

City and County of Denver

Office of the Auditor

Audit Services Division



2009 Annual Report



City and County of Denver

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Dennis J. Gallagher
Auditor

March 18, 2010

Honorable Dennis J. Gallagher
Auditor
City and County of Denver

This annual report summarizes the objectives and accomplishments of the Audit Services Division of the Auditor's Office for the year ending December 31, 2009. The Division underwent significant transformation and made noteworthy contributions to City operations during the year. One of the most notable changes relates to the 2006 November election when 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. This City Charter revision became effective January 1, 2008.

The Division issued 18 audit reports and performed several non-audit advisory services during the year. These reports and services fully supported and helped further the continuous improvement activities of the City and County. In addition to producing high-impact audit reports and providing a number of advisory services, the Audit Services Division had several notable accomplishments during the year, many of which are highlighted within this report. These accomplishments included attaining the highest rating of compliance to *Government Auditing Standards* from an external peer review; establishing a progressive national reputation through the formation of strategic partnerships with federal, state and local government auditing functions; the presentation of leading edge audit work at a national conference; and the publication of an article describing the "Denver model" by a national audit organization.

The Division will continue to undergo significant transition during 2010 as we strive to implement improvement 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,

A handwritten signature in black ink that reads "K. Memmott". The signature is written in a cursive style.

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

***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.***

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ROLE & AUTHORITY

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

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

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

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

- o 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;"
- o 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 activities¹; and

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

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ROLE & AUTHORITY

- o The Charter establishes a formal, independent Audit Committee chaired by the Auditor and consisting of six other members. The Mayor, City Council and Auditor each appoint two members. The Audit Committee performs several critical functions including, among other responsibilities, annually commissioning and monitoring an independent external audit of the finances of the City (known as the Comprehensive Annual Financial Report – CAFR) and receiving and communicating findings and recommendations of internal audit reports.

Under the revised Charter and ordinance provisions, the Audit Services Division will continue to conduct independent compliance and financial audits. We have also 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.

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MISSION, GOALS & ACCOMPLISHMENTS

The Auditor's Office 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.

The Audit Services Division established the following continuous improvement goals for 2009 intended to enhance the Division's ability to fulfill this mission.

Goals for 2009	Status
• Address the need for supplemental regulation to support enabling legislation;	Complete
• Perform routine maintenance of the Policies and Procedures Manual to enhance guidance and address Government Audit Standards July 2007 Revisions;	Complete
• Implement electronic work paper software application program to enhance audit efficiencies and timeliness;	Complete
• Prepare for and obtain a rating of full compliance with an external quality control review (commonly known as peer review) to be performed in 2009;	Complete ²
• 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;	Annually
• Receive professional industry recognition for audit quality through the application for awards and presentations at national and local conferences;	On-going
• Continue to enhance utilization of electronic audit tools including data mining software (the Division purchased ACL software in 2008) and flowcharting software (Visio);	On-going
• Coordinate, facilitate, and assist the Audit Committee in carrying out their powers and duties;	On-going
• Perform follow-up on the status of management action on findings and recommendations. Seek to increase management's accountability to remedy findings promptly by identifying and reporting actions taken; and	On-going
• Proactively recruit staff members to fill existing vacancies.	On-going

² See page 5 for a description of the Division's 2009 peer review.

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The Division will continue to undergo significant transition during 2010 as we strive to implement continuous improvement activities focused on enhancing the quality of audit services. In addition to the on-going goals developed for 2009, the Division has established the following improvement goals for 2010:

- ⇒ Host the Mountain & Plains Intergovernmental Audit Forum;
- ⇒ Partner with the U.S. Government Accountability Office (GAO) on American Recovery & Reinvestment Act (ARRA) Oversight Activities involving the City of Denver;
- ⇒ Deploy Anti-Fraud and Control Self Assessment Initiatives;
- ⇒ Receive professional industry recognition for audit quality through the application for awards and presentations at national and local conferences;
- ⇒ Reengineer operating policies and procedures and provide comprehensive staff training on new procedures and processes and fundamental audit skills including: performance auditing techniques, project management, audit report writing, and fraud detection and prevention;
- ⇒ Continue to enhance utilization of electronic audit tools including data mining software (the Division purchased ACL software in 2008) and flowcharting software (Visio);
- ⇒ Implement formal quality assessment program based on an external peer review approach;
- ⇒ Recruit high quality performance audit personnel;
- ⇒ Continue to improve reports including new templates and enhanced presentation of written findings and related graphics and photographs;
- ⇒ Coordinate, facilitate, and assist the Audit Committee in carrying out their powers and duties;
- ⇒ Continue to define our role in modeling companion legislation as referred to within the Auditor's enabling legislation effective January 1, 2008;
- ⇒ Prepare our annual audit plan by the third Monday of October for the ensuing fiscal year and submit to the Mayor and City Council. Seek and consider special requests for audits from the Mayor, City Council, and Audit Committee during plan development. Plan will include a ranking of performance and information technology audits based on formal risk assessment processes; and
- ⇒ Expand participation and communication with local and national external audit organizations including the Institute of Internal Auditors (IIA), the Association of Local Government Auditors (ALGA), and the U.S. Government Accountability Office (GAO). For example, the Division will continue participating in the ALGA peer review program.

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MISSION, GOALS, & ACCOMPLISHMENTS

During 2009, in addition to producing high-impact audit reports and providing a number of advisory services, the Audit Services Division had several notable accomplishments.

Audit Services Division Receives Highest Possible Rating in Peer Review of Audit Quality

During 2009, the Audit Services Division within the Auditor's Office underwent a successful external peer review 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 reported that the Audit Services Division fully complied with Government Auditing Standards (GAS) promulgated by the Comptroller of the United States for the review period. This determination of full compliance is the highest level of compliance under the ALGA peer review program. Per the City Charter, the Audit Services Division must perform audits in accordance with these standards. Compliance with these standards includes undergoing an external peer review every three years.

The Audit Services Division devoted a great deal of effort to develop, implement and continuously improve our internal quality control system to help achieve this goal of full compliance with GAS. The finding of full compliance is especially significant owing to the substantive transition the Division underwent during the peer review period. While all audit organizations undergo continuous change, the rate and breadth of change experienced by the Division during the peer review period has been extraordinary. During the period, the Division has fundamentally altered our mission, authority and audit strategy, redesigned and automated key internal procedures, processes, and products and experienced major changes related to our organizational structure and personnel.

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 GAS 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. 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 a cutting edge automated audit project management system including electronic working papers.

Citizens of Denver and City elected officials, management and personnel should be assured and take great comfort in the fact that the Auditor's Office fully adheres to government auditing standards in the performance of audit work ensuring that Division products and reports are accurate, of high quality and add value to City operations. The Office's next external peer review will be performed in 2012.

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Auditor Selected as Co-Chair of Regional Intergovernmental Audit Forum

During 2009, the Mountain and Plains Intergovernmental Audit Forum (MPIAF) selected Auditor Dennis Gallagher to serve as Co-Chair for the organization's Executive Committee. The MPIAF is a regional committee of the National Intergovernmental Audit Forum (NIAF) and consists of audit organizations and professionals in the Rocky Mountain region including Colorado, Montana, North Dakota, South Dakota, Utah and Wyoming. Pursuant to the organization's Charter, the National Intergovernmental Audit Forum, created in 1973, is an association of audit executives from federal, state and local governments. The national organization is chaired by the U.S. Comptroller General, who oversees the operations of the U.S. Government Accountability Office (GAO). GAO is the entity that promulgates Government Auditing Standards. The NAIF exists to improve coordination, communication, and cooperation among its members, private sector firms, and other accountability organizations in order to address common challenges; enhance government performance, accountability, and transparency; and increase public trust.

