

# City and County of Denver

## Office of the Auditor

### Audit Services Division



2008 Annual Report



# 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 8, 2009

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, 2008. 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 to further the continuous improvement activities of the City and County. Our keystone performance audit for the year, examining the City's Emergency Medical Response System, directly led to improvements made to the system including a reduction of nearly two minutes in ambulance response time. The Division will be presenting the results of this audit at a national professional audit conference in 2009.

The Division will continue to undergo significant transition during 2009 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, 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:

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

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## ROLE & AUTHORITY

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. During 2008, the Division established an IT Audit Team and conducted several program effectiveness and economy and efficiency performance audits. The 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

### 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 2008 intended to enhance the Division's ability to fulfill this mission.

| <b>Improvement Goals for 2008</b>  | <b>Status</b> |
|--|---------------|
| • 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 and obtain a rating of full compliance with an external quality control review (commonly known as peer review) to be performed in 2009;  | 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.  | On-going      |

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## MISSION & GOALS – CONTINUED

The Division will continue to undergo significant transition during 2009 as we continue to implement continuous improvement activities focused on enhancing the quality of audit services. In addition to the on-going goals developed for 2008, the Division has established the following continuous improvement goals for 2009:

- ⇒ Full automation of the audit process using state of the art audit project management software (TeamMate). 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 and fundamental audit skills including: performance auditing techniques, project management, audit report writing, and fraud detection and prevention;
- ⇒ 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;
- ⇒ 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 external peer review approach;
- ⇒ Recruit high quality performance 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

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## MISSION & GOALS – CONTINUED

- ⇒ 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 and continues participating in the A.L.G.A. reciprocity peer review program, and plans to publish an article describing the Denver “audit model” in the IIA’s national periodical. The IIA Editorial Board has approved the outline for this article.

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 recognize 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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## IT INITIATIVE

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 Deputy Director and Audit Supervisor are both Certified Information System Auditors (CISA) and the Senior and Lead have both passed the CISA examination and are fulfilling their experience requirements. All have private sector experience from a wide range of industries.

# CISA

CERTIFIED INFORMATION SYSTEMS AUDITOR

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 workpapers. 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.

As we move forward in 2009, the focus of the IT Audit group will be to assess and report on the effectiveness of the IT control environment for the City and County of Denver. To that end, we will be conducting a citywide IT risk assessment as the basis for a detailed risk-based IT audit plan.

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 (CIA) 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.

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## STAFFING RESOURCES

### AUDIT SERVICES STAFF

At the end of 2008, the Audit Services Division was comprised of 34 employees (2008 budgeted FTEs). 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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### STAFFING RESOURCES-CONTINUED

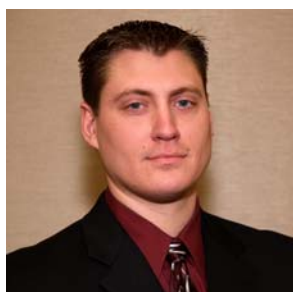
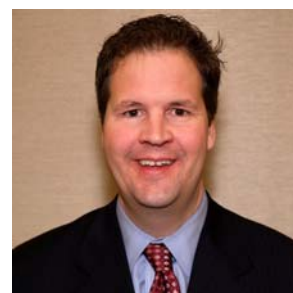


**Brandon Blomquist, MBA,  
Staff Internal Auditor**

Mr. Blomquist has over three years of compliance and financial auditing experience in the private sector. Additionally, he has several years of experience as a small business owner and operations management. He holds a Bachelors' degrees in Criminal Justice Management, a Masters' degree in Business Administration, and is expected to complete a Masters' of Science degree in Finance in 2009.

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

Mr. Carlson brings over 15 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 whistleblower 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 four years of operational, compliance and performance auditing experience at the state and local government levels. He holds a Bachelor of Science degree in Accounting from Southwest Minnesota State University. Mr. Claeys is a member of the Institute of Internal Auditors (IIA), Institute for Internal Controls (IIC), Association of Certified Fraud Examiners (ACFE), and Association of Local Government Auditors (ALGA).

