triangle and consists of opportunity, rationalization and an event that causes pressure, usually of a financial character. When these three things exist, fraud is more likely to occur.

Opportunity consists of the ability to commit fraud and is often enabled by a weak internal control structure. A pressure event can trigger a person to need or want to commit fraud, including a personal financial hardship. Lastly, rationalization involves an individual excusing one’s behavior and making sense of an activity that would normally be unacceptable. An important piece of the Anti-Fraud program will be dissecting the Fraud Triangle and mitigating opportunities for the three elements to co-exist.

Program Status and Next Steps

The anti-fraud team conducted a preliminary risk assessment to identify potentially high-risk areas within the City. Materials used to determine areas of potential fraud risk included the evaluation of internal and external past audits, a review of subject specific publications, relevant materials from the Association of Certified Fraud Examiners, and trainings provided by the Institute of Internal Auditors, and the Association of Local Government Auditors. In addition, the team has interviewed various anti-fraud and accountability subject matter experts.

To evaluate potential risk areas identified and to ensure that the elements of the fraud triangle are mitigated, auditors will utilize various methods including, but not limited to: reviewing current policies and procedures, interviewing agency personnel, evaluating internal controls, and conducting data analysis through Computer Aided Auditing Techniques (CAATs).

Auditors presented a status of the Anti-Fraud program to the Mayor’s Office and to the City and County of Denver’s Audit Committee. We welcome information or concerns related to possible fraud within the city from internal and external sources. The Auditor’s Office looks forward to serving the city and its citizens by reducing the opportunity and likelihood of fraud in the City and County of Denver.
**Denver Auditor’s Office Control and Risk Self Assessment Training Program**

The Division initiated a Control and Risk Self-Assessment (CRSA) training program for City departments and personnel intended to assist managers, supervisors and staff to better understand management controls, the relationship between those controls, the risks related to a lack of effective controls and how controls are central to the strategic vision of the City. The core objectives of this training are to help operational personnel assume accountability for risk management, regardless of title and authority, to provide City business units with skills for analyzing and reporting on internal controls and to facilitate a prioritized focus on the most significant organizational risks.

The CRSA program is complimentary to the Auditor’s Anti-Fraud Program. With the City’s current economic environment, where City employees are being required to do more with less and where enhanced financial stressors increase the risk of fraudulent activity, the timing of these programs is even more strategic than would be the case under more stable and positive financial circumstances. The Division will be piloting this new program by using it to assess controls governing our own audit process during the first and second quarters of the year and will roll it out to operational departments during the third and fourth quarters of 2011.

**Robust Audit Follow-Up Program**

While the Division has had an audit follow-up process in place and has tracked the status of various audit findings and recommendations, the 2011 audit plan includes increased hours for audit follow-up, trend analysis and reporting activities. One key measure of the general effectiveness of an audit function, and in the case of the Denver Model, a key indicator of the impact of the change to the City Charter related to the mission and role of the Auditor’s Office, is the organization’s audit recommendation implementation rate. In a nutshell, this rate is one of the clearest indicators as to whether an organization is utilizing information provided by internal audit reports to mitigate or reduce identified risks and to enhance performance and the economy and efficiency of operations.

In 2010, the Division designed and implemented an enhanced follow-up program that includes significant hours for more in-depth audit work to verify that corrective actions have been taken to address prior audit findings. The program includes regular and formal reporting to the City’s elected officials, audit committee members, and operational management on the status of various audit findings and recommendations. This program also includes a trend analysis within and across City departments and programs in terms of management responsiveness and “tone at the top” related to audit findings and recommendations. The more robust audit follow-up program will also assist the Division with its on-going goal of implementing continuous improvement activities, in this case in terms of the quality and feasibility of audit recommendations.
STAFFING RESOURCES
AUDITOR DENNIS GALLAGHER

Dennis J. Gallagher has held several elected positions in Colorado during the previous 40 years at both the state and local level. Auditor Gallagher was elected City and County of Denver Auditor in 2003 and re-elected in 2007. Born in Denver, Dennis is the son of Denver natives, Ellen Flaherty Gallagher and Bill Gallagher, a Denver Firefighter.

After his initial election as Denver Auditor, Dennis undertook a major reorganization of the Auditor’s Office, streamlining it and reducing it from a cumbersome five divisions to a more efficient three divisions. Dennis supported Denver’s charter change to remove payroll and accounting from the Auditor’s Office and transfer it to a newly created Chief Financial Officer in the City and County of Denver administration. Accompanying that change was the creation of new independent Audit Committee, which he now chairs. As a result of these improvements, the Auditors Office now has an expanded and more robust performance audit and information technology audit function to better serve the citizens of Denver.

AUDIT SERVICES DIVISION

The Audit Services Division is comprised of 25 employees (2010 budgeted FTEs). Over the past year we have strived to attract and retain a talented, diverse and skilled workforce. This group of highly skilled professionals is committed to delivering quality audits.
Audit Services Division – Leadership Team

Our leadership team consists of knowledgeable and skilled professionals. Striving to set the tone at the top, our goal is to create an environment in which staff is committed to high ethical standards, fairness, full compliance, and delivering effective and factual audit reports.

Kip R. Memmott, MA, CGAP, CICA
Director of Audit Services

Mr. Memmott has over fifteen years of auditing, consulting and policy analysis experience at the federal, state, local government and private sector levels. Mr. Memmott’s professional positions include Internal Audit Manager with the County of San Diego, California, Senior Performance Auditor with the State of Arizona’s Office of the Auditor General, Senior Consultant with KPMG LLP, Legislative Analyst intern for the Arizona State Legislature, and intern for the U.S. Government Accountability Office (GAO). Kip holds a Bachelor of Arts degree from the University of Utah and a Master of Arts degree with a certificate in Public History (Public Administration emphasis) from Arizona State University. Kip is a recent graduate from the Harvard University Kennedy School of Government’s Senior Executives in State and Local Government executive education program. Mr. Memmott is a Certified Government Auditing Professional and serves on the Association of Local Government Auditors’ national Membership Committee.