As part of his leadership in this new key role, Auditor Gallagher and the Denver City Auditor's Office will be hosting the MPIAF's regional conference in Denver scheduled for the Summer of 2010. The conference will be focused on auditing and accountability issues related to the American Recovery and Reinvestment Act (ARRA). The Denver Auditor's Office has been actively involved in ARRA oversight and auditing activity for the City of Denver and will be presenting our related strategy and work activities at this conference. Additional details about this organization can be found at www.auditforum.org/

Audit Committee Receives National Recognition

Television coverage of Denver's Independent Audit Committee chaired by Auditor Dennis Gallagher received a first-place award at the Government Programming Awards of the National Association of Telecommunication Officers and Advisors (NATOA). The award in the Public/Community Meetings category was received at NATOA's national convention on Oct. 2, 2009. Television coverage of the Audit Committee, now in its second year, provides Denver residents an unparalleled level of governmental transparency and accountability. The Committee receives briefings on audits of city government, agencies and contractors. Those briefings detail issues of performance or compliance and make recommendations for improvements. These audits and their public presentations have resulted in marked improvement in the way Denver operates and does business. This visibility holds everyone much more accountable. The Committee meets on the third Thursday of the month at 8:00 a.m. Television coverage can be seen on Denver's Channel 8 or online.

Audit Work Showcased at National Conference

Our audit of Denver's Emergency Medical Response System (911) was featured this past September at the Audit World 2009 Conference in Boston. Positioned on the best practices track, our presentation entitled, "How Data Analytics Produced Significant Audit Findings," was co-presented by Kip Memmott, our Director of Audit Services, and

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Stephen Coury, our IT Audit Supervisor, to an audience of mostly private sector audit professionals from around the country.

The session was well-attended and received favorable feedback as we highlighted performance auditing and the application of data analytics in measuring performance, both major tenants in the City of Denver's audit program. This conference also provided us a forum to describe and promote the Denver model of the independent auditor as a best practice for both government and private sectors alike.

In addition to this presentation, Audit Services Division Deputy Director, John Carlson spoke before the Society of Corporate Ethics and Compliance (SCCE) at their Regional Compliance workshop held in Denver in October 2009. John, a former corporate attorney and Fortune 200 Compliance Director spoke on compliance and government audit issues surrounding the American Recovery and Reinvestment Act (ARRA). The workshop was well attended and featured a diverse mix of accountability professionals including Auditor Gallagher and the CEO from Molson-Coors.

We were pleased to see our national reputation enhanced. The Denver Auditor's Office is increasingly being recognized for its exceptional and high quality audit work.

Association of Local Government Auditors Publishes "Denver Audit Model" Article

The Association of Local Government Auditors published an article written by Kip Memmott, Director of Audit Services, in their *Local Government Auditing Quarterly* (Summer 2009) summer quarterly publication. Additionally, the Editorial Board from the Institute of Internal Auditors expressed high interest in this topic and approved the article for publication. Since ALGA subsequently published the article, the IIA's internal policies prevented them from doing so. However, the Office plans to work with the IIA Editorial Board to publish a related article in 2010. The following is a condensed version of this article. The full article can be found on the Auditor's Office website.

Structured for Impact: The Denver Model

By Kip Memmott, Director of Audit Services

The current global financial crisis, corporate scandals, bailouts and government control failures have driven stockholders and citizens to increasingly demand improved governance, better controls and greater accountability, transparency and oversight. By their vote, the citizens of the City and County of Denver amended the Denver Charter to establish a new structure that became effective January 1, 2008 that established an independent internal audit model and positioned the Denver Auditor's Office (AO) to meet the public mandate for greater accountability, transparency and oversight.

The Denver Model

The Denver Model has been recognized as one of the most unique and effective government internal audit functions in the nation. Key attributes of the model are the

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internal audit function's independence and four primary components that serve as the cornerstones for its high impact potential.

The first component is that of an elected auditor who constitutionally serves as the second highest elected official for the City and is independent from other City elected officials and operational management.

Secondly, the City of Denver's internal audit function (IAF) has broad audit authority with comprehensive access to all City records and employees of all entities doing business with the City. City statute also protects the confidentiality of internal audit communications, work papers and work products. This broad audit authority also includes the ability of the internal audit function to independently establish and execute an annual, risk-based audit plan versus the previously mandated audits. Also included in this expanded authority are statutory provisions that require audited entities to respond to all audits and recommendations in a formal and timely manner with a plan for implementing corrective actions.

The third component of the model is the legal mandate requiring stringent adherence to professional audit standards. The Auditor must conduct audits of all City entities in accordance with Generally Accepted Government Auditing Standards (GAGAS) promulgated by the United States Comptroller General.

The fourth substantive change resulting from the charter amendment is the establishment of a truly independent City audit committee whose members are appointed by the Mayor, City Council and the City Auditor. The committee consists of seven members chaired by the City Auditor. The Audit Committee performs several critical audit functions including commissioning and monitoring an independent external audit of the finances of the City and receiving internal audit reports. Audit Committee meetings are now for the first time televised providing greater public exposure to internal and external audit findings and audit follow up activities.

Modernizing the City's Internal Audit Function

Strategic Staffing Strategy

The significant and structural changes made to the Denver Charter affecting the internal audit function as of January 1, 2008 have resulted in immediate impact and spawned a new dawn of transparency and accountability over City operations. Modernizing the internal audit function has involved the addition of performance auditing teams and the implementation of a dynamic staffing strategy based on the following three components: (1) recruiting, developing and maintaining a highly skilled audit staff; (2) adherence to an integrated audit philosophy and; (3) use of a flexible management matrix approach. Denver's diverse professional audit staff members hold memberships in a number of professional organizations including the Institute of Internal Auditors (IIA) and professional certifications including Certified Internal Auditor, Certified Government Audit Professional, Certified Public Accountant, Certified Fraud Examiner and Certified Information System Auditor. Additionally, several staff members have received advanced

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degrees. The 2009 Annual Report describing the Office's staffing structure and staff member qualifications is available on our website at www.denvergov.org/auditor.

Dynamic Audit Plan

Another example of innovation utilized to deliver high impact internal audits is the dynamic and flexible audit plan. The audit plan is based on developing a realistic audit horizon of planned high-risk audits over a three-year period. Audits included in the annual audit plan are selected and prioritized using a risk-based approach. 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. Annual audit plans now reflect a new emphasis on performance auditing, particularly in the areas of program effectiveness, efficiency and economy of various city departments and programs. Many of these audits focus on information technology auditing, fraud prevention and detection, and on the City's general governance structure for managing internal control structures across the City. The Auditor's Office 2009 and 2010 Audit plans are available on our website www.denvergov.org/auditor.

Focus on Information Technology and Advisory Services

The Denver Auditor's Office established the City's first Information Technology (IT) audit team, directed by Certified Information System Auditors. The new IT audit team has enhanced the AO's use of technology through the implementation of audit project management software, electronic work papers, Computer Assisted Audit Techniques (CAAT) and data mining software programs. The IT audit team has performed a City information technology risk assessment as the basis for a detailed risk-based IT audit plan. During 2009, the AO issued the City's first information technology audit examining security controls for PeopleSoft, the City's automated financial and human resources systems. The Auditor's Office has also implemented a suite of advisory services products to provide operational management with timely and critical information and analysis without the formality of an audit.

