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 (Division) of the Auditor's Office for the year ending December 31, 2011. The Division issued 17 audit reports and performed 2 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.

Our work products had definitive impacts on improving City operations and increasing citizen awareness regarding the operations of their City and County government. The Association of Local Government Auditors (ALGA) has requested that the Division present two of these reports as best practice performance audits at their 2012 annual conference. Additionally, the City’s administration—specifically the Chief Performance Officer—is using a special advisory report issued by the Division discussing fleet consolidation to improve the effectiveness and efficiency of the City’s fleet management practices. All of the reports and services issued by the Division during the year are summarized herein.

In addition to producing high-impact audit reports and providing a number of advisory services, the Division had several notable accomplishments during the year. Division accomplishments included co-hosting a well-attended and well-received Mountain and Plains Intergovernmental Audit Forum with the United States Government Accountability Office for the second consecutive year and providing multiple presentations discussing attributes of the “Denver Audit Model” including presentations provided to the Institute of Internal Auditors’ Denver, Fort Collins, and Colorado Springs chapters; the Southwest, Southeastern, and Mountain and Plains Intergovernmental Audit Forums’ Joint Conference in Santa Fe, New Mexico; the aforementioned Mountain and Plains Intergovernmental Audit Forum; and the Denver Rotary Club.

The Division continued to develop a progressive local and national reputation through the formation of strategic partnerships with federal, state, and local government auditing functions and organizations. Division personnel now serve in leadership positions within ALGA, the Institute of Internal Auditors (IIA), and the Intergovernmental Audit Forum. Additionally, the Division co-sponsored a regional training with ALGA. The Division also continued to provide low-cost, high-impact development and training opportunities for staff throughout the year and piloted our Control Risk Self-Assessment (CRSA) advisory service internally with outstanding results. The Division also hired a Communications Specialist to help improve the quality of written communications and presentations. The Specialist will also help to develop articles for publication in professional journals and develop a branding strategy.
The Division will continue to undergo further transition during 2012 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,

[Signature]

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

The Audit Services Division (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, 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 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 also 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 in 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 2011, the Division issued 17 performance audit reports and conducted 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. According to the Government Auditing Standards 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 2011 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 2011 and continuing into 2012, in order to further this goal and to share our innovations with other audit entities, the Office made several well-received presentations discussing elements of the “Denver Audit Model” to professional accountability organizations. Additionally, several Division staff members now serve in leadership positions within key international, national, and local accountability organizations.
For the second consecutive year, the Denver Auditor’s Office and the United States Government Accountability Office co-hosted a well-attended conference at the historic Magnolia Hotel in downtown Denver in August 2011. The conference theme was “Doing More with Less.” This topic was both timely and practical owing to the national economic recession, which has resulted in decreased government funds at the same time the demand for government services has increased. The conference agenda featured a diverse group of national and local experts to provide tips and techniques for participants regarding how they could do more with less. The City’s Budget Director and Manager of Aviation were among those who presented at the conference.

In 2011, the Division implemented our Control Risk Self-Assessment (CRSA) training program. This program is designed to assist City personnel 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. In 2011, the Division piloted the CRSA process internally, holding four working sessions, with representatives from each level of the Division, examining key phases of the audit process including: risk assessment, audit planning, quality control, and report writing. The results of this effort were threefold. First, the process confirmed that the Division has an effective control process in place. Second, the process identified a few areas where controls and tools could be updated and strengthened. As a result, the Division has revised and enhanced its policies and procedures manual and related tools. Third, the Division fully developed the CRSA program and is now ready to provide this advisory service to operational departments.

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 2012 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 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 Government 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 (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 Division fully complied with Government Auditing Standards 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 reporting practices; progressive management and supervisory techniques; and the utilization of an automated audit project management system including electronic working papers. The
Division will be undergoing its next peer review in 2012 and we fully expect a finding of full compliance with auditing standards.

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’s internal audit function.

- 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

- 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 or CAFR) and communicating findings and recommendations of internal audit reports.

Under the revised Charter and ordinance provisions, the 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 identified 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 criterion).
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.

Goals

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

Continuous Improvement Goals

- Perform routine maintenance of the Policies and Procedures Manual to enhance guidance and address revisions to the Government Auditing Standards
- Improve utilization of electronic work paper software application to enhance audit efficiencies and timeliness
- 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
- 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
- Continue to enhance utilization of electronic audit tools including data mining software and flowcharting software
- Continue to define our role in modeling companion legislation as referred to within the Auditor’s enabling legislation effective January 1, 2008
- Follow up on the status of management action on audit findings and recommendations
- Seek to increase management’s accountability to remedy findings by identifying and reporting actions taken
- Proactively recruit high quality talent to fill existing vacancies
The Division will continue to undergo significant transition during 2012 as we strive to implement activities focused on enhancing the quality of audit services. In addition to the aforementioned continuous improvement goals, the Division has established the following goals specifically for 2012:

**2012 Goals**

- Establish strong relationships and communications with the City’s new Mayor and other officials elected during the 2011 election
- Receive a full compliance opinion from ALGA for the Division’s 2012 external quality assessment (peer) review
- Hold public meetings as part of the risk assessment for the 2013 audit plan
- Fully deploy Audit Follow-Up and Control Risk Self-Assessment initiatives
- Expand participation and communication with local and national audit organizations including the Institute of Internal Auditors (IIA), the Association of Local Government Auditors (ALGA), and the U.S. Government Accountability Office (GAO)
- Co-host the Mountain and Plains Intergovernmental Audit Forum for a third consecutive year
- Expand performance audit services to include environmental audit capabilities and objectives (The Division issued its first environmentally focused audit in January 2012, a performance audit examining the Department of Aviation’s environmental programs, and the 2012 audit plan includes an environmental audit of the Denver Arapahoe Disposal Site.)
- Provide comprehensive staff training on new procedures and processes and fundamental audit skills including performance auditing methods and techniques, project management, legal and public policy research, audit report writing, and fraud detection and prevention
- Implement an enhanced quality assessment program based on the principles of the Control Risk Self-Assessment program
- Improve reports including new templates and enhanced presentation of written findings and related graphics and photographs and including the implementation of an updated style guide (The Division hired a Communications Specialist in 2011 to help facilitate improvement in these areas.)
- 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 audit plan development
Division Highlights

Audit Services “Denver Audit Model” Gaining Local and National Recognition

A key goal of the Audit Services Division (Division), 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 2011, the Division made several presentations on elements and facets of the “Denver Audit Model.” Auditor Dennis Gallagher, Government Liaison Clay Vigoda, and Director of Audit Services Kip Memmott presented the “Denver Audit Model” at a joint conference for the National Intergovernmental Audit Forum in Santa Fe, New Mexico. The conference was attended by audit professionals from Arkansas, Colorado, Georgia, Louisiana, New Mexico, Tennessee, Texas, and Wyoming. Also, as described below, the Division presented at the Mountain and Plains Intergovernmental Audit Forum in August 2011.