John Carlson, JD, MBA, CIA, CICA
Deputy Director of Audit Services

Mr. Carlson brings over sixteen years of business experience including Government Affairs, Law, Compliance and Internal Audit. Six of these years, he spent working in an internal audit role for private industry. He has served as a Senior Attorney with responsibility for the compliance audit program and ethics & compliance function of a Fortune 200 global company. Additional responsibilities included developing ethics training for domestic and international operations and managing an employee whistle-blower program. John holds a Bachelors Degree from George Mason University. He earned a Juris Doctor from the University of Denver–College of Law and a MBA from the University of Colorado. John is an active member of the Colorado Bar, the DC Court of Appeals, and is a Certified Internal Auditor.
Ms. Donovan has over ten years experience in Internal Audit, Risk Management and Controls, and Sarbanes Oxley Advisory. She has a broad range of internal audit experience including performing compliance, performance based and operational audits; financial and data analysis; process improvement and development; controls implementation; and regulatory reporting. Audrey is considered a Sarbanes Oxley Subject Matter Expert and has helped counsel Fortune 500 companies with their Sarbanes Oxley implementation plans. Audrey holds a Bachelors degree in accounting from the University of Utah. She is a Certified Internal Auditor, a member of the Institute of Internal Auditors and the Society of Corporate Compliance & Ethics. She is active in her community and volunteers for local non-profits supporting families with triplets and other higher order multiples.
Audit Services Division Staff

Rebecca Corral, CFE
Senior Internal Auditor

Ms. Corral has over seven years of financial, compliance, and internal controls auditing experience in the public and private sectors. She holds Bachelors’ degrees in Accounting, Business Administration, and Marketing from Regis University. Rebecca is a member of the National and Colorado Chapter of the Association of Certified Fraud Examiners (ACFE).

Stephen E. Coury, CISA
Information Technology Audit Supervisor

Mr. Coury is a Certified Information Systems Auditor (CISA) with over 25 years experience in information technology, including over 15 years in IT audit. He has worked in municipal government, consumer banking, investment banking, insurance, and telecommunications. His areas of specialty are information security, data analysis, and software configuration management. Steve has been instrumental in deploying new technologies within Audit Services, including electronic work papers and data analysis tools. Steve has spoken at national conferences and spoke at two local professional events this year. He holds a Bachelor of Science degree in Business Administration from the University of South Dakota Business School and is a member of the Denver Chapter of the Information Systems Audit and Control Association (ISACA) and the Institute of Internal Auditors (IIA).

Heather Darlington, MS, CPA
Internal Audit Supervisor

Ms. Darlington is a Certified Public Accountant with a Bachelor’s degree in Accounting from Bucknell University. She also holds a Master of Science degree in Accounting from the University of Southern California. Heather has over nine years of auditing and advisory consulting experience with a public accounting firm. She is a member of the American Institute of Certified Public Accountants (AICPA), Colorado Society of Certified Public Accountants (CSCPA), Association of Certified Fraud Examiners (ACFE), and the Institute of Internal Auditors (IIA).
Ms. Donald graduated from Western State College of Colorado with a Bachelor’s degree in Accounting and Business Administration. While at Western State, she became a NCAA seven time All American for cross-country and track. She has worked as a financial auditor for the Office of the State Auditor and a local CPA firm. In addition, she has worked for a local retail company as the Controller. Kristin has seven years of experience, of those years six are auditing state and local governments.

Marcus Garrett, CIA, CGAP  
Lead Internal Auditor

Mr. Garrett graduated from Sam Houston State University with a Bachelor’s degree in General Business Administration. Marcus joined the City and County of Denver Audit-Services Division in 2009. He has worked as an internal auditor in the public sector with the Texas Department of Criminal Justice (TDCJ) and the Williamson County Auditor’s Office. He is an active member of the Institute of Internal Auditors (IIA) and the Association of Local Government Auditors (ALGA). Additionally, Marcus holds designations as a Certified Internal Auditor (CIA) and a Certified Government Auditing Professional (CGAP).

Emily Gibson, MS  
Senior Internal Auditor

Ms. Gibson graduated from the University of Colorado at Boulder, obtaining her Bachelor of Arts degree in Political Science with the honors designation of Magna Cum Laude. She also attended Erasmus University Rotterdam, The Netherlands and graduated with a M.S. in International Public Management and Policy. She has been with the City and County of Denver-Audit Services Division since January 2009.
Anna Lovascio Hansen, CICA  
*Senior Internal Auditor*

Ms. Lovascio Hansen holds a Bachelor of Science degree in Business Administration with an emphasis in Accounting from the University of Colorado at Denver. She has been with the City and County of Denver Audit Services Division since December 2005. Anna is a Certified Internal Controls Auditor (CICA) and is a member of the American Society of Women Accountants (ASWA), the Association of Local Government Auditors (ALGA), the Institute for Internal Controls (IIC), and the Association of Government Accountants (AGA).

Travis Henline  
*Senior Internal Auditor*

Mr. Henline earned a Bachelor of Arts degree in Organizational Management from the University of Colorado at Colorado Springs. He has six years of management experience and over six years of experience in operational, compliance and performance auditing. Travis is a member of the Institute of Internal Auditors (IIA).

Chris Horton, MA  
*Internal Audit Supervisor*

Mr. Horton has over nine years of performance and compliance auditing experience in both state and local governments. Prior to his service with the City and County of Denver, he was a Senior Performance Auditor for the Arizona Office of the Auditor General and a Compliance Auditor for Arizona’s Tele-communications Program Office. Mr. Horton has a Bachelor of Arts degree in Political Science and History, and a Master of Arts degree in History, both from the University of Texas of the Permian Basin. He is currently enrolled in the doctoral program in public administration at Arizona State University. Chris is a member of the Institute of Internal Auditors (IIA), the Association of Local Government Auditors (ALGA), and the American Society for Public Administration.
Ms. Howe has twelve years of auditing experience within state and local government and the private sector. She holds a Bachelor of Arts degree from the University of Colorado at Boulder and a Master of Public Administration degree with a concentration in Policy Analysis, from the University of Colorado at Denver.

