

# Audit Services Division



## Audit Follow-Up Status Report

1<sup>st</sup> Quarter Report

April 21, 2011



Dennis J. Gallagher  
Denver City Auditor

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

The **Audit Committee** is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities of the integrity of the City's finances and operations, including the integrity of the City's financial statements. The Audit Committee is structured in a manner that ensures the independent oversight of City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.

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Maurice Goodgaine  
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Robert Bishop  
Robert Haddock  
Bonney Lopez

## Audit Follow-Up Team & Supervisors

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Audrey Donovan, CIA, Deputy Director  
Chris Wedor, MBA, Internal Audit Supervisor  
Travis Henline, Senior Internal Auditor  
Kevin Vehar, Senior Internal Auditor  
Rebecca Corral, CFE, Senior Internal Auditor  
Dawn Hume, Internal Audit Supervisor  
Stephen Coury, CISA, IT Audit Supervisor  
Chris Horton, MA, Internal Audit Supervisor  
Sonia Montano, CICA, CGAP, Internal Audit Supervisor

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### **Office of the Auditor**

201 W. Colfax Avenue, Dept. 705 ♦ Denver CO, 80202  
(720) 913-5000 ♦ Fax (720) 913-5026

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# City and County of Denver

201 West Colfax Avenue, Department 705 • Denver, Colorado 80202 • 720-913-5000  
FAX 720-913-5247 • [www.denvergov.org/auditor](http://www.denvergov.org/auditor)

*Dennis J. Gallagher*

Auditor

## AUDIT FOLLOW-UP STATUS REPORT

This 2011 Audit Follow-Up Report summarizes the status of audit recommendations for audit reports released between January 1, 2009 and December 31, 2010. The purpose of the Audit Follow-Up Status Report is to update the Audit Committee, City management, and Denver citizens as to the implementation status of audit recommendations issued by the Denver Auditor's Office.

The following summarizes the current follow-up status for audit recommendations:

- Of the 42 audits issued in 2009 and 2010; the Auditor's Office has completed follow-up activity for eight audits, is in the process of completing following up work on 13 additional audits, and has scheduled follow-up activity for the remaining 21 audits; and
- Of the 106 recommendations contained in audit reports issued in 2009; 26 recommendations have been verified as implemented, 25 are in the process of being implemented, 45 are scheduled for follow-up verification work, and audited entities disagreed with ten recommendations.

Audit follow-up procedures are an essential component of the audit process as they evaluate the efforts made by management to address audit findings, mitigate identified risks to the City and to implement audit recommendations. As such, the Auditor's Office strives for a high implementation rate for recommendations cited in audit reports. In order to achieve this goal, the Division adheres to a robust and focused recommendation follow-up process to determine whether appropriate and timely corrective actions have been taken by City management to implement audit recommendations and mitigate identified risks to City operations.

We extend our appreciation to the City personnel who assisted and cooperated with us during the follow-up process.

Audit Services Division

A handwritten signature in black ink, appearing to read "K. Memmott".

Kip 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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# BACKGROUND

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Follow-Up work performed by the Auditor's Office is authorized pursuant to the City and County of Denver Charter, Article V, Part 2, Section 1, General Powers and Duties of Auditor, and is conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS). In addition to the inclusion of the requirement to adhere to these standards, the City Charter and supporting City ordinance provisions include other mechanisms intended to strengthen the role and impact of the City's internal audit function. For example, Denver Revised Municipal Code (Sec. 20-276) requires that the 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.

As noted, per the City Charter, the Auditor Office's Audit Services Division adheres to GAGAS promulgated by the Comptroller General of the United States. 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 results, their work can lead to improved government management, better decision making and oversight, more effective and efficient operations, and enhanced accountability for resources and results.

While the Division has had an audit follow-up process in place and has tracked the status of various audit findings and recommendations, the 2011 annual audit plan includes increased hours for audit follow-up, trend analysis and reporting activities. One key measure of the general effectiveness of an audit function, and in the case of the City of Denver, a key indicator of the impact of the 2008 change to the City Charter related to the mission and role of the Auditor's Office, is the organization's audit recommendation implementation rate. In a nutshell, this rate is one of the clearest indicators as to whether an organization is utilizing information provided by internal audit reports to mitigate or reduce identified risks and to enhance performance and the economy and efficiency of operations.

As a result, the Division has designed and implemented an enhanced follow-up program that includes significant hours for more in-depth audit work to verify that corrective actions have been taken to address prior audit findings. The program includes regular and formal reporting to the City's elected officials, audit committee members, and operational management on the implementation status of various audit findings and recommendations. This program also includes a trend analysis within and across City departments and programs in terms of management responsiveness and "tone at the top" related to audit findings and recommendations. The more robust audit follow-up program will also assist the Division with its on-going goal of implementing continuous improvement activities, in this case in terms of the quality and feasibility of audit recommendations.

# Overview of Auditor's Office Follow-Up Process

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During the Follow-Up Process,<sup>1</sup> Audit Supervisors are primarily responsible for monitoring, verifying and reporting on the status of recommendations in audit reports for which they were assigned. Specifically, Audit Supervisors are required to prepare and send an Audit Follow-Up Announcement Letter<sup>2</sup> and Recommendation Status Tracker<sup>3</sup> to the auditee, generally within 6-12 months of the final report, and requesting written confirmation within five business days of all actions taken to resolve the findings and recommendations included in the initial audit report.

When the Audit Supervisor receives responses to the Audit Follow-Up Announcement Letter and Recommendation Status Tracker, the Audit Supervisor and assigned team members verify the implementation status of the recommendation(s) and performs any necessary follow-up testing procedures.

The Audit Supervisor concludes on each recommendation disposition and generates either a Completion Letter<sup>4</sup> or Disposition Letter<sup>5</sup> and related Disposition Matrix.<sup>6</sup>

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

- Notifying agency management that follow-up activity is commencing;
- Requesting agency management to provide updates on the status of recommendations identified in the audit report;
- Analyzing information provided by the responsible individual to determine the implementation status of recommendations;
- Conducting appropriate audit work to verify the implementation of audit recommendations;
- Conducting appropriate audit work to ensure that identified risks have been adequately addressed for areas where the audited entity disagreed with an audit recommendation;
- Informing agency management, where applicable, when additional steps are needed to implement identified recommendations;
- Notifying agency management when follow-up activities are complete; and
- Reporting the status of recommendation and other follow-up activities to the Audit Committee on a quarterly basis.