In addition to the presentations made at various intergovernmental audit forums attended by professionals at the national and regional level, the Division made three presentations to local audit professionals.

Audit Report Writing Presentations – In December 2011, Division Director Kip Memmott, Audit Supervisor Chris Horton, and Communications Specialist Emily Jacobson made a presentation to the IIA’s North Denver Chapter in Fort Collins entitled “Audit Report Writing: Creating Impact Through Effective Written Communication.” The presentation discussed the importance of effective audit report writing and included numerous tips and tools for accomplishing this goal, as well as highlighting real examples of Division report writing techniques and reports. The IIA invited the team to make the same presentation at the Denver Chapter meeting in January 2012, which was very well received and subsequently highlighted on the Denver Chapter website.

Denver Audit Model Presentation – In April 2011, Division Director Kip Memmott and Deputy Director Audrey Donovan made a presentation on elements of the “Denver Audit Model” to the North Denver IIA Chapter in Fort Collins. The presentation, entitled “Value-Added Performance Auditing and the Art of Being Relevant” emphasized the importance for internal audit functions to demonstrate relevancy, especially during difficult financial times. The presentation identified techniques for being relevant and provided real examples of performance audit work conducted by the Division that had impact and clearly demonstrated the value of the Denver Auditor’s Office.
Business Ethics and Compliance Presentations – In March 2011, Division Deputy Director John Carlson presented an overview of business ethics and compliance (E&C) programs and posed questions to the IIA Colorado Springs Chapter to initiate a dialogue about how auditors can have positive impact on their organizations. John reviewed a detailed fifty-year timeline discussing the changes to the concept of business ethics and examined how companies train their employees in E&C matters. The presentation discussed tools and techniques internal auditors can use when performing a review of E&C programs within their organizations. John also presented similar content to MBA candidates in an ethics and compliance class at the University of Colorado in November 2011.

Auditor Dennis Gallagher Co-hosts Conference on Doing More with Less

On August 25–26, 2011, the Division and the U.S. Government Accountability Office (GAO) co-hosted their second-annual conference at Denver’s Magnolia Hotel for members of the Mountain and Plains Intergovernmental Audit Forum (MPIAF). This year’s program focused on doing more with less. Presenting to an audience of over 90 governmental accountability professionals, conference speakers offered attendees a positive view of doing more with less, sharing innovative ways to provide value even when faced with budget shortfalls.

This year’s gathering welcomed a wide range of accountability professionals, including internal and performance auditors, IT and communications analysts, city controllers and treasurers, program evaluators, and CPAs from private industry. Attendees came from Denver and surrounding areas, as well as other states including Kansas, Missouri, Texas, and Wyoming. The diversity of the group was most apparent in the types of institutions represented—both the public and private sectors; federal, state, and local governments; departments of urban development, human services, interior, education, and environmental protection; state legislatures; universities; and Denver International Airport (DIA).

Colorado Governor John Hickenlooper delivered opening remarks, citing the importance of the audit function during his years serving as Denver’s Mayor. The Governor highlighted the partnership that he and Auditor Gallagher formed, sharing the common goal of implementing true performance auditing for the City and County of Denver. The Governor was followed by Colorado Senate Majority Leader John Morse, whose keynote address provided an update on the fiscal restraints that place Colorado among the lowest-spending states in the nation.
Morse’s presentation was followed by several panel discussions and presentations that covered topics such as ways in which GAO is using new media to connect with key audiences; an innovative printing-services partnership between the City and County of Denver and the State of Colorado; DIA’s plans for efficient infrastructure expansion, including the South Terminal Redevelopment Project and the addition of an on-site hotel; and GAO’s identification of duplication among federal agencies, programs, and information systems.

Friday’s program opened up with welcoming remarks from Denver’s Mayor, Michael Hancock, who affirmed his belief in the importance of the City’s audit function, adding that he recently created a new position on his staff for a Chief Performance Officer. Later that morning, Division Director Kip Memmott and Audit Supervisor Chris Horton gave a presentation on performance-based auditing, including the history of the Division’s “Denver Audit Model.” Their remarks highlighted the unique opportunity presented by the current recession to add value through the performance audit function.

Other day-two presentations included a technology module on the use of data analytics to enhance audit capabilities; modernizing updates to the Government Auditing Standards; and an update from Denver’s then Deputy Chief Financial Officer, Ed Scholz, on the permanent actions the City has taken to slow the growth rate of expenditures relative to income. GAO’s Director of Leadership Programs, Beverly Norwood, rounded out the conference with an interactive presentation on giving and receiving feedback, providing attendees with tools they can use to optimize feedback in the workplace.

This year’s conference moved the Division closer to our goal of strengthening the MPIAF by providing members with thought-provoking content that will truly help them bring about positive operational change in government. The Division intends to continue playing an integral role, along with GAO, in re-energizing the MPIAF with timely information and valuable networking opportunities.

**Audit Services Staff Serving in Leadership Roles for Key National Accountability Organizations**

In alignment with the goals of the Auditor’s Office related to establishing a local and national reputation, several Division staff members accepted requests to participate in leadership roles within national auditing and accountability organizations. By serving in these positions, the Division is now strategically positioned within the three primary professional audit organizations: the Institute of Internal Auditors, which is the largest internal audit professional organization in the world and which maintains chapters throughout Colorado; the Association of Local Government Auditors, the only national professional organization focused on local
government auditing; and the Intergovernmental Audit Forum, organized by the U.S. Government Accountability Office (the entity that promulgates the Government Auditing Standards), which exists to promote collaboration between federal, state, and local government auditing functions.

