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December 5, 2019

AUDITOR’S LETTER

In keeping with generally accepted government auditing standards and Auditor’s Office policy, as authorized by city ordinance, the Audit Services Division has a responsibility to monitor and follow up on audit recommendations to ensure audit findings are addressed through appropriate corrective action and to aid us in planning future audits.

In our follow-up effort for the Governmental Activities Receivables audit issued in January 2018 that focused on four agencies in addition to the Controller’s Office, we determined the Controller’s Office implemented two recommendations made in the audit report and did not implement one recommendation. Denver Public Library partially implemented the remaining two recommendations made in the audit report. The risks associated with the audit team’s initial findings have not been fully mitigated. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure appropriate corrective action is taken.

The Highlights page in this report provides background and summary information about the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation.

I would like to express our sincere appreciation to personnel in the Department of Finance and at Denver Public Library who assisted us throughout the audit and the follow-up process. For any questions, please feel free to contact me at 720-913-5000.

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor
Governmental Activities Receivables
December 2019

Follow-Up Status
The Controller’s Office implemented two recommendations made in the January 2018 audit report and did not implement another recommendation. Denver Public Library partially implemented two other recommendations.

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

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

Report Highlights

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

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

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

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

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

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RECOMMENDATION — STATUS OF IMPLEMENTATION

FINDING 1 – Some City Agencies Are Not In Compliance with Fiscal Accountability Rules Applicable to Receivables

Recommendation

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

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

Status: Implemented (Original target date for completion: March 2018)

Agency Action

The Controller’s Office updated the long-term accounts receivable reporting questionnaire to include whether the collectability analysis has been completed and whether uncollectible accounts, if any, have been written off.

The Controller’s Office also added an additional question requiring agencies to certify whether the policy for accounts receivable and for estimating uncollectible accounts was reviewed in the prior 12 months.

1.2 **Reconcile Agency Subsidiary Ledgers to Receivables Annually Reported to the Controller’s Office** – The Controller’s Office should require a more detailed confirmation of agencies’ compliance with Fiscal Accountability Rule 4.1 for those agencies with accounts receivable by updating the Controller’s Office’s year-end reporting package to include requirements to certify or describe:

- That the agency’s accounts receivable reconciliation provides support to show that it agrees back to the agency’s subsidiary system of record for tracking outstanding accounts receivable;
• That the agency has not omitted any outstanding accounts receivable or, if any amounts are omitted, explain how much was omitted and why the amount was omitted;

• All assumptions and estimates used by the agency in calculating the gross accounts receivable balance;

• The methodology used by the agency in the calculation of allowance for doubtful accounts; and

• That the agency has reviewed the methodology historically used to calculate the allowance for doubtful accounts to ensure that it appropriately estimates the actual collections in subsequent years.

**Status: Implemented (Original target date for completion: March 2018)**

**Agency Action**

The Controller’s Office updated the long-term accounts receivable reporting package to collect information on all requirements listed in the recommendation, including information on assumptions and estimates to determine if they appear reasonable.

Agencies are also required to describe the sources used to determine the receivable, including revenue sources and subsidiary ledgers used. Agencies are required to certify whether they have reconciled the subsidiary system to the city’s system of record. Additionally, the package asks for information on the methodology used to calculate both the receivables balance and the allowance for doubtful accounts.
FINDING 2 – Denver Public Library Has Inadequate Segregation of Duties in Receivables Collections and Lacks Controls over Fees and Fines Write-Offs

Recommendation

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

**Status: Partially Implemented (Original target date for completion: January 2018)**

**Agency Action**

Each library employee is assigned an employee ID when they are set up in the city’s human resources system, Workday, and in the timekeeping system of record, Kronos. Once set up in Workday, the employee receives a unique network login and, if needed for job responsibilities, a unique ID for Polaris, the integrated library system. Unique IDs were not issued for Polaris before and were not tied to individual network IDs.