CONCLUSION

The City and County of Denver's internal audit model is structured for impact. In an age when citizens are demanding greater oversight, transparency and accountability by government entities, the Denver model should be viewed as a benchmark for both public and private sector entities. The core tenet that makes this model most effective is the true level of independence of the City's internal audit function. This independence results in the execution of a progressive and flexible risk-based audit plan designed by professional auditors. Further, the results of the City's internal audits are presented to an independent Charter-level audit committee during publicly televised meetings, ensuring that both audit findings and recommendations are acted upon in a timely manner and that the City's residents are well informed of City operations.

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IT AUDIT, ANTI-FRAUD & CONTROL SELF ASSESSMENT INITIATIVES

Our Information Technology (IT) Audit capability was initiated in 2008 with the hiring of a Deputy Director, an IT Audit Supervisor, a Senior IT Auditor, and in early 2009, a Lead IT Auditor, providing the Division with over 30 years of IT audit experience. The IT Audit Supervisor, Lead IT Auditor and Senior IT Auditor are Certified Information System Auditors (CISA) and all have private sector experience from a wide range of industries.



The initial focus of the IT Audit group in 2008 was to enhance the Division's own use of technology. We have implemented audit project management software including electronic work papers. We have also implemented the use of Computer Assisted Audit Techniques (CAAT) to improve our data analysis capability. Our IT auditors supplement our performance audits through comprehensive data analytics.

Moving into 2009, the IT Audit group initiated a comprehensive risk assessment of the IT control environment for the City and County of Denver. This citywide IT risk assessment is being used to establish a detailed risk-based IT audit plan from which IT audits will be executed.

Local government technology organizations often face the same risks as 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. To ensure those risks are adequately controlled, we will be conducting IT performance audits to ensure the confidentiality, integrity, and availability of the City's technology infrastructure.

Our main audit areas will include governance, risk, and compliance (GRC), information security management, technology and operations, and disaster recovery. Technical audit steps may include reviews of system configurations, roles and responsibilities, and change control. In 2009, the Division issued a performance audit examining the internal controls for PeopleSoft, the City's Enterprise Resource Planning (ERP) application for human resource and financial management. This audit was the first IT audit ever issued by the City Auditor's Office.

Anti-Fraud Program

In addition to the standardized fraud assessment activities included as a component of every performance audit, the Audit Services Division initiated a formal anti-fraud program in the third quarter of 2009. Through the use of Computer Assisted Audit Techniques (CAATs), the Division has begun to analyze and correlate data sources identified as

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possible indicators of fraud schemes. As the Division executes these programs, suspicious anomalies will be reviewed further and if warranted referred to the District Attorney's Office for investigation.

The results of the anti-fraud program may be used as a risk indicator to warrant future audit or advisory work, or provide the basis for an Audit Alert. Additionally, CAATs identified as particularly useful for strengthening internal controls will be recommended to City management for implementation.

Control Self Assessment Training Initiative

Beginning in 2010, the Audit Services Division will offer Control Self Assessment (CSA) training to City departments and entities. CSA is an interactive, collaborative process that clarifies business objectives and identifies the risks to achieving those objectives. CSA can be implemented in several ways, but its distinctive feature is that managers and employees who work in the area being evaluated assess risk, evaluate internal controls and develop action plans to address identified weakness that prevent achievement of business goals and objectives. CSA is an effective tool that promotes continuous improvement of the internal control environment and business processes.

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STAFFING RESOURCES

AUDITOR DENNIS GALLAGHER



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

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

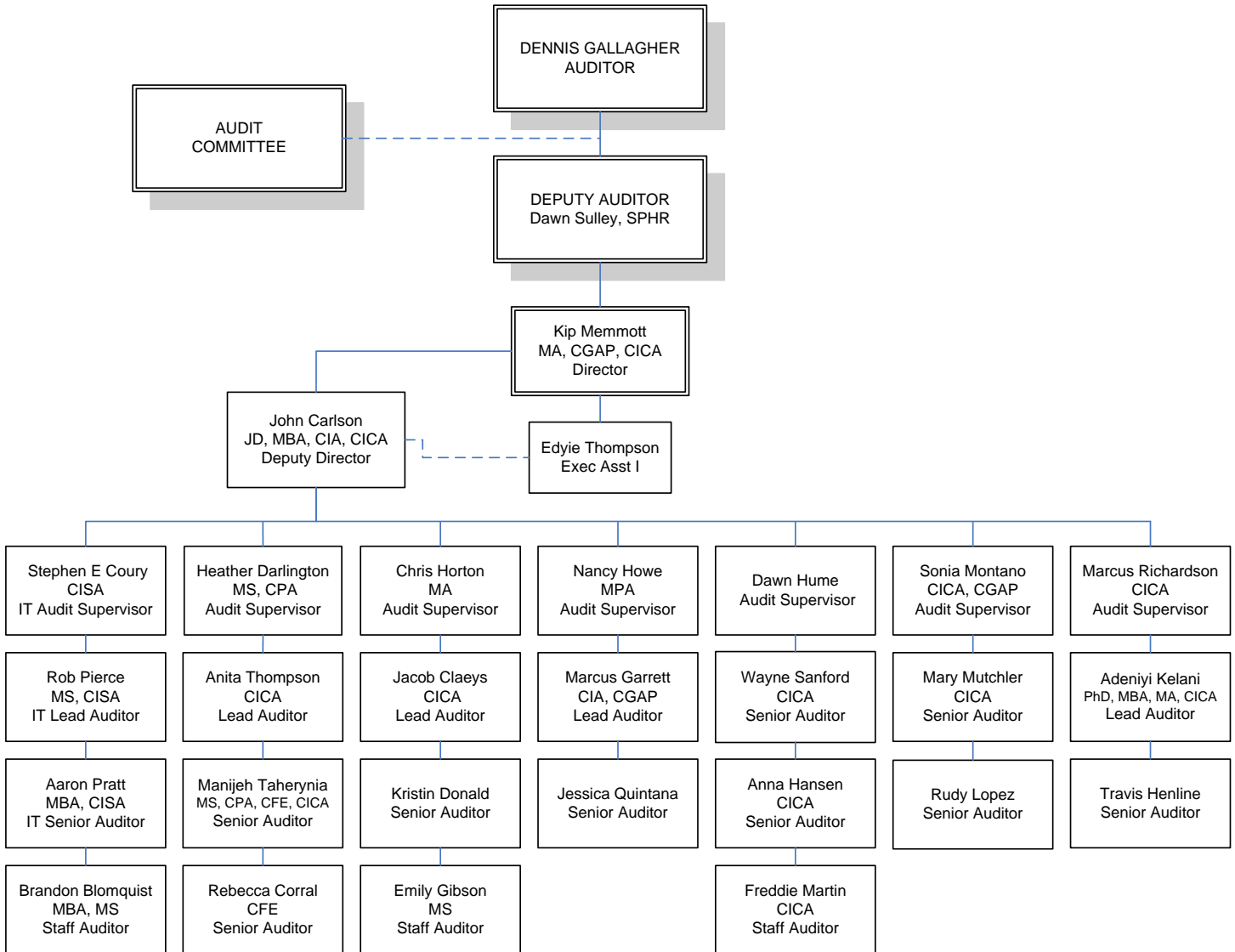
AUDIT SERVICES STAFF



At the end of 2009, the Audit Services Division was comprised of 28 employees (2009 budgeted FTEs). The organizational chart on the following page shows the structure of our organization. Following the organization chart are brief professional biographies of Audit Services personnel.