The Division’s participation in these organizations provides stellar professional networking opportunities, which results in the Division being completely up-to-date on new audit methods and techniques, risk-assessment processes, audit topics, and professional standards (which, as noted, by City Charter, the Division must abide by in the performance of its work) along with other beneficial information. The audit profession is in a state of rapid evolution and by being at the forefront of the profession’s evolution through active participation in the organizations that are promoting and guiding this evolution, the Division is ideally positioned to help drive positive change within the field. This ability is of significant value to the citizens of Denver as it will continue to result in the Division identifying and applying leading edge tools and processes to deliver high impact, efficient audit work to improve City operations. For example, the development of the Division’s “audit horizon” concept in 2009 (discussed later in the annual report) appears to have been noted by other audit functions and professionals nationally. For example, the City of Austin now adheres to a similar risk assessment methodology.

**Association of Local Government Auditors (ALGA) Appointment** – Kip Memmott, Director of Audit Services, was appointed to a leadership position within the Association of Local Government Auditors (ALGA) in May 2011. The ALGA Board of Directors asked Kip to serve as the Chairperson for the Association’s Membership Committee. ALGA was formed in 1989 and has enjoyed a growing membership, presently comprising more than 300 organizational members and over 2,000 individual members. The ALGA membership base represents a wide variety of local government audit organizations, from one-person audit shops to large offices consisting of more than 75 professionals. Members include audit organizations serving cities, counties, and service districts such as school, transportation, and water districts. ALGA also welcomes associate memberships for auditors working in state and federal organizations as well as private auditing firms.

ALGA provides information to assist members, whether they are audit directors, managers, or staff, in conducting financial as well as performance audits. Through its committees, made up of volunteer members, ALGA advocates for local government auditing and provides industry representation on emerging issues with other professional management, accounting, and finance organizations. ALGA is often invited to provide a local-government perspective in reviewing and commenting on draft audit standards issued by governing agencies or other professional audit organizations.

Through its peer review program, including the *Peer Review Guide*, ALGA assists local government auditors in complying with Government Auditing Standards and/or International Standards for the Professional Practice of Internal Auditing (Red Book). ALGA members are organized and trained to conduct high-quality peer reviews of member organizations for much
lower costs than contracted reviews. Program participants have consistently indicated the highest level of satisfaction with their ALGA peer review experience.

Kip’s appointment to a leadership position for a key ALGA governance committee reflects well on the City and County of Denver. This appointment allows Kip to promote at the national level activities, techniques, and impact related to work being performed by the Denver Auditor’s Office and provides an opportunity to work with fellow dedicated audit professionals to move the profession forward. For example, the Denver Auditor’s Office worked closely with ALGA to develop a regional professional training seminar, which was held in Denver during October 2011.

Nancy Howe, a Lead Auditor, and Chris Horton, an Audit Supervisor, within the Division serve as members on the ALGA Awards Program and Education committees, respectively. Their participation on these committees demonstrates their commitment to the field and provides them with an outstanding opportunity to learn from and network with peers and further the audit profession.

**Institute of Internal Auditors (IIA) Appointment** – Audrey Donovan, Deputy Director of Audit Services, has been selected to join and serve as a member of the Institute of Internal Auditors’ (IIA) International Public Sector Committee effective July 2011. This is a volunteer position with a three-year-term commitment. The mission of the committee is to influence and provide leadership and advice to the IIA and its international committees on public sector auditing matters and to promote the interests of the IIA’s public sector audit members. IIA members represent all areas of the global public sector auditing profession.

As a committee member, Audrey will be well positioned to positively influence IIA support programs and outreach activities involving public sector auditing organizations. She will be working closely with an outstanding group of distinguished professionals from all over the world. The committee will be gathering and evaluating information, discussing issues, developing work programs, and recommending and participating in courses of action.

**National Intergovernmental Audit Forum (NIAF) Appointment** – The U.S. Government Accountability Office (GAO) has invited John Carlson, Deputy Director of Audit Services, to serve on the National Intergovernmental Audit Forum (NIAF) Professional Standards Liaison Committee and join the NIAF Strategic Planning Task Force. The NIAF, an association of audit executives from federal, state, and local governments, exists to improve coordination and cooperation among accountability organizations in order to address common challenges; enhance government performance, accountability, and transparency; and increase public trust.

The Professional Standards Liaison Committee serves as a liaison with GAO to monitor standard setting bodies and advance the Government Auditing Standards within governments and the audit profession. The Committee consists of six to ten members, appointed for two-year renewable terms by the chair of the Committee.
The NIAF Strategic Planning Task Force develops the NIAF Strategic Plan, which is designed to provide a foundation for the Forum’s operations over the next several years, from 2011 through 2016. It specifies the Forum’s mission and core values and discusses the main themes that are likely to be the focus of much of the Forum’s activities in future years. The plan also contains specific action items, presented in the form of strategies for addressing key goals, including fostering networking, dialogue, and collaboration on current and emerging issues of common interest within the audit community.

The NIAF grew out of a need for better planning and cooperation among federal, state, and local government audit organizations. Part of the impetus was a need to address new requirements brought on by passage of the Intergovernmental Cooperation Act of 1968 and the State and Local Fiscal Assistance Act of 1972. These statutes sought, among other things, to improve the administration of federal grants and share federal revenues with state and local governments. During this period, Congress charged GAO with conducting “a continuous program for the improvement of accounting and financial reporting” in order to arrive at “simplified and more effective accounting, financial reporting, budgeting and auditing requirements.”

NIAF encourages participation of representatives from federal, state, and local agencies to raise the capability and professionalism of audit organizations by advancing audit standards, sharing best practices, and promoting the importance of accountability within government and the audit profession.

**Denver Auditor’s Office Control Risk Self-Assessment Training Program**

In 2011, the Division implemented our Control Risk Self-Assessment (CRSA) training program. This program is designed to assist City personnel 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. During the year, the Division piloted the CRSA process internally, holding four working sessions with representatives from each level of the Division, examining key phases of the audit process including: risk assessment, audit planning, quality control, and report writing. The results of this effort were threefold. First, the process confirmed that the Division has an effective control process in place. Second, the process identified a few areas where controls and tools could be updated and strengthened. As a result, the Division has revised and enhanced its policies and procedures manual and related tools. Third, the Division fully developed the CRSA program, and is now ready to provide this advisory service to operational departments.
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 2012 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 Audit 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 acceptance and 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.