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<sup>1</sup> See Exhibit A for the Follow-Up Process Overview

<sup>2</sup> See Exhibit B for the Follow-Up Announcement Letter

<sup>3</sup> See Exhibit C for the Recommendation Status Tracker

<sup>4</sup> See Exhibit D for the Completion Letter

<sup>5</sup> See Exhibit E for the Disposition Letter

<sup>6</sup> See Exhibit F for the Disposition Matrix

# Summary of Audits & Recommendations

The Auditor Office's enhanced recommendation follow-up plan is based on a phased approach to ensure an optimal balance between the amount of work needed to complete follow-up work in a timely manner and the amount of resources required to execute our annual audit plan.

Based on this phased approach, follow-up work being conducted in the first and second quarters of 2011 will focus on audit recommendations identified in audit reports issued in 2009 and follow-up work performed in the third and fourth quarters of 2011 will address audit recommendations identified in reports issued in 2010.

The follow-up work performed in the first quarter included 10 audits with a total of 55 recommendations. The status of the audits and recommendations as of the date of this status report is noted in the table below:

## Quarter 1

**2009 Audit Recommendation Implementation Summary**

2009 Audit Name		# of Recommendations	# Implemented	# In Progress	# Scheduled	# Disagreed
Quarter 1	Keefe Commissary	4	3	0	0	1
	Office Of Economic Development	11	11	0	0	0
	DIA - Procurement Card	9	8	0	0	1
	Denver County Court Civil Judgment Process	1	1	0	0	0
	DPAC Central Parking	3	3	0	0	0
	Procurement Card - City Agencies	6	0	6	0	0
	Seedco Financial Services	7	0	7	0	0
	DIA - Air Cargo Fees	3	0	2	0	1
	DIA - Maintenance Division	5	0	5	0	0
	Citywide Contract Procurement Process	6	0	5	0	1
<b>Total:</b>	<b>55</b>	<b>26</b>	<b>25</b>	<b>0</b>	<b>4</b>	
	<b>100%</b>	<b>47%</b>	<b>45%</b>	<b>0%</b>	<b>8%</b>	

## Quarter 2

Audit follow-up work scheduled to be performed during the second quarter of 2011 will address remaining 2009 audit recommendations, which consist of 6 audits and a total of 51 recommendations.

**2009 Audit Recommendation Implementation Summary**

2009 Audit Name		# of Recommendations	# Implemented	# In Progress	# Scheduled	# Disagreed
Quarter 2	CSA Recruiting Process	10	0	0	6	4
	DIA Finance and Administration	4	0	0	4	0
	DIA - Revenue Management and Business Development Division	3	0	0	2	1
	PeopleSoft IT General Controls	8	0	0	8	0
	Citywide Records Management	14	0	0	14	0
	DSD Inmate Trust Fund	12	0	0	11	1
	<b>Total:</b>	<b>51</b>	<b>0</b>	<b>0</b>	<b>45</b>	<b>6</b>
	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>88%</b>	<b>12%</b>	

### Quarter 3

Audit follow-up work scheduled to be performed during the third quarter of 2011 will address 11 audits with a total of 63 recommendations.

**2010 Audit Recommendation Implementation Summary**

2010 Audit Name		# of Recommendations	# Implemented	# In Progress	# Scheduled	# Disagreed
Quarter 3	DIA - Travel and Expense	2	2	0	0	0
	Revenue Contracts	0	0	0	0	0
	Arrest Identification Processing	3	3	0	0	0
	Better Denver Bond Program Administration	4	0	4	0	0
	Centralized Payroll Operations	11	0	11	0	0
	DIA - Safety Culture	13	0	13	0	0
	Citywide Cash Handling Procedures	4	0	4	0	0
	Facilities Planning and Management	13	0	13	0	0
	Fixed Asset Management	5	0	5	0	0
	Parks and Recreation Safety Contract Administration	2	0	2	0	0
	Wastewater Enterprise Fund	6	0	4	0	2
<b>Total:</b>	<b>63</b>	<b>5</b>	<b>56</b>	<b>0</b>	<b>2</b>	
	<b>100%</b>	<b>8%</b>	<b>89%</b>	<b>0%</b>	<b>3%</b>	

### Quarter 4

Audit follow-up work scheduled to be performed during the fourth quarter of 2011 will address 15 audits with a total of 116 recommendations.

**2010 Audit Recommendation Implementation Summary**

2010 Audit Name		# of Recommendations	# Implemented	# In Progress	# Scheduled	# Disagreed
Quarter 4	CSA Board	2	0	0	1	1
	DIA - Airport Improvement Program	16	0	0	16	0
	Denver Employees Retirement Plan	7	0	0	6	1
	Denver County Court Traffic Division	5	0	0	5	0
	Department of Excise and License	14	0	0	14	0
	Golf Course Enterprise Fund	2	0	0	2	0
	Treasury Division Occupational Privilege Tax	1	0	0	1	0
	Treasury Division Financial Management	2	0	0	2	0
	City Attorney Information Security Management	10	0	0	10	0
	Citywide Grant Administration	11	0	0	11	0
	Theatre's and Arenas Management and Operations	13	0	0	12	1
	DIA - Information Security Management	6	0	0	6	0
	Citywide Ethics Program	16	0	0	16	0
	911 Data Center Operations	4	0	0	4	0
	Aramark at Red Rocks	7	0	0	7	0
	<b>Total:</b>	<b>116</b>	<b>0</b>	<b>0</b>	<b>113</b>	<b>3</b>
	<b>100%</b>	<b>0%</b>	<b>0%</b>	<b>97%</b>	<b>3%</b>	