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

Ms. Corral has over six 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 Association and Colorado Chapter of Certified Fraud Examiners (ACFE).



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### STAFFING RESOURCES-CONTINUED

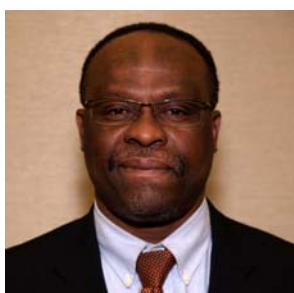


**Stephen E. Coury, CISA,  
Information Technology Audit Supervisor**

Mr. Coury is a Certified Information Systems Auditor (CISA) with over 25 years experience in information technology, including over 15 years in IT audit. He has worked in local government, consumer banking, investment banking, insurance, and telecommunications. In addition to his passion for IT auditing, he has significant experience in risk management, information security, data analysis, and software configuration management. Steve has been instrumental in deploying new technologies within Audit Services, including electronic workpapers and data analysis tools. 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).

**Kristin Donald,  
Senior 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 five years of experience, of which, four were auditing state and local governments.



**Paul Emordi, MS,  
Senior Internal Auditor**

Paul Emordi has over 15 years of financial and compliance audit experience in the private sector; two years of budgeting, fund accounting, and program auditing experience at the federal government level. He graduated with a Masters degree in Applied Financial Management from The American University in Washington DC. Paul has also earned the Planning, Programming, Budgeting, and Execution System (PPBES) Certification from the US Army School of Finance.

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

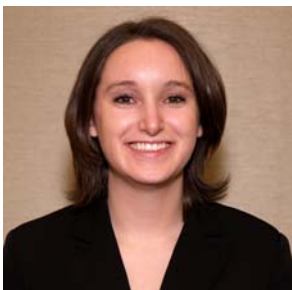
Mr. Finamore is a Certified Public Accountant with a Bachelor's degree in Accounting and General Business from the University of Northern Colorado. John has 21 years of auditing experience all with the Denver Auditor's Office and has performed 6 peer reviews for the Association of Local Government Auditors. He is a member of the American Institute of Certified Public Accountants (AICPA), Colorado Society of Certified Public Accountants (CSCPA), and the Institute of Internal Auditors (IIA).



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### STAFFING RESOURCES-CONTINUED

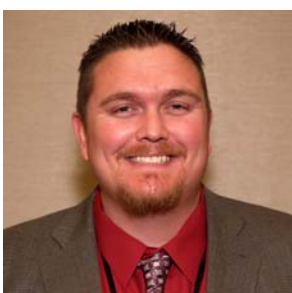


**Emily Gibson, MS,  
Staff Internal Auditor**

Ms. Gibson graduated from the University of Colorado at Boulder, obtaining her B.A. 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 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 Control Auditor (CICA) and is a member of the American Society of Women Accountants (ASWA), the Association of Local Government Auditors (ALGA), the Institute for Internal Controls (IIC), and the Association of Government Accountants (ALGA).

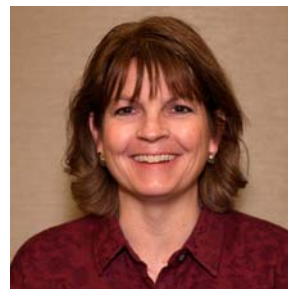


**Travis Henline,  
Senior Internal Auditor**

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 four years of experience in operational, compliance and performance auditing. Mr. Henline is a member of the Institute of Internal Auditors (IIA).

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

Nancy has 10 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 Audit Supervisor within the Audit Services Division.



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**STAFFING RESOURCES-CONTINUED**

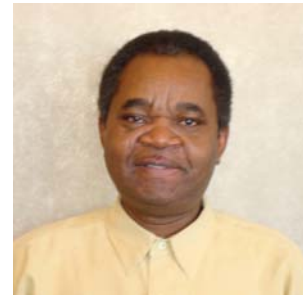


**Dawn Hume,  
*Lead Internal Auditor***

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. Dawn is a member of the Institute of Internal Auditors (IIA) and is currently pursuing the designation of Certified Internal Auditor (CIA).

