



Association of Local Government Auditors

October 8, 2009

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Mr. Kip Memmott
Director of Audit Services
Office of the Auditor, City and County of Denver
201 West Colfax Avenue, Department 705
Denver, Colorado 80202

Dear Mr. Memmott:

We have completed a peer review of the Audit Services Division in the Office of the Auditor for the City and County of Denver, Colorado, for the period of May 1, 2006 through April 30, 2009. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the Audit Services Division, Office of the Auditor, City and County of Denver's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the period of May 1, 2006 through April 30, 2009.

We have prepared a separate letter offering suggestions to further strengthen your internal quality control system.


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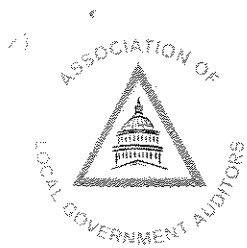
Sincerely,


Drummond Kahn
Director of Audit Services
Portland, OR


Paul Grant
Audit Compliance Manager
Milwaukee County, WI


Kyle Elser
Audit Manager
San Diego, CA

Association of Local Government Auditors



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Mr. Kip Memmott
Director of Audit Services
Office of the Auditor, City and County of Denver
201 West Colfax Avenue, Department 705
Denver, Colorado 80202

Dear Mr. Memmott:

We have completed a peer review of the Audit Services Division, Office of the City Auditor, City and County of Denver, for the period May 1, 2006 through April 30, 2009 and issued our report thereon dated October 8, 2009. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

We would like to mention some of the areas in which we believe your office excels:

- **Organizational Structure:** The new voter-approved structure of the Auditor's Office for the City and County of Denver has greatly improved independence. Prior peer reviews in 2003 and 2006 noted the need to improve the independence, charter, and structure of the office to best meet standards. These comprehensive changes, enacted by Denver voters, ensure independence of the audit function within City/County government.
- **Summary of Finding:** The office uses Summary of Findings that was broken down by the Yellow Book elements of a finding – Condition, Cause, Effect, Criteria and Recommendation. Significant findings identified during audits were cross referenced to the workpapers that provided support for the findings.
- **Planning Document:** The office uses a Planning Document that showed the steps taken to plan the audit. This document provided evidence that audits were properly planned.
- **Elaborate Time Budget:** The office uses an elaborate time budget that was broken down by the audit steps to be performed and the staff involved in the audit.
- **Report Distribution List:** The office uses a document that shows the report distribution list and copies of the emails used to send out the report were retained in the workpapers to show they were distributed to those in charge of governance.

- **Risk Assessment:** More recent audits had a comprehensive Risk Assessment to identify risks that should be covered by audits steps during the engagement.
- **Report Check List:** The office uses a detailed check list for audit reports to make sure there was adequate quality control for reports before they were distributed.
- **Standards Check List and Internal Review:** The office uses a checklist to show that Yellow Book standards have been met. The office regularly reviews engagements with a peer review-style checklist.
- **Matrix Team Approach:** The Matrix Team Approach assigns staff to different types of audit assignments that expose them to a wide variety of assignments, which helps to develop staff with well rounded audit skills. This approach also allows staff to work on multiple assignments at the same time, increasing efficiencies.

We offer the following observations and suggestions to enhance your organization's demonstrated adherence to *Government Auditing Standards*:

- **Reports Not Issued for Completed Audits:** During the period when there was a change in Audit Services Division management and operating procedures, we found three instances in our review period and another immediately after our review period where no audit reports were issued for completed audit projects. In each audit, work was completed but reports were not issued and the time invested was significant. These audits were:
 - United Airlines
 - Construction Change Order Process
 - Career Services Recruitment Process
 - In addition, the audit of Landed Aircraft Weight compliance was terminated after our review period ended, but work was complete.

We concluded that in these instances, the office was not in compliance with Yellow Book reporting standards. Standards require that "Auditors must issue audit reports communicating the results of each completed performance audit" (GAS, 8.03, 2007 p. 160). We explain later how the level and extent of this non-compliance did not impact our overall opinion of the office's system of quality control.