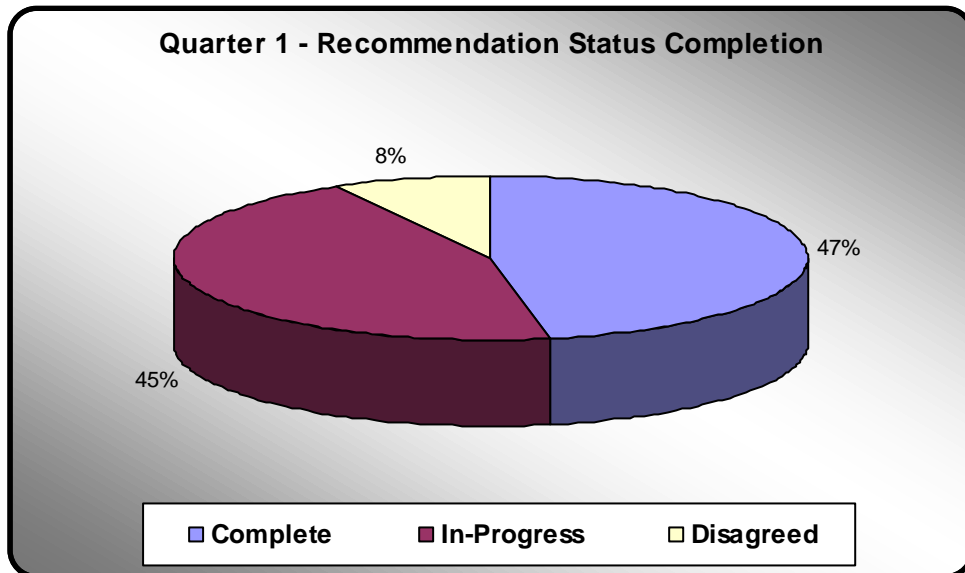
# Summary of Audit Recommendation Implementation Status

The following summaries detail the recommendation status for each audit the Office performed follow-up activities during the first quarter of 2011.

The accompanying summaries contain the audit name, scope, objective, and recommendations from the report and recommendation implementation status. The summaries also include language from audit entities for the few instances where they disagreed with an audit recommendation.

The Office conducted follow-up activities for the following audits during the first quarter:

- Keefe Commissary
- Office of Economic Development
- DIA – Procurement Card
- Denver County Court Civil Judgment Process
- DPAC Central Parking
- Procurement Card – City Agencies
- Seedco Financial Services
- DIA - Air Cargo Fees
- DIA – Maintenance Division
- Citywide Contract Procurement Process



## Keefe Commissary

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

**Objective:** The objective of our audit was to determine whether Keefe was in compliance with the terms of the contract, commissary sales were properly reported, and sales commissions were accurately calculated and paid. We also assessed DSD's performance in monitoring the contract and their compliance with City rules and regulations.

**Implemented - I      Not Implemented - NI      Disagreed - D      In-Progress - IP**

Rec. #	Recommendation	Status
1	We recommend DSD assess and collect \$5,940 in sales commissions due from Keefe in accordance with the contract. We recommend DSD fully comply with City contracting rules that prohibit entering into verbal agreements with third parties. Since the contract expires December 31, 2008, the parties will have the opportunity to renegotiate the contract terms, incorporate any desirable changes, and pursue these changes through a proper contract amendment as required by Executive Order No. 8.	D*
2	We recommend DSD work with Keefe to immediately correct the tax rate programmed in the system. Specifically, we recommend DSD monitor combined tax rate changes and ensure tax tables are programmed correctly in Keefe's system. Additionally, we recommend DSD require Keefe to submit the financial reports outlined in the contract to mitigate the risk of improper recording and reporting of sales and subsequent commissions due. DSD's finance personnel should perform monthly and yearly recalculations of commissions in accordance with the contract, reconcile amounts due with Keefe's financial reports, and resolve any discrepancies with Keefe.	I
3	In order to protect both DSD and Keefe from potential claims by third parties, we recommend Keefe obtain insurance policies which satisfy all the current coverage requirements. Additionally, we recommend DSD review these new policies and, if necessary, consult with Risk Management and the City Attorney's Office to ensure adequacy of the coverage and compliance with the terms of the contract.	I
4	We recommend Keefe submit evidence of quarterly data vulnerability scans or annual audits verifying compliance with PCI DSS. Further, we recommend DSD require, obtain, and keep on file the proof of compliance with this requirement on a regular basis.	I

**\*Agency Statement of Disagreement to Recommendation:** In order to ensure the affordability of undergarments for indigent inmates, we will not invoice Keefe for the \$5,940. We will make sure these 20% commission rate items will be stated in the 2009 Keefe contract.

**Conclusion:** The Auditor's office's has verified that the audited entity has taken action to mitigate the risk identified by this recommendation.

## Office of Economic Development

**Scope:** Audit Services performed a review and evaluation of OED's internal controls related to the loan application process, disbursement, collection, and monitoring of HUD funds for the fiscal year ending December 31, 2007. The audit also included an analysis of the Seedco contract and related records to determine contract compliance and performance. The performance audit focused on the Division of Housing and Neighborhood Development Services (DHND).

**Objective:** The objective of the audit was to evaluate whether OED managed and utilized HUD resources in an efficient, effective, and satisfactory manner, whether OED managed the Seedco contract effectively to maximize impact for the City and County of Denver, and whether internal controls in place were adequate.

**Implemented - I      Not Implemented - NI      Disagreed - D      In-Progress - IP**

Rec. #	Recommendation	Status
1	We recommend OED enhance their Fiscal Policies and Procedures Manual to adequately and properly instruct staff to thoroughly document all progressive actions taken to collect repayment from delinquent borrowers. Documentation on delinquent accounts should be prepared on OED letterhead to adhere to effective business practice, thereby immediately discontinuing handwritten file notations. These communications should be maintained in an organized fashion in the borrower file.	I
2	We recommend OED place all communications with delinquent borrowers on a password-protected shared computer drive to facilitate the efforts of authorized staff to effectively monitor and track loan collection activities.	I
3	We recommend OED designate a primary employee to oversee and maintain the accuracy and completeness of the project files. Another employee should be designated and trained as an alternate or backup for continuity purposes.	I
4	We recommend that a file tracking system be established to monitor the interoffice movement of the project files. At a minimum, a sign-out card should be used when a file is removed from the cabinet.	I
5	We recommend OED monitor the files by placing a "File Status Document" at the beginning of each file. This document would allow employees to readily identify missing information and track actions necessary or in progress to resolve documentation deficiencies.	I
6	We recommend each division manager of OED provide oversight by performing an internal supervisory review of five project files per quarter to ensure accuracy, consistency, and completeness.	I
7	We recommend OED secure borrower files at the close of business daily and designate a primary employee in charge of unlocking and locking filing cabinets. In conjunction, we recommend OED designate and train two staff members as alternates or backups.	I
8	We recommend the Office of Economic Development work with Webb building management to establish a restricted access area that requires badge recognition for entrance.	I
9	We recommend OED identify key records and documents for each project file and electronically back up these documents. Subsequently, OED should secure the original or electronic back up files at an alternate location, possibly through the Citywide contract with Iron Mountain.	I
10	We recommend the Office of Economic Development utilize the newly structured Contracts and Performance Management Unit to enhance monitoring and oversight activities related to Seedco contract obligations.	I