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ORGANIZATIONAL CHART



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STAFFING RESOURCES-CONTINUED

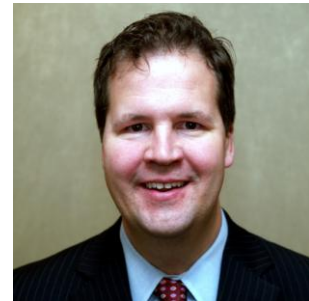
BRANDON BLOMQUIST, MBA, MS
STAFF INTERNAL AUDITOR



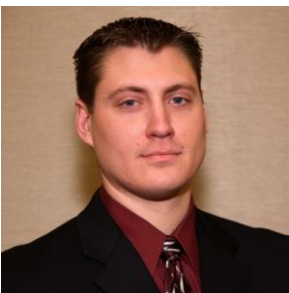
Mr. Blomquist has over three years of compliance and financial auditing experience in the private and public sectors. He has been with the City and County of Denver-Audit Services Division since September 2008. Additionally, he has several years of experience as a small business owner and operations manager. He holds a Masters' degree in Business Administration, and a Masters' of Science degree in Finance.

JOHN CARLSON, JD, MBA, CIA, CICA,
DEPUTY DIRECTOR OF AUDIT SERVICES

Mr. Carlson brings over sixteen years of business experience including Government Affairs, Law, Compliance and Internal Audit. Six of these years, he spent working in an internal audit role for private industry. He has served as a Senior Attorney with operational responsibility for the compliance audit program and ethics & compliance function of a Fortune 200 global company. Additional responsibilities included developing and delivering ethics training for domestic and international operations and managing an employee whistle-blower program. John holds a Bachelors Degree from George Mason University. He earned a Juris Doctor from the University of Denver-College of Law and a Master in Business Administration from the University of Colorado. John is a member of the Colorado Bar, the United States District Court for the District of Colorado and the District of Columbia Court of Appeals, and is a Certified Internal Auditor (CIA).



JACOB L. CLAEYS, CICA,
LEAD INTERNAL AUDITOR



Mr. Claeys has over five years of operational, compliance and performance auditing experience at the state and local government levels. Jacob holds a Bachelor of Science degree in Accounting from Southwest Minnesota State University. He is a member of the Institute of Internal Auditors (IIA), and Association of Local Government Auditors (ALGA).

REBECCA CORRAL, CFE,
SENIOR INTERNAL AUDITOR

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



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STAFFING RESOURCES-CONTINUED

STEPHEN E. COURY, CISA,
INFORMATION TECHNOLOGY SUPERVISOR



Mr. Coury is a Certified Information Systems Auditor (CISA) with over 25 years experience in information technology, including over 15 years in IT audit. He has worked in local government, consumer banking, investment banking, insurance, and telecommunications. His areas of specialty are information security, data analysis, and software configuration management. Steve has been instrumental in deploying new technologies within Audit Services, including electronic work papers and data analysis tools. This year, Steve and Kip Memmott co-presented a session on data analytics at the Audit World 2009 national conference. Steve has a Bachelor of Science degree in Business Administration from the University of South Dakota Business School. Steve is a member of the Denver Chapter of the Information Systems Audit and Control Association (ISACA) and the Institute of Internal Auditors (IIA).

HEATHER DARLINGTON, MS, CPA
INTERNAL AUDIT SUPERVISOR

Ms. Darlington is a Certified Public Accountant with a Bachelor's degree in Accounting from Bucknell University. She also holds a Master of Science degree in Accounting from the University of Southern California. Heather has over nine years of auditing and advisory consulting experience with a public accounting firm. She is a member of the American Institute of Certified Public Accountants (AICPA), Colorado Society of Certified Public Accountants (CSCPA), Association of Certified Fraud Examiners (ACFE), and the Institute of Internal Auditors (IIA).



KRISTIN DONALD,
LEAD INTERNAL AUDITOR



Ms. Donald graduated from Western State College of Colorado with a Bachelor's degree in Accounting and Business Administration. While at Western State, she became a NCAA seven time All American for cross-country and track. She has worked as a financial auditor for the Office of the State Auditor and a local CPA firm. In addition, she has worked for a local retail company as the Controller. Kristin has six years of experience, of which five were auditing state and local governments.

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STAFFING RESOURCES-CONTINUED

MARCUS GARRETT, CIA, CGAP
LEAD INTERNAL AUDITOR

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



EMILY GIBSON, MS,
STAFF INTERNAL AUDITOR



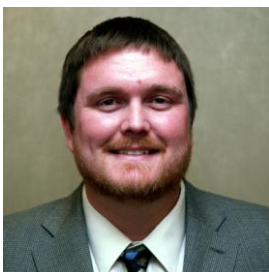
Ms. Gibson graduated from the University of Colorado at Boulder, obtaining her Bachelor of Arts degree in Political Science with the honors designation of Magna Cum Laude. She also attended Erasmus University Rotterdam, The Netherlands and graduated with a M.S. in International Public Management and Policy. She has been with the City and County of Denver-Audit Services Division since January 2009. She also has several years experience working as a legal assistant in Boulder, Colorado.

ANNA LOVASCIO HANSEN, CICA,
SENIOR INTERNAL AUDITOR

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



TRAVIS HENLINE,
SENIOR INTERNAL AUDITOR



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

AUDIT SERVICES DIVISION 2009 ANNUAL REPORT

STAFFING RESOURCES-CONTINUED

CHRIS HORTON, MA
INTERNAL AUDIT SUPERVISOR

Mr. Horton has over eight years of performance and compliance auditing experience in both state and local governments. Prior to his service with the City and County of Denver, he was a Senior Performance Auditor for the Arizona Office of the Auditor General and a Compliance Auditor for Arizona's Tele-communications Program Office. Mr. Horton has a Bachelor of Arts degree in political science and history, and a Master of Arts degree in history, both from the University of Texas of the Permian Basin. He is currently enrolled in the doctoral program in Public Administration at Arizona State University. Mr. Horton is a member of the Institute of Internal Auditors, the Association of Local Government Auditors, and the American Society for Public Administration.



NANCY HOWE, MPA
INTERNAL AUDIT SUPERVISOR



Nancy has 11 years of auditing experience within state and local government and the private sector. She holds a Bachelor of Arts degree from the University of Colorado at Boulder and a Masters of Public Administration degree with a concentration in Policy Analysis, from the University of Colorado at Denver. Nancy currently serves as an Internal Audit Supervisor within the Audit Services Division.

DAWN HUME,
INTERNAL AUDIT SUPERVISOR

Ms. Hume earned a Bachelor of Science degree in Business Administration with an emphasis in Accounting from the University of Southern Colorado. She has over 10 years of experience in operational, compliance and process auditing in the private sector. She has been with the City and County of Denver- Audit Services Division since August 2008. Dawn is a member of the Institute of Internal Auditors and is currently pursuing the designation of Certified Internal Auditor.