As an example of completed work not issued as an audit report, the audit of United Airlines was completed by the office, its objectives were met, and the work reached conclusions to satisfy the audit objectives. However, the office "decided not to issue a formal audit report", which we believe is inconsistent with standards, including GAS 8.03.

Beyond standard 8.03, standard 8.05 may also be a concern, since the purposes of audit reports are to "communicate the results of audits to those charged with governance. . . make the results less susceptible to misunderstanding. . . make the results available to the public . . . and facilitate follow-up to determine whether appropriate corrective actions have been taken".

We remain concerned that these purposes may not be fulfilled if completed audit work is not released as a public report. In its Construction Change Order Process audit, the office terminated work and did not issue a formal audit report, but had “worked on all phases of the audit, held exit conferences, and obtained responses to the four findings in the draft report.” Two agencies each agreed with the findings and outlined steps to implement the recommendations. In another terminated audit, the Career Services Recruitment Process audit, the office “worked on all phases of the audit, including developing findings and recommendations, held an exit conference, and obtained responses to the nine findings in the draft report.”

In this review period, we concluded that this practice was limited to a time of transition in the office, and based on discussions with management, we understand that management is considering a process to now issue the audit work in these areas. Were this issue of not releasing completed reports to continue, it would have an ongoing adverse effect on the organization’s adherence to standards, and could impact the opinions in future peer reviews.

For two of these audits, management informed us that “closure letters” were issued and posted on the office web site instead of completed reports. For the other two, management said it believed that so much time had passed since fieldwork that the data collected were no longer relevant.

- **Publishing Response Letter:** Standards 8.08 and 8.32 – 8.37 require that auditors incorporate the views of responsible officials in the published audit report. In one case, the audit of the Emergency Medical Response System, auditors obtained formal response letters from the Mayor and from the Chief Executive Officer of Denver Health, an independent health institution (which, until 1997, was part of the City of Denver as its General Hospital). The Denver Health response was not published with the final report. Auditors noted on the Denver Health response letter that “management and executive team decided that this response doesn’t comply with municipal code, so we did not attach it to the final report.” We are concerned that the response, which provided significant feedback to the audit, should have been included.

Further, our review of office policy – in addition to the Standards – suggests that responses should be included. Office policy continues to advise that if auditors disagree with a response, they reserve the ability to respond to the response – to provide additional clarification. Management provided us with a copy of a new office procedure to not solicit responses from “third-party” auditees – in this case, the office would have asked only the Mayor’s Office for a response, not Denver Health. Since this policy was not in place before Denver Health had submitted its written response, we believe the response should have been published.

- **Special Advisory Report:** Although the Special Advisory Report on the Review of City Clerk and Recorder Foreclosure Operations was issued outside of our review period, we reviewed the Special Advisory Report posted on the City Auditor website. This report had many of the elements of a Yellow Book audit including background, methodology and conclusions related to the City Clerk and Recorder foreclosure operations. We recommend the office consider doing these reports as a Yellow Book Audit. By not doing

these reports under Yellow Book Standards, the time spent on these assignments may take away valuable staff resources to conduct actual audits.

- **Investigations:** We reviewed the Animal Control Investigation that was a non-audit service. The report was well written and it identified a large sum of money that was collected and never deposited with the Department. The report identified control weaknesses that allowed this to occur and made recommendation to correct the weaknesses found. Since the investigation was considered a non-audit service, Yellow Book standards were not followed, and the report did not identify what standards were used to conduct the investigation. Consider creating a policy and procedures manual that will be used for future investigations. The standards established by the Association of Certified Fraud Examiners could be used as your standards to conduct the investigations. Investigative reports that have recommendations for corrective actions should include comments from those responsible to make the corrective actions, and you should set up procedures to follow –up on recommendation to ensure they have been implemented.
- **Reporting Structure:** Standard 3.14 speaks to the organizational independence of the audit function. The City and County of Denver’s auditing function rests in the Audit Services Division, which is a Division in the Office of the Auditor. The Auditor is elected and directly accountable to the voters, ensuring overall independence, but the Director of Audit Services currently reports to the Deputy Auditor, whose role is not formally part of the auditing function. This peer review focused on the Audit Services Division. If the Director of the Audit Services Division is the “head of the audit organization”, the organization should consider a more direct reporting relationship between the position responsible for audit services and the elected official overseeing the audit function. We identified no concerns or issues with the current reporting relationship, but this standards concern, coupled with term limits for the elected official, may make it appropriate for the organization to ensure that future individuals in the roles of Auditor and Director of Audit Services have a more direct reporting relationship.