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

Dr. Kelani has over 15 years of professional management, 12 years of local government internal auditing, and accounting experiences. He worked with a Petroleum Company in Denver as Retail Manager and owned his company in auto sales and services. Dr. Kelani holds a B.S. in Accounting and Marketing (Univ. of Colorado), Master Degrees in Business Administration 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 Boards. Dr. Kelani has received several outstanding public service awards and is affiliated with many professional organizations.



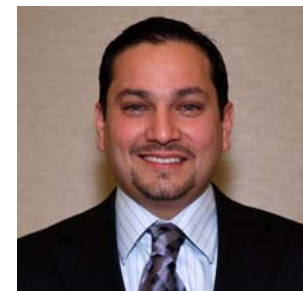
**Ken Kemple, CISA, CICA,  
*Deputy Director of Audit Services***

Mr. Kemple has over 30 years of leadership experience in Internal Audit and Information Technologies. He has 8 years of experience as Director of Internal Audit in the telecommunications industry, and over 20 years of experience in a variety of IT leadership roles. Ken holds a Bachelor of Science degree in Business Administration & Management from Regis University. In addition to his professional and academic experience, Ken is a Certified Information Systems Auditor (CISA) and a Certified Internal Control Auditor (CICA). He is also a member of professional audit organizations including the Information Systems and Control Association (ISACA), the Institute of Internal Auditors (IIA), and the Institute for Internal Controls (IIC).



**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. He has two years of professional auditing experience with the City and County of Denver.



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**STAFFING RESOURCES-CONTINUED**

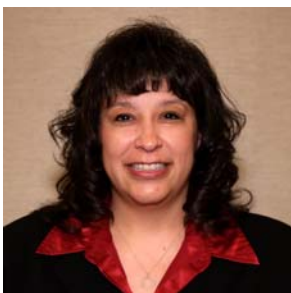


**Freddie Martin, CICA,  
Staff Internal Auditor**

Mr. Martin graduated from the University of Alabama at Birmingham with a Bachelor of Science degree in Accounting. He has seven years of professional internal auditing experience. Mr. Martin joined the City and County of Denver's 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 of 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 14 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.



**Sonia Montano, CGAP, CICA,  
Internal Audit Supervisor**

Ms. Montano is a Certified Government Auditing Professional and a Certified Internal Controls Auditor. She holds a Bachelor's degree in Accounting from Adams State College, Alamosa, Colorado. She has over 10 years of professional experience in the government sector. Ms. Montano is a member of the Association of Local Government Auditors (ALGA), Institute of Internal Auditors (IIA), and Institute for Internal Controls (IIC).

**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. She has two years of experience in Internal Audit in local government.



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## STAFFING RESOURCES-CONTINUED

**Robert M. Pierce,  
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 anticipates completing a Masters of Science in Computer Information Systems from Colorado State University in 2009, and also anticipates receiving 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).



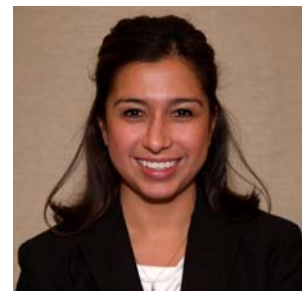
**Aaron Pratt, MBA,  
Senior Information Technology Auditor**

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 commercial retail property management industry. Aaron holds a Bachelor of Science degree in Information Systems from the University of Indianapolis. He also holds a Masters Business Administration in Information Management and Organizational Management from the University of Indianapolis. Aaron is a member of the Denver Chapter of the Information Systems Audit and Control Association (ISACA) and the Institute of Internal Auditors (IIA).



**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. She currently has two and a half years 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).



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**STAFFING RESOURCES-CONTINUED**

**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 for Internal Controls (IIC), The Institute of Internal Auditors (IIA), and the Association of Airport Internal Auditors (AAIA). Mr. Sanford is a veteran of the United States Marine Corps.



**Manijeh Taherynia, MS, CPA, CICA, CFE,  
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 six 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 ten years of professional experience as an internal auditor. Ms. Thompson is a member of the Institute of Internal Auditors (IIA).