Dawn Hume  
*Internal Audit Supervisor*

Ms. Hume earned a Bachelor of Science degree in Business Administration with an emphasis in accounting from the University of Southern Colorado. She has over ten years of experience in operational, compliance and process auditing in the private sector. She has been with the City and County of Denver-Audit Services Division since August 2008. Dawn is a member of the Institute of Internal Auditors (IIA) and is currently pursuing the designation of Certified Internal Auditor.

Dennis Johnson, CPA, CISA, CIA, CGFM  
*IT Senior Auditor*

Mr. Johnson’s experience prior to joining the Auditor’s office in 2010 includes auditing work at Nordstrom Bank, Oppenheimer Funds, and the Internal Revenue Service. He has the Certified Public Accountant (CPA), Certified Information Systems Auditor (CISA), Certified Internal Auditor (CIA), and Certified Government Financial Manager (CGFM) designations. Dennis currently holds an adjunct position at Arapahoe Community College teaching accounting and information technology subjects and is included in the Institute of Internal Auditors (IIA) list of excellent speakers.
Kelan Kelly  
*Lead Internal Auditor*

Mr. Kelly has more than eighteen years of performance auditing, management consulting and legislative analysis experience with state and local governments, and nonprofit organizations in Arizona, Colorado, Kansas, Nevada and Washington. He holds a Bachelor of Arts degree in Political Science and a Master of Public Administration degree both from the University of Missouri. Kelan is a member of the Institute of Internal Auditors (IIA) and the Association of Local Government Auditors (ALGA).

Rudy M. Lopez  
*Lead Internal Auditor*

Mr. Lopez has a BSBA (Business Management emphasis) from Colorado State University-Pueblo. He has several years experience as a small business owner and retail manager. Rudy has been with the City and County of Denver-Audit Services Division since January 2007.

Sonia Montano, CGAP, CICA  
*Internal Audit Supervisor*

Ms. Montano is a Certified Government Auditing Professional and a Certified Internal Controls Auditor. She has a Bachelor’s degree in Accounting from Adams State College, Alamosa, Colorado. She also has over eleven years of professional experience in the government sector. Sonia is a member of the Association of Local Government Auditors, Institute of Internal Auditors, and Institute for Internal Controls.

Mary K. Mutchler, CICA  
*Senior Internal Auditor*

Ms. Mutchler is a Certified Internal Controls Auditor as well as a Certified Microsoft Office Specialist at the Master level. She holds a Bachelor’s degree in Business Administration with an emphasis in Accounting from the University of Colorado. She has professional experience in both the private sector as well as state government. Mary has been with the City and County of Denver-Audit Services Division since January 2007.
Jessica Quintana  
*Senior Internal Auditor*

Ms. Quintana graduated from Western State College, with a Bachelor’s degree in Accounting and a Bachelor’s degree in Business Administration with a minor in Economics. Jessica has been with the City and County of Denver-Audit Services Division since July 2006.

Wayne Sanford, CICA  
*Senior Internal Auditor*

Mr. Sanford has a Bachelor of Science degree in Business with a major in Accountancy from Miami University, Oxford, Ohio. Mr. Sanford is a Certified Internal Controls Auditor (CICA). Wayne is a member of The Institute of Internal Auditors (IIA), Association of Airport Internal Auditors (AAIA), and The Institute for Internal Controls (IIC). Mr. Sanford is a veteran of the United States Marine Corps.

Manijeh Taherynia, MS, CPA, CFE, CICA  
*Senior Internal Auditor*

Ms. Taherynia holds a Master of Science degree in Accounting from the University of Colorado at Denver and three active professional certifications. Manijeh has over seven years of experience in tax compliance and governmental internal auditing and is a member of several professional associations.

Edyie Thompson, CAP  
*Executive Assistant I*

Ms. Thompson has over 19 years of professional experience in the private sector and is a Certified Administrative Professional. She is currently pursuing a Bachelor of Arts degree in Communications at The Women’s College of the University of Denver, and is a member of the National Society of Collegiate Scholars and the International Association of Administrative Professionals.
Kevin Vehar, MPA  
Senior Internal Auditor

Mr. Vehar joined the City and County of Denver Auditor’s office in July 2010. He has over two years experience as a performance auditor with the Colorado Office of the State Auditor. Kevin holds a Bachelor of Arts degree in Communication from Brigham Young University-Idaho and a Master of Public Administration degree from Brigham Young University.

Chris Wedor, MBA  
Internal Audit Supervisor

Mr. Wedor joined the Auditor’s Office in 2010 and brings over five years of experience with a Fortune 100 global company in operational, financial, compliance, and performance auditing. Chris holds a Bachelor of Science degree in Economics from the Colorado School of Mines and a Master of Business Administration with an emphasis in accounting from the University of Denver. Chris is a member of The Institute of Internal Auditors (IIA) and The Association of Local Government Auditors (ALGA).
Professional Development

The Division ensures professional staff meets continuing professional education (CPE) requirements in accordance with Government Auditing Standards set forth by the Comptroller General of the United States. These standards require staff to obtain 80 hours of continuing professional education every two years.

In 2010, audit staff was actively involved in the professional organizations listed below:

- The American Institute of Certified Public Accountants (AICPA)
- American Society of Women Accountants (ASWA)
- Association of Airport Internal Auditors (AAIA)
- Association of Certified Fraud Examiners (ACFE-National and Colorado Chapter)
- Association of Government Accountants (AGA)
- Association of Local Government Auditors (ALGA)
- American Society for Public Administration
- Colorado Bar Association
- Colorado Society of Certified Public Accountants (CSCPAs)
- Information Systems Audit and Control Association (ISACA)
- The Institute of Internal Auditors (IIA)
- The Institute for Internal Controls (IIC)
- International Association of Administrative Professionals
- Society of Corporate Compliance & Ethics
ANNUAL AUDIT PLAN and 2010 AUDITS
Description of Annual Audit Plan

The Division is utilizing a dynamic and flexible audit plan designed to significantly enhance the impact of audit services. The audit plan is based on developing a realistic audit horizon of planned high-risk audits covering a three-year period. The Division bases its annual audit plan on the development of such an audit horizon rather than developing a subjective, overly complex and incomplete “audit universe.” Historically, many audit organizations have attempted to develop a comprehensive “audit universe” from which to identify and prioritize audits. However, the Division adheres to a position that generating a comprehensive audit universe is prohibitive and unnecessary owing to the plethora of City departments, programs, activities and contracts, combined with the multiple types of audits that can be performed on each of these organizations, programs, activities and contracts and the fluid nature of government operations.