We extend our thanks to you, your staff and the other city and county officials we met for the hospitality and cooperation extended to us during our review.

Sincerely,



Drummond Kahn
Director of Audit Services
Portland, OR



Paul Grant
Audit Compliance Manager
Milwaukee County, WI



Kyle Elser
Audit Manager
San Diego, CA



City and County of Denver

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Dennis Gallagher
Auditor

October 12, 2009

Drummond Kahn
Director Audit Services
Portland, OR

Paul Grant
Audit Compliance Manager
Milwaukee County, WI

Kyle Elser
Audit Manager
San Diego, CA

Dear Mr. Kahn, Mr. Grant, and Mr. Elser:

I have received your peer review report dated October 8, 2009, notifying this office that the Audit Services Division was in full compliance with *Government Auditing Standards* for the performance of audits and non-audit service activities during the period of May 1, 2006 through April 30, 2009. I have also received and appreciate your companion management letter of the same date identifying areas where the Audit Services Division excels and suggestions for enhancing some of our internal policies and processes.

I am pleased the review concluded that our Division fully complies with *Government Auditing Standards*. This determination of full compliance is the highest possible level of compliance to *Government Auditing Standards* under the Association of Local Government Auditors' (ALGA) peer review program. The Denver Auditor's Office has devoted a great deal of effort to develop, implement and continuously improve our internal quality control system to help us achieve this goal. Your finding of full compliance is especially significant owing to the substantive transition the Division underwent during the peer review period. While all audit organizations undergo continuous change, the rate and breadth of change experienced by the Division during the peer review period has been extraordinary.

During the peer review period, the Division has fundamentally altered our mission, authority and audit strategy, redesigned and automated key internal procedures, processes, and products and experienced major changes related to our organizational structure and personnel. During the peer review period, the Auditor's Office hired a new management team as well as over half of our current staff members. I appreciate that your management letter not only acknowledges this substantive transition and places your suggestions for improvements within this context but also identifies several best practices implemented by the Division during the review period. I also appreciate the verbal feedback you provided especially related to your comments about the excellent morale and professionalism displayed by Division personnel.

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.

Mr. Drummond Kahn,
Mr. Paul Grant and Mr. Kyle Elser
October 12, 2009
Page Two

I very much appreciate the observations and suggestions identified in your management letter accompanying the compliance letter. The areas you cited where the Division excels involve core audit tenets and processes that are critical for not only an effective system of internal control necessary required for full compliance with *Government Auditing Standards* but for ensuring that work activities performed by the Division add significant value to City operations. Your letter identifies best practices used by the Division, most of which were implemented during the latter part of the peer review period. These areas include: the significant level of the structural and legal independence of the Auditor's Office, audit planning techniques, which include the use of formal risk assessment tools and sophisticated project planning and budgeting processes, high quality and expansive reporting practices and progressive management and supervisory techniques. I also appreciate your verbal feedback related to our utilization of a cutting edge automated audit project management system including electronic working papers.

I also value your comments related to areas for possible enhancements to our policies and processes. In some instances, as your letter acknowledges, action has already been taken to address the issue identified. In the other areas discussed, the Division will closely review our current practices and consider your suggestions for enhancing such practices.

Thank you for your professional conduct and feedback and for taking time away from your families and work to accomplish this review. Your commitment to the audit profession and the significant level of your expertise and experience are obvious and we thank you for providing this value-added service to the City and County of Denver. We also extend our sincere appreciation to the Association of Local Government Auditors, especially the Governing Board and the Peer Review Committee for their sponsorship and facilitation of this peer review.

Sincerely,

A handwritten signature in black ink, appearing to read "K. Memmott". The signature is fluid and cursive, with a large initial "K" and a long, sweeping tail.

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

cc: ALGA Governing Board
ALGA Peer Review Committee Members
City & County of Denver Auditor's Office, Executive Staff