ADENIYI KELANI, PHD, CICA,
LEAD INTERNAL AUDITOR



Dr. Kelani has over 15 years of professional management, 13 years of local government internal auditing, and accounting experiences. He worked with a petroleum company in Denver as retail manager and owned his own company in auto sales and services. Dr. Kelani holds a Bachelor of Science degree in Accounting and Marketing (University of Colorado), Master Degrees in Business Administration and Organizational Management (Emporia State University and University of Phoenix), and a Ph.D. in Management (Columbia Pacific University). He serves on several Advisory Committees and Boards.

AUDIT SERVICES DIVISION 2009 ANNUAL REPORT

STAFFING RESOURCES-CONTINUED

RUDY M. LOPEZ,
SENIOR 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- Audit Services Division since January 2007.



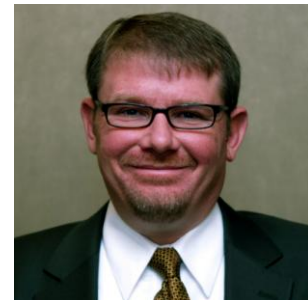
FREDDIE MARTIN, CICA,
STAFF INTERNAL AUDITOR



Mr. Martin graduated from the University of Alabama at Birmingham with a Bachelor of Science degree in Accounting. He has eight years of professional internal auditing experience. Mr. Martin joined the City and County of Denver Audit Service Division in 2002. Mr. Martin has worked in accounting in the public sector with the State of Colorado and in the private sector with a professional corporation. He is an active member of The Institute of Internal Auditors (IIA), the Institute for Internal Controls (IIC), the Association of Airport Internal Auditors (AAIA), and the Association of Local Government Auditors (ALGA). In addition, Mr. Martin holds the Certified Internal Controls Auditor (CICA) certification.

KIP R. MEMMOTT, MA, CGAP, CICA
AUDIT SERVICES DIRECTOR

Mr. Memmott has over fifteen years of auditing, consulting and policy analysis experience at the federal, state, local government and private sector levels. Mr. Memmott's professional positions include Internal Audit Manager with the County of San Diego, California, Senior Performance Auditor with the State of Arizona's Office of the Auditor General, Senior Consultant with KPMG LLP, Legislative Analyst intern for the Arizona State Legislature, and intern for the U.S. Government Accountability Office (GAO). Kip holds a Bachelor of Arts degree from the University of Utah and a Master of Arts degree with a certificate in Public History (Public Administration emphasis) from Arizona State University. In addition to his academic and professional experience, Mr. Memmott is a Certified Government Auditing Professional.



AUDIT SERVICES DIVISION 2009 ANNUAL REPORT

STAFFING RESOURCES-CONTINUED

**SONIA MONTANO, CGAP, CICA,
*INTERNAL AUDIT SUPERVISOR***



Ms. Montano is a Certified Government Auditing Professional and a Certified Internal Controls Auditor. She has a Bachelor's degree in Accounting from Adams State College, Alamosa, Colorado. She also has over 11 years of professional experience in the government sector. Ms. Montano is a member of the Association of Local Government Auditors, Institute of Internal Auditors, and Institute for Internal Controls.

**MARY K. MUTCHLER, CICA,
*SENIOR INTERNAL AUDITOR***

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



**ROBERT M. PIERCE, MS, CISA
*LEAD INFORMATION TECHNOLOGY AUDITOR***



Mr. Pierce joined the Auditor's office in 2009. He has six years experience in IT auditing. His private sector experience includes IT audit in the building supply industry, as well as, with a public accounting firm in manufacturing, hospitality, and pharmaceutical industries. Rob holds a Bachelor of Science degree in Organizational Leadership and Supervision with a Computer Technology Minor from Purdue University. Rob completed a Masters of Science in Computer Information Systems from Colorado State University in 2009, and also received the Certified Information Systems Auditor (CISA) certification in 2009. Rob is a member of the Denver Chapter of the Information Systems Audit and Control Association (ISACA) and the Institute of Internal Auditors (IIA).

AUDIT SERVICES DIVISION 2009 ANNUAL REPORT

STAFFING RESOURCES-CONTINUED

AARON PRATT, MBA, CISA
SENIOR INFORMATION TECHNOLOGY AUDITOR

Mr. Pratt joined the Auditor's office in 2008. He has prior private sector audit experience with a public accounting firm as well as IT project management and IT support in the real estate investment trust industry. Aaron holds a Bachelor of Science degree in Information Systems from the University of Indianapolis. He also holds a dual concentration Master of Business Administration in Information Management and Organizational Management from the University of Indianapolis. Aaron is an education committee volunteer and member of the Denver Chapter of the Information Systems Audit and Control Association (ISACA) and a member of the Institute of Internal Auditors (IIA). Aaron obtained the Certified Information Systems Auditor (CISA) certification in 2009.



JESSICA QUINTANA,
SENIOR INTERNAL AUDITOR



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

MARCUS RICHARDSON, CICA,
INTERNAL AUDIT SUPERVISOR

Mr. Richardson is a Certified Internal Control Auditor (CICA). He has a bachelor's degree from Tennessee State University with over 24 years of professional internal auditing experience. Mr. Richardson joined the City and County of Denver, Office of the Auditor in November 1983. In 2001, he served as a Board Member and Conference Chairperson for the Association of Airport Internal Auditors. For the period 1999 to 2002, Mr. Richardson was the Denver Chapter President of the National Association of Black Accountants, Inc (NABA).



WAYNE SANFORD, CICA,
SENIOR INTERNAL AUDITOR



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

AUDIT SERVICES DIVISION
2009 ANNUAL REPORT

STAFFING RESOURCES-CONTINUED

**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. Ms. Taherynia has over seven years of experience in tax compliance and governmental internal auditing and is a member of several professional associations.



**ANITA THOMPSON, CICA,
*LEAD INTERNAL AUDITOR***



Ms. Thompson holds a Bachelor's degree in Accounting from Wright State University in Ohio. She has over eleven years of professional experience as an internal auditor. Ms. Thompson is a member of the Institute of Internal Auditors.

**EDYIE THOMPSON,
*EXECUTIVE ASSISTANT I***

Ms. Thompson joined the City and County of Denver Auditor's Office in June 2008, and has over 19 years of professional experience in the private sector. She is currently pursuing a Bachelor of Arts degree in Communications at The Women's College of the University of Denver, and is member of the National Society of Collegiate Scholars.



AUDIT SERVICES DIVISION
2009 ANNUAL REPORT

STAFFING RESOURCES-CONTINUED



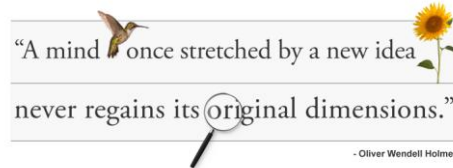
Division auditors have Bachelors' degrees in one or more of the following areas:

- ◆ **Accounting**
- ◆ **Business**
- ◆ **Business Administration**
- ◆ **Business Management**
- ◆ **Computer Information Systems**
- ◆ **Criminal Justice Management**
- ◆ **Economics**
- ◆ **Finance**
- ◆ **Fine Arts**
- ◆ **General Business**
- ◆ **U.S. History**
- ◆ **Information Systems**
- ◆ **Information Management**
- ◆ **International Affairs**
- ◆ **Marketing**
- ◆ **Organizational Management**
- ◆ **Political Science**
- ◆ **Public Administration**
- ◆ **Recreation**

Eleven staff members hold Masters' degrees; and two hold Doctorate degrees.