The outcome of such a cumbersome and time-consuming analysis would reveal that there are literally thousands of possible audits that would require tens of thousands of audit hours and other resources. Based on our limited resources, the development of such a universe would simply reveal that it is not possible to provide full audit coverage of each City department, program, activity, and contract. Additionally, the inclusion of such a “universe” could potentially mislead City officials and citizens to believe that all of the audits included on the listing will be performed and, perhaps more significantly, that any departments, programs, activities, or contracts not included in the universe are not subject to audit.

As a result, instead of developing an “audit universe,” the Division utilizes a realistic audit horizon strategy and approach to identify, prioritize, and manage audits deemed to be critical to City operations. Specifically, using the risk-based methodology described throughout the audit plan the Division identifies and prioritizes a select number of audits for inclusion into the annual audit plan as well as listing potential audits for the ensuing two years. The 2011 plan includes significant hours for performing specially requested audits and for urgent audit issues that arise throughout the year not originally captured on the plan. This provides the Auditor with a great deal of flexibility to address emerging issues in a timely manner and for providing high quality and responsive customer service to elected officials and operational management.

Obtaining input from various stakeholders regarding potential audit topics and areas deemed to be high risk is a key component of the annual audit plan development process. As part of outreach efforts related to the development of the 2011 audit plan, the Auditor’s Office formal outreach activities included but were not limited to:

- Meetings with City elected officials including the Mayor, President of the City Council, and the Clerk and Recorder;
- Meetings with City Executive Management including the City Attorney, Chief Financial Officer and Chief Information Officer;
- A series of Auditor meetings and interactions with citizens and City employees in public arena.
The 2011 audit plan reflects our emphasis on performance auditing, particularly in the areas of program effectiveness and assessing the economy and efficiency of various City departments and programs, as a key mandate resulting from the change to the City Charter effective January 1, 2008. Historically, the Auditor’s Office has conducted numerous performance audits focused on internal control and compliance objectives. However, performance audits with program effectiveness and economy and efficiency objectives are a new type of audit being executed by our office.

The 2011 audit plan includes program effectiveness and economy and efficiency performance audits for areas deemed high risk and many of them emphasize “horizontal” programs and activities that extend beyond individual departments and programs. Many of these audits will focus on the City’s general governance structure for managing these horizontal activities to ensure comprehensive control structures are in place and efficient and effective communication processes exist between operating departments. Finally, the plan includes audits that exhibit the Auditor Office’s strategic focus on information technology auditing and fraud prevention and detection. The Auditor Office’s 2011 Audit Plan is available on our website (www.denvergov.org/auditor).

In addition to these goals and to the development of new performance and information technology audit capabilities, the Division offers a suite of advisory service products. The intent of advisory services is to provide operational management with timely and critical information and analysis without the formality of an audit. Generally, with the exception of audit alerts, the Division will provide these services at the request of operational management and elected officials. The following are specific descriptions of advisory services:

- **Audit Alerts** - Audit Alerts provide timely identification of potential risk areas that may prevent the achievement of City objectives. Alerts function as a rapid threading tool for disseminating key information identified by audit work. Those “at risk” entities can then complete a self-assessment and, if applicable, quickly self-correct any related control deficiencies.

- **Special Advisory Services** - Special Advisory Services provide information on limited reviews or time-critical assessments, investigations or evaluations. The Division generally provides these services at the request of operational management and elected officials. Special Advisory Services further City objectives and goals by providing a reporting vehicle that is flexible, quickly issued, and focused on singular issues.

- **Training Services** - The Division offers control self-assessment training to City departments and entities. The training is intended to help managers, supervisors, and fiscal staff to better understand management controls, relationships between those controls, risks related to lack of effective controls, and how controls are central to the Strategic Vision of the City.
Description of 2010 Audits

The following pages provide synopses of various audit projects and non-audit services performed by the Division during 2010. Government Auditing Standards (GAS) promulgated by the Comptroller General of the United States, defines three types of audits: financial audits, attestation engagements, and performance audits. While the Division maintains the capability to perform financial audits and attestation engagements, we primarily conduct performance audits.

Per Government Auditing Standards (GAS), promulgated by the Comptroller General of the United States, “performance audit objectives may vary widely and include assessments of program effectiveness, economy and efficiency, internal control, compliance and prospective analysis.” Historically, the Auditor’s Office has conducted numerous performance audits focused on internal control and compliance objectives. However, performance audits with program effectiveness and economy and efficiency objectives are a new type of audit being executed by our office. Per GAS standards, audit objectives for performance audits focusing on program effectiveness and economy and efficiency components can include, but are not limited to, the following types of objectives:

- Assessing the extent to which legislative, regulatory, or organizational goals and objectives are being achieved;
- Assessing the relative ability of alternative approaches to yield better program performance or eliminate factors that inhibit program effectiveness;
- Analyzing the relative cost-effectiveness of a program or activity;
- Determining whether a program produced intended results or produced results that were not consistent with the program’s objectives;
- Determining whether a program provides equitable access to or distribution of public resources within the context of statutory parameters;
- Assessing the extent to which programs duplicate, overlap, or conflict with other related programs;
- Evaluating whether the audited entity is following sound procurement practices;
- Assessing the reliability, validity, or relevance of performance measures concerning program effectiveness and results, or economy and efficiency;
- Assessing the reliability, validity, or relevance of financial information related to the performance of a program;
- Determining whether government resources (inputs) are obtained at reasonable costs while meeting timeliness and quality considerations;
- Determining whether appropriate value was obtained based on the cost or amount paid or based on the amount of revenue received;
• Determining whether government services and benefits are accessible to those individuals who have a right to access those services and benefits;
• Determining whether fees assessed cover costs;
• Determining whether and how the program’s unit costs can be decreased or its productivity increased; and
• Assessing the reliability, validity, or relevance of budget proposals or budget requests to assist legislatures in the budget process.
Program Effectiveness and Economy and Efficiency Audits