11	We recommend the Office of Economic Development follow up on the recommendations suggested in their monitoring report, which included the following requirements for Seedco: Reconcile all travel expenses billed to OED from the start of the grant in January 2007. Invoice OED only allowable and reasonable travel expenses actually paid to its employees and adequately document all of these expenses.	I
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## DIA – Procurement Card

**Scope:** The audit of the Department of Aviation's PCard Program covers the period of January 1, 2007 through December 31, 2007. The scope of our audit was to examine and evaluate the adequacy and effectiveness of PCard internal controls utilized by Department of Aviation. The audit also examined the Department of Aviation's compliance with applicable City rules and regulations.

**Objective:** The objective of our audit was to determine whether the process and internal controls for the PCard program at DIA are reasonable in order to monitor PCard requirements, and applicable City rules and regulations. Furthermore, we determined whether an adequate system of internal controls was in place to prevent card misuse, abuse, and fraudulent activity.

**Implemented - I      Not Implemented - NI      Disagreed - D      In-Progress - IP**

Rec. #	Recommendation	Status
1	The Department of Aviation should enhance their policy and procedure manual in order to incorporate all facets of the procurement process including key roles and responsibilities of individuals involved with the process specific to DIA. In addition to the improvements made by DIA to their policies and procedures during the course of the audit, we recommend codifying additional policies addressing supervisor training requirements and enhanced monitoring activities related to the Due Diligence review process (discussed in Recommendations #2 and #3).	I
2	The Department of Aviation should require approving supervisors to attend PCard and DPA training. Supervisors are the first line of examination and should have proper training and knowledge over PCard and DPA policies, in order to detect and prevent card misuse, abuse, or fraudulent activity prior to the Due Diligence review.	I
3	The Department of Aviation should include the recently created Due Diligence control document with the quarterly Due Diligence report that is submitted to the Purchasing Department, which will reduce the likelihood of the Due Diligence reviews not being conducted.	I
4	The Department of Aviation should review a sample of PCard transactions on a monthly basis to identify any instances of misuse or abuse.	I
5	The Department of Aviation's Accounting Department should establish enhanced internal controls to detect and determine why variances exist between Advantage (DIA System) and PeopleSoft. DIA should separately monitor PCard activity and account for any variances by conducting a detailed review. Journal entries should not be created if variances have not been addressed and if reasons for the variances have not been documented. A thorough review will improve the accuracy and reliability of DIA's financial records and assist in detecting card misuse.	D*
6	The Purchasing Division should develop and implement a monitoring protocol and process for the PCard Program that includes routine reviews of selected transactions, Due Diligence reports, and processes used by various agencies.	I
7	The Purchasing Division should develop a procedure and maintain a standardized request form for purchase requests that require approval from the Purchasing Department in order to better monitor and track requests.	I
8	The Purchasing Division, in collaboration with the Executive Order Committee and participating agencies, should assess Executive Order No. 33 and make all necessary changes to conform to the order.	I
9	The Purchasing Division should establish an internal control that discourages cardholders from charging transactions to other agency budgets.	I

**\*Agency Statement of Disagreement to Recommendation:** The Airport has the proper internal controls in place for detection of variances between the AMS and PeopleSoft system. Detailed reviews are done on a monthly basis and at year end. In 2008 there were no reconciling differences between the two system as they relating to PC card expenses. The 2008 information was discussed and reviewed with Auditor during the 2007 audit fieldwork.

**Conclusion:** The Auditor's Office determined that sufficient controls are in place to mitigate the risk related to variances between the AMS and PeopleSoft systems through the completion of monthly and year end reconciliations.

## Denver County Court Civil Judgment Process

**Scope:** The audit of the County Court Civil Judgment Process covers the period of January 1, 2007 through October 31, 2008. The scope of our audit focused on determining whether the interest calculations on civil judgments were properly assessed, internal controls and accounting processes were adequate, and the Agency complied with applicable legal requirements.

**Objective:** To assess the Court's process for recording and issuing civil judgments. The audit will include an examination of information technology systems used to process judgments and an assessment of compliance with related legal requirements.

**Implemented - I      Not Implemented - NI      Disagreed - D      In-Progress - IP**

Rec. #	Recommendation	Status
1	We recommend the County Court remove the interest accrual functionality from the CMS. Judicial Assistants should apply a reasonableness test to the amount of interest claimed by the creditor. Removing this interest accrual capability from the CMS will streamline the Court's process and will allow the Court to better allocate limited resources and focus on other Court objectives. Information publicized via the City & County of Denver's website should only consist of the original judgment amounts, figures and status. Our recommendation would not require the Court to alter its process related to direct creditor payments.	I

## DPAC Central Parking

**Scope:** We conducted audit fieldwork for the period from October 1, 2007 through September 30, 2008. The scope of our work included determining compliance with the contract conditions and standard operating procedures, a review of deposits made into the City designated account, and a review of various expenditures payments made to the contractor.

**Objective:** The objective of our audit was to determine whether the City properly paid Central Parking's management fees, reimbursed operating expenses and paid the annual incentive fee in accordance with the contract and standard operating procedures. In addition, we determined whether Central Parking deposited the proper amount into the City's designated account. We also determined whether Central Parking and the Department of Public Works complied with other terms and conditions of the contract, whether the accounting and administrative internal controls were adequate and effective, and if the entities complied with other rules and regulations.