**Edyie Thompson,  
Executive Assistant I**

Ms. Thompson joined the City and County of Denver Auditor's Office in June 2008. With 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.

**Mike Widner, CICA,  
Internal Audit Supervisor**

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 (ACFE), the Institute for Internal Controls (IIC), and the Association of Local Government Auditors (ALGA), where he serves on the Peer Review Committee.



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**STAFFING RESOURCES-CONTINUED**



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

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

Seven staff members hold Masters' degrees; two hold Doctorate degrees.

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## STAFFING RESOURCES-CONTINUED



### PROFESSIONAL DEVELOPMENT

The Division ensures professional staff meets continuing professional education (CPE) requirements in accordance with Government Auditing Standards. These standards require staff to complete 80 hours of continuing professional education every 2 years; of these 80 hours, each auditor completes at least 24 in CPEs that directly relate to government auditing, governmental environment, or the specific or unique environment in which the audited entity operates.

In 2008, 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 Local Government Auditors (ALGA)**
- ◆ **Colorado Bar Association**
- ◆ **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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**BUDGET**



**BUDGET VS ACTUAL**

The Auditor's Office has two budget sources, the City's General Fund and the Airport System Enterprise Fund. As part of our focus on leading by example and demonstrating fiscal responsibility and leadership, especially as the nation and City experience substantive fiscal pressures, the Division, utilizing a focused and stringent fiscal management strategy, was able to return approximately 16% of our approved operating budget to the City's General Fund. The following represents the 2008 Audit Services Division budget vs. actual:

|   | <u><b>BUDGET</b></u>      | <u><b>ACTUAL</b></u>      |
|---|---------------------------|---------------------------|
|   | <u><b>AMOUNT</b></u>      | <u><b>AMOUNT</b></u>      |
| <b>General Fund Operations</b>            | <b>\$2,039,796</b>        | <b>\$1,711,198</b>        |
| <b>Airport Enterprise Fund Operations</b> | <b><u>689,880</u></b>     | <b><u>594,239</u></b>     |
| <b>Totals</b>                             | <b><u>\$2,729,676</u></b> | <b><u>\$2,305,437</u></b> |

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## DESCRIPTION OF ANNUAL AUDIT PLAN

The Division is utilizing a dynamic and flexible audit plan designed to 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 2009 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 2009 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 executed by our office.

The 2009 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 2009 plan include Citywide Procurement, Record Management and Employee Recruitment Practices, Information Technology Security, and Child and Adult Welfare Services. The Auditor Office's 2009 Audit Plan is available on our website ([www.denvergov.org/auditor](http://www.denvergov.org/auditor)).

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## DESCRIPTION OF 2008 AUDITS

This section provides synopses of various audit projects and non-audit services performed by the Division during 2008. Government Auditing Standards (GAGAS) 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 GAGAS standards, “performance audit objectives may vary widely and include assessments of program effectiveness, economy and efficiency, internal control, compliance and prospective analysis.” Historically, the Auditor’s Office has conducted numerous performance audits focused on internal control and compliance objectives. However, performance audits with program effectiveness and economy and efficiency objectives are a new type of audit being executed by our office. Per GAGAS 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;

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## DESCRIPTION OF 2008 AUDITS

- Determining whether government resources (inputs) are obtained at reasonable costs while meeting timeliness and quality considerations;
- Determining whether appropriate value was obtained based on the cost or amount paid or based on the amount of revenue received;
- Determining whether government services and benefits are accessible to those individuals who have a right to access those services and benefits;
- Determining whether fees assessed cover costs;
- Determining whether and how the program's unit costs can be decreased or its productivity increased; and
- Assessing the reliability, validity, or relevance of budget proposals or budget requests to assist legislatures in the budget process.

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 2008.