ARAMARK Sports and Entertainment Service, Inc. at Red Rocks Amphitheatre – January 2010

Theatres and Arenas is a division of the City & County of Denver's Department of General Services. They are responsible for the acquisition, construction, maintenance, repair, management and operation of the City's public assembly facilities. Theatres and Arenas oversees Red Rocks Park and Amphitheatre including the Aramark concession agreement. Aramark has a concession agreement with the City for services provided at Red Rocks Park and Amphitheatre for a term commencing on April 8, 2003 through January 15, 2011. Red Rocks concessions generated over $6.6 million in gross receipts from which the City collected over $2.3 million in commissions.

Significant Issues

- Theatres and Arenas did not obtain proper documentation for grant and capital improvements, required expenditures were not made by contract deadlines, and the capital assets acquired were not all properly recorded or safeguarded.
- The contract contains contradicting language in regards to annual reporting and is a poorly assembled legal document.

Citywide Grant Administration – January 2010

Many of the grants the City receives are federally funded and in 2008, the City had over $329 million in federal expenditures. Grants are a critical source of revenue that supplement or fully fund many City programs and projects that benefit the citizens of Denver. Grants have aided the City with human services initiatives, police technology upgrades, street construction and health programs. The entire City grant life cycle from application to closeout is governed by several different authoritative sources. The administration of grants is performed at the City agency level.

Significant Issues

- The City does not have a central grant administration oversight and quality control function.
- Agencies failed to comply with fiscal rule, grant requirements and oversight of subawards.
- Grant identification, solicitation and application processes was not part of primary job responsibilities at most agencies.
• Grant application success rate information is not tracked and the grant system data that is captured is inaccurate.
• The third party contractor used for grant development is under-utilized by City agencies.

Denver Better Bond Program Administration – March 2010

In November 2007, Denver voters authorized up to $550 million in bonds to fund eight Better Denver Bond Program (BDBP) purposes related to construction, improvement, and renovation of Denver roads, buildings and infrastructure.

The audit examined whether BDBP management had controls in place to ensure program goals are achieved in accordance to ballot requirements. While program management has generally done a good job managing the BDBP program to date, opportunities exist to enhance critical activities:

Significant Issues

• Primavera is not being fully utilized by Project Managers
• Lack of specific plan to transfer legacy system to the City
• Non-Compliance with Fiscal Rule 4.3 and lack of closeout procedures
• Prompt Pay Issues

Centralized Payroll Operations – March 2010

The audit reviewed key areas of the centralized payroll function, administered by the Division of Payroll Operations and Payroll Administration (Payroll).

Significant Issues

• Payroll should ensure data entry audits are performed, ensure appropriate application of rules regarding leave during emergency snow closures, and institute additional fraud tests.
• About 11 percent of sampled employee timecards did not have a supervisor sign-off.
• Payroll can better track information related to its role in personnel action form processing performed.
• A limited test of the City’s payroll system for ghost employees found no issues of concern.
**Arrest Identification and Processing – March 2010**

The Denver Police Department has authority to arrest any person or persons who may be guilty of a breach of any City ordinance, or state or federal law. The City’s Safety Department oversees the processing of arrested individuals in Denver. At times, arrestees maintain the police have arrested the wrong person. Both the City and its citizens are negatively impacted if the person arrested and held in the City’s custody is not the person sought by a warrant.

**Significant Issues**

- Although the City’s Safety Department has implemented several practices to help reduce and address arrest identity issues, audit work found the Department does not track data related to arrests involving arrest identity issues. This inhibits the Department’s ability to effectively assess the impact of implemented practices, and adjust controls to address weaknesses as they are identified, increasing the risk of the City inappropriately arresting and holding the wrong person.

**Citywide Cash Handling Procedures – March 2010**

The City has numerous functions and responsibilities that require it to exchange cash with members of the public. In order to carry out cash transactions, City agencies with such responsibilities must maintain change funds. The City’s Treasury Division maintains a list of agencies with change funds. According to Change Fund records, the City maintained over $143,000 in approximately 104 change funds throughout the City in 2009. The overall objective of this audit was to evaluate the City’s cash handling practices on a sample basis.

**Significant Issues**

- Auditors counted change funds representing nearly 60 percent of the City's entire change fund population, and found 80 percent of agency funds did not reconcile to amounts recorded by Treasury.
- Change fund reporting practices are inadequate and data maintained by Treasury contains inaccuracies.
- Agencies have poor controls over access to cash, inadequate segregation of duties, a lack of management oversight, and insufficient security measures. Additionally, the City’s policies and procedures are inconsistent among agencies.
Wastewater Enterprise Fund – March 2010

Link to Report
This audit examined and assessed the use of the Enterprise Fund and identified inefficiencies and opportunities for improvement. Public Works Department cannot adequately document why certain costs are allocated to the Wastewater Enterprise Fund. Specifically, activities such as curb and gutter construction and maintenance, street sweeping, and snow removal are supported in part by the Enterprise Fund.

Significant Issues

- Changes to costs allocated to the Fund, such as street sweeping, alley improvements and snow removal were not well supported.
- Additionally, assessments of 100 percent for the maintenance of existing curb and gutter costs appeared higher than industry standard.
- No formal agreement established to determine reimbursement to the Fund for the Central Platte Campus for the approximately $15.2 million spent on the purchase and remediation of land and the nearly $600,000 spent on design.

DIA Travel and Expense Program – April 2010

Link to Report
The audit of Denver International Airport's (DIA) Travel and Expense program assessed the compliance with travel rule and regulations, processes, and determined if appropriate management oversight was in place in order to identify possible inefficiencies and opportunities for improvement. Internal controls over the travel program included DIA's internal travel polices and procedures manual, Fiscal Accountability Rule 10.8, IRS guidelines, and various approval requirements.