**Implemented - I      Not Implemented - NI      Disagreed - D      In-Progress - IP**

Rec. #	Recommendation	Status
1	We recommend the Department of Public Works evaluate gross revenues monthly and determine the incentive fee after receiving all twelve monthly reports and pay the annual incentive fee to Central Parking within 30 days as stipulated in the agreement.	I
2	We recommend the Department of Public Works immediately cease approving and reimbursing Central Parking's business tax amounts as currently calculated on Digital Printing Systems invoices. We also recommend Public Works require Central Parking to comply with the terms and conditions of the contract and standard operating procedures to ensure proper compliance.	I
3	We recommend the Department of Public Works to conduct an assessment on all of Digital Printing Systems invoices for current and prior periods to determine total sales tax reimbursed, and as a result of the assessment recover these business tax amounts.	I

## Procurement Card – City Agencies

**Scope:** Our audit focused primarily on procedures in place as of December 31, 2008 and transactions occurring from January 1, 2008 through December 31, 2008. Some audit work included testing the entire population of transactions in the audit period. Other testing was conducted on a sample of six business units within four City agencies.

**Objective:** The objectives of this audit were to determine whether internal controls in place were adequate to reduce the risk of fraud and misuse of procurement cards; determine whether procurement cards were being used in accordance with Executive Order No. 33 and the Procurement Card User Guide; and review best practices to identify potential areas for improvement.

**Implemented - I      Not Implemented - NI      Disagreed - D      In-Progress - IP**

Rec. #	Recommendation	Status
1	The Purchasing Division should ensure the \$2,000 single transaction limit is entered into the card files of all cardholders.	IP
2	Because daily and monthly limits are available and provide another level of control, the Purchasing Division should require daily and monthly transaction limits and ensure J.P. Morgan enters these limits. The limits should be defined by the agency on an individual cardholder basis, and should be justifiable given the purchasing history of the cardholder. For example, an account with a monthly transaction limit of \$50,000 and highest aggregate monthly total of \$10,000 poses an inherent liability to the City, and the limit should be reduced to be approximately \$10,000.	IP
3	The Purchasing Division should require that the PCard Administrator complete a broad review of PCard accounts on an annual basis. This review should include a review of the number of transactions for each active account, and the reasonableness of the single, daily and monthly limits given the transaction history of the cardholder. For limits that appear excessive, the PCard Administrator should work with the cardholder and the PCard Coordinator at the agency to determine the reasonableness of limits and change them if warranted. The PCard Administrator should also work with agencies to determine if PCards that have no transactions during the given year are still needed. If the PCard is no longer needed, the account should be closed and the card returned to the PCard Administrator.	IP
4	If the Purchasing Division decides to continue the Shared PCard program, it should identify controls to address the increased risk to the City that shared cards represent and formalize them in policies and procedures.	IP
5	The Purchasing Division should take steps to improve the clarity of PCard guidance by clarifying the purpose of Executive Order No. 33 and the User Guide and update them to reflect these purposes. Additionally, Purchasing should evaluate current PCard control practices, and clearly mandate those that it determines are necessary, and periodically update them as needed to reflect changes to the program.	IP
6	The Purchasing Division should more clearly define appropriate procurement card purchases when multiple interpretations regarding allowable purchases are possible (e.g., tuition payments).	IP

## Seedco Financial Services

**Scope:** This audit reviewed the performance of Seedco in its 2007-2008 contract, and 2009 contract, which are overseen by OED. Specifically, the audit reviewed Seedco's compliance with contractual requirements and HUD requirements. The audit also reviewed Seedco's accounting of program income from the 2007-2008 contract. Because the scope of this audit was focused on Seedco's performance, auditors did not specifically follow up on each recommendation made in the February 2009 audit of OED regarding its oversight of Seedco. However, auditors did consider the quality of OED's oversight in reviewing Seedco's contract performance.

**Objective:** The audit's objectives were to review OED's oversight of the Seedco contract, and; to determine if Seedco was performing in compliance with its contract and with applicable HUD regulations.

**Implemented - I      Not Implemented - NI      Disagreed - D      In-Progress - IP**

Rec. #	Recommendation	Status
1	OED should seek clarification from HUD regarding whether a questionable 2008 loan of \$275,000 meets federal requirements for the use of CDBG monies.	IP
2	Based on guidance from HUD, OED should determine whether Seedco must return the \$275,000.	IP
3	OED should continue to require Seedco to immediately repay the \$146,846, plus interest, in 2007-2008 program income to OED.	IP
4	OED should require Seedco to immediately provide OED with monies from repayment of 2007-2008 loans in a percentage equivalent to the percentage of CDBG monies in the original loan.	IP
5	OED should continue to require Seedco to immediately resolve impediments to closing the 2007-2008 contract.	IP
6	OED should consider further pursuing enforcement provisions of the contract, up to and including contract termination.	IP
7	OED should decline to provide additional CDBG funds to Seedco until Seedco has refunded to OED \$146,846; refunded to OED an appropriate percentage of monies from 2007-2008 CDBG loan repayments, and; shown that it will likely meet its contractual job creation goals.	IP

## DIA – Air Cargo Fees

**Scope:** The audit of the Air Cargo Fee Compliance covered the period January 1, 2008 through December 31, 2008. The audit focused on air cargo carriers operating at Denver International Airport. The audit did not review cargo carriers who also transport passengers.

**Objective:** Our audit objectives included determining whether air cargo carriers and the Department of Aviation comply with airport contract requirements and DIA rules and regulations; assessing the appropriateness of the Aviation Fuel Tax reimbursement (AFTR) distributions to certain airlines; and verifying the accuracy of charges to air cargo carriers and the cash receipts applied to those charges.

**Implemented - I      Not Implemented - NI      Disagreed - D      In-Progress - IP**

Rec. #	Recommendation	Status
1	In order for DIA to remain compliant with state law and continue in good standing with the Colorado Aeronautic Division's Colorado Discretionary Aviation Grant program, we recommend that the Department working with its legal counsel, immediately seek reimbursement of the \$10.7 million back from the air carriers which received these funds and reallocate those funds for aviation purposes as described in C.R.S. § 43-10-102(3).	D*
2	The Department should establish policies and procedures to separately account for AFTR funds. This will ensure that AFTR funds are accounted for and used only for aviation purposes.	IP
3	Year-end reconciliation policies and procedures for utility charges should be documented and the year-end true-up process should include management review.	IP

**\*Agency Statement of Disagreement to Recommendation:** DIA has improved procedures to ensure it receives the proper amount of fuel tax from the state each year. DIA's finance office analyzes the fuel tax receipts monthly and also attends quarterly meetings with CDOT and the State Department of Revenue to track current fuel tax revenue. These actions should prevent a multi-tenor disbursement delay from occurring again.

