

**AUDIT SERVICES DIVISION  
2007 ANNUAL REPORT**

**Dennis J. Gallagher, Auditor**

**Kip R. Memmott, Director of Audit Services**



**Office of the Auditor  
City and County of Denver, Colorado**



# CITY AND COUNTY OF DENVER

201 West Colfax Ave., Dept. 705 • Denver, Colorado 80202 • 720-913-5000, FAX 720-913-5247

*Dennis J. Gallagher*  
Auditor

April 29, 2008

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, 2007.

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; however, in order to ensure an orderly and seamless transition, elements of this transition began in June 2007.

The Division issued 19 audit reports and performed several non-audit advisory services during the year. These reports and services fully supported and helped to further the continuous improvement activities of the City and County. The Division will continue to undergo significant transition during 2008 as we 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, appearing to read "K. Memmott".

Kip R. Memmott, 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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## **Overview - 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:

- The Charter authorizes the Auditor to have "access at all times to all of the books, accounts, reports, vouchers or other records or information maintained by the Manager of Finance or by any other department or agency of the City and County;"
- Ordinance (Sec. 20-276) requires that audited City agencies and departments formally respond to audit findings and recommendations. Responses must specify either agreement with findings and recommendations or reasons for disagreement with findings and

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## **Overview - Role & Authority**

recommendations, plans for implementing solutions to issues identified and a timetable to complete such activities; and

- The Charter establishes a formal, independent Audit Committee chaired by the Auditor and consisting of six other members. The Mayor, City Council and Auditor each appoint two members. The Audit Committee performs several critical functions including, among other responsibilities, annually commissioning and monitoring an independent external audit of the finances of the City (known as the Comprehensive Annual Financial Report – CAFR) and 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 will also be significantly expanding our performance and information technology audit capability. In fact, over the next three years, the Division will add three new performance audit teams. The development of these two audit specialty areas will 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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## Overview - Mission & Goals

### 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 2007 intended to enhance the Division's ability to fulfill this mission.

	<u>Status</u>
● 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
● Seek electronic work paper software application program to enhance audit efficiencies and timeliness;	Complete
● Prepare for external quality control review commonly known as peer review;	On-going
● 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;	On-going
● Follow-up on the status of management's action on significant or material findings and recommendations. Seek to increase management's accountability to remedy findings promptly by identifying and reporting actions taken;	On-going
● Proactively recruit staff members to fill existing vacancies and fill new positions available.	On-going

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## Overview - Mission & Goals - Continued

The Division will continue to undergo significant transition during 2008 as continuous improvement activities focused on enhancing the quality of audit services are being implemented. In addition to the on-going goals developed for 2007, the Division has established the following continuous improvement goals for 2008:

- ⇒ Full automation of the audit process using state of the art audit project management software. Expectation is that the timeliness and quality of audits will significantly improve;
- ⇒ Reengineer operating policies and procedures and provide comprehensive staff training on new procedures and processes;
- ⇒ Develop a robust internal professional development program based on individual professional development plans, tiered training requirements linked to position responsibilities, and an orientation package for new staff members;
- ⇒ Implement formal quality assessment program based on external peer review approach. Prepare for an external quality control review to meet Government Audit Standards in 2009;
- ⇒ Recruit high quality performance and information technology audit personnel;
- ⇒ Implement improved reports including new templates and enhanced presentation of written findings and related graphics;
- ⇒ 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
- ⇒ Continue participation in the A.L.G.A. reciprocity peer review program.

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## Overview - Mission & Goals - Continued

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:

- **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.
- **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.
- **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.

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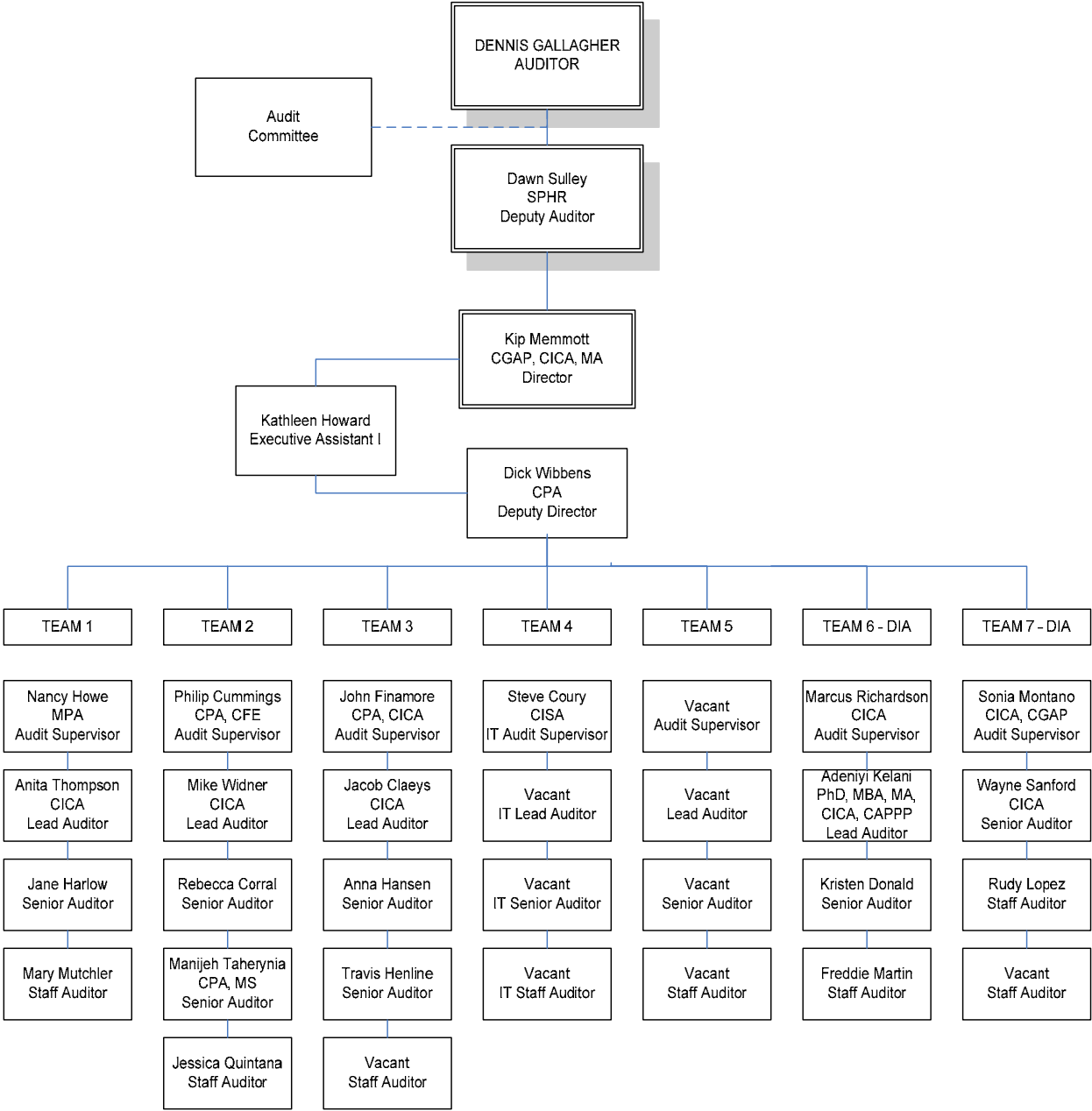
## **Overview - Staffing Resources**

### **STAFFING**

At the end of 2007, the Audit Services Division was comprised of 24 employees (2007 budgeted FTEs) who work out of offices located at Denver International Airport (DIA) and in downtown Denver. The Office will be expanding in 2008 with the addition of two new performance/information technology audit teams. The organizational chart on the following page reflects these changes in staffing. Following the organization chart are brief professional biographies of Audit Services personnel.