Significant Issues

- Audit work determined that not all trip cancellations were updated in DIA's Travel Database and, therefore, the database did not reflect the most up-to-date and accurate information. Furthermore, there was inconsistent application of approval signatures on the Rental Car Justification forms.
- Overall, DIA had established a robust and effective practices and policies and procedures that helped reduce the likelihood of both improper travel and improper reimbursement of such travel.
- Trip cancellations should be consistently reported to DIA Travel Coordinator in a timely manner in order to ensure the database is updated and accurate.
- DIA's Travel Program Guide should be modified to require that Rental Car Justification Memos be signed and approved by the appropriate section personnel prior to submission to the Travel Coordinator.
Career Service Authority Board – May 2010

The Career Service Authority (CSA) Board is responsible for overseeing the CSA agency which handles the majority of human resource activities for the City. The CSA Board is a five member board appointed by the Mayor. This audit sought to examine and assess the CSA Board's activities and practices in primarily three areas: Human Resource Shared Services, the annual Pay Survey and the Performance Enhancement Program Report process. The audit found that the CSA Board is comprised of individuals with extensive experience and diverse background. However, audit work identified three areas of weakness where the Board can enhance their involvement:

**Significant Issues**

- Board meeting minutes do not accurately reflect the member's deliberation during meetings or efforts outside of Board meetings.
- Monitoring of CSA agency performance and the CSA Personnel Director is informal and often on a verbal basis.
- CSA is setting a poor example citywide for timely submissions of the Performance Enhancement Program Report.

City Attorney Information Security Management – May 2010

The City Attorney’s Office handles highly sensitive information regarding civil and criminal litigation, social services and welfare matters, fraud and other investigations, and city contracts. This audit focused on data loss prevention. Assessed were the basic controls over laptop computers, removable media, such as Universal Serial Bus (USB) or flash drives, and mobile telephones. Additionally the audit focused on the controls that prevent malicious software from being installed on workstations that can allow information to be sent out of the City network. Also assessed were information security awareness and end-user practices.

**Significant Issues**

- Access over file shares, workstation patching, and antivirus updates need improved or strengthened controls.
- Unencrypted laptops and no formal process for encrypting removable media, such as, Universal Serial Bus (USB) drives, were identified.
- Systematic rules were not in place to prevent the indiscriminate and automatic forwarding of e-mail to destinations outside of the City network.
- Personnel were not in compliance with the “Information Technology Acceptable Use Policies and Procedures,” and need information security awareness training.
Occupational Privilege Tax – May 2010

Audit work indicated the Treasury Division appears to have an effective internal control structure in place for the collection of Occupational Privilege Taxes (OPT). However, our assessment of collection activities identified opportunities to increase revenue collection from non-compliant Occupational Privilege Tax filers.

Significant Issues

- The Treasury Division does not actively pursue collection of OPT from employees and businesses occasionally conducting business in the City and County of Denver.
- The Division does not actively audit and collect OPT from all companies operating within Denver and relies on a risk-based methodology focused on auditing companies paying the highest amount of taxes to the City.

Fixed Assets Management – May 2010

The City’s Fiscal Rule 4.2 and its related Procedure establish written criteria requiring City agencies and departments to account for, inventory and safeguard each asset under their control throughout the asset’s useful life. Fiscal Rule 4.2 gives the Controller’s Office exclusive, centralized authority over fixed assets by granting the Office responsibility for any procedures and forms associated with the Rule. This audit examined the City’s processes for managing the inventory of fixed assets and related governing policies for adequacy and completeness.

Significant Issues

- Fixed asset records in the City’s PeopleSoft Asset Management (PSAM) system are inaccurate and incomplete.
- The asset location in PSAM was incorrect, asset serial numbers in PSAM did not agree with those of the asset, and assets either were not tagged with a City identification number, or the tag numbering was inconsistent with requirements.
- Agencies are not consistently adhering to established control processes; weaknesses exist with the Controller’s Office’s oversight and reconciliation practices; there are inefficiencies with fixed asset recording processes; and Inventory Custodians lack sufficient training and guidance.
Facilities Planning and Management – June 2010

Link to Report
This audit reviewed the management of planning and maintenance for City facilities focusing on maintenance activities, maintenance budgeting and real estate portfolio administration and governance.

Significant Issues

- Updates to key guidance regarding real estate oversight are needed.
- City’s real property and space usage inventories were incomplete.
- The City has not always clearly considered maintenance costs imposed by acquiring new buildings.
- Facilities Management Division’s data limited effective analyses in various areas, including contractors’ cost-effectiveness.
- Facilities’ Management’s preventative maintenance was generally being performed on schedule.

Department of Parks & Recreation and Department of Safety Contract Administration – June 2010

Link to Report
The audit reviewed contract administration practices at the Department of Parks and Recreation and the Department of Safety, and the extent to which guidance regarding contract administration in Executive Order 8 mirrors best practice.

Significant Issues

- Guidance in Executive Order 8 regarding contract administration practices should align with federal best practice guidelines.
- The Parks and Recreation Department generally has sound processes to administer contracts.
- The Department of Safety's contract administration procedures should better reflect federal best practices by developing more comprehensive policies and procedures, designating a single person for contract monitoring, and more effectively monitoring contract expiration dates.
911 Data Center Operations – June 2010

The Denver 911 Communications Center serves as the Public Safety Answering Point (PSAP) for 911 telephone calls into the City and County of Denver. Personnel at this center dispatch police, fire, and medical personnel (ambulances) in response to citizen calls for emergency assistance. The Communications Center uses a Computer Aided Dispatch (CAD) system and various other support hardware and software that are processed in a dedicated data center. This audit focused on the data center’s disaster recovery capability and other general controls over software and security.

Significant Issues

- Workstation patching and antivirus updates are not performed or monitored for successful installation.
- Archive backups are not stored offsite.
- Change management procedures for moving proposed changes into production are not documented and do not provide formal evidence of approvals.
- No formal procedures exist for periodic review of building and system access.

