

**INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT**

Dennis J. Gallagher, Auditor

Michael S. Clark, CPA, Director of Internal Audit



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



CITY AND COUNTY OF DENVER

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

Dennis J. Gallagher
Auditor

October 5, 2005

Honorable Dennis J. Gallagher
Auditor
City and County of Denver

This report summarizes the accomplishments and objectives of the Internal Audit Division of the Auditor's Office for the year ending December 31, 2004. Presented herein is information related to the activities of the Division.

The Internal Audit Division staff takes pride in their contribution to making the City operate as efficiently and effectively as possible. The staff of the entire division deserves credit for their accomplishments and the production of this report.

Sincerely,

Michael Clark

Michael Clark, CPA
Director of Internal Audit

The prudent stewardship of Denver's finances, resources and financial records! We are also committed to improving accountability, efficiency, effectiveness and performance in city government. We will scrupulously protect the taxpayer's interests and work collaboratively with all concerned to improve our city and its government.

Table of Contents

	Page
Background	1
Vision, Mission, and Objectives	2
Operations	4
Summary of Performance	7
Future Goals	13
Highlights:	
City Performance and Compliance Audits	14
Legally Required or Requested Audits and Reviews	21
Airport Contract Compliance Audits	22
Airport Expenditure Audit	29

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Background

A nonpartisan elected Mayor, thirteen-member Council, and Auditor govern the City and County of Denver. City Charter, Article V, Part 2 authorizes the duties and responsibilities of the Auditor. In order to fulfill these responsibilities, the Auditor has organized the Auditor's Office into three divisions: Administration and Internal Audit; Accounting, Finance and Policy; and Communications, Marketing and Records.

The Internal Audit Division provides the City's management with information about the adequacy and effectiveness of the City's system of financial internal controls and the quality of operating performance. To accomplish this responsibility, all City agency and department activities are subject to audit.

The Internal Audit Division is comprised of 22 employees (2004 budgeted FTE) who work out of offices located at Denver International Airport (DIA) and in downtown Denver. The DIA office focuses its resources on auditing airlines, concessionaires and other service providers' contracts. The downtown office concentrates on auditing city agencies, City contracts and employee separations.

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Vision, Mission, and Objectives

The Auditor's Office Vision:

Striving together to build a better Denver.

The Auditor's Office Mission Statement:

Our mission – the prudent stewardship of Denver’s finances, resources and financial records! We are also committed to improving accountability, efficiency, effectiveness and performance in city government. We will scrupulously protect the taxpayer’s interests and work collaboratively with all concerned to improve our city and its government.

The Internal Audit Division sets objectives in order to fulfill this vision and mission. The Director of Internal Audit established the following objectives for the year ended December 31, 2004:

AUDIT DIVISION

Vision

- Strive to leave every place a little better off than we found it.

Mission

- To issue objective studies of issues intended to improve decision making by management and the public, promote efficient and effective operations citywide, and to increase management accountability.

Objective

Status

- | | |
|--|----------|
| ● Prepare to undergo an external quality control review commonly known as a peer review. | On-going |
| ● Perform a self assessment to assess the adequacy of Internal Audit's internal quality control system and assess whether Government Auditing Standards were followed on a representative sample of audit engagements. | Planning |
| ● Incorporate changes in the Policies and Procedures Manual to address normal maintenance, prior peer review comments, and revisions of Government Audit Standards. | On-going |
| ● Update the annual risk based audit plan to evaluate the adequacy and effectiveness of the City's system of Internal Controls. | On-going |

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Vision, Mission, and Objectives-continued

<u>Objective</u>	<u>Status</u>
● Address the need for formal authoritative enabling legislation.	On-going
● Improve overall audit efficiency by increasing the hours of direct time spent on audits as a percentage of total hours available.	On-going
● Fill existing staff vacancies.	On-going
● Conduct financial related, operational, performance, and program audits as requested by the Auditor, City's Management, and City Council.	On-going
● Follow-up on the status of management's action on significant or material findings and recommendations. Increase management's accountability to remedy findings by identifying and reporting actions taken.	On-going
● Support the transition of the citywide annual audit and production of the City's Comprehensive Annual Financial Report (CAFR) from Internal Audit to Accounting.	On-going
● Prepare and issue the annual report of the Internal Audit Division's activities.	Complete

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Operations

CURRENT STAFF

As of December 31, 2004, the Internal Audit Division had 21 audit staff positions and 1 administrative staff. Of the staff positions, two staff auditor positions were vacant.

Director of Internal Audit
Michael S. Clark, CPA

Deputy Director of Internal Audit
Richard Wibbens, CPA

Administrative Assistant
Kathleen Howard

Audit Supervisors

Philip Cummings, CPA, CFE
John Finamore, CPA
Marcus Richardson
Stan Wilmer, CPA

Lead Auditors

Adeniyi Kelani, Ph.D.
Andrew Martinez, Jr., CPA
Sonia Montano
Anita Thompson
Mike Widner

Senior Auditors

Jane Harlow
Traci Napue
Norine Reigan, CPA
Wayne Sanford

Staff Auditors

Jacob Claeys
Thomas Loreno
Freddie Martin
Gil Yardeny, J.D.
Vacant
Vacant

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Operations-continued

All Internal Audit Division auditors have bachelors' degrees in one or more of the following areas: accounting, business administration, economics, finance, fine arts, information technology, and general. In addition, three staff members have masters' degrees, one has a doctorate, and one has a juris doctorate degree.