Denver International Airport does not believe the treatment of the disbursement was a subsidy to the airlines, and as such, did not violate the state law. Therefore, DIA respectfully disagrees with this recommendation of the audit.

The decision that transpired was a legal decision based on the requirements of the statute and the airport's on-going commitment to maintain affordable airline rates and charges at DIA. Credit memos issued to all signatory airlines are a standard practice in the aviation industry for rate structures such as DIA's. No direct payments were made to the signatory airlines and credit memos issued to all signatory airlines are not considered subsidies under FAA guidelines in analogous circumstances.

The audit also questioned why non-signatory airlines who may have been paid this tax did not receive an allocation of the reimbursement. By signing a Use and Lease Agreement with the airport, signatory airlines commit to the rate covenants and therefore have obligations and risks that non-signatory airlines do not have, thus non-signatory airlines do not benefit from the credits that are provided for under the agreements with signatory airlines.

**Conclusion:** The Auditor's Office is currently in the process of following up on this disagreement with DIA.

## DIA – Maintenance Division

**Scope:** The audit focused primarily on the contract procurement and administration practices for the Department of Aviation's Maintenance Division for the period January 1, 2008 through December 31, 2008. Additionally, the audit examined the Division's asset management practices, operating policies and procedures, and certain financial management activities.

**Objective:** Audit objectives included: Assessing contract procurement and administration processes; determining Division compliance with applicable City contracting rules and regulations; evaluating certain Division internal accounting and administrative controls; and identifying the accuracy of Division capital and controlled asset records.

**Implemented - I      Not Implemented - NI      Disagreed - D      In-Progress - IP**

Rec. #	Recommendation	Status
1	Maintenance Division Contract Administrators should monitor the contract awarding process and ensure that work does not begin until there is an executed contract.	IP
2	The Manager of Aviation and Deputy Manager of Maintenance should develop written policies, processes, and procedures for a contract compliance monitoring process.	IP
3	The Maintenance Division sections should develop detailed written operational policies and procedures for the following sections: Facility Maintenance, Field Maintenance, Technical Maintenance, and Life Safety Electrical. The policies and procedures should be specific enough to ensure consistent employee performance.	IP
4	The Deputy Manager of Maintenance should perform periodic asset inventories and ensure controlled asset tags are present on all controlled assets. If controlled asset tag numbers are not present on controlled assets, the Deputy Manager should immediately notify the Contract Compliance Analyst to have the tag number replaced or updated with a new controlled asset tag.	IP
5	Every Aviation Division and Maintenance Manager responsible for controlled assets should ensure the Contract Compliance Analyst is notified when controlled assets are discarded. Specifically, for the Maintenance Division, the Deputy Manager of Maintenance should immediately notify the Contract Compliance Analyst when controlled assets are disposed of resulting in the proper and accurate update of the controlled asset database.	IP

## Citywide Contract Procurement Process

**Scope:** The audit examined the City and County of Denver's contract procurement process for economy and efficiency and adherence to established rules and regulation for contracts finalized January 1, 2008 through December 31, 2008.

**Objective:** Our work has two primary objectives: determining if the procurement process for City contracts adhered to established rules, policies, and procedures and determining if the current procurement process is an efficient and effective means of contract management.

**Implemented - I      Not Implemented - NI      Disagreed - D      In-Progress - IP**

Rec. #	Recommendation	Status
1	<p>The City should establish a centralized procurement function within the Department of General Services' Purchasing Division, placing procurement responsibilities for all departments and agencies within this function. The following actions and responsibilities should be considered at a minimum when developing the centralized function:</p> <p>A. The Purchasing Division should be responsible for all centralized purchasing processes including a centralized policy and procedures manual with updated Executive Order No. 8 requirements.</p> <p>B. The Purchasing Division should develop an action plan in collaboration with the Department of Aviation and Public Works that includes benchmarking similar cities with a centralized function in order to gain a better understanding of industry trends and determine what a centralized system involves—for example, cost, number of full-time employees, challenges, etc.</p>	D*
2	The Executive Order Committee, in collaboration with the Purchasing Division, Department of Aviation, and Public Works, should review Executive Order No. 8 and make all necessary enhancements to facilitate a centralized function. Enhancements should provide clear direction for selection, sole source requirements, required documentation of selection processes to be retained, amendment term requirements, Notice to Proceed procedures, and prohibiting work initiation prior to contract execution or Notice to Proceed.	IP
3	The Purchasing Division should create, based on current systems, or acquire a document management system that is capable of tracking, contract process workflow, version control, provide interfacing capabilities with Practice Manager, and record electronic signatures to provide an efficient and effective solution for the City. The Purchasing Division should be the owners of the system under a centralized function.	IP
4	The Mayor's Office should evaluate the necessity of the current required signatures and consider various options for reducing the number of signatures required for contract approval.	IP
5	The City Clerk's Office should develop a written procedure for borrowing contracts and utilize an electronic tracking mechanism to document contract movement. The current checkout form could be continued as part of the electronic recording schedule; however, the checkout methodology needs to be strengthened to fully identify contracts removed, date borrowed, date returned, individual involved, and the agency or department to which the individual belongs.	IP
6	The Mayor's Office in collaboration with Department of Aviation, Public Works, and the City Attorney should develop the changes necessary to update the 1999 Orange Book and publish a current edition. The Orange Book should be reviewed and updated if necessary annually. This review will ensure that both the contractor community and the City are clear on construction	IP

	requirements. Additionally Executive Order No. 8 should be reviewed and revised to correct any information errors or inconsistencies with the Orange Book.	
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**\*Agency Statement of Disagreement to Recommendation:** We agree that the centralization of some procurement functions makes sense. In fact, some functions are centralized today. From a management standpoint, there are both advantages and disadvantages to centralizing functions. The administration has not done the due diligence to determine what processes to centralize or if General Services is the appropriate home for some centralized services. The administration is planning to analyze this issue as part of the "procure to pay" work led by Beth Machann and Jim McIntyre.