### ◆ PROGRAM EFFECTIVENESS & ECONOMY AND EFFICIENCY PERFORMANCE AUDITS ◆

#### The Emergency Medical Response System



##### December 2008

Four separate entities comprise Denver's emergency medical response system: the 9-1-1 Call Center, the Fire Department, the Denver Health and Hospital Authority, and the Department of Environmental Health. Basic Life Support services are generally provided by the Fire Department. Advanced Life Support ambulance services are provided by

Denver Health and governed by an Operating Agreement between the City and Denver Health.

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## DESCRIPTION OF 2008 AUDITS

### Significant Issues

Audit work identified three areas of deficiency. These result in negative impacts, such as emergency medical response times that are longer than industry standards and that have been increasing over the past four years.

### Public Health Inspection Division ~ Food Safety Program



#### September 2008

Denver's Public Health Inspection Division enforces compliance with regulations to reduce food borne disease in retail food establishments. The Division provides inspections, re-inspections, complaint investigations, technical assistance and education, and enforcement actions.

### Significant Issues

- Inspections were not consistently completed in accordance with establishments' assigned risk level and were not always timely;
- Newly licensed food establishments were not consistently entered into the Division's database resulting in no inspections; and
- Several factors hindered the Division's ability to meet inspection requirements, including manual, paper-based processes, Divisional policies, and staffing levels that were below FDA recommendations and benchmarking jurisdictions.

### Denver Police Department ~ Time Accounting Systems and Practices



#### April 2008

Denver Police officers' work and leave time is separated into categories such as regular duty, overtime, compensatory time, vacation and sick leave, and off-duty work (secondary employment).

### Significant Issues

- During the audit period, the Police Department accounted for officer time using a combination of five stand-alone systems that were not integrated, contained redundant data and were not routinely reconciled;
- Possible non-compliance with the Collective Bargaining Agreement and Department policies was identified;
- The Department could enhance the administration of secondary employment; and
- Concerns exist regarding some of the Department's time accounting policies and practices.

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## DESCRIPTION OF 2008 AUDITS

### Department of Aviation Daily Revenue Reporting Program ~ Datascape August 2008



Datascape is the daily revenue reporting program at DIA that allows concessionaires to report their earned revenue on a daily basis, in which case, in lieu of submitting a required Annual Statement of Gross Revenues certified by an independent Certified Public Accountant, they may submit

such statement signed by an officer of the company. The Datascape program became optional effective June 1, 2001.

#### Significant Issues

- A lack of written policies and procedures
- Inadequate management oversight of the program
- Non-enforcement of program requirements

### Public Works ~ Cash Key Parking Program February 2008



The parking meter cash key is a prepaid method of paying for City parking meter fees. Customers insert the prepaid Cash Key into the parking meter to pay for parking time instead of using coins.

#### Significant Issues

- We identified weaknesses in internal controls related to management oversight of cash handling functions, proper segregation of duties, and timely accounting entries
- Public Works did not have established policies and procedures which outline documentation, reconciliation, and authorization requirements for preparing refund vouchers
- Public Works did not have written contracts with all vendors to govern the responsibilities for receiving Cash Key revenues on behalf of the City.

### ◆ COMPLIANCE PERFORMANCE AUDITS ◆

Per GAGAS, 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.

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## DESCRIPTION OF 2008 AUDITS

### Airport Concessions, Inc.



#### October 2008

Airport Concessions, Inc. (ACI) has agreements and leases for retail, office and storage space at DIA. The agreements require ACI to pay the City a percentage of their annual gross revenues and rent. We reviewed revenue and contract compliance for ACI and the Department of Aviation for the year ended December 31, 2007.

#### Significant Issues

- ACI did not pay rent for the office space, and the Department did not request the rental fees for this space from August 2007 to November 2007
- The Department did not request ACI to submit annual statements certified by an independent CPA.

### Airport Management Services, LLC



#### October 2008

Airport Management Services (AMS) has agreements and leases for retail, office and storage space at DIA. The agreements require AMS to pay the City a percentage of their annual gross revenues and rent. We reviewed revenue and contract compliance for AMS and the Department of Aviation for the year ended December 31, 2007.

#### Significant Issues

- AMS operated at DIA with an expired contract for several years
- Information in the Department's contract management system was inaccurate.