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# Organizational Chart



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**Overview - Staffing Resources - Continued**



**Jacob L. Claeys, CICA, *Lead Internal Auditor***

Mr. Claeys is a Certified Internal Controls Auditor with over three years of professional experience in operational, compliance, and performance auditing at the state and local government levels. Mr. Claeys' career started as an intern with the State of Minnesota's Office of the State Auditor and currently serves as a Lead Internal Auditor for the City and County of Denver's Office of the Auditor. He holds a Bachelor of Science degree in Accounting from Southwest Minnesota State University. Mr. Claeys is a member of the Institute for Internal Controls, Institute of Internal Auditors, Association of Certified Fraud Examiners, and Association of Local Government Auditors.



**Rebecca Corral, CFE, *Senior Internal Auditor***

Ms. Corral has over four 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 studying to become a Certified Fraud Examiner and is a member of the National Association and Colorado Chapter of Certified Fraud Examiners. Rebecca is a Certified Fraud Examiner (CFE).



**Philip Cummings, CPA, CFE, *Internal Audit Supervisor***

Mr. Cummings has worked as an internal auditor with the Auditor's Office for over 18 years and has been Audit Supervisor for the past 11 years. Philip earned a Bachelor of Science degree in Business Administration and a Masters degree in Accounting from Oklahoma State University. In 1986, Mr. Cummings passed the Certified Public Accountant exam and received his Oklahoma license the same year. He currently is a licensed CPA with the State of Colorado and a Certified Fraud Examiner (CFE). He belongs to both the International Association of Certified Fraud Examiners and the Colorado Chapter of CFE's. He is also a member of the Colorado State Investigators Association.



**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 15 years in IT Audit. His private sector experience includes IT Audit in the financial services industry including some of the nation's largest consumer banking and investment banking organizations. His IT experience includes software configuration management in the telecommunications industry. Mr. Coury 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).

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**Overview - Staffing Resources - Continued**



**Kristin Donald, Senior Internal Auditor**

Ms. Donald graduated from Western State College of Colorado with a Bachelor's degree in Accounting and Business Administration. She has 4 years of accounting experience, of those years three were of financial auditing with state and local governments.



**John Finamore, CPA, CICA Internal Audit Supervisor**

Mr. Finamore is a Certified Public Accountant with a Bachelor's degree in Accounting and General Business from the University of Northern Colorado. John has 20 years of auditing experience all with the Denver Auditor's Office and has performed 5 peer reviews for the Association of Local Government Auditors. He is a member of the American Institute of Certified Public Accountants, Colorado Society of Certified Public Accountants, and the Institute of Internal Auditors.



**Anna Lovascio Hansen, Senior Internal Auditor**

Ms. Lovascio Hansen holds a Bachelor of Science degree in Accountancy from the University of Colorado at Denver. She has been with the City and County of Denver, Audit Services Division, since December 2005. Ms. Lovascio Hansen is a member of the American Society of Women Accountants, the Colorado Local Government Auditors Association, and the Association of Government Accountants.



**Jane Harlow, CICA, Senior Internal Auditor**

Ms. Harlow graduated with a Bachelor's degree in Economics from the University of Maryland, Baltimore County. She had twenty years of accounting experience and two years of auditing experience with the private sector before joining the City. She has been with the City and County of Denver for more than six years. Ms. Harlow is a member of the Institute of Internal Auditors.

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**Overview - Staffing Resources - Continued**



**Travis Henline, *Senior Internal Auditor***

Mr. Henline earned a Bachelor's degree in Organizational Management from the University of Colorado at Colorado Springs. He has six years of management experience and over three years of experience in operational, compliance and process auditing. Mr. Henline is a member of the Institute of Internal Auditors and is studying to become a Certified Internal Auditor.



**Kathleen Howard, *Executive Assistant I***

Ms. Howard has professional experience in both the private sector and in government. She has fifteen years with the City and County of Denver, including over five years with the Auditor's Office. She is a Certified Legal Secretary earning her accreditation with the Paralegal Institute in Denver.



**Nancy Howe, *Internal Audit Supervisor***

Ms. Howe has over 8 years of auditing experience at the state and local government, and private sector levels. 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. Ms. Howe currently serves as an Audit Supervisor within the Audit Services Division.



**Adeniyi Kelani, PhD, CICA, *Lead Internal Auditor***

Dr. Kelani has a certification in Public Plan Policy with over 15 years of professional management, auditing (11 years of local government internal auditing), and accounting experience. He worked with a Petroleum Company in Denver as a Retail Manager. He was the General Manager of his own company in auto sales and services. He has a B.S. in Accounting and Marketing from Univ. of Colorado, Masters Degrees, in Business Adm. and Organizational Management, (Emporia State Univ. and Univ. of Phoenix), and a Ph.D. in Management (Columbia Pacific University). He serves on several advisory committees and Board; received several outstanding public service awards. Dr. Kelani is affiliated with many professional organizations.

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**Overview - Staffing Resources - Continued**



**Rudy M. Lopez, Staff 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. He has one year of professional auditing experience with the City and County of Denver.



**Freddie Martin, CICA, Staff Internal Auditor**

Mr. Martin is a Certified Internal Control Auditor with 6 years of professional internal auditing experience. He graduated from the University of Alabama at Birmingham with a Bachelor of Science degree in Accounting. He joined the City and County of Denver, Audit Services Division, in 2002 and since recovered \$595,600.00 as a result of his examinations. Mr. Martin worked in accounting in the public sector with the State of Colorado and in the private sector with a Professional Corporation. He is a member of the Institute of Internal Controls, the Association of Airport Internal Auditors and the Association of Local Government Auditors.



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

Mr. Memmott has over fourteen 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). He 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.



**Mary K. Mutchler, Staff Internal Auditor**

Ms. Mutchler 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. She has one year of experience in Internal Audit in local government.

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**Overview - Staffing Resources - Continued**



**Sonia Montano, CICA, CGAP, 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 ten 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.



**Jessica Quintana, Staff 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. She currently has a year and a half of auditing experience.



**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's Office of the Auditor 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's 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 for Internal Controls, The Institute of Internal Auditors, and the Association of Airport Internal Auditors. Mr. Sanford has 32 years of professional internal audit and accounting experience. Mr. Stanford is a veteran of the United States Marine Corps.

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**Overview - Staffing Resources - Continued**



**Manijeh Taherynia, CPA, Senior Internal Auditor**

Ms. Taherynia is a Certified Public Accountant with over five years of experience in tax compliance and internal auditing. Ms. Taherynia has a Master's degree in Accounting from the University of Colorado at Denver and is a member of the Association of Certified Fraud Examiners and the American Society of Women Accountants.



**Anita Thompson, CICA, Lead Internal Auditor**

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



**Dick Wibbens, CPA, Deputy Director of Audit Services**

Mr. Wibbens holds a Bachelor of Science degree with a major in Accounting from Minnesota State University, Mankato and is an actively licensed Certified Public Accountant in the State of Colorado. Mr. Wibbens is a member of the American Institute of Certified Public Accountants, Colorado Society of Certified Public Accountants, and the Association of Local Government Auditors. Mr. Wibbens has over 36 years of professional management, accounting, and audit experience. This experience includes retail accounting, general manager, property tax experience, and 25 years of local government internal auditing and management experience.



**Mike Widner, CICA, Lead Internal Auditor**

Mr. Widner is a Certified Internal Controls Auditor with over 10 years of financial, compliance, and performance auditing experience within the public sector. He has a Bachelor's degree in Business Administration and Finance from the University of Colorado. Mr. Widner is a member of the Association of Certified Fraud Examiners, the Institute for Internal Controls, and the Association of Local Government Auditors, where he serves on the Peer Review Committee.

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## **Overview - Staffing Resources - Continued**

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

- ◆ Accounting
- ◆ Business
- ◆ Business Administration
- ◆ Business Management
- ◆ Economics
- ◆ Finance
- ◆ Fine Arts
- ◆ General Business
- ◆ History
- ◆ Marketing
- ◆ Recreation

Four staff members have Masters' degrees; one holds a Doctorate degree.