Treasury Division Financial Management – July 2010

The Financial Management section of the Treasury Division is responsible for the day-to-day operations of the City's investment portfolios totaling approximately $2 billion. This audit examined the investment approach and portfolio management practices in place, which included assessing internal controls and evaluating oversight mechanisms. The audit found that the investment process is governed by a sound Investment Policy and that controls are in place to ensure compliance with that policy. However, the audit did identify two areas for improvement, which are as follows:

Significant Issues

- The Treasury Division lacks written procedures for day-to-day operations, which the Investment Policy requires. As a result the Treasury Division is not in full compliance with the City's Investment Policy; and
- Weak requirements exist for Investment Policy amendments.
DIA Safety Culture – August 2010

The Department of Aviation (Aviation) manages the Denver International Airport (DIA) for the City and County of Denver. As part of its operational oversight, Aviation works to address risks to health and safety in multiple ways. This audit reviewed the safety culture at Denver International Airport (DIA).

Significant Issues

- Establishing an effective safety culture requires a sincere, long-term commitment by an organization's senior management and an effective collaboration between management and employees.
- Ensuring effective communication between management and employees facilitates this collaboration.
- DIA management has several elements in place to establish an effective safety culture. However, certain steps should be taken to build employee trust.
- Safety-related communication at DIA appears to be largely top-down, which can inhibit effective collaboration between management and employees.

Excise and Licenses – August 2010

The Department of Excise and Licenses is responsible for issuing all licenses and permits in accordance with City ordinances except for sales tax, motor vehicle and building development. City ordinances establish over 90 business licenses and permits including liquor, medical marijuana licenses and alarm system permits.

Significant Issues

- The audit found several licensing process deficiencies which included an inefficient and poorly maintained filing system, revenue reconciliations not being performed, information system limitations, inefficient business inspection processes and significant opportunities to simply processes and achieve cost savings.
- The audit identified that the newly outsourced alarm permit administration process needed improvement.
DIA Airport Improvement Program – August 2010

**Link to Report**

The Airport Improvement Program (AIP) is a grant program to promote airport developments that are necessary to provide a safe, secure, efficient, and integrated airport system, which meets the needs of civil aviation, national defense, and the United States Postal Service. This audit examined and assessed the AIP process to identify possible inefficiencies and opportunities for improvement.

**Significant Issues**

- Opportunities exist to improve AIP grant management and administration practices;
- Policies and Procedures addressing AIP Federal regulations and accounting guidance are inadequate;
- DIA lacks timely and effective AIP closeout procedures; and
- Reporting and management of ARRA funds needs improvement.

Revenue Contracts – August 2010

**Link to Report**

The City uses two general contract types; expenditure (money paid by the City) and revenue (money received by the City). Revenue contracts are generally administered by the individual agencies that entered into the contract, with other agencies providing a degree of review and oversight. The audit scope included an assessment of the internal control structure and accounting practices for the City’s revenue contracts and associated information, including contract-related policies and procedures.

**Significant Issues**

- Controls surrounding revenue contracts are generally adequate to ensure collection of associated revenue. However, auditors were unable to obtain a readily accessible list of all revenue contracts executed during the scope under review.
- Audit work also found that the City lacks specific minimal written guidance regarding duties related to revenue contract monitoring and oversight, and few agencies have developed policies and procedures or other written guidance related to the administration, monitoring and oversight of revenue contracts.
Denver County Court Traffic Division – September 2010

The audit identified issues regarding ticket citation delinquencies totaling approximately $17 million and operational problems associated with using paper-based tickets. Use of this antiquated system has resulted, at least in part, to delinquent fee collection practices resulting in a financial shortfall for the City. The deployment of an electronic based ticket program and enhancement of collection procedures can help make Traffic Division processes more efficient and cost effective.

Significant Issues

- Opportunities Exist to Enhance the Traffic Ticketing and Delinquent Collection Processes
- Use of electronic tickets would allow the Traffic Division to reduce criminal and general sessions ticket processing times.

Golf Course Enterprise Fund – September 2010

The Department of Parks and Recreation (DPR) operates the Golf Course Enterprise Fund. The fund accounts for all city-owned golf courses. The Golf Course Enterprise Fund operates and maintains the City's five 18-hole golf courses, one 27-hole golf complex, two 9-hole par-3 courses, 54-holes of miniature golf, a driving range and three pro shops at seven golf course locations.

Significant Issues

- Audit work revealed that since the audit finding of 2007 controls have been implemented over cash handling, the reconciliation process, and inventory control.
- Issues with the administration of the Wellshire contract identified by the 2007 audit have not been corrected. Additionally, DPR efforts to resolve this matter have created additional issues, fostered a perception of unfairness, and raised questions of transparency around this contract.
Denver Employees Retirement Plan (DERP) – November 2010

The purpose of the audit was to assess the internal control structure, accounting practices, and funded status of the Denver Employee Retirement Plan (DERP). DERP is a defined benefit plan (Plan) that was established on January 1, 1963. The Plan is available to most City and County of Denver employees, some Denver Health and Hospital Authority (DHHA) employees, and members of the DERP staff. Based on our audit work, we determined controls over monitoring investments were adequate.

Significant Issues

- Audit work noted several internal control issues related to review processes and controls over the accounting functions.
- Further, segregation of duties weaknesses were identified over accounting processes and information technology systems.
- In addition, a review of the Advisory Committee's function revealed a lack of participation in Board meetings and little Plan member interest.

DIA Information Security Management – November 2010

Denver International Airport operates many information and process control systems. We selected three systems from three separate divisions of the airport that have high availability requirements. We utilized the principles of defense in depth and evaluated process maturity in the areas of information security management, information systems access management, and contingency planning. While strong controls exist for removing physical access and system access when personnel terminate their employment, opportunities exist to enhance the risk management aspects of information technology governance and process maturity at DIA.