The Division has 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.

During 2012, as a result of the enhanced focus on follow-up, the Division will have verified the recommendation implementation percentage for every audit recommendation made by the Division since 2009, the year after changes to the City Charter related to the Division’s role and mission became effective. The Division will perform a trend analysis and report the results to the Mayor, City Council, and Audit Committee. Until this analysis has been completed, we are unable to provide a comprehensive recommendation implementation percentage. However, based on formal responses to audits, which are required by D.R.M.C., audited entities have agreed to implement approximately 94 percent of audit recommendations (459 out of 490) made by the Division from 2009 to 2012. This high percentage of agreement clearly reflects the value and diversity of the recommendations being proffered by the Division as a result of high quality audit work.
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. He was elected City and County of Denver Auditor in 2003 and re-elected in 2007 and 2011. Born in Denver, he is the son of Denver natives, Ellen Flaherty Gallagher and Bill Gallagher, a Denver Firefighter.

After his initial election as Denver Auditor, Auditor Gallagher 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. He 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 a new independent Audit Committee, which he chairs. As a result of these improvements, the Auditor’s Office has an expanded and more robust performance audit and information technology audit function to better serve the citizens of Denver.

AUDIT SERVICES DIVISION

Over the past year we have strived to attract and retain a talented and diverse workforce. This group of highly skilled professionals is committed to delivering quality audits.
Audit Services Division – Leadership Team

The Division’s 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  
Director of Audit Services

Mr. Memmott has over seventeen years of auditing, consulting, and policy analysis experience at the federal, state, and local government levels and in the private sector. His 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. Mr. Memmott 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. He is a graduate of the Harvard University Kennedy School of Government’s Senior Executives in State and Local Government executive education program and has recently been accepted into the Brookings Institution’s Certificate in Public Leadership program. Mr. Memmott is a Certified Government Auditing Professional and chairs the Association of Local Government Auditors’ Membership Committee.

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

Mr. Carlson brings over seventeen years of business experience including in the areas of 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 and 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. Mr. Carlson holds a bachelor’s degree from George Mason University. He earned a Juris Doctor from the University of Denver’s Sturm College of Law and a MBA from the University of Colorado. He is an active member of the Colorado Bar Association and the DC Court of Appeals and is a Certified Internal Auditor.
Audrey Donovan, CIA  
**Deputy Director of Audit Services**

Ms. Donovan has over ten years of experience in the areas of 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. Ms. Donovan is considered a Sarbanes-Oxley Subject Matter Expert and has helped counsel Fortune 500 companies with their Sarbanes-Oxley implementation plans. She holds a bachelor’s degree in accounting from the University of Utah. Ms. Donovan is a Certified Internal Auditor and a member of the Institute of Internal Auditors and the Society of Corporate Compliance and 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

Mr. Coury is a Certified Information Systems Auditor with over twenty-five years of experience in information technology, including over fifteen years in IT audit. He has extensive experience in municipal government, consumer banking, investment banking, insurance, and telecommunications. His areas of specialty are information security, data network controls, data analysis, and software configuration management. Mr. Coury has been instrumental in deploying new technologies within the Audit Services Division, including electronic work papers and data analysis tools. 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 and the Institute of Internal Auditors.

Ketki Dhamanwala, MBA, MS, CIA, CISA
Information Technology Senior Auditor

Ms. Dhamanwala is a Certified Information Systems Auditor and a Certified Internal Auditor with a bachelor’s degree in Computer Science from the University of Texas at Dallas. She also holds Master of Business Administration and Master of Science in Accounting degrees from the University of Texas at Dallas. Ms. Dhamanwala has over six years of auditing experience from AT&T, Inc. and has been with the City and County of Denver Auditor’s Office since October 2011. Ms. Dhamanwala is an active member of the Denver Chapter of the Information Systems Audit and Control Association and the Institute of Internal Auditors.

Marcus Garrett, CIA, CGAP, CRMA
Lead Internal Auditor

Mr. Garrett graduated from Sam Houston State University with a bachelor’s degree in Business Administration and joined the City and County of Denver Auditor’s Office in 2009. He has worked as an internal auditor for the Texas Department of Criminal Justice and the Williamson County Auditor’s Office. Mr. Garrett is an active member of the Institute of Internal Auditors and the Association of Local Government Auditors. Additionally, he holds designations as a Certified Internal Auditor, a Certified Government Auditing Professional, and a Certification in Risk Management Assurance.
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 Auditor’s Office since December 2005. She is a Certified Internal Controls Auditor and is a member of the American Society of Women Accountants, the Association of Local Government Auditors, and the Institute for Internal Controls.

Mr. Hartman joined the City and County of Denver Auditor’s Office after three years of performance audit experience with the U.S. Government Accountability Office. He also has experience in nonprofit program evaluation and public infrastructure finance. Mr. Hartman has a Master of Public Affairs degree from the Lyndon B. Johnson School of Public Affairs at the University of Texas where he studied city management and urban planning.

Travis Henline, CICA
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 seven years of experience in operational, compliance, and performance auditing. Mr. Henline is a member of the Institute of Internal Auditors and the Institute for Internal Controls.
Chris Horton, MA  
Internal Audit Supervisor

Mr. Horton has served in his current position with the Auditor’s Office since August 2009 and has over ten years of auditing and training 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 Telecommunications Program Office. Mr. Horton leads a team of auditors who are responsible for projects relating to the Mayor’s Office, the City Council, the Clerk and Recorder’s Office, the City Attorney’s Office, and the Safety Department, as well as various special projects. A former teacher, Mr. Horton has also been involved in numerous training activities during his auditing career. In the past year he has been a presenter on the subjects of value-added performance auditing and audit report writing at three conferences or seminars. He also leads the Division’s Control Risk Self-Assessment team, which provides facilitation and education for City and County of Denver workgroups conducting internal assessments. Mr. Horton is a member of the Institute of Internal Auditors, the Association of Local Government Auditors, and the American Society for Public Administration. 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 and anticipates graduation in May 2012.