AUDIT SERVICES DIVISION
2009 ANNUAL REPORT

STAFFING RESOURCES-CONTINUED



PROFESSIONAL DEVELOPMENT

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

In 2009, audit staff was actively involved in the professional organizations listed below:

- ◆ **The American Institute of Certified Public Accountants (AICPA)**
- ◆ **American Society Of Women Accountants (ASWA)**
- ◆ **Association of Airport Internal Auditors (AAIA)**
- ◆ **Association of Certified Fraud Examiners (ACFE-National and Colorado Chapter)**
- ◆ **Association of Government Accountants (AGA)**
- ◆ **Association of Local Government Auditors (ALGA)**
- ◆ **American Society for Public Administration**
- ◆ **Colorado Bar Association**
- ◆ **Colorado Society of Certified Public Accountants (CSCPAs)**
- ◆ **Government Finance Officers Association (GFOA-National and Colorado Chapter)**
- ◆ **Information Systems Audit and Control Association (ISACA)**
- ◆ **The Institute of Internal Auditors (IIA)**
- ◆ **The Institute for Internal Controls (IIC)**
- ◆ **National Association of Black Accountants (NABA)**

AUDIT SERVICES DIVISION 2009 ANNUAL REPORT

DESCRIPTION OF ANNUAL AUDIT PLAN

The Division is utilizing a dynamic and flexible audit plan designed to significantly enhance the impact of audit services. The audit plan is based on developing a realistic audit horizon of planned high-risk audits covering a three-year period. Audits included in the annual audit plan 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. The 2010 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.

The 2010 audit plan reflects a new emphasis on performance auditing, particularly in the areas of program effectiveness and assessing the economy and efficiency of various City departments and programs, as a key mandate resulting from the change to the City Charter effective January 1, 2008. Historically, the Auditor's Office has conducted numerous performance audits focused on internal control and compliance objectives. However, performance audits with program effectiveness and economy and efficiency objectives are a new type of audit being executed by our office.

The 2010 audit plan includes program effectiveness and economy and efficiency performance audits for areas deemed high risk and many of them emphasize "horizontal" programs and activities that extend beyond individual departments and programs. Many of these audits will focus on the City's general governance structure for managing these horizontal activities to ensure comprehensive control structures are in place and efficient and effective communication processes exist between operating departments.

Finally, the plan includes audits that exhibit the Auditor Office's strategic focus on information technology auditing and fraud prevention and detection. Some of the key audits identified in the 2010 plan include Citywide Procurement, Record Management and Employee Recruitment Practices, Information Technology Security, and Child and Adult Welfare Services. The Auditor Office's 2010 Audit Plan is available on our website (www.denvergov.org/auditor).

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

- o **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

AUDIT SERVICES DIVISION 2009 ANNUAL REPORT

DESCRIPTION OF ANNUAL AUDIT PLAN

"at risk" entities can then complete a self-assessment and, if applicable, quickly self-correct any related control deficiencies.

- o **Special Advisory Services** - Special Advisory Services provide information on limited reviews or time-critical assessments, investigations or evaluations. The Division generally provides these services at the request of operational management and elected officials. Special Advisory Services further City objectives and goals by providing a reporting vehicle that is flexible, quickly issued, and focused on singular issues.
- o **Management Advisory Services** - Management Advisory Services are activities and reports designed to provide information and analysis related to organizational or programmatic assessments, investigations or evaluations. Also included is the identification of possible solutions or enhancements at the request of operational management and elected officials. Management Advisory Services are activities and products similar to those performed and provided by external consultants.
- o **Training Services** - The Division will offer control self-assessment training to City departments and entities. The training is intended to assist managers, supervisors, and fiscal staff to better understand management controls, relationships between those controls, risks related to lack of effective controls, and how controls are central to the Strategic Vision of the City.

AUDIT SERVICES DIVISION 2009 ANNUAL REPORT

DESCRIPTION OF 2009 AUDITS

This section provides synopses of various audit projects and non-audit services performed by the Division during 2009. Government Auditing Standards (GAS) promulgated by the Comptroller General of the United States, define three types of audits: financial audits, attestation engagements, and performance audits. While the Division maintains the capability to perform financial audits and attestation engagements, we primarily conduct performance audits.

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

- Assessing the extent to which legislative, regulatory, or organizational goals and objectives are being achieved;
- Assessing the relative ability of alternative approaches to yield better program performance or eliminate factors that inhibit program effectiveness;
- Analyzing the relative cost-effectiveness of a program or activity;
- Determining whether a program produced intended results or produced results that were not consistent with the program's objectives;
- Determining whether a program provides equitable access to or distribution of public resources within the context of statutory parameters;
- Assessing the extent to which programs duplicate, overlap, or conflict with other related programs;
- Evaluating whether the audited entity is following sound procurement practices;
- Assessing the reliability, validity, or relevance of performance measures concerning program effectiveness and results, or economy and efficiency;
- Assessing the reliability, validity, or relevance of financial information related to the performance of a program;
- Determining whether government resources (inputs) are obtained at reasonable costs while meeting timeliness and quality considerations;
- Determining whether appropriate value was obtained based on the cost or amount paid or based on the amount of revenue received;

AUDIT SERVICES DIVISION 2009 ANNUAL REPORT

DESCRIPTION OF 2009 AUDITS

- Determining whether government services and benefits are accessible to those individuals who have a right to access those services and benefits;
- Determining whether fees assessed cover costs;
- Determining whether and how the program's unit costs can be decreased or its productivity increased; and
- Assessing the reliability, validity, or relevance of budget proposals or budget requests to assist legislatures in the budget process.

Other types of performance audits include those with internal control objectives and those focused on compliance objectives. Often, performance audits address all three of these general objective audit areas. Performance audits are intended to assist elected officials and operational management to identify opportunities for enhancements and areas for continuous improvement. The following are synopses of the various performance audits conducted by the Division in 2009.

◆ PROGRAM EFFECTIVENESS & ECONOMY AND EFFICIENCY PERFORMANCE AUDITS ◆

Citywide Contract Procurement Process – October 2009



[Link to report](#)

Contracting is a key method for obtaining important services critical to City operations. Three main categories of City contracts are addressed by the audit: construction contract, professional services contracts, and personal services contracts. Effective contract procurement is critical for obtaining good value and timely services. The contract procurement process typically involves a number of actions, including defining the scope of work to be performed, obtaining a qualified vendor or contractor, preparing the contract, and submitting the contract for the appropriate levels of review and approval. In Denver, the current contracting process is decentralized. The audit addressed two components—steps leading to the drafting of a contract, and steps taken to review, approve, and execute a contract.

Significant Issues:

- Denver's Decentralized Contract Processing System Is Inefficient and Vulnerable; and
- City Standard Specifications for Construction and General Contract Conditions are Outdated.

AUDIT SERVICES DIVISION 2009 ANNUAL REPORT

Career Service Authority Recruiting Process – August 2009



[Link to report](#)

The Recruiting Section within the Career Service Authority's Workforce Management Division provides recruitment services for most City agencies. CSA focuses on advertising open positions and establishing a list of the most highly qualified candidates.

Significant Issues

- CSA lacks both a clear definition of the merit system and a strategic plan;
- CSA's recruiting and hiring process appears to take longer than other jurisdictions;
- Recruiting activities are not consistently performed or documented, and weak controls potentially threaten fair and open competition for City positions; and
- Accountability is hampered by the lack of sound performance measures, limited data, and ineffective tools.