Although Polaris does not have a timeout feature, the network — according to the library’s Windows group policy — does log off a user’s terminal after 15 minutes of inactivity, requiring employees to log back into the network.

The library’s operational management expects lead branch employees and supervisors to spot-check staff logins to ensure they use their own login. If found to be sharing user IDs, employees are coached to bring them back into compliance with policy. Repeated infractions now carry the possibility of disciplinary action.

These requirements are included in a new policy and procedure and a spot-check questionnaire form that the manager of books and borrowing developed during this follow-up engagement to document the review of Polaris logins. The spot-check form was expected to be used as the standard beginning Oct. 1, 2019.

In the original audit, the library promised to implement this procedure by January 2018; however, they did not meet that self-imposed deadline. Therefore, the control is considered only partially implemented at the time of this review.
Recommendation

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

Status: Partially Implemented (Original target date for completion: June 2018)

Agency Action

Management eliminated late fees as of Jan. 1, 2019, though fees for lost items are still assessed and collected.

Management developed reports in Polaris to view trends in write-offs by employee, both the quantity of transactions and the dollar amount forfeited. Officials stated that management reviews these reports quarterly and immediately follows up on outliers to determine the appropriateness of those transactions. However, management does not acknowledge these reviews with a formal sign-off and date of review. We haphazardly selected two quarterly reports to test: the third quarter of 2018 and the second quarter of 2019. Neither had formal written acknowledgment of review. Therefore, we are unable to determine whether the review was completed.
RECOMMENDATION — STATUS OF IMPLEMENTATION

FINDING 3 – City Agencies Have Not Obtained Formal Assurance Regarding the Reliability of Financial Information Provided by Vendors Contracted to Provide Accounts Receivable Collection Services

Recommendation

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

Status: Not implemented (Original target date for completion: March 2018)

Agency Action

The Controller’s Office added three certification questions to the year-end questionnaire prompting agencies to request and review Service Organization Controls, or SOC, reports and providing examples of when they should be requested. Additionally, another question asks agencies whether the agency developed compensating controls to mitigate risks when SOC reports were unavailable. The office stated that agencies are still working to obtain SOC reports and/or develop guidance to assess their internal controls.

We requested three agencies provide SOC reports from third-party agencies supporting their collection efforts: the Treasury Division, the Parking Enforcement Division, and Denver Public Library. The library has revised its procedures so it no longer uses a third-party vendor in calculating receivable balances. The Treasury and Parking Enforcement divisions did not acquire appropriate SOC reports for their third-party service organizations, nor did they provide evidence compensating controls were implemented.

According to the Controller’s Office, citywide guidance for Service Organization Controls reporting now falls under the purview of the Information Governance Committee. The committee added a project to the privacy impact assessment to improve city practices around collecting SOC reports, but the rollout of the assessment is not expected until 2020.

The city has not developed formal written guidance or training for when agencies should request SOC reports for review or for how agencies should develop and implement compensating controls to mitigate risks when SOC reports are not available. This effort was decentralized to the city’s Technology Services agency, the Risk Management Office, and to individual agencies.
While the city is in the process of developing better tools to manage, collect, and review SOC reports, the risks associated with a lack of proper review over SOC reports have not been mitigated.
CONCLUSION

The city implemented two recommendations made in the Governmental Activities Receivables Audit Report, partially implemented two other recommendations, and has not implemented a fifth recommendation. Despite the city’s efforts, auditors determined the risks associated with the audit team’s initial findings have not been fully mitigated. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure appropriate corrective action is taken.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from the Department of Finance and Denver Public Library for their cooperation during our follow-up effort and for their dedicated public service.
Office of the Auditor

The **Auditor** of the City and County of Denver is independently elected by the citizens of Denver. He is responsible for examining and evaluating the operations of City agencies and contractors for the purpose of ensuring the proper and efficient use of City resources. He also provides other audit services and information to City Council, the Mayor, and the public to improve all aspects of Denver’s government.

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