Ms. Howe has thirteen years of auditing experience, both within state and local government and as a consultant in 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. Ms. Howe is a member of the Institute of Internal Auditors, the Institute for Internal Controls, and the Association of Local Government Auditors (ALGA). She also serves on ALGA’s Awards Program Committee, the objective of which is to manage, evaluate, and promote the Association’s annual awards programs.
Dawn Hume  
*Internal Audit Supervisor*

Ms. Hume earned a Bachelor of Science degree in Business Administration with an emphasis in accounting from the Colorado State University at Pueblo. She has over twelve years of experience in operational, compliance, and process auditing, four of which have been in the government audit environment. Dawn is a member of the Institute of Internal Auditors and the Association of Local Government Auditors. She has been with the City and County of Denver Auditor’s Office since August 2008 and is currently pursuing the designations of a Certified Internal Auditor and Certified Government Auditing Professional.

Emily Jacobson, MPA  
*Communications Specialist*

Ms. Jacobson joined the Office in August 2011 to fill the newly created Communications Specialist role. She has a diverse background in the communications field, drawing on previous experience in both the public and private sector. She holds a Bachelor of Arts degree in Political Science from the University of Colorado at Boulder and a Master of Public Administration degree from the University of Colorado at Denver. She is a member of the American Society of Public Administration and the Institute of Internal Auditors, where she assists with communications for the Denver Chapter.

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. Mr. Lopez has been with the City and County of Denver Auditor’s Office since January 2007.
Connor McGee, MPA  
Senior Internal Auditor

Mr. McGee earned a Bachelor of Arts degree in Government with departmental honors from the University of Texas at Austin and a Master of Public Administration degree from Cornell University. He has more than two years of experience as a performance auditor for the New Hampshire Legislative Budget Assistant. He has also performed historical research for a non-profit civic association in Reston, Virginia. Mr. McGee joined the City and County of Denver Auditor’s Office in January 2012.

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 in Alamosa, Colorado. She also has over sixteen years of professional experience in the government sector. Ms. Montano is a member of the Association of Local Government Auditors, Institute of Internal Auditors, Association of Airport Internal Auditors, and Institute for Internal Controls.

Jessica Quintana  
Senior Internal Auditor

Ms. Quintana holds a Bachelor of Science degree in Accounting and Business Administration with a minor in Economics from Western State College. She has been with the City and County of Denver Auditor’s Office since July 2006. Ms. Quintana is a member of the Institute of Internal Auditors and is currently pursuing a designation as a Certified Governmental Financial Manager.
Ms. Sheets 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 where she graduated with a Master of Science degree in International Public Management and Public Policy. Ms. Sheets has been with the City and County of Denver Auditor’s Office since January 2009.

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. She has over nine 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 twenty 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. She 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 also has over two years of experience as a performance auditor with the Colorado Office of the State Auditor. Mr. Vehar holds a Bachelor of Arts degree in Communications from Brigham Young University-Idaho and a Master of Public Administration degree from Brigham Young University.

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**Jennifer Ware, MACIS, CISA**  
*Information Technology Lead Auditor*

Ms. Ware joined the Auditor’s office in 2011. She has eight years of experience with a public accounting firm, where she specialized in providing IT audit and advisory consulting services to the federal government. Ms. Ware holds a bachelor’s and master’s degree in Accounting and Information Systems, both from Virginia Polytechnic Institute and State University (Virginia Tech). She is a Certified Information Systems Auditor and a member of the Denver Chapter of the Information Systems Audit and Control Association, the Institute of Internal Auditors, and the Project Management Institute.

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**Chris Wedor, MBA, CICA**  
*Internal Audit Supervisor*

Mr. Wedor joined the City and County of Denver 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. He holds a Bachelor of Science degree in Economics from the Colorado School of Mines and a Master of Business Administration degree with an emphasis in accounting from the University of Denver. Mr. Wedor is a member of the Institute of Internal Auditors, the Association of Local Government Auditors, and the Institute for Internal Controls.
Professional Development

The professional staff of the Audit Services Division 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 auditors to obtain eighty hours of continuing professional education every two years.

In 2011, audit staff was actively involved in numerous professional organizations.
2012 ANNUAL AUDIT PLAN

AND

2011 AUDITS
Description of Annual Audit Plan

The Division maintains that a high quality and clear annual audit plan is critical for meeting the goals, objectives, and mission of the Auditor’s Office. The audit plan, developed using guidelines formulated by the Institute of Internal Auditors, establishes which agencies, programs, contracts, or other areas will be prioritized for audits on an annual basis. It allows for an efficient allocation of limited audit resources and is viewed as a flexible, dynamic tool that can be amended throughout the year to reflect changing City risks and priorities.

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 departments, 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 a risk-based methodology, 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 2012 audit 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.

Audits included in the annual audit plan and “audit horizon” are selected and prioritized using a risk-based approach. Risk assessment is a process used to identify and prioritize audits based upon specific risk factors related to the quality of internal controls and the estimated liability and level of exposure to the City and County of Denver related to various City
departments, programs, activities, and contracts. In addition to using risk-assessment criteria, the Division analyzes operations and internal controls derived from previous audits; benchmarks against the audit priorities of other governmental entities; and obtains input from elected officials, Audit Committee members, operational management, and members of the public.

The concepts of flexibility, responsiveness, and transparency are core tenets of the Auditor’s Office annual audit plan. The utilization of the “audit horizon” methodology and risk-assessment criteria, focused on proactively obtaining audit suggestions from elected officials and operational management, demonstrate how these core tenets are actualized in the audit plan development process. The 2012 audit plan places an even greater emphasis on the core tenets of flexibility and responsiveness now that the City has a new Mayoral administration and new City Council members.

With the intent of assisting the City’s newly elected officials transition into their positions and address known and emerging risks to City operations and performance, the 2012 audit plan includes abundant hours to execute audit services related to emerging issues and risks in a timely manner. In this regard, the Auditor and the Director of Audit Services will be meeting regularly throughout the year with elected officials and operational management to solicit input related to operational risks and proposed audit engagements as well as to share information related to issues and risks identified by historical work performed by the Auditor’s Office.

A key component of this outreach will be to share audit follow-up status reports and related trend analysis with City officials. This increased frequency and level of interaction with City officials is intended to enhance collaboration, especially in terms of understanding and monitoring major initiatives and programs being undertaken by elected officials and operational management. The primary intent of these monitoring activities is to keep current and informed about such activities for future audit risk-assessment purposes and to enable the Office to assist the administration with these efforts to the greatest extent possible.