### **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 2 years.

In 2007, audit staff was actively involved in several professional organizations as 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)
- ◆ Colorado Society of Certified Public Accountants (CSCPAs)
- ◆ Government Finance Officers Association (GFOA-National and Colorado Chapter)
- ◆ Institute for Internal Auditors (IIA)
- ◆ Institute of Internal Controls (IIC)
- ◆ National Association of Black Accountants (NABA)

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## Overview - Budget & Time Allocation

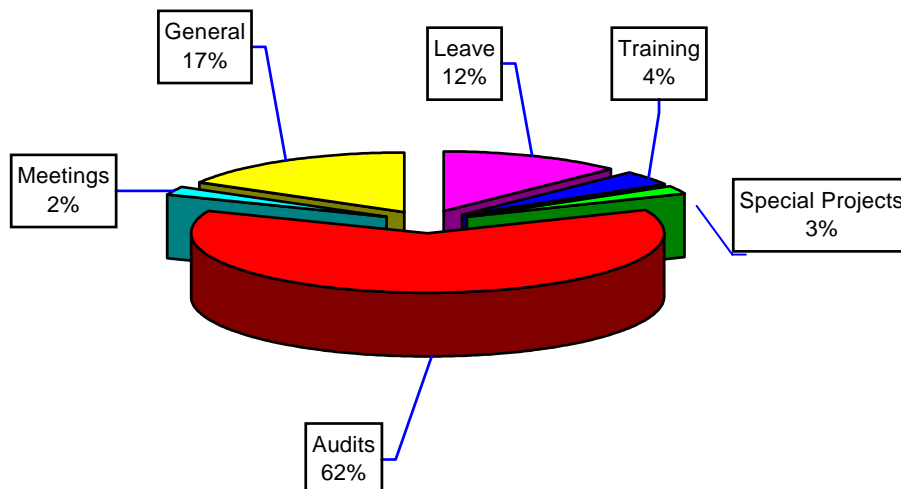
### BUDGET VS ACTUAL

The Auditor's Office has two budget sources, the City's General Fund and the Airport System Enterprise Fund. The following represents the 2007 Audit Services Division budget vs. actual:

	<u>BUDGET</u>	<u>ACTUAL</u>
	<u>AMOUNT</u>	<u>AMOUNT</u>
General Fund Operations	\$1,320,172	\$1,503,641
Airport Enterprise Fund Operations	<u>579,629</u>	<u>572,635</u>
Totals	<u>\$1,899,801</u>	<u>\$2,076,276</u>

### TIME ALLOCATION

The following chart illustrates the allocation of staff time during the year broken out between audits, special projects, training, meetings, leave, and general items.



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## **Description of Audits & Non-Audit Services**

The Division utilizes a risk assessment model for preparation of the annual audit plan and audit selection. The objective of using the risk assessment model is to identify and prioritize audits based on the highest areas of risk in the City. Division staff established an audit universe, or population of potential audits, and determined there were 360 possible audits. The potential audits were then evaluated using certain risk factors and ranked from the highest risk to the lowest risk.

Based upon the estimated available hours for audit personnel in 2007, the Division's 2007 Annual Audit Plan established a goal of initiating 52 audits. The following was the status of those 52 audits at the end of 2007:

- ✓ 19 audits were completed and a report issued.
- ✓ 18 audits were in progress at year-end.
- ✓ 15 audits were not started at year-end.

Audit and non-audit services completed during the year are highlighted in the following pages.

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**Description of Audits & Non-Audit Services - Continued**

**REVENUE AND EXPENDITURE CONTRACTS**

Thirteen of the audits issued in 2007 were revenue and expenditure contract audits. The following chart is a breakdown of these contract audits with amounts due and paid the City or auditee.

REVENUE AND EXPENDITURE CONTRACT AUDIT	AMOUNT DUE THE CITY (AUDITEE)	AMOUNT PAID TO THE CITY (AUDITEE)	AUDIT BALANCE DUE CITY (AUDITEE)	PAID CITY (AUDITEE) THROUGH 3/1/2008	REMAINING BALANCE OWED TO CITY (AUDITEE)
Air Wisconsin Airlines Corporation	\$ 301,044	\$ 301,044	\$ -	\$ -	\$ -
Budget Rent A Car System, Inc.	\$ 5,857,782	\$ 5,847,369	\$ 10,413	\$ 10,413	\$ -
Continental Airlines, Inc.	\$ 20,108,681	\$ 20,099,898	\$ 8,783	\$ 8,783	\$ -
Great Lakes Aviation, LTD.	\$ 10,512,813	\$ 10,030,569	\$ 482,244	\$ 331,688	\$ 150,556
H.W. Stewart, Inc Bill Gravesite	\$ 213,105	\$ 213,105	\$ -	\$ -	\$ -
H.W. Stewart, Inc – Echo Lake Lodge	\$ 69,689	\$ 69,689	\$ -	\$ -	\$ -
Unzip It Productions, LLC @ Willis Case	\$ 76,393	\$ 63,802	\$ 12,591	\$ -	\$ 12,591
Unzip It Productions, LLC @ City Park	\$ 47,329	\$ 30,923	\$ 16,406	\$ -	\$ 16,406
Worldwide Concessions, LLC.	\$ 45,738	\$ 27,500	\$ 18,238	\$ -	\$ 18,238*
S & H Concessions	\$ 51,325	\$ 18,800	\$ 32,525	\$ -	\$ 32,525*
KLAK Golf Prime II, LLC Overland Golf Courses	\$ 2,650,690	\$ 2,670,991	\$ (20,301)	\$ (20,301)	\$ -
Kennedy Golf Courses	\$ 4,739,441	\$ 4,738,852	\$ 589	\$ 589	\$ -
RLR, Inc. dba Evergreen Golf Course	\$ 277,000	\$ 277,000	\$ -	\$ -	\$ -
Wellshire LLC Wellshire Golf Course	\$ 29,526	\$ 29,526	\$ -	\$ -	\$ -
Skyport Development Company, LLC	\$ 1,520,241	\$ 1,520,241	\$ -	\$ -	\$ -
SkyWest Airlines, Inc.	\$ 8,449,693	\$ 8,451,008	\$ (1,315)	\$ (1,315)	\$ -
<b>Totals</b>	<b>\$ 54,950,490</b>	<b>\$ 54,390,317</b>	<b>\$ 560,173</b>	<b>\$ 329,857</b>	<b>\$ 230,316</b>

\*Amounts deemed uncollectible: Refer to audit synopses on page 32-34.

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**Description of Audits & Non-Audit Services - Continued**

All audits and projects issued by the Division fall into one of seven categories. Below is a listing of the seven categories along with the respective audit reports. For more detailed information, please refer herein to the applicable highlights starting on page 23, or view the entire audit report located on the Internet at [www.denvergov.org/auditor](http://www.denvergov.org/auditor).