Significant Issues

- Some servers and workstations were not patched against known system vulnerabilities or did not have their antivirus software up to date.
- Some systems did not have backups stored offsite.
- Some systems did not have adequate user ID and password strength or complexity requirements.
- A data center did not have physical access controls to support individual accountability for room access, sufficient hardware maintenance arrangements to ensure timely repair in the event of hardware malfunctions, or adequate cooling to ensure continued operation of computer equipment.
- Some systems did not have formal and tested contingency plans in place.
Citywide Ethics Program – November 2010

Link to Report
The audit reviewed aspects of the citywide ethics program, including the Board of Ethics, Code of Ethics, whistleblower ordinance and ethics training.

Significant Issues

- The City should deploy a whistleblower hotline, should revise the whistleblower ordinance that currently prevents central collection and analysis of whistleblower information, and should revise the ordinance to protect anonymous whistleblowers.
- The City’s ethics program could be strengthened by better aligning various codes of conduct, by improving processes that do not protect individuals making an ethics complaint, and by requiring ethics refresher training.

Theatres and Arenas’ Management and Operations – December 2010

Link to Report
This audit examined and evaluated the management and operations of the Theatres and Arenas Division to determine whether internal controls in place were adequate under the circumstances.

Significant Issues

- Theaters and Arenas did not maintain performance measures in order to identify opportunities for improvement and revenue enhancement.
- The Division did not adequately monitor capital improvements and concession revenue required by contract.
- Lack of communication and unclear roles and responsibilities hindered effective management of labor requests and payroll processes. Booking agreements were not always executed in accordance with Executive Order 8.
Audit Alerts and Special Advisory Services

AUDIT ALERTS - Audit Alerts provide timely identification of potential risk areas that may prevent the achievement of City objectives. Alerts function as a rapid threading tool for disseminating key information identified by audit work. Those “at risk” entities can then complete a self-assessment and, if applicable, quickly self-correct any related control deficiencies.

SPECIAL ADVISORY SERVICES - Special Advisory Services provide information on limited reviews or time-critical assessments, investigations or evaluations. The Division generally provides these services at the request of operational management and elected officials. Special Advisory Services further City objectives and goals by providing a reporting vehicle that is flexible, quickly issued, and focused on singular issues.

American Recovery and Reinvestment Act (ARRA) Readiness & Governance 1st Qtr Reporting-Audit Alert February 2010

Link to Alert

This audit alert focused on assessing the City’s first quarter of federal reporting for American Recovery and Reinvestment Act (ARRA) funding. We conducted specific testing on both prime and sub-recipient grants for the City, which led to the identification of various reportable exceptions. Recommended actions were developed to assist the City in monitoring ARRA funding. We will continue to monitor the City’s progress and as programs are funded, will perform audits of the City’s compliance with Recovery Act requirements.

Significant Issues

- Reportable exceptions included issues with reporting, data reliability and job calculations.
This non-audit service was requested by the Mayor and provided research regarding key factors for consideration when choosing an economic development partner. The City was seeking a new development partner after the prior contract was terminated in part for non-performance.

**Significant Issues**

- Several factors should be considered prior to contracting with a development partner that include, economic sustainability of the entity, technical assistance capability, location of personnel, the City’s oversight role and development of clear and measurable performance goals.
- Research also revealed several tools that could aid in selecting a new partner, including two rating systems and the Federal Audit Clearinghouse.

**Parks and Recreation Water Conservation Special Advisory Report – June 2010**

Denver Parks and Recreation (DPR) requested that Audit Services Department perform a peer review of DPR’s Water Conservation Program and related goals. Specifically, our task was to assess the existing water conservation program metrics, and provide additional water conservation benchmarking where possible.

**Significant Issues**

- Our review consisted of surveying five cities with regard to size, environmental conditions, geographic location, arid/semi-arid region, and drought criteria and compared elements of their water conservation programs to DPR water conservation program.
- Based on our examination, DPR’s water conservation program is comparable to the citywide programs reviewed. In some areas, including Reclaim Water Consumption, DPR does significantly better than the surveyed cities.
- One area where DPR can improve its water conservation program is by updating and including a long-term plan for future conservation efforts. DPR’s water conservation plan was released in 2003 and does not contain a long-term plan.
Organizational Safety Culture Special Advisory Report – August 2010

Link to SAR
This non-audit service provided an objective analysis of effective approaches to improve the City’s organizational safety culture.

Significant Issues
- It is vital that senior management embrace and make a long-term commitment to safety.
- Employees are an important source of safety information, and their participation in developing safety ideas and maintaining the safety culture is crucial.
- Research revealed the importance of training, the best ways to develop leading indicators of safety performance, and how the organizational structure should reflect a commitment to safety.

IT Audit Risk Assessment: Phase 1 Special Advisory Report – December 2010

Link to SAR
This special advisory service report completes the first phase of an Information Technology (IT) audit risk assessment. The purpose of this assessment was to assist in our annual audit planning process to ensure we apply our resources to auditing the highest risk IT areas. Our risk assessment model includes ranking both technical process maturity and qualitative factors. We ranked the risk of the critical business applications, IT processes, IT facilities, and IT infrastructure that are supported by Technology Services. The results of the assessment identified specific IT audits which were incorporated into the Auditor’s 2011 Audit Plan

Significant Issues
- Ambiguities in web presence could be exploited to mislead the citizenry on how to obtain City services or where to direct payments.
City and County of Denver
Office of the Auditor
Audit Services Division
201 W. Colfax Ave., Dept. 705
Denver, CO 80202
Phone: (720) 913-5000 • (720) 913-5026 (Fax)
www.denvergov.org/auditor

Annual Report Designed and Prepared by:
Stephen E. Coury, Information Technology Audit Supervisor
Anna Lovascio-Hansen, Senior Internal Auditor
Kip R. Memmott, Director of Audit Services
Wayne Leon Sanford, Senior Internal Auditor
Edyie Thompson, Executive Assistant I

Photos:
Denver Metro Convention & Visitors Bureau
FlyDenver.com / pressroom/image library
Cover, staff, and MPIAF event photos by Stephen E. Coury

Copies of this report are free to the public and can be obtained by contacting us at:

Office of the Auditor
Audit Services Division
201 W. Colfax Avenue, Dept. 705 • Denver CO, 80202
(720) 913-5029