**Continued Emphasis on Performance Auditing** – The 2012 Audit Plan continues to reflect a strong emphasis on performance auditing as a key mandate resulting from the change to the City Charter, particularly in the areas of program effectiveness and assessing the economy and efficiency of various City departments and programs. The 2012 audit plan includes program effectiveness and economy and efficiency performance audits for areas deemed to be high risk, and many of them emphasize “horizontal” programs and activities that extend beyond individual departments and programs. These audits will focus on the City’s general governance structure for managing horizontal activities to ensure that comprehensive control structures are in place and that efficient and effective communication processes and threading exist between operating departments.

**Audit Services Focused On Improving Financial Condition of the City** – The 2012 audit plan includes specific audits and advisory services focused on helping to improve the financial
condition of the City during a period of significant budgetary distress. The 2012 plan includes audits that will examine internal controls and assess compliance related to critical City fiscal activities such as budgeting, contract and grant administration, capital cost management, accounting practices, enterprise and internal service fund management, personnel costs/payroll, purchasing practices, and cash handling functions. Other audits in the 2012 plan will focus on opportunities for revenue maximization, such as analysis of current City fees and cost-of-service assessments, possible enhancements to City revenue contracts, and maximization of federal and state grant opportunities.

**Enhancement of Information Technology Audit Capability** – Local government technology organizations often face the same risks as those encountered by large corporations. In fact, the risks faced by governments may be higher, as government agencies are sometimes specifically targeted by those with malicious intent. However, governments operate with a significantly smaller budget, and the proper functioning of our technology controls is critical to protecting our information resources. Accordingly, the annual audit plan also includes specialized information technology audits derived from the Division’s Citywide IT risk assessment. This risk assessment establishes an inventory of all critical IT systems including IT business processes, business applications, infrastructure, and facilities.

**Anti-Fraud Focus** – The 2012 goals for fraud prevention are to further incorporate anti-fraud capabilities into performance audits conducted by the Division. By highlighting potential gaps within internal control systems, the opportunity for fraud can be reduced. The Division intends to continue its evaluation of potential risk areas and mitigate the precursors for fraud within the identified internal control system on an audit-by-audit basis.

**Enhanced Audit Follow-Up Program** – The 2012 audit plan will place continued emphasis on follow-up activities with increased hours for audit follow-up, trend analysis, and reporting activities. The Division will continue its robust and enhanced follow-up program, which will include significant hours for more in-depth audit work to verify that appropriate and timely corrective actions have been taken to address prior audit findings and mitigate identified risk to City operators. This program will also include 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 2012 audit follow-up program will also assist the Division with its on-going performance goal of implementing continuous improvement activities, in this case in terms of the quality and feasibility of audit recommendations.

**Environmental Audit Capability** – In 2011, the Office continued to expand its capabilities and array of audit services to include the City’s first environmental internal audits. Environmental audits are reviews of an entity’s operations and processes to determine compliance with environmental regulations and generally accepted safety practices and guidelines. Environmental audits can address a wide range of areas including but not limited to assessments of buildings and building sites; activities and procedures; industrial and commercial developments; and engineering hazard and operability studies. In 2011, the
Office initiated an environmental performance audit of Denver International Airport’s Environmental Safety Management program. The 2012 plan includes an environmental audit examining the Denver Arapahoe Disposal Site.

**Proactive Stakeholder Outreach** – For the 2013 audit plan risk-assessment and development process, the Auditor’s Office plans to hold a series of public meetings to obtain direct input from citizens on perceived City risks and performance. The Auditor’s Office ardently adheres to a citizen-centric model, and we continually develop strategy and seek methods intended to solicit and address citizen concerns and questions related to the operations and activities of their municipal government.

**Advisory Services Suite** – In addition to the inclusion of new performance audit, information technology audit, environmental audit, and anti-fraud capabilities, the 2012 plan also includes hours dedicated to performing the suite of advisory services products developed by the Auditor’s Office. The intent of advisory services is to provide operational management with timely and critical information and analysis without the formality or duration 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 Division offers a number of advisory services including audit alerts, special advisory reports, and a Control Risk Self-Assessment Training Program.

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

- **Control Risk Self-Assessment (CRSA) Training Program** – In 2011, the Division’s CRSA team facilitated several internal self-evaluation workshops on various aspects of the audit process. The Division finished implementing the recommendations at the end of 2011. The team also identified ways to leverage the experience gained during the process to facilitate workshops for other City agencies in 2012. The intent of the CRSA training program is to help management and staff better understand management controls, understand the risks related to a lack of effective controls, and facilitate a prioritized focus on the most significant organizational risks. CRSA workshops should help operational personnel take greater accountability for risk management, regardless of title and authority. The CRSA training program complements the Division’s anti-fraud efforts by demonstrating to agency personnel how they can improve controls, which may help prevent fraud.
**Description of 2011 Audits**

The following pages provide synopses of various audit projects and non-audit services performed by the Division during 2011. According to Government Auditing Standards promulgated by the Comptroller General of the United States, there are 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.

According to Government Auditing Standards, “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 the Division. According to Government Auditing Standards, performance audits focusing on program effectiveness and economy and efficiency components can include, but are not limited to, the following types of audit 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
• Assessing the reliability, validity, or relevance of budget proposals or budget requests to assist legislatures in the budget process
Program Effectiveness, Economy, and Efficiency Audits

City American Recovery and Reinvestment Act Funding Performance Audit – January 2011

The American Recovery and Reinvestment Act (ARRA) is an economic stimulus package that was enacted by Congress and signed into law by President Barack Obama on February 17, 2009. As of July 2010, the City had received $76.2 million in ARRA grant allocations. The purpose of the audit was to assess the effectiveness of and compliance with rules and regulations for grants administered through June 30, 2010.

Significant Issues
- Opportunities exist to improve oversight of ARRA funds
- ARRA prime recipient grant management needs improvement
- ARRA sub-recipient grant management needs improvement

City Vehicle Fleet Management Audit – January 2011

This audit examined the City and County of Denver’s Fleet Management program for the period of July 1, 2009, through June 30, 2010. The purpose of the audit was to assess the effectiveness and efficiency of the Fleet Management program and determine whether internal controls in place were adequate under the circumstances. This audit included examining the following City agencies: Denver Public Works, the Denver Police Department, the Denver Sheriff Department, and the Denver Fire Department.