**CITY PERFORMANCE, CONTRACT, AND COMPLIANCE AUDITS**

*The objective of these audits is to determine compliance with applicable City rules and regulations, contract conditions and provisions, and accounting and administrative internal controls. In addition, the audit attempts to determine whether the financial accounts of the auditee within the City's accounting system are fairly stated.*

<b><u>Audit</u></b>	<b><u>Highlights Page</u></b>
<b>CSA EDUCATION REFUND PROGRAM</b>	<b>24</b>
<b>CSA SELF-INSURED DENTAL PROGRAM</b>	<b>24</b>
<b>FIRE DEPARTMENT-POST EMPLOYMENT HEALTH PLAN</b>	<b>25</b>
<b>H. W. STEWART, INC. BUFFALO BILL GRAVESITE</b>	<b>26</b>
<b>H. W STEWART, INC. ECHO LAKE LODGE</b>	<b>27</b>
<b>KLAK GOLF PRIME II, LLC</b>	<b>28</b>
<b>PURCHASING-VENDOR PRICING COMPARISON</b>	<b>29</b>
<b>RLR, INC. D/B/A EVERGREEN GOLF COURSE</b>	<b>29</b>
<b>UNZIP IT PRODUCTIONS, LLC</b>	<b>30</b>
<b>WELLSHIRE LLC WELLSHIRE GOLF COURSE</b>	<b>32</b>
<b>WORLDWIDE CONCESSIONS, LLC AND S&amp;H CONCESSIONS, LLC</b>	<b>33</b>

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**Description of Audits & Non-Audit Services - Continued**

**AIRPORT CONTRACT COMPLIANCE AUDITS**

*The objective of these audits is to determine whether the airline, concessionaire, or other service provider paid the correct fees to the City. In addition, compliance with Denver Municipal Airport Systems rules and regulations, Federal Aviation Administration regulations, Executive Orders, landing fee reports, and other relevant provisions in the City Charter and the Denver Revised Municipal Code was tested.*

<b><u>Audit</u></b>	<b><u>Highlights Page</u></b>
<b>AIR WISCONSIN AIRLINES CORPORATION</b>	<b>35</b>
<b>AMPCO SYSTEM PARKING-MT ELBERT LOT</b>	<b>35</b>
<b>BUDGET RENT A CAR SYSTEM, INC.</b>	<b>36</b>
<b>CONTINENTAL AIRLINES, INC.</b>	<b>38</b>
<b>GREAT LAKES AVIATION LTD</b>	<b>39</b>
<b>SKYPORT DEVELOPMENT COMPANY LLC</b>	<b>40</b>
<b>SKYWEST AIRLINES, INC.</b>	<b>41</b>

**LEGALLY REQUIRED OR REQUESTED AUDITS**

*The objective of these audits is to ensure that the Denver Charter, Revised Municipal Code obligations are met. In addition, we determine compliance with applicable City rules and regulations, contract conditions, and accounting and administrative internal controls.*

<b><u>Audit</u></b>	<b><u>Highlights Page</u></b>
<b>CITYWIDE PETTY CASH</b>	<b>41</b>

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**Description of Audits & Non-Audit Services - Continued**

**NON-AUDIT ADVISORY SERVICES**

*These non-audit services are utilized for time critical engagements including assessments, investigations, limited reviews or evaluations as requested by operating management. While not always in full compliance with rigorous audit reporting, standards, these services allow critical information be provided in a quick, flexible manner and can be focused on singular issues.*

<b><u>Special Advisory Service</u></b>	<b><u>Highlights Page</u></b>
Inner-City Community Development	42
<b><u>Investigation</u></b>	
Animal Control Cash Handling Investigation	43

**OTHER NON-AUDIT PROJECTS**

During 2007, the Division also completed the following non-audit services:

**Denver Options**

Audit Services received requests to audit Denver Options to address three concerns by a third party.

- How Denver Options was allocating mill levy dollars.
- No paper trail relating to the mill levy.
- Reluctance to provide accountability relating to the mill levy.

Comment:

Upon review of the Denver Options contractual obligations, we determined Denver Options were meeting their obligations and an audit was not justified at this time.

**Civil Service Commission**

Our scope was to observe and verify Civil Service Commission moved confidential human resource records to a new location per written agreement.

Comment:

Through observation and physical inventory, we concluded that all confidential human resource record boxes were transferred to the Webb Building or to long-term storage at DocuVault.

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**Description of Audits & Non-Audit Services - Continued**

**EMPLOYEE SEPARATION REVIEWS**

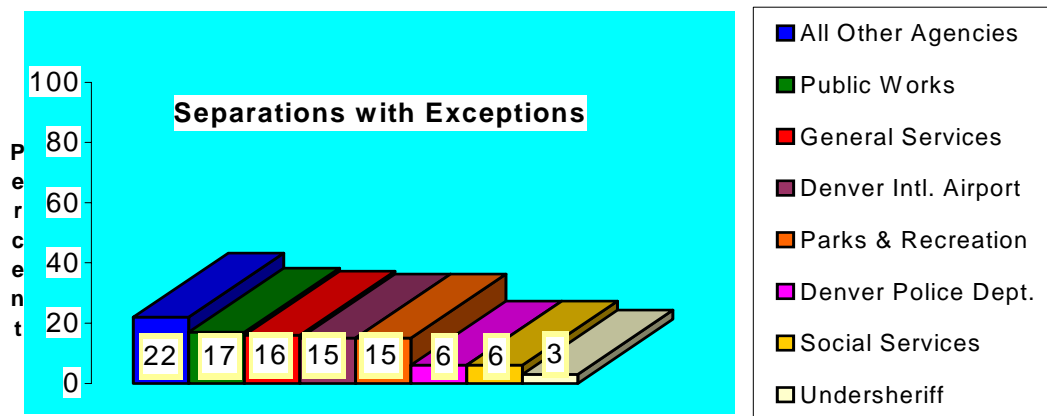
In addition to the audits listed above, the division reviews the final pay of all employees leaving the City. The objective of these reviews is to determine whether the City properly paid separating employees for their vacation, sick, overtime, and regular pay.

In 2007, the Division reviewed 1,117 employee separations and identified exceptions in 540, or about 48%, of these separations. This error rate was 21% higher than 2006. Amounts determined as due to the City totaled \$182,467; additional amounts due to employees totaled \$121,351 resulting in a net adjustment of \$61,116 due the City. This net adjustment due the City is 59% lower than the net amount that was due from separations in 2006.

There were approximately 969 individual errors detected in reviewed separations for 2007. The most frequent errors, in order, were:

- ✓ Incorrect leave accruals
- ✓ Failure to process separation documentation in a timely manner
- ✓ Incorrect monthly contributions for health & dental benefits
- ✓ Overpayment on last employee paycheck
- ✓ Underpayment on last employee paycheck
- ✓ Math/Computation error
- ✓ Sick leave payout miscalculated
- ✓ LWOP taken but not deducted from pay

The following graph identifies the seven city agencies with the highest percentage of separation errors. These seven agencies accounted for 78% of all employee separation errors.



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**Description of Audits & Non-Audit Services - Continued**

Besides processing its own payroll, General Services processes payroll for 28 other agencies; these separation exceptions are included in the summary for General Services.

The Division has put forth an effort to reduce the overall error rate in separations by sending letters to agency heads and meeting with managers. Additionally, beginning January 1, 2006, there was a significant change in the collection process for overpayments to employees that separated from employment with the City. In the past, the Division communicated the overpayments to agency payroll personnel. The agency was responsible for notifying the employees of the overpayment, arranging for reimbursement to the City, and, if unsuccessful, referring the overpayment to the appropriate authority.

During 2007, the Division facilitated the collection procedure in accordance with the new Fiscal Rule 10.1-7. Under this process, the Division sends a copy of the Separation Pay Authorization containing the reasons for the overpayment and the amount involved to the former employee. Treasury-Asset Recovery personnel receive a copy of this documentation. In 2008, the Division will transfer this collection procedure to the City Controller's Office.

From 1999 through 2004, the historical collection rate that we calculated based on the information given to us from agencies and Treasury was approximately 7%. With the 2006 new collection process, the collection rate increased by approximately 30%.

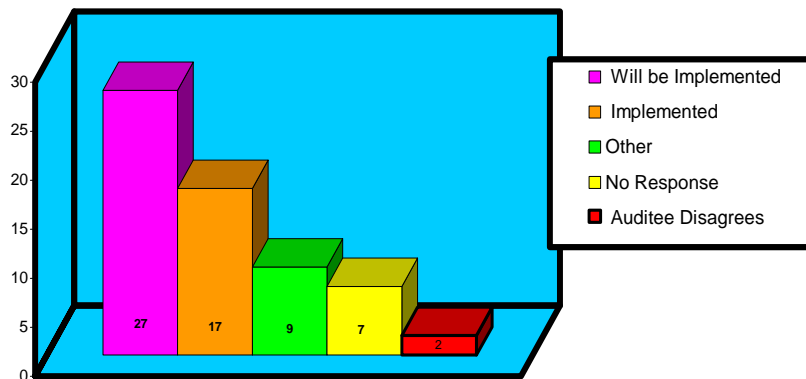
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**Description of Audits & Non-Audit Services - Continued**

**AUDIT FOLLOW-UP**

To meet the standard of due professional care, the Division has established a process that assesses the adequacy, effectiveness, and timeliness of management's actions on reported findings and recommendations. Management of each audited entity is primarily responsible for deciding the appropriate action taken on reported audit findings and recommendations. One of the Division's ongoing objectives is to track the status of management's actions to mitigate findings and implement recommendations.