### AutoGrill Group, Inc., d/b/a CBR Incorporated



#### August 2008

Autogrill Group, Inc. d/b/a CBR Incorporated (CBR) has a nonexclusive right to occupy and use concession space to sell women's clothing and accessories, clothing for infants and toddlers, western and American Indian designed merchandise on Concourses A and B to the airport population. Effective November 29, 2007, CBR assigned all rights, title and interest in all their agreements to AutoGrill Group, Inc. There are three retail agreements and two storage leases that allow CBR to operate at Denver International Airport (DIA).

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## DESCRIPTION OF 2008 AUDITS

### Significant Issues

- Balance due City of \$5,713 for an electric meter installed but never activated and interest on late rental payments
- Failure to record gross sales amounts and allowable deductions on revenue concession reports.

### CA Concessions of Colorado



#### July 2008

CA Concession of Colorado (CA) has agreements and leases for retail, office and storage space at Denver International Airport (DIA). The agreements require CA to pay the City a percentage of their annual gross revenues and rent. We reviewed revenue and contract compliance for CA and the Department of Aviation for the year ended December 31, 2007.

### Significant Issue

- CA occupied space and operated at DIA without a written agreement for several years, because the Department did not have effective controls or written procedures for monitoring contracts and space at the airport.

### Frontier Airlines, Inc.



#### January 2008

Frontier Airlines, Inc. is a Denver based airline at DIA. Frontier is required to pay various space rents, landing fees, baggage fees, gate fees, ground facilities fees, passenger facility charges and various other fees and charges. We reviewed revenue and contract compliance for Frontier and the Department of Aviation for the year ended December 31, 2006.

There were no significant reportable conditions.

### The Hertz Corporation



#### July 2008

The Hertz Corporation (Hertz) operates a nonexclusive concession for the rental of motor vehicles to the public at the Denver International Airport (DIA). The agreements require Hertz to pay Concession Fees to the City in the amount equal to 10% of their annual gross revenues derived from its operations or a minimum annual guaranteed amount, whichever is greater. Hertz is also required to pay rent for office, ticket counter, land, and storage space. We

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## DESCRIPTION OF 2008 AUDITS

reviewed gross revenue amounts and contract compliance for Hertz and the Department of Aviation for the years ended December 31, 2005, 2006, and 2007.

### Significant Issue

- Hertz inappropriately deducted \$1,037,962 of revenue identified as “Commercial Discounts” from their gross revenues during the audit period. As a result, Hertz may owe the Department for underpaid concession fees and applicable interest charges.

### Trugoy, Inc. d/b/a TCBY Yogurt



#### February 2008

Trugoy, Inc. (TCBY) operates three locations at DIA. They are located in the Terminal, Concourse B and C. TCBY must pay the City as compensation the greater of (a) a sum equal to the percentage compensation rate of the monthly gross revenues, or (b) the minimum monthly guarantee. Any payment not made to the City when due, shall accrue interest

interest at 18% per annum commencing on the fifth calendar day after the due date until paid.

Based on our review of TCBY, there were no significant findings. All amounts reported were accurate and submitted timely.

### Vend One, Inc.



#### February 2008

Vend One, Inc. has a contract agreement with the City to provide beverage and snack vending products at certain City facilities.

### Significant Issues

- Vend One underreported snack revenue by \$2,096 during our audit period. As a result, they owe the City \$345 for the underreported revenue, plus interest charges. The City received 11 out of 12 quarterly payments of guaranteed annual fee later than the due date specified by the contract. As a result, the vendor owes the City interest penalties of \$2,515 on these late payments
- The City did not closely monitor Vend One’s performance to ensure full compliance with all contract provisions.

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## DESCRIPTION OF 2008 AUDITS

### AMPCO System Transportation Services



**June 2008**

AMPCO System Transportation Services (ASTS) and the City and County of Denver executed an Award under which ASTS provides shuttle bus service for employees working at Denver International Airport (DIA). The bus service transports employees between the concourses, the terminal area, and employee parking lots 24 hours a day, seven days a week.