Significant Issues
- Lack of accountability and monitoring over take-home vehicles
- Inadequate fuel access internal controls
- Opportunities to improve parts inventory controls
- Significant outstanding internal billing transfers

Denver Fire Department Audit – February 2011

The objectives of the Denver Fire Department (DFD) audit were to determine if fire inspection fees were structured to allow for full cost recovery for services provided, assess revenue generating procedures, and evaluate the effectiveness of DFD’s fire inspection and inventory management processes.

Significant Issues
- DFD’s electronic fire inspection and permit records database does not include all property addresses that require fire inspections
- DFD’s implementation of electronic tablets lacked objectives and strategic change plan tactics
- DFD did not conduct an annual physical inventory in 2009 to account for Personal Digital Assistants (PDAs)
- DFD’s inventory custodian does not physically verify each asset assigned to DFD

**Controller’s Office Audit – February 2011**

This audit assessed the adequacy of the internal controls governing key City fiscal processes and reviewed the status of mitigation strategies implemented by the Controller’s Office to eliminate historical material weaknesses identified by the City’s annual external audit. Additionally, the audit evaluated the most up-to-date internal policies and procedures developed by the Controller’s Office.

**Significant Issues**
- Recurring chronic external audit findings
- Incomplete Fiscal Accountability Rules
- Incomplete internal policies and procedures
- Non-compliance with Fiscal Accountability Rules
- Limited interim financial information
- Lack of a well-documented strategic plan identifying steps to achieve the Office’s objectives and an action plan for implementation

**Department of Aviation Revenue Contract Management Audit – March 2011**

This audit of the Department of Aviation (Aviation) had two objectives: first, to determine whether Aviation’s contract management processes and systems effectively address the risk of inaccurate revenue reporting; and second, to determine if Aviation’s current contract management processes provide reasonable assurance that evidence of key required contract elements are present in contract files.

**Significant Issues**
- Aviation’s contract management process is unable to determine the accuracy of contractor revenue reports and results in increased risk
- Review of random sample of contracts shows some enhancements should be made to ensure that key elements are in place
- One company failed to provide gross revenue documentation in required timeframe.
Office of Telecommunications Cable Franchise Agreement Audit – March 2011

This audit focused on determining proper reporting of gross revenues, franchise fees, and Public Education and Government (PEG) fees. The purpose for this audit was to determine whether the Office of Telecommunications effectively administered and enforced Cable Franchise Agreement provisions and whether Comcast paid all amounts due to the City.

Significant Issues
- Comcast excluded franchise fees from gross revenue calculations
- Benchmarking study supports inclusion of franchise fees in gross revenue
- Issues identified with PEG fees result in reduced City revenues
- Inadequate performance bond and non-enforcement of insurance provisions creates risk to the City

Office of Economic Development Division of Small Business Opportunity Audit – April 2011

The audit of the Office of Economic Development’s Division of Small Business Opportunity (Division) looked at the Division’s effectiveness, efficiency, and internal controls. Among its roles, the Division oversees various certification programs for disadvantaged and small businesses.

Significant Issues
- The Division’s annual goals are mismatched with the project goals, making the annual goals difficult to meet
- The Division does not have a strong strategic approach to developing and tracking its performance measures, making Division performance difficult to evaluate
- The Division has several operational areas in which improvement is needed
- Certified firms from outside Denver and Colorado are allowed to compete with local certified firms on an equal basis for City contract work

Denver International Airport Passenger Facility Charges Audit – May 2011

Denver International Airport (DIA) is authorized by the Federal Aviation Administration (FAA) to impose Passenger Facility Charges (PFCs). In 2010, DIA reported over $100 million in PFC collection. DIA generally utilizes these funds to pay down certain approved debt.
**Significant Issues**

- PFC collection and accounting processes at DIA had certain internal control elements in place
- DIA’s reliance on self-reported PFC revenues from airlines increases the risk of inaccurate reporting
- Specific enhancements could provide greater assurance of proper and timely air carrier PFC payments
- DIA should consider leveraging its contract terms to require air carriers to comply with payment timeliness and properly remit quarterly and annual audits
- DIA should use required reports to ensure proper airline payment

**Governance of the Career Service Hearing and Appeal Process Audit — June 2011**

This audit reviewed the Career Service hearing and appeal process to determine whether the Career Service Authority (CSA) Board was governing the process in an efficient, effective, transparent, and equitable manner.

**Significant Issues**

- The hearing and appeal process is overburdened, untimely, and costly due in part to a broad range of reasons for appeals, ineffective oversight by the CSA Board, poor scheduling practices, and inadequate education and training about issues addressed hearing decisions
- The CSA Board lacks transparency, and its structure precludes significant democratic accountability by taxpayers, policymakers, and employees

**Denver International Airport Finance and Administration Division Audit — September 2011**

The purpose of this audit was to examine and assess the effectiveness of the internal control environment and the organizational structure within the Denver International Airport (DIA) Finance and Administration Division (Division) to identify possible inefficiencies and opportunities for improvement.

**Significant Issues**

- The Division’s Accounting Section has a weak internal control environment evidenced by poor segregation of duty controls, inappropriate access rights to the automated accounting system, and process weaknesses with respect to the review and preparation of financial statements
- DIA’s Internal Audit Section lacks independence, an effective reporting structure, and an efficient follow-up process
- The Division’s accountability culture requires improvement evidenced by the fact that Division management is not providing timely staff evaluations and performance feedback is cursory
- Duplication of financial analysis functions within the Division

**Career Service Authority Classification, Compensation and Benefits Audit — October 2011**

This audit examined the Career Service Authority (CSA) Classification, Compensation and Benefits Division and the related programs, including Denver Wellness, and services provided to the City and its employees. This included a review of policies and procedures, information system controls, contracts, and key department performance measures.

**Significant Issues**

- The CSA Board should adopt a formal centrally located compensation philosophy based upon the City's current merit-system compensation ideals
- CSA should implement a results-based Wellness Program
- CSA should ensure that administrative access rights to the classification database only be granted to personnel not directly responsible for audit data and results

**Office of the Independent Monitor Audit – October 2011**

The objectives of this audit were to assess the monitoring process of the Office of the Independent Monitor (OIM), to make a determination regarding current performance and compliance with relevant ordinances, and to assess other non-monitoring activities of the OIM in an effort to identify possible inefficiencies and opportunities for improvement. The audit recommended that the Citizen Oversight Board (Board), the Mayor’s Office, and the Monitor should take action to enhance the image and effectiveness of the OIM and the important functions it performs.