After the issuance of each audit report, a form entitled "Audit Follow-up" is completed. The form summarizes and categorizes audit findings and the auditee's response, which is included in the audit report. Findings are categorized based on type, activity, or function. Responses are categorized within a range from implementation of corrective measures to no auditee response. For audit reports issued during 2007, the responses are categorized as follows:



Six months after our audit report's issuance, a follow-up letter may be sent to the auditee depending upon the content of the findings. This letter requests written confirmation of all actions taken to correct or otherwise resolve the findings and recommendations included in the audit report. The Division reviews responses to determine if physical confirmation of the action taken is necessary. Appropriate measures may include additional testing procedures or merely documenting confirmation activities. A letter of disclosure may be sent to the appropriate City officials to convey the status of any corrective action, if deemed necessary.

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## Highlights

### CITY PERFORMANCE, CONTRACT, AND COMPLIANCE AUDITS

Audit Title: **CSA - Education Refund Program**  
Audit Period: Year ended December 31, 2006

Summary of Deficiencies:

- Internal controls used by the administrator need improvement.
  - No written policies and procedures exist detailing the application and refund processes to be performed by the program administrator.
  - Incomplete and inaccurate databases.
  - Refund process weaknesses.
- Detailed reconciliations are not performed on the Education Refund Program's fund.
- Controller's Office (formerly Auditor's Office) payroll division made errors in processing some of the refunds.
- Education Refund Committee should provide more program oversight responsibilities to the program to ensure proper processes and controls are in place.

Disposition:

Career Service Authority reacted positively to the findings and was taking corrective action to address the findings. Controller's payroll department has taken steps to correct the incorrect refund entries. The Education Refund Committee's opinion is that the use of two CSA staff, along with the new procedures, will be sufficient to address the audit issues.

Comment:

The purpose of the audit was to determine whether internal controls in place were adequate and to ensure program compliance with the Revised Municipal Code.

Audit Title: **CSA - Self-Insured Dental Program**  
Audit Period: Year ended December 31, 2005

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## Highlights - Continued

### Summary of Deficiencies:

- Career Service Authority (CSA) did not have in place written policies and procedures for reconciling and monitoring the activity of the Self-Insured Dental Program.
- CSA is not reconciling and accruing revenue activity of the dental program resulting in revenue being understated by \$14,826 at year-end.
- CSA is not reconciling and accruing expenditure activity resulting in expenditures being understated \$185,560 at year-end.
- CSA is not tracking, reconciling, or recording the employee's portion of arrearages in the general ledger.
- Starting in 2006, due to change in dental deductions, refunds are recorded in a clearing account. The clearing account is not being reconciled and dental transactions reclassified to the correct fund/org/account.

### Disposition:

CSA agrees to implement a policies and procedures manual with recommended procedures from the audit. CSA also agrees that the dental fund should be reconciled monthly. Controller's Office (formerly Auditor's Office) and CSA disagree with the need for arrearage reports. However, it is CSA's responsibility to record any general ledger entries and reconcile reports and general ledger activity.

### Comment:

The purpose of the audit was to determine whether internal controls in place were adequate under the circumstances and to ensure Colorado Dental Services Inc., d/b/a/ Delta Dental Plan of Colorado and the City and County of Denver complied with the terms of their contract.

Audit Title:                    **Fire – Post Employment Health Plan**  
Audit Period:                January 1, 2005 through December 31, 2006

### Summary of Deficiencies:

- The Fire Department has internal control weaknesses with the handling of the Post Employment Health Plan (PEHP).

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## **Highlights - Continued**

- The Fire Department does not have written policies and procedures for PEHP activity.
- Reconciliations were not performed on contributions to verify the contribution was properly posted to the individual's account.
- Lack of communication between Fire Department, Controller's (formerly Auditor's Office) payroll department, and Nationwide Retirement Solutions, Inc.

Disposition:

The Fire Department agrees with the findings and is committed to implement the internal controls to correct the discrepancies.

Comment:

The purpose of the audit was to determine whether Nationwide Retirement Solutions, Inc. and the City and County of Denver complied with the terms of the agreement and whether internal controls in place were adequate.

Audit Title:                   **H. W. Stewart, Inc. at Buffalo Bill Gravesite**  
Audit Period:                January 1, 2004 through December 31, 2006

Summary of Deficiencies:

- H. W. Stewart and Parks failed to comply with the contract provisions regarding proper reporting and recording of revenues. Specifically, the concessionaire did not include discount sales transactions in gross revenue as required by the contract. Further, the concessionaire did not program all of the cash registers to ensure all transactions were recorded and reconciled to the daily summary tapes.
- Our audit procedures noted several internal control weaknesses with respect to reporting revenues and cash handling. We recommended the concessionaire implement internal control procedures to strengthen employee accountability and assist management in preventing and detecting errors and fraud.
- The concessionaire did not submit 11 of 12 quarterly financial reports during the audit period and the 2005 annual statement by the contract due date.

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## **Highlights - Continued**

We recommended the concessionaire implement procedures to ensure timely submission of financial statements by the contract due date.

Disposition:

H.W. Stewart, Inc. felt that discounts should not be included in gross receipts and that implementing too many controls would prevent them from providing good service to their customers. However, they did agree to implement some internal control procedures, revise current bookkeeping procedures, and submit statements in a timely manner. The concessionaire is currently working under a new contract.

Audit Title:                   **H.W. Stewart, Inc. Echo Lake Lodge**  
Audit Period:               January 1, 2004 through September 30, 2006

Summary of Deficiencies:

- Several weaknesses in the concessionaire's internal controls related to cash handling and reconciliation practices were identified. The weaknesses could materially affect the propriety of financial reporting.
- The concessionaire did not report gross revenues in accordance with contract provisions and further failed to properly record or document all transactions.
- The concessionaire did not submit quarterly and annual statements of revenue by the due dates required by the contract.

Disposition:

The concessionaire's response indicated a lack of understanding of the findings and unwillingness to change current business practices. The auditee disagreed with the findings concerning revenue and late financial reporting and asserted that all revenues were reported timely and financial reports were on time.

Comment:

We requested the concessionaire provide documentation proving all revenues were reported. However, the concessionaire failed to provide this documentation. Additionally, our findings of late financial reporting were accurately presented.

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## **Highlights - Continued**

Audit Title: **KLAK Golf Prime II, LLC**  
Audit Period: January 1, 2003 through December 31, 2005

Summary of Deficiencies:

- Concessionaire and Parks and Recreation failed to reconcile quarterly statements, annual statements, and CPA statements of gross receipts to accurately determine total annual percentage rental due the City. For the years 2001-2005, the concessionaire overpaid the annual percentage rental by a net of \$32,851 and accrued \$12,550 in related late payment interest penalties, resulting in a net amount of \$20,301 due the concessionaire.
- Following our exit conference with KLAK personnel, the concessionaire requested the annual percentage rental overpayments described above be treated as a credit against amounts due in subsequent years. As a result, our calculations determined the concessionaire overpaid \$36,587 and still incurred \$8,494 for late payment interest penalties. The net of these two amounts yielded \$28,093 due the concessionaire for financial transactions through the end of the 2005 contract year.
- The concessionaire failed to pay the September 2004 monthly minimum rental in a timely manner. As a result, KLAK owed the City late payment interest in the amount of \$589 for Kennedy Golf Course.
- Parks and Recreation failed to perform analytical and reconciliation procedures to assess amounts due from concessionaire for annual percentage payments. Parks and Recreation did not assess and collect late payment interest charges from the concessionaire according to the terms of the contract. Contract analyst personnel did not consistently enforce contract provisions related to adequate insurance.