**Conclusion:** The risk identified in the disagreement has been mitigated through the implementation of "Procure to Pay" (P2P) to the City and County of Denver. This initiative was implemented in the summer of 2010.

## NEXT STEPS

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Our next follow-up quarterly update will be presented to Audit Committee in July 2011. Phase two will be updated in quarter two of 2011 followed by Phase three and Phase four in their respective quarters.

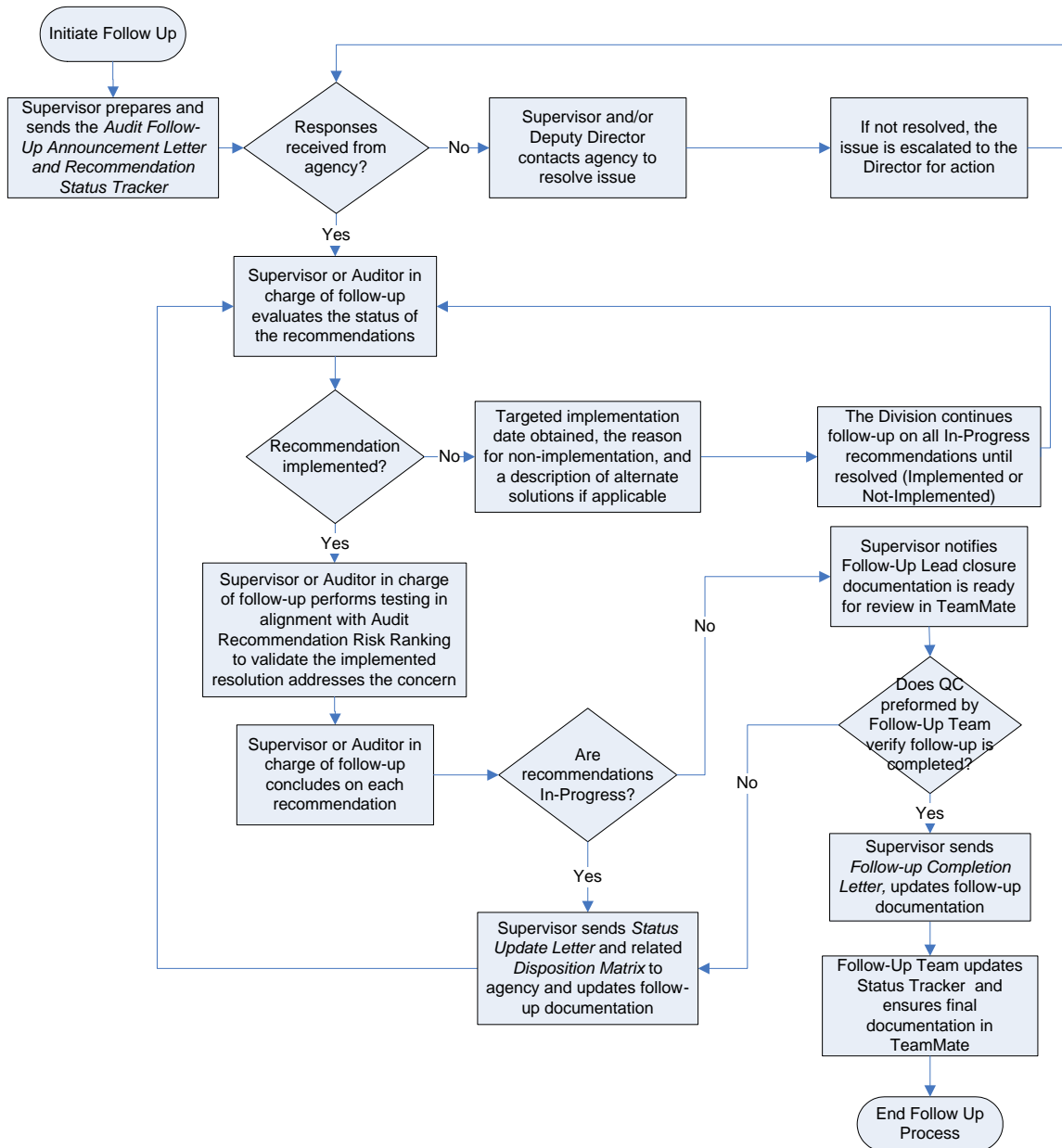
## ACKNOWLEDGEMENTS

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The Audit Services Division would like to extend their appreciation and thanks to City management and personnel for their time and dedication in ensuring that follow-up work is completed.

# EXHIBITS

## Exhibit A: Follow-Up Process Overview



# Exhibit B: Follow-Up Announcement Letter



## City and County of Denver

201 West Colfax Avenue, Department 705 • Denver, Colorado 80202 • 720-913-5000 •  
FAX 720-913-5247 • [www.denvergov.org/auditor](http://www.denvergov.org/auditor)

*Dennis J. Gallagher*  
Auditor

(Current Date)

(Responsible official, Title)  
(Agency)  
City and County of Denver

Dear (Responsible official):

This letter is to notify you that the Auditor's Office is commencing audit follow-up work for the (*name of audit report*) performance audit issued on (*date*). The final phase of our audit process requires audit follow-up procedures to verify corrective action has been taken as scheduled to effectively resolve the audit recommendation(s) and prevent or minimize the recurrence of our audit findings.

In keeping with professional auditing standards and Audit Services Division's policy, as authorized by D.R.M.C. § 20-276, we are requesting a written updated response to the recommendation(s) presented in the audit report. Please complete the attached Recommendation Status Tracker and indicate whether the recommendation(s) is *Implemented*, *In-Progress*, or *Not Implemented*, and provide an explanation and current status of action(s) taken to resolve the recommendation(s). Please update the implementation date and contact information for the responsible person if needed. Additionally, we request that you provide any documentation that will support the status and resolution of the audit recommendation(s). (*If required documentation to support implementation is known, insert an information request*)

We respectfully request your response be sent to (*Deputy Director's name – email address xxx.denvergov.org*) and (*Supervisor's name – email address xxx.denvergov.org*) by (*five business days from today's date*). Following receipt of your reply, we will confirm responses by performing limited testing to determine if the action(s) taken adequately resolved the concern. If a recommendation is not fully implemented, please establish a new implementation date and indicate what additional corrective actions will be taken to ensure full implementation of the recommendation.