**Significant Issues**

- The Board should establish a comprehensive method for evaluating the performance of the Monitor to ensure full accountability and transparency for the function
- The Board should create quantitative measurements by which to evaluate the performance of the Monitor and strengthen the quality of the limited qualitative performance information it is currently utilizing to evaluate the Monitor
- The Mayor’s Office and the OIM should provide enhanced guidance regarding the OIM’s ongoing reporting, reporting on cases that have been re-opened, interaction with the media, and formal responses regarding implementation of recommendations
• The OIM should improve the quality of its outreach and education efforts to the public and uniformed personnel

**Office of Emergency Management and Homeland Security Audit – November 2011**

The primary responsibility of the Office of Emergency Management and Homeland Security (OEMHS) is to ensure that the City is prepared for any type of emergency or disaster. Specifically, OEMHS is responsible for ensuring that the City has a comprehensive Emergency Operations Plan (EOP) and that its staff and City agency personnel are prepared to carry out the EOP. The Office also manages the City’s Emergency Operations Center (EOC), which is activated during situations that require cooperation and immediate communication between City agencies as well as other jurisdictions.

**Significant Issues**

• The City is at risk in emergency situations if City agencies fail to recognize the importance of OEMHS and prioritize emergency responsibilities
• Future OEMHS funding sources are uncertain and require active management and a long-term plan
• OEMHS lacks clear structure for tracking resources during emergency situations

**Public Works Contracting Process Audit – November 2011**

This audit evaluated the Department of Public Works (Department) contracting process for capital construction projects with an emphasis on change orders. Specifically, the audit addressed the Department’s compliance with its policies and procedures for the completion of change orders for contracts involving a specific contractor, New Design Construction (NDC). Mismanagement of NCD contracts revealed substantive control risks with respect to the Department’s adherence to the City’s contracting processes.

**Significant Issues**

• The Department’s prequalification process does not prevent poor performing contractors from securing City contracts
• The Department’s adherence to a low-bid acquisition methodology for certain contracts does not ensure best value or lower contract costs
• The Department’s use of change orders for legal settlements with NDC lacked transparency, and this lack of compliance with City rules and standards increases risks of financial liability to the City
Office of the Medical Examiner Audit – December 2011

This audit assessed the Office of the Medical Examiner’s (OME’s) current operational practices, its revenues, and its expenditures for 2009 and 2010, and its 2009 to 2011 revenue agreements with other Colorado coroners’ offices. The objective of the audit was to examine and assess OME for program effectiveness and to identify areas for improvement. Specifically, auditors reviewed and assessed whether OME could reduce or recover more of its costs and how effectively OME is measuring and reporting its performance.

Significant Issues

- OME has a higher cost per death than five large Colorado counties
- OME’s staffing levels appear to impact its costs
- OME recovers a very low percentage of costs
- OME could price autopsy services more competitively to generate additional revenue
- OME could improve revenue-related internal controls
- OME could enhance performance reporting by adding information about program impact and quality
- OME does not centrally track stakeholder complaints

Right-of-Way Enforcement and Permitting Audit – December 2011

The objective of this audit was to assess the Right-of-Way Enforcement and Permitting Division’s (ROWE’s) internal controls over on-street parking enforcement in the City as well as to identify possible revenue enhancement opportunities related to parking structures and parking meters.

Significant Issues

- The City’s parking fine and fee structure is outdated and the City’s Strategic Parking Plan (SPP), benchmarking analysis, and best practices research support the need for updating the fine and fee structure
- ROWE’s parking management practices, with respect to meter repair and meter bagging, need to be improved to better maximize the City’s parking assets
- The Department of Public Works should re-align its accounting structure for ROWE, placing the responsibility for the entire accounting process under the Accounting Services Section, where all other Department of Public Works accounting functions presently reside
Denver Photo Enforcement Program Audit – December 2011

This audit reviewed the Denver Police Department Traffic Operations Bureau’s Photo Enforcement Unit, which manages both the photo radar and photo red light programs. The audit reviewed and analyzed current management processes, laws, policies and procedures, and systems in place, as well as applicable financial data.

Significant Issues

- The Denver Police Department has not adequately demonstrated the safety impact of the photo radar program
- Though the safety impact of the photo radar program has not been established, the program generates net revenue, which creates a risk regarding public perception of the program
- An analysis of the effect of red light cameras is forthcoming but would need to establish a clear independent effect on public safety
- The photo red light program has begun generating more revenues, which creates a risk regarding public perception of the program
- Penalty assessment notices and notices of violation could be delivered more efficiently
Audit Alerts and Special Advisory Reports

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 REPORTS – Special Advisory Reports 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 Reports further City objectives and goals by providing a reporting vehicle that is flexible, quickly issued, and focused on singular issues.

Career Service Authority (CSA) Audit Alert
Flawed Career Service Authority Governance Structure Needs Reassessment — May 2011

This audit alert reviewed findings from multiple audits regarding the Career Service Authority (CSA) Board’s structure and effectiveness.

Significant Issues

- The CSA Board’s governance structure inherently lacks accountability and transparency
- Numerous audits regarding the CSA Board raise serious questions about the CSA Board’s ability to effectively govern the CSA organization
- This is an optimal time for the new administration to assess and enhance the CSA governance structure
Fleet Management Consolidation Special Advisory Report – May 2011

The purpose of this non-audit service was to provide objective analysis and observation regarding the feasibility of consolidating the City’s fleet management operations under one department. The information provided in this Special Advisory Report was developed based on the topic of fleet management consolidation identified during a performance audit of the City’s Vehicle Fleet Management program.

Significant Issues

- The Mayor’s Office should take further action to consolidate City Fleet by completing a personnel and governance assessment to examine the feasibility and appropriate timing of consolidating City fleet management operations
- The personnel assessment should address any necessary position reviews and classification changes to eliminate any duplication of efforts, retain specialized skill sets, and resolve collective bargaining agreement issues regarding Denver Fire Department mechanics
- Additionally, the governance assessment should evaluate the appropriate language required to develop an ordinance and related policy and procedure, clarifying roles and work priorities under a consolidated fleet operation