Disposition:

The concessionaire disagreed with our assessment of interest penalties and application of 2005 credit card processing fees. However, they did agree that having better procedures for monitoring the contract are essential. Parks and Recreation agreed with our findings and plans to implement more contract monitoring controls to prevent future problems. Parks and Recreation and the concessionaire met to come up with an agreement since current outstanding amounts were due to the City.

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## Highlights - Continued

Comment:

We agreed with the concessionaire's revised assessment of interest penalties. However, we disagreed with the concessionaire's application of credit card fee deduction since they could not provide any source documents.

Audit Title:                    **Purchasing – Vendor Pricing Comparison**  
Audit Period:                January 1, 2006 through December 31, 2006

Summary of Deficiencies:

- City agencies are not adequately monitoring and reviewing vendor invoice prices with the negotiated prices stated on the Master Purchase Order.

Disposition:

Purchasing will review existing procedures and remind agencies to take better care in executing these procedures.

Comment:

The purpose of the audit was to determine if a process is in place to identify discrepancies between vendor invoice amounts and agreed upon bid and/or purchase order amounts as well as to assess whether adequate internal controls were in place.

Audit Title:                    **RLR Inc., d/b/a Evergreen Golf Course**  
Audit Period:                January 1, 2003 through December 31, 2005

Summary of Deficiencies:

- We did not note any reportable deficiency

Comment:

We commended RLR Inc. for their performance and compliance with the terms of the contract at Evergreen Golf Course during the audit period.

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## Highlights - Continued

Audit Title: **Unzip It Productions, LLC City Park and Willis Case Golf Courses**

Audit Period: For the Period January 1, 2003 – December 31, 2005

Summary of Deficiencies: City Park Golf Course

- Audit work revealed the concessionaire failed to comply with contract provisions requiring the retention and provision of source documents for audit purposes, evidence of individual and daily revenue transactions, and certified annual financial statements by a Certified Public Accountant, resulting in an audit scope limitation. Therefore, we recommended the Manager of Parks and Recreation terminate the concessionaire's contract with the City.
- On the basis of available documents and employing alternative auditing methods, we determined the concessionaire underreported revenues in the amount of \$10,407 from the Snack Shack, \$15,769 from golf tournament revenue, and \$4,029 from the bar and restaurant. We also noted an inappropriate deduction from gross revenue of \$2,400. Underreported revenue attributed to these four exceptions totaled \$32,605, representing nearly 8% of reported revenue for 2005.
- We determined the concessionaire owed the City an additional \$2,608 for annual percentage rental as well as related late payment interest charges of \$343 since gross revenues were understated for 2005. Additionally, we determined the concessionaire owed the City \$13,455 for audit costs in accordance with the terms of the contract.
- We noted the concessionaire did not submit quarterly and annual statements of revenue by the due dates required by the contract.

Summary of Deficiencies: Willis Case Golf Course

- Our audit determined the concessionaire failed to comply with contract provisions requiring the retention and provision of source documents for audit purposes, evidence of individual and daily revenue transactions, and certified annual financial statements by a Certified Public Accountant, which resulted in an audit scope limitation. Ultimately, we found gross revenues were significantly understated for the year 2005. Therefore, we recommended the Manager of Parks and Recreation terminate the concessionaire's contract.

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## **Highlights - Continued**

Since we determined source documents such as cash register and journal tapes, wait-staff tickets, daily revenue reports, and other financial information were missing, incomplete, or unreliable to report revenues, we analyzed and compared the concessionaire's bank deposits against amounts of revenue reported to Parks and Recreation for 2005. We found cash deposited exceeded reported revenue by \$21,220, which represents underreported revenue by the concessionaire. Additionally, we noted two other exceptions related to the determination of total gross revenue by the concessionaire totaling \$277, which yielded a total amount of \$21,497 in underreported revenue for 2005.

- We determined the concessionaire owed the City an additional \$1,075 for annual percentage rental and associated late interest penalties. We also noted the concessionaire submitted annual percentage and monthly minimum payments late for all three years of our audit period. As a result, the concessionaire owed total late payment interest charges of \$1,276.
- In accordance with contract provisions, we determined the concessionaire owed audit costs in the amount of \$9,189 and liquidated damages totaling \$1,050.
- We noted the concessionaire did not submit quarterly and annual statements of revenue by the due dates required by the contract.

### Summary of Deficiencies: Parks and Recreation

- Parks and Recreation did not consistently monitor and enforce contract provisions related to insurance types and levels.
- Several monthly minimum rental payments were not date stamped by the Department. As a result, we were unable to assess potential late payment interest penalties.
- Parks and Recreation failed to accurately calculate and reconcile the concessionaire's payments for annual percentage rental.
- Agency personnel failed to assess and collect late interest penalties applicable to Willis Case during the years 2003 and 2004.

### Disposition:

Parks and Recreation agreed with our recommendation to terminate Unzip It Productions' concession contracts at both golf courses and invoice the amounts due for the annual percentage rental and late payment interest penalties.

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## **Highlights - Continued**

The concessionaire disagreed with the audit findings related to underreported revenue and the assessment of additional annual percentage rental, audit costs, and liquidated damages.

Comment:

Subsequent to the audit, Parks and Recreation entered into an agreement with the concessionaire to terminate the concession licenses effective September 30 and October 31, 2007, respectively. The agreement waived the concessionaire's liability for all costs documented in the audit report contingent upon submission of CPA certified financial statements, payment of percentage and monthly rentals, and relinquishing ownership of furniture and equipment at both locations. To date, payments of percentage and monthly rentals are outstanding for each golf course.

Audit Title: **Wellshire L.L.C at Wellshire Golf Course**  
Audit Period: January 1, 2003 through December 31, 2005

Summary of Deficiencies:

- The concessionaire did not initiate or complete any capital improvements in the amount of \$1,250,000 from January 1, 2003 through May 31, 2007, as required by the contract.
- Parks and Recreation failed to monitor and enforce the contract provisions related to the capital improvements described above. As of the date of the report (September 18, 2007), Parks and Recreation had not submitted a contract amendment to City Council that extended the due date for completion to December 31, 2008.

Disposition:

- Parks and Recreation did not agree with our finding related to their failure to monitor and enforce the requirement related to the aforementioned capital improvements. Parks and Recreation stated that they were in negotiation with the concessionaire to amend the concession agreement including, but not limited to, an extension of the deadline for completion of the capital improvements. Subsequently, Parks and Recreation produced an undated letter from the Manager of Parks and Recreation to Wellshire LLC, which

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## Highlights - Continued

- extended the due date for capital improvements to December 31, 2008.
- Wellshire L.L.C. chose not to respond.

Comment:

We disagreed with the approach taken by Parks and Recreation to extend the deadline for the required capital improvements via an undated letter described earlier. We also disagreed with the City Attorney justifying the issuance of such a letter pursuant to Charter sections 2.2.3 and 2.4.4(C) regarding the authority vested in the Mayor and the Manager to temporarily forbear on the enforcement of a contract provision when they deem it in the best interest of the City and the fair and reasonable response to circumstances.

Executive Order No. 8 Memorandum A clearly defines an amendment as “a separate contract or agreement that requires the same approval process by City Council as the original contract.

Section VI A. Amendments specifically states, “an amendment is required whenever provisions of the contract need to be changed” and “verbal instructions or written correspondence may not be considered as amendments to the contract.”

Audit Title: **City Park Golf Course – Worldwide Concessions, LLC and S&H Concessions, LLC**

Audit Period: For the Period January 1, 2003 – April 11, 2005

Summary of Deficiencies: Worldwide Concessions, LLC

- Worldwide Concessions, LLC failed to pay the annual percentage rental due in the amount of \$24,422 for the year 2003. Associated interest penalties of \$7,992 were also due for the outstanding amount.
- Worldwide also failed to pay the monthly minimum rental for July 2003 by the required due date resulting in \$111 owed to the City for late payment interest penalties.