#### Significant Issues

- DIA amended the monthly fee calculation without obtaining and documenting written authorization for the change to the Award pricing terms
- ASTS did not review bus driver records on a monthly basis as required by the Award.

### Thrifty Rent-A-Car System, Inc.



**October 2008**

Thrifty Rent-A-Car System, Inc. (TRAC) operates a nonexclusive concession for the rental of motor vehicles to the public at the Denver International Airport (DIA). TRAC is required to report to the City all rentals of motor vehicles and all other authorized items or services from each customer of TRAC who has arrived who has arrived at the Airport within 24 hours prior to entering into a motor vehicle rental agreement. This reporting includes all TRAC facilities within a 20-mile driving distance of the Terminal Building (curbside) at the Airport.

#### Significant Issues

- Inaccurate Annual Revenue Statement
- Incomplete Annual Usage Fee Statement
- Lack of Proper Insurance Cancellation Notice
- Failure to Provide Annual Financial Statements

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## DESCRIPTION OF 2008 AUDITS

### ◆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.

#### Snow Operation Support Program ~ Time Accountability



October 2008

The Snow Operation Support Program (SOSP) employs Department of Aviation and City employees who have regular positions in finance, parking management, technology services, and other departments. Employees volunteer on a yearly basis to provide additional support to Denver

International Airport (DIA) maintenance and operations divisions during snow events throughout the snow season.

#### Significant Issue

- We determined that DIA did not have an effective internal control environment over the SOSP. Specific control weaknesses identified included inadequate management oversight of the program, incomplete time accounting records, and insufficient SOSP policies and procedures. The absence of effective controls enabled several SOSP participants to abuse the time reporting system, in direct violation of City rules, and receive improper payments.



#### Select Payroll Transactions

November 2008

This report focused on off cycle payroll checks in the Department of Parks and Recreation. An off cycle payroll check is a warrant or direct deposit advice not created during the City's normal pay cycle.

#### Significant Issue

- Parks and Recreation did not have an effective and efficient internal control environment over payroll administration. Specific control weaknesses identified included, but were not limited to, lack of policies and procedures, inadequate supervisory review, incorrect or incomplete source documentation, and the untimely performance of duties related to processing payroll updates and off cycle checks.

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## DESCRIPTION OF 2008 AUDITS

### Parks Division



#### July 2008

The Parks Division is responsible for the daily operations and management of the City's parks, parkways, trails, natural areas, and other land and water assets, as well as the Buffalo Bill Museum. Our scope included a review of agency internal controls and an assessment of compliance with rules and regulations as they apply to the financial information reported for fiscal year ending December 31, 2006.

### Significant Issues

- Cash receipts are not issued during off-site events at Four Mile Historic Park
- Fixed assets not always properly accounted for, identified, and safeguarded
- Forestry Division's accounts receivable process lacks proper segregation of duties
- Petty Cash funds are underutilized and one fund was commingled with personal funds.

### Observation of the 2008 General Elections (Non-Audit Service)



#### December 2008

As a component of our assurance services mission and goals, the Auditor's Office conducted an observation of the 2008 General Election. Specifically, a team of auditors observed eight of the 13 (62%) early voting locations and 57 of 185 (31%) precinct locations on Election Day. Additionally, the audit team performed follow-up work related to previous audit findings addressing City election processes and activities.

### Opportunities for Improvement

While opportunities for improvement were observed, overall audit observations for the November 2008 election were positive and supported the general public's opinion of a successfully planned and executed election by the Clerk and Recorder's Office.

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## AUDIT FOLLOW UP

The Auditor's Office Audit Services Division adheres to the Generally Accepted Government Auditing Standards (GAGAS). These professional standards provide a framework for performing high-quality audit work with competence, integrity, objectivity, and independence. When auditors perform their work in this manner and comply with GAGAS in reporting the results, their work can lead to improved government management, better decision making and oversight, effective and efficient operations, and accountability for resources and results.