Results of this audit follow-up will be reported to the Mayor's Office, appropriate City Council members, and the Audit Committee. If you have any questions, please contact (*Supervisor's name*), Audit Services Supervisor, at 720-913-(xxx).

Sincerely,

(Name)  
Deputy Director of Audit Services

# Exhibit C: Recommendation Status Tracker

## Recommendation Status Tracker

(Name of Audit Report)

Issued (Date Audit Report Issued)

#	Audit Recommendation	Agency Response	Person(s) Responsible & Contact Information		Due Date		Status* (Implemented, In-Process or Not Implemented)	Managements Comments Regarding Status
			Original	Revised	Original	Revised		
Recommendation #	[Supervisor should input recommendation]	[Supervisor should input agency response as provided for the audit report, person responsible & contact information, and the original due date]		[Agency Updates where applicable]		[Agency Updates where applicable]	[Agency selects status from the drop down arrow]	[Agency updates when applicable]
1							Implemented	
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								

**\*Classification:**

**Implemented** - The recommendation was put into practice or alternate resolution identified for appropriate corrective action and department/agency can demonstrate sustainability of said recommendation.

**In-Progress** - The recommendation will be implemented, but is not yet complete and/or recommendation is still to new to evaluate effectiveness.

**Not Implemented** - The recommendation is not put into practice or a situation has changed making the recommendation irrelevant; factors such as budgetary constraints or low residual risk.

## Exhibit D: Completion Letter



# City and County of Denver

201 West Colfax Ave., Dept. 705 • Denver, Colorado 80202 • 720-913-5000 •  
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*Dennis J. Gallagher*

Auditor

(Date)

(Mr. or Ms. Responsible Official, Title)

(Entity Name)

City and County of Denver

Re: Audit Follow-Up Completion Letter

Dear (Mr. or Ms. Responsible Official):

In keeping with professional auditing standards and the Audit Services Division's policy, as authorized by D.R.M.C. § 20-276, our Division has a responsibility to monitor and follow up on audit recommendations to ensure audit findings are being addressed and to aid us in planning future audits.

This letter is to inform you that we have completed audit follow up procedures for the (audit or entity name) issued (month day, year). Our review determined that the (Department/Division) has (adequately or other qualifier if necessary) implemented the recommendations made in the audit report.

This concludes audit follow-up work related to this audit. I would like to express our sincere appreciation to you and to (Department/Division) personnel who assisted us throughout the audit process.

If you have any questions, please feel free to contact me at 720-913-5029 or (supervisor's name), Audit Supervisor, at 720-913-xxxx.

Sincerely,

Kip Memmott  
Director of Audit Services

KRM/Auditor's Initials

cc: (Add as needed)

# Exhibit E: Disposition Letter



## City and County of Denver

201 West Colfax Ave., Dept. 705 • Denver, Colorado 80202 • 720-913-5000 • FAX 720-913-5247  
www.denvergov.org/auditor

*Annis Bullagher*  
Auditor

(Date)

*Applicable Agency Head*  
Title  
City and County of Denver

Re: Audit Follow-Up Status Update – *Name of Audit*

Dear (*Official Name*):

In accordance with government auditing standards and D.R.M.C. § 20-276, the Audit Services Division conducts formal follow-up activities to ensure audit findings are being addressed and related risks are being mitigated. This letter conveys the status of recommendations made in the (*name of audit report*) performance audit report issued on (*month, day, year*). This audit resulted in (*# of recommendations*) recommendations. As of today, the status of the (*# of recommendations*) is as follows (Table 1 summarizes the recommendation status and is attached as a separate document).

- (*# of*) recommendations have been implemented;
- (*# of*) recommendations remain in progress; and
- (*# of*) recommendations have not been implemented.

(*Summarize next steps here, if applicable. Example #1: As Auditors, we understand that implementing corrective action to address noted recommendations may stall for a variety of reasons. Therefore, the status of recommendation implementation must be actively monitored to determine progress. We will continue with our follow-up activities to monitor the status of action on all recommendations and will be in contact with (Agency Personnel) XXXX to discuss next steps.*)

We will continue to request supporting documentation and will continue to report out on implementation status until all recommendations have been closed based on supporting documentation and evidence. If you have any questions regarding these issues or the follow-up audit work, please feel free to contact me at 720-913-5029 or (*Supervisor's name*), Internal Audit Supervisor, at 720-913-xxxx.

Sincerely,

Kip Memmott

Director of Audit Services  
*KRM/Auditor's Initials*

cc: Auditor  
Agency Head(s)  
Members of Audit Committee  
Honorable Members of City Council  
(*add as needed*)

*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.*

# Exhibit F: Disposition Matrix

## Disposition of Recommendations as of (Month Day, Year)

### Name of Audit Report

Audit Report Issued on (Month Day, Year)

#	Recommendation	Disposition Status*			Comments
		Implemented	In-Progress	Not Implemented	
1		X			<i>Recommendation was implemented. The agency provided the auditors with...XXX. No further work required.</i>
2		X			<i>Alternate resolution identified for appropriate corrective action...XXX.</i>
3			X		<i>Progress is slow and uncertain. The agency indicated...XXX.</i>
4			X		<i>Partially implemented; key elements not met to address process efficiency and effectiveness. The agency reported...XXX.</i>
5				X	<i>Agency failed to take action. Auditors believe the associated risk remains significant given that the audit report identified...XXX.</i>

**\*Classification:**

**Implemented** - The recommendation was put into practice or alternate resolution identified for appropriate corrective action and department/agency can demonstrate sustainability of said recommendation.

**In-Progress** - The recommendation will be implemented, but is not yet complete and/or recommendation is still too new to evaluate effectiveness.

**Not Implemented** - The recommendation is not put into practice or a situation has changed making the recommendation irrelevant; factors such as budgetary constraints or low residual risk.