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## **Highlights - Continued**

### Summary of Deficiencies: S&H Concessions, LLC

- S&H Concessions, LLC failed to pay the annual percentage rental due in the amount of \$16,154 for the year 2004. The concessionaire owed an additional \$4,384 in late interest penalties for the outstanding amount.
- S&H overpaid the monthly minimum rental amounts due from January through April 2005, resulting in a net overpayment of \$2,300. We applied the \$2,300 overpayment as a credit against the amount due the City for the annual percentage rental.

### Summary of Deficiencies: Parks and Recreation

- Parks and Recreation failed to process and affect amendments to concession licenses to document the "transfer" of operations from Worldwide to S&H in 2003 or the changes to the monthly minimum payments for S&H in 2005 in accordance with Executive Order No. 8.
- The Department allowed S&H to operate without a performance bond or letter of credit from inception of the contract in 2003 through termination of the contract in 2005. Since this coverage was not provided, the City had no financial protection against non-performance by the concessionaire.
- Parks and Recreation failed to determine, invoice, and collect annual percentage payments and late interest penalties from Worldwide for 2003 and S&H for 2004, resulting in loss of revenue to the City.
- Specific insurance levels required by the concession licenses were not obtained and/or maintained throughout the life of the contracts.
- Annual statements of gross receipts certified by an independent public accountant were missing and quarterly financial reports were submitted late or missing.

### Disposition:

Parks and Recreation response indicated they would take measures to collect the outstanding debts if the principals of the companies could be located. The Department also indicated processes and procedures were being implemented to address contract monitoring and amendment processing issues.

### Comment:

We could not determine the whereabouts of the principals of Worldwide Concessions during the audit. As a result, we could not solicit responses to the

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## Highlights - Continued

audit findings. Additionally, the principals of S&H Concessions had left the state, did not reply to our request for audit responses, and their whereabouts are unknown. Subsequent to the audit, Parks and Recreation remitted both concessionaires' accounts to the City's collection attorneys. The attorneys determined both companies were defunct and the amounts due were uncollectible.

### AIRPORT CONTRACT COMPLIANCE AUDITS

Audit Title: **Air Wisconsin Airlines Corporation**  
Audit Period: Year Ended December 31, 2006

#### Summary of Deficiencies:

- We discovered that an \$88,035 refund check for Air Wisconsin submitted on January 31, 2007 was not issued until May 18, 2007 due to missing back-up documents. The Auditor's Office released the refund check 106 days after it was requested.

#### Disposition:

Air Wisconsin agreed that refund payment processes be enhanced. The Department of Aviation did not agree with all aspects of our finding. Back up documentation was sent to the Auditor's Office March 8, 2007. The Office of the Controller (formerly Auditor's Office) stated that a refund warrant was printed on February 16, 2007. However, at that time, a representative from the Auditor's Office (currently a representative of the Office of the Controller) noticed that supporting documentation was not adequate. After proper support was received, the payment was released.

#### Comments:

Aviation will enhance their refund procedures to ensure that all supporting documents be included with any payment requests sent to the Office of the Controller.

Audit Title: **AMPCO System Parking – Mt. Elbert Lot**  
Audit Period: For the Period January 1, 2006 through June 30, 2007

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## Highlights - Continued

Summary of Deficiencies:

Audit work identified substantial internal control weaknesses related to revenue collection processes at the Mt. Elbert parking lot. Specifically, the Mt. Elbert Lot lacked electronic revenue control equipment, and sufficient supervision and monitoring systems were not in place to detect errors and irregularities made by cashiers using the manual system. As a result, the City may have lost revenues due to alleged theft occurring at Mt. Elbert Lot.

Disposition:

The Department of Aviation and AMPCO implemented revenue control equipment at the Mt. Elbert lot and now, automated tickets are used. More supervision and monitoring of cashier transactions are in place. All documentation regarding theft will be submitted to airport police and police directives will be followed. Currently, the risk of lost revenue has been greatly reduced at the Mt. Elbert Lot.

Comments:

We agree with all enhancements made to date. We will also start an audit of the entire parking operation at DIA early 2008.

Audit Title:                    **Budget Rent A Car System, Inc.**  
Audit Period:                January 1, 2006 through December 31, 2006

Summary of Deficiencies:

- Budget did not comply with the concession agreement requirement for reporting airport gross revenue generated at rental locations within a 20-mile driving distance of the Terminal Building (curbside). Budget also applied deductions from gross revenue, which were not authorized by the concession agreement. As a result, Budget owed the City a refund of \$10,413.
- Concession revenue monthly reports did not agree with the annual schedule of gross revenue (ASGR). Specifically, listed monthly gross revenue and authorized deductions were not verifiable. Budget internal controls did not identify nor prevent these report errors.
- Budget did not provide the City with an annual statement of gross revenues, prepared and certified by the Budget Chief Financial Officer or by

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## Highlights - Continued

- an Independent Certified Public Accountant (CPA). Additionally, Budget did not provide the City with the proper annual statement of usage fees, prepared and certified by an Independent CPA.
- The City and County of Denver insurance requirement for this agreement was inconsistent. The Facilities Lease stipulated that the City be named as “additional insured” on the certificate of insurance but the Concession Agreement did not stipulate that the City be named as “additional insured” on the certificate of insurance provided to the City. Additionally, Budget did not provide the City with the certificate of insurance which contains the proper ten day written notice provision for non-payment of premiums as required.
  - Budget deducted vehicle rental corporate discounts, which were separately awarded by Budget to their corporate customers, from monthly and annual gross revenue reported to the City. However, the Concession Agreement did not allow corporate discounts as an authorized deduction. As a result of this type of deduction from gross revenue, the percentage compensation fee paid to the City for 2006 was \$18,453 less than it should have been.

Disposition:

The only response from Budget was that they agreed to remit the amount due of \$10,413. Responses from the Department of Aviation noted that they will invoice Budget for the amount due and that rental car companies have been notified previously in writing that all locations within the 20-mile drive must be included in their revenue reports. They stated that another letter noting this stipulation would be sent from the Airport Property Division.

It was also noted that the Airport Property Office currently sends a letter in January to all rental car companies reminding them of the requirement to submit annual revenue reports, including the requirement for Usage Fee Report prepared by an independent CPA. A sample format for the Certified Annual Statement is also included. The companies also receive a reminder for the annual reports due when the MAGA increase notice is issued in mid-February. As no monetary penalty is associated with the requirement, there is little else the Airport can do to enforce provisions of the agreement, beyond repeated requests.

The Department of Aviation’s response stated that prior to the end of 2007, the Airport Property Office would draft and send a one-time notice of the monthly

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## Highlights - Continued

reporting requirements and include threat of default in the language of the notice to all rental car operators.

According to the Department of Aviation, the issue of disparate insurance requirements under the two agreements was addressed in 1999/2000. Each agreement file contained an agreement letter between the Airport and the company in which all requirements for insurance to cover both agreements had been combined.

The Airport also responded that corporate discounts were an issue not covered under the current Concession Agreement, and it was highly unlikely that the City would be in a position to re-negotiate this single item with this specific company or with the industry as a whole before the agreements expire in January 2014. The Airport will consider this along with several other potential revenue sources unaddressed in the 1992 agreements when drafting the new agreements.

Comment:

Due to the ambiguous language in the contracts and lease agreements, the Auditor's Office requested a legal opinion from the City Attorney's Office on issues related to this audit. The purpose of the request was to obtain clarification so our office will know how to proceed when similar issues arise in future audits.

Audit Title:                    **Continental Airlines, Inc.**  
Audit Period:                Year Ended December 31, 2004

Summary of Deficiencies:

- It was determined Continental owed the City \$8,783 for landing fees and interest charges. The Department of Aviation erroneously credited Continental's landing fees. Continental made late payments, which created the amount they owed for interest charges.
- The Department of Aviation provided Leigh Fisher Associates (the airports' consultant for rates, fees and charges) improper paid amounts.