Audit follow up procedures are essential in the audit process because they evaluate the efforts made by management to implement audit recommendations. In this manner, our Division holds the City to a high standard by reviewing actions taken by audited agencies and entities in regard to the recommendations presented in audit reports. The Audit Services Division strives for a high implementation rate for recommendations cited in audit reports. In order to execute this policy, the Division adheres to a focused recommendation follow-up process to determine whether appropriate and timely corrective actions are taken by management to implement all audit recommendations.

The audit follow-up process includes, but is not limited to:

- Determining whether findings have been remedied;
- If an audit recommendation remains open, a follow-up letter is sent to the auditee requesting written confirmation of all actions taken to resolve the finding and implement the recommendation;
- When responses to the follow-up letter are obtained:
  - Auditors review the auditee's responses and determine if and when physical confirmation is necessary;
  - If, after physical confirmation has been performed and resolution remains questionable, auditors determine whether additional testing procedures are necessary;
- If the auditee does not provide a response to the follow-up letter or no actions have been taken by the auditee, a letter of disclosure is prepared and sent to inform appropriate City officials and Audit Committee members.

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**AUDIT FOLLOW UP - CONTINUED**

Effective recommendations encourage improvements to the conduct of government programs and operations. City Management continues to be responsive to our audit recommendations, as they have either implemented recommendations or have planned corrective action within a reasonable amount of time. Audits commencing after January 1, 2008 and issued with recommendations are depicted below along with the corresponding number of recommendations. The Audit Services Division will continue to offer and monitor recommendations that will promote on-going improvements throughout the City.

| Report Issue Date<br>FY 2008     | Audit Report Title                      | Recommendations |                          |                                     |           |
|----------------------------------|---|-----------------|--------------------------|-------------------------------------|-----------|
|                                  |   | Total           | Implemented <sup>1</sup> | Target Audit Follow-up <sup>2</sup> | Past Due  |
| February                         | Cash Key Program Audit                  | 4               | 4                        | Completed                           | -         |
| February                         | Vend One, Inc.                          | 7               | 7                        | Completed                           | -         |
| April                            | DPD Time Accounting Systems             | 13              | -                        | March 2009                          | -         |
| June                             | AMPCO System Transportation Services    | 2               | 2                        | Completed                           | -         |
| July                             | Parks Division Audit                    | 12              | 11                       | May 2009                            | 1*        |
| July                             | CA Concessions of Colorado              | 5               | -                        | February 2009                       | -         |
| July                             | The Hertz Corporation                   | 2               | -                        | February 2009                       | -         |
| August                           | AutoGrill Group, Inc. D/B/A CBR Inc.    | 3               | -                        | February 2009                       | -         |
| August                           | Datascape - Concessions Management Div. | 3               | -                        | February 2009                       | -         |
| September                        | Public Health Inspection Division Audit | 6               | -                        | March 2009                          | -         |
| October                          | Snow Operation Support Program Audit    | 9               | -                        | April 2009                          | -         |
| October                          | Airport Concessions, Inc.               | 3               | -                        | April 2009                          | -         |
| October                          | Airport Management Services             | 3               | -                        | April 2009                          | -         |
| October                          | Thrifty Rent-A-Car System Inc.          | 4               | -                        | April 2009                          | -         |
| November                         | Select Payroll Transactions             | 8               | -                        | May 2009                            | -         |
| December                         | Emergency Medical Response System       | 5               | -                        | June 2009                           | -         |
| <b>2008 Subtotals</b>            |   | <b>89</b>       | <b>24</b>                |                                     | <b>1</b>  |
| <b>Percent of 2008 Subtotals</b> |   | <b>100%</b>     | <b>27%</b>               |                                     | <b>1%</b> |

\*The Department of Parks and Recreation announced a reorganization of their HR and Safety operation, which is responsible for monitoring the inventory of radios. It will take the Department of Parks and Recreation several months to analyze all of the functions and determine which functions will remain and which ones will be reassigned. Our follow-up will continue during the course of and upon completion of the reorganization to verify proper implementation.

<sup>1</sup> Includes recommendations implemented based on audit follow-up procedures.

<sup>2</sup> Indicates either audit follow-up procedures have been completed or the month scheduled to start follow-up.

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