Department of Aviation Finance/Administration Division's Expenditure Control Group – November 2009



[Link to report](#)

The Finance and Administration Division is charged with a number of diverse responsibilities including approving payment requests for the Department's vendors. The Division's Expenditure Control Group reviews and approves vendor payment requests, perform PCard reconciliations, account for project expenditures, conduct fixed asset inventories and maintain the fixed asset schedules.

Significant Issues

- Prompt payment process improvements were implemented with a noticeable impact;
- Process improvements decreased prompt payment penalties; and
- An alternative financial system integration design may improve the accounts payable process.

AUDIT SERVICES DIVISION 2009 ANNUAL REPORT

Department of Aviation Revenue Management and Business Development Division – May 2009



[Link to report](#)

RMBD is responsible for maximizing revenues from their airport tenants through contract administration of news, general merchandise, food and beverage, vending machines, consumer services, airlines, car rental operations, farming, oil and gas wells, and airport real estate. They also have oversight responsibility for airport parking and ground transportation operations. Audit work focused primarily on

RMBD's activities related to contract oversight and space utilization practices.

Significant Issues

Audit work identified the following internal control weaknesses that hinder the Department's ability to monitor airport contract oversight and space management practices:

- Lack of information available to manage space;
- No plan to monitor and use space;
- Inadequate process to monitor contract expiration dates and renew contracts in a timely manner; and
- Lack of review and contract enforcement regarding gross revenue reporting.

Department of Aviation Maintenance Division – December 2009



[Link to report](#)

The Maintenance Group is responsible for a safe and well-maintained airport for the travelling public, tenants, and employees through the supervision of maintenance contracts, the repair and maintenance of Airport facilities, aeronautical operations areas, landside areas, and the computerized communications, electrical and information systems. Audit work focused on the contract procurement and

administration. The audit also focused on the division's asset management practices, policies and procedures, and financial management activities.

Significant Issues

- Contractors were allowed to begin work prior to contract executions;
- Noncompliance with Mayoral Executive Order 8;
- Lack of contract enforcement resulting in increased risk to the City;
- Inadequate Maintenance Contract Administrator enforcement;
- Non-enforcement of the minimum staffing requirement resulting in un-assessed penalty fees of \$271,500; and
- The Maintenance Division lacks adequate written policies and procedures.

AUDIT SERVICES DIVISION 2009 ANNUAL REPORT

PeopleSoft IT General Controls – December 2009



[Link to report](#)

Denver uses the PeopleSoft Enterprise system for its human resources and financial accounting systems. Assurance that the data in PeopleSoft is protected from unauthorized modification or damage is provided by information technology general controls.

Significant Issues

- Procedures for Removing System Access Are Not Fully Effective – six percent of terminated employees still had active network login accounts;
- Password and Physical Access Controls Are Not Consistently Aligned with City Policies and Procedures – password controls were inadequate for IDs that had access to control the internal operations of PeopleSoft, the database, or operating system, and some data center physical access cards were not associated with known persons; and
- Disaster Recovery Procedures Are Not Tested on a Periodic Basis – no test of the disaster recovery plan had been conducted within the last year.

Office of Economic Development ~ Division of Housing and Neighborhood Development – February 2009



[Link to report](#)

This audit examined the Division of Housing and Neighborhood Development (DHND) activities. The Division manages HUD entitlement grants for the City, as well as other funding sources used for housing and neighborhood development initiatives. The Division seeks to leverage public and private funds to provide affordable housing, safe and livable neighborhoods, and economic development in Denver's lower-income neighborhoods.

Significant Issues

- Lack of an effective tracking system to monitor communications between OED staff and delinquent borrowers;
- Ineffective practices to protect borrowers' personal information;
- Failure to electronically back up and properly maintain key file documentation;
- Project file management weaknesses; and
- Inadequate review and oversight of the Seedco agreement in 2007

AUDIT SERVICES DIVISION 2009 ANNUAL REPORT

Procurement Card ~ City Agencies – September 2009



[Link to report](#)

A Procurement Card (PCard) is a credit card issued to City personnel who are authorized to make job-related purchases, subject to a predetermined limit. The Purchasing Division within the Department of General Services is responsible for administering the City's PCard program.

Significant Issues

- Audit work indicated the program has adequate controls in place to reduce the risk of PCard fraud and misuse. However, auditors identified areas where Purchasing could enhance its controls. For example, limits that can be programmed into individual PCards were not consistently used, many established limits were excessive, and some accounts did not have any transactions.

◆ COMPLIANCE PERFORMANCE AUDITS ◆

Per GAS, compliance audit objectives relate to compliance criteria established by laws, regulations, contract provisions, grant agreements, and other requirements that could effect the acquisition, protection, use, and disposition of the entity's resources and the quantity, quality, timeliness, and cost of services the entity produces or delivers.

Department of Aviation Air Cargo Fee ~ Compliance Audit – December 2009



[Link to report](#)

Air cargo carriers transport property, cargo, and mail over a network of routes throughout the United States and abroad. Air cargo fees and charges are based on usage and billed to each signatory or non-signatory airline. Payments from air cargo carriers include landing fees, utility charges, facilities ground rent, ramp rent, apron rent, building rent, general service equipment charges, and other fees and charges.

Significant Issues

- DIA inappropriately allocated a \$10.7 Million reimbursement from the State;
- DIA did not properly account for how State Aviation Fuel Tax Reimbursements were expended; and
- DIA performed the year-end utilities reconciliation incorrectly.

AUDIT SERVICES DIVISION 2009 ANNUAL REPORT

Citywide Records Management Performance Audit – August 2009



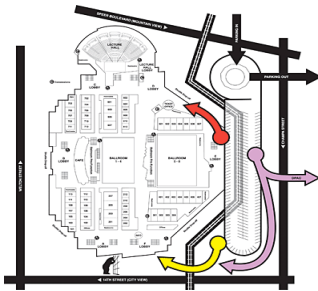
[Link to report](#)

This audit examined the City and County's records management program to determine if policies and procedures are in accordance with laws and regulations and effectively preserve, safeguard, and prevent the improper destruction or disposition of City records and archives. The City generates millions of records each year so how these records are handled directly affects the ability to operate effectively and efficiently. An Audit Alert focusing on unsecured confidential juvenile court case files and personnel files stored among public records was issued midway through the audit.

Significant Issues

- Records Management Executive Order has not been effectively implemented;
- Records stored at City agencies are not adequately protected against loss or unauthorized access; and
- Specific records management processes need improvement.

Department of Public Works ~ Central Parking Systems, Inc. July 2009



[Link to report](#)

Central Parking Systems Inc. (Central Parking), manages and operates the parking garage located on 14th and Speer for the Denver Performance Arts Complex (DPAC). The audit was conducted for the period October 1, 2007 through September 30, 2008. The scope of our work included determining compliance with the contract conditions and standard operating procedures, a review of deposits made into the City's designated account, and a review of various expenditure payments made to Central Parking.

Significant Issues:

- Failure to Evaluate Gross Revenues to Identify and Pay the Annual Incentive Fee; and
- Public Works Approves and Reimburses an Unallowable Operating Expense.

AUDIT SERVICES DIVISION 2009 ANNUAL REPORT

Office of Economic Development Seedco Financial Services – November 2009



[Link to report](#)

Beginning in 2007, the City and County of Denver contracted with Seedco Financial Services (Seedco) to use Community Development Block Grant (CDBG) funds to provide affordable financing and technical assistance to small businesses, non-profit organizations, and major commercial projects in low-income and economically distressed communities. In the Seedco contract that covered years 2007 and 2008, the City allocated Seedco \$3 million in CDBG funds. In 2009, the City allocated Seedco an additional \$2.9 million in CDBG funds.