Disposition:

The Department of Aviation's response concurred with the amount owed to the City and they would invoice Continental \$8,783.

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## **Highlights - Continued**

The Department of Aviation expressed that Leigh Fisher's reconciliation to the audited amounts was not reflected in the correct provider code for Continental, therefore causing the paid amount difference.

Comments:

We agree with the Aviation response concerning all the findings.

Audit Title:

**Great Lakes Aviation, LTD**

Audit Period:

Year Ended December 31, 2004

Summary of Deficiencies:

- It was determined Great Lakes owed the City \$482,244. Great Lakes did not pay the proper amounts for landing fees, commuter ramp charges, deicing charges, passenger facility charges, and interest charges.
- Great Lakes' Performance Bond was inadequate until August 12, 2005.
- Great Lakes did not submit their audited 2004 annual statement of Passenger Facility Charges (PFC).
- We were unable to confirm if Great Lakes participated in the airports' Alternative Bond Program. The Department of Aviations' terms, conditions, and payments obligations for the Alternative Bond Program were ambiguous.

Disposition:

The Department of Aviation concurred with the amount of \$482,244 owed to the City. The Department of Aviation will review Great Lake's landed weight amounts for discrepancies during 2005 and 2006 as recommended in the audit report. The Department of Aviation annually adjusted the airline bond amounts based on 3 months of rates, fees and charges. Stair step letters have been created to ensure compliance with the adjusted amounts.

The Department of Aviation responded that they would continue to contact the airlines either by phone or by email, and in 2007 would send reminders in writing regarding PFC Annual Audited Reports.

The Department of Aviation has established two letters with written details of the terms, conditions, and payment obligations for the Alternative Bond Program.

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## Highlights - Continued

Comments:

We agree with the Aviation response concerning all the findings. However, during our follow-up we found that Aviation and Great Lakes mutually entered into a stipulated settlement agreement and release to waive \$150,556 of the 482,244. Therefore, Great Lakes paid in total \$331,688 (\$482,244 minus \$150,556).

Audit Title:                   **Skyport Development Company, LLC**  
Audit Period:               January 1, 2005 through December 31, 2005

Summary of Deficiencies:

- Skyport was late each month of fiscal year 2005 in submitting the minimum monthly guarantee amount and the monthly additional percentage concession revenue fee to the City. Skyport's accounting procedures and payment practices were inadequate to achieve timely payments.
- Skyport was delinquent a total of 461 days in 2005 in submitting payments due the City. In 2005, Skyport owed and paid the City \$17,944 for late payment interest.
- One sub concessionaire did not name the City and County of Denver as an additional insured as required and failed to provide the required 10 day notice on nonpayment of premium on their certificate of insurance. Additionally, none of the sub concessionaires provided the 45 day notice of cancellation on their certificate of insurance as required.

Disposition:

Corrective measures were developed and implemented by Skyport. The Department of Aviation also continues to properly record and monitor Skyport amounts due in a consistent and timely manner. Interest is accrued timely on unpaid amounts. In addition, all outstanding amounts noted have been researched and cleared by the Department of Aviation.

The Airport has changed all insurance Notice letters to reflect the 45-day written notice of cancellation requirement. All letters now reference C.R.S. 10-4-109.7, which is the State requirement for a 45-day notice. All current sub-tenants of Skyport have provided appropriate Certificates and are in compliance with the requirements.

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## **Highlights - Continued**

Audit Title:           **SkyWest Airlines, Inc.**  
Audit Period:        Year Ended December 31, 2005

Summary of Deficiencies:

- It was determined that the City owed SkyWest a net amount of \$1,315. SkyWest did not pay the proper amounts for landing fees, interline baggage fee, and interest charges. At the request of the Department of Aviation, SkyWest erroneously paid landing fees twice.
- The Department of Aviation provided Leigh Fisher Associates (the airports' consultant for rates, fees and charges) improper paid amounts.

Disposition:

The Department of Aviation will issue a credit memo for \$1,315 to SkyWest.

### **LEGALLY REQUIRED OR REQUESTED AUDITS**

Audit Title:           **Citywide Petty Cash Compliance Audit**  
Audit Period:        Years Ended December 31, 2005 and 2006

Summary of Deficiencies:

- Audit work identified several internal control weaknesses related to the handling of petty cash funds. Specifically, compliance with established internal controls needed to be improved. The identified weaknesses created a potential for theft and misappropriation of petty cash funds.
- The majority of the City's petty cash funds were underutilized. Audit testing revealed low turnover rates, which reflected low fund usage and indicated that the fund amount be reduced or the funds utilized more. For example, audit testing found 618 voucher payments for less than \$3 in 2006. It appears most of these could have been paid using petty cash, thereby saving the City the cost of processing the vouchers.
- Some agencies did not notify the Accounting Division when petty cash custodians or office locations changed, resulting in an inaccurate Petty Cash Master List. Fiscal Rule 3.2 requires that agencies report these changes. An accurate Master List would assist the Manager of Finance in overseeing and managing petty cash funds.

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## Highlights - Continued

- Fiscal Accountability Rules do not provide guidelines regarding what can be appropriately purchased using petty cash funds. Clearly defining appropriate expenditures and limiting them to core business needs would better ensure that petty cash funds are properly expended.

Disposition:

The City Controller provided the audit response and agreed with all four recommendations. They would implement all changes no later than September 30, 2008.

Comment:

For the audit period, the Auditor's Office Accounting Division authorized the establishment of and increases to petty cash funds, maintained the list of petty cash funds in the City, and processed voucher reimbursements. However, effective June 27, 2007, all accounting responsibilities were transferred to the Controller's Office under the newly established Manager of Finance. This will allow for more centralized oversight of petty cash funds in the future.

### NON-AUDIT ADVISORY SERVICES

Non-Audit Title:      **Inner-City Community Development Corporation**  
Audit Period:        N/A

Summary of Deficiencies:

- Internal control weaknesses in the Office of Economic Development's process of granting loans.
  - Lack of sufficient financial background review on loan recipient.
  - Inadequate amount and type of collateral to secure the loan.
- OED undertaking a number of questionable actions to prevent loan default.
  - Used Tax Increment Financing to pay for delinquent property taxes.
  - Leased a warehouse to the Denver Election Commission.
  - Used Section 108 Repayment Account funds to pay two notices to cure.
  - Inability to act owing to Historical Tax Credit legal restrictions.
- City negotiated a binding settlement agreement, which allowed the loan recipient to disengage from the redevelopment project with no further obligation to repay the loan.

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## **Highlights - Continued**

Disposition:

Based on issues and control weaknesses identified during this analysis, the Auditor's Office will be conducting a comprehensive performance audit on the Office of Economic Development's loan and collection procedures.

Comment:

This Special Advisory Report was a result of an investigation initiated by questions raised in a letter addressed to the City Auditor by a City Councilmember.

Non-Audit Title:       **Animal Control Cash Handling Investigation**  
For the Period:       Fiscal years 2006, 2005, and 2004

Summary of Deficiencies:

As a result of the loss of revenue caused by weak cash handling procedures, we identified the following conditions that contributed to the weak practices:

- Mail receipts were not recorded or deposited in a timely manner.
- Same person processes the licenses and prepares the deposit.
- No review by a supervisor of the Cash Receipts Journal prior to the deposit being made.
- No reconciliation of the licenses recorded in the Chameleon system to the amount recorded in PeopleSoft and license tag inventory.
- Petty cash reimbursement warrants were routinely cashed through the cash register but not recorded in the cash register.
- Evaluate the staffing needs at the Animal Shelter.

Disposition:

Animal Control management implemented our recommendations and is reviewing staffing needs. Results from our investigation were turned over to the District Attorney's Office.

Comment:

Scope of the non-audit service was to investigate allegations that revenue received through the mail was not deposited. We concluded that \$103,367 of revenue received through the mail for licenses was not deposited in full to the Treasury.