Significant Issues

- Seedco has not meet contractual job creation goals;
- Seedco did not loan out all CDBG funds allocated to it from 2007-2009, and spent significant monies on administrative expenses;
- Seedco provided a loan of \$275,000 that did not appear to conform to federal CDBG lending guidelines;
- Seedco had not yet repaid approximately \$147,000 owed to the City; and
- Seedco's failure to close out 2007-2008 contract has prevented the City from making \$500,000 in CDBG loans.

Department of Aviation Landed Aircraft Weight Compliance Audit – May 2009



[Link to Closure Letter](#)

The airline and air cargo carriers are required to pay landing fees based on 1/1000 of the maximum allowable gross landed weight, multiplied by a landing fee rate. The Department tracks all signatory and non-signatory aircraft landings using the Mega Pulse System (a radar-based internet application that automatically identifies and records all aircraft landing information).

Significant Issues

There were no significant reportable findings.

AUDIT SERVICES DIVISION 2009 ANNUAL REPORT

Department of Aviation United Air Lines, Inc. (United) Contract Compliance Audit – February 2009



[Link to Closure Letter](#)

United, based in Chicago, is one of the World's largest airlines. United has two main contracts, the Airport Use and Facilities Lease Agreement and the Special Facilities and Ground Lease, authorizing them to operate at Denver International Airport. The agreements allow United the use of runways, taxiways, passenger ramp, apron areas, administrative offices,

operation offices, baggage claim areas, mail-handling and storage facilities, equipment, passenger hold rooms, passenger loading bridges, gates, an aircraft maintenance facility, a hangar, etc.

Significant Issues

There were no significant reportable conditions.

◆ INTERNAL CONTROL PERFORMANCE AUDITS ◆

Per GAS, internal control audit objectives relate to an assessment of the component of an organization's system of internal control that is designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

Denver County Court Civil Judgment Process Performance Audit – June 2009



[Link to report](#)

Audit work identified incorrect judgment balances computed during the Civil Judgment Process. Specifically, the interest accrual functionality of the Case Management System (CMS) was improperly accruing interest on judgment balances for the following reasons:

- Programming errors
- Judgment terms of interest can vary for each case
- Payments made directly to the creditor are not recorded by the Court

Issue Noted:

Since the Court is not responsible for maintaining judgment account balances, we recommended removing the interest accrual functionality from the CMS to improve operational performance and provide a cost savings to the Court.

AUDIT SERVICES DIVISION 2009 ANNUAL REPORT

Department of Aviation Procurement Card Program Performance Audit – May 2009



[Link to report](#)

The Procurement Card program was implemented to reduce the cost and time of processing high volume/ low dollar amount transactions in order to increase the pool of available vendors, and to improve management oversight for these types of transactions. The Procurement Card is a credit card that is used to purchase minimal dollar goods and services that do not exceed a pre-determined limit authorized by the Department of General Services

Purchasing Division.

Significant Issues:

- Limited oversight, policies and procedures manual, and approval process;
- Inadequate supervisor training and controls to prevent improper billing;
- Lack of effective reconciliation; and
- Outdated Executive Order.

Denver Sheriff Department Inmate Trust Fund and Inmate Welfare Recreation Fund Performance Audit – August 2009



[Link to report](#)

The purpose of the Inmate Trust fund (ITF) is to hold inmates' funds in trust for use by inmates to purchase food, drink, personal hygiene items, and to pay other charges. The purpose of the Inmate Welfare Recreation fund (IWRF) is to account for the commissions and profits generated from commissary sales and other revenue sources and expend those funds for the health, recreation, and welfare of the

inmates. Audit period was January 1, 2007 through December 31, 2007.

Significant Issues

- Non-Compliance with GAAP and City Charter Caused Significant Financial Misstatements;
- Lack of Segregation of Duties, Internal Controls Increases Risks of Misstatements and Fraud;
- Poor Control Environment For Fund Expenditures Lead to Several Negative Outcomes; and
- Lack of Proper Contract Administration Practices Resulted in Several Negative Impacts.

AUDIT SERVICES DIVISION 2009 ANNUAL REPORT

Denver Sheriff Department Keefe Commissary Network, LLC



Performance Audit – January 2009

[Link to report](#)

The Keefe Commissary Network, LLC contract audit focused on evaluation of internal controls over processing inmate orders, accounting entries for commissary transactions, and proper reporting of commissary sales and sales commissions. The audit also examined the contractor's compliance with insurance and reporting requirements. The audit was for the period October 1, 2006 through December 31, 2007.

Significant Issues

- Non-Compliance with Contract Terms Caused Underpayment and Increased Risk to the City. This included Unauthorized Payment Process, Improper Calculation of Commissions, and Non-Enforcement of Contract Provisions

◆ AUDIT ALERTS AND SPECIAL ADVISORY SERVICES ◆

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

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

American Recovery and Reinvestment Act



Readiness & Governance (ARRA) ~ Audit Alert October 2009

[Link to Alert](#)

Our office assessed the City's readiness to receive and expend ARRA funding. We reviewed the Recovery Act's transparency and accountability requirements, general provisions, and the City's proposed internal controls to comply with those requirements. Based on our preliminary review, recommended actions were developed to assist the City in monitoring ARRA funding. We will continue to monitor the City's progress and as programs are funded, will perform audits of the City's compliance with Recovery Act requirements.

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Review of City Clerk and Recorder Foreclosure Operations Special Advisory Report – August 2009



[Link to report](#)

The purpose of this non-audit service was to provide objective analysis and observation of new processes and procedures implemented to improve the Office's foreclosure process. The Public Trustee, housed within the Office of the Clerk and Recorder, processes foreclosure actions on real estate properties with mortgages in default, provides foreclosure cure information and assistance to property owners or lien holders prior to sale by auction, conducts public auctions, and deeds unredeemed property. Based on our limited review, there appears to be minimal process-related risk with Clerk and Recorder foreclosure operations.

Review of City's Office Depot Procurement Program Special Advisory Report – November 2009



[Link to report](#)

The purpose of this non-audit service was to provide objective analysis and assurance that the City was not overcharged when purchasing products from Office Depot. The City participates in a purchasing cooperative with U.S. Communities. "The U.S. Communities Government Purchasing Alliance ... is a nationwide purchasing cooperative designed to be a procurement resource for local and state government agencies, school districts (K-12), higher education and nonprofits. As a registered participant of the program, ... [agencies] can access a broad line of competitively solicited contracts which provide quality products, services and solutions. Based on our observations, it appears the City is being charged correctly for items ordered from Office Depot through this program.

Review of Animal Care & Control Customer Service Special Advisory Report – December 2009



[Link to report](#)

The Animal Care & Control Division (ACC) within the Department of Environmental Health emphasizes public and animal safety and health. ACC requested this review. The purpose was to help identify an overall system for setting performance expectations and holding staff accountable for providing exceptional customer service.

Our research revealed very consistent, fundamental underlying management concepts. Essentially, ACC should think strategically to identify the customer service goals or standards important to the organization, identify practices or procedures to help them achieve those standards, measure performance, evaluate results, and provide feedback to hold staff accountable to the standards.

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Ferril Lake at City Park; Denver City and County Building;
Denver International Airport; Civic Center Park

Back Photo: Library of Congress, William Henry Jackson
Denver Colorado, circa 1898

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