PROFESSIONAL DEVELOPMENT

In 2004, focus was placed upon meeting continuing professional education requirements in accordance with Government Auditing Standards promulgated by the Comptroller General of the United States. These standards require staff to obtain 80 hours of continuing professional education (CPE) every 2 years.

Professional organizations are a good source for professional development. The audit staff belongs to a combined total of eleven different professional organizations. These include the Association of Airport Internal Auditors, American Institute of Certified Public Accountants, Association of Certified Fraud Examiners, Association of Government Accountants, Colorado Government Finance Officers Association, Colorado Society of Certified Public Accountants, Government Finance Officers Association, Institute of Internal Auditors, Mountain and Plains Intergovernmental Audit Forum, National Association of Black Accountants, Inc., and National Association of Local Government Auditors.

BUDGET VS ACTUAL

The Auditor's Office has two budget sources, the City's General fund and Airport System enterprise fund. The Auditor's Office maintains a portion of its staff at the airport for which the airport is billed through indirect cost allocations. The following is the 2004 Internal Audit Division budget vs actual:

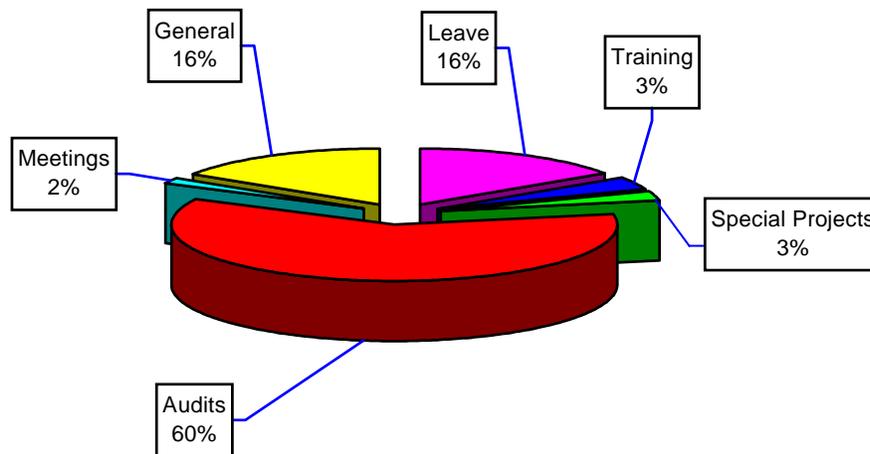
	<u>BUDGET</u>		<u>ACTUAL</u>	
	<u>AMOUNT</u>	<u>FTE's</u>	<u>AMOUNT</u>	<u>FTE's</u>
General Fund Operations	\$1,179,795	15	\$1,055,848	13
Airport Enterprise Fund Operations	<u>536,612</u>	<u>7</u>	<u>493,852</u>	<u>7</u>
TOTALS	<u>\$1,716,407</u>	<u>22</u>	<u>\$1,549,700</u>	<u>20</u>

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Operations-continued

TIME ALLOCATION

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



AUDIT SELECTION PROCESS

The division utilizes a risk assessment model for audit selection and preparation of an annual audit plan. The objective of risk assessment is to identify and prioritize audits which pose the greatest risk to the City. Division staff established an audit universe, or population of potential audits, and determined there were 390 possible audits. These potential audits were then evaluated using certain risk factors and ranked from the highest risk to the lowest risk.

Based upon the estimated available hours for the audit personnel in 2004, the 2004 Annual Audit Plan established a goal of working on 56 of the highest risk audits. The following was the status of those 56 audits at year end:

- ✓ 16 audits were completed and a report issued.
- ✓ 1 audit was terminated and a letter was issued.
- ✓ 22 audits were still in progress at year-end
- ✓ 17 audits had not been started at year-end.

In addition, during 2004 the division completed 13 other audits and projects planned and unplanned from past and current periods.

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Summary of Performance

REVENUE CONTRACTS

Eleven of the audits issued in 2004 were revenue contract audits. The following chart is a breakdown of the revenue contract audits with amounts due and paid the City or auditee.

REVENUE CONTRACT AUDIT	AMOUNT DUE THE CITY	AMOUNT PAID TO THE CITY	AUDIT BALANCE DUE CITY (AUDITEE)	PAID CITY (AUDITEE) THROUGH 1/26/2005	REMAINING BALANCE OWED TO CITY (AUDITEE)
ABX Air, Inc dba Airborne Express	\$ 1,358,107	\$ 1,299,681	\$ 58,426	\$ 58,426	\$ -
Air Canada	\$ 1,165,521	\$ 1,132,860	\$ 32,661	\$ 32,661	\$ -
AT&T Wireless Services of Colo,LLC	\$ 167,848	\$ 130,340	\$ 37,508	\$ 1,131	\$ 36,377
Ayala's, Inc.	\$ 239,084	\$ 239,084	\$ -	\$ -	\$ -
Frontier Airlines, Inc.	\$ 29,649,518	\$ 29,667,357	\$ (17,839)	\$ (17,839)	\$ -
Grand Holdings, Inc., dba Champion	\$ 1,009,210	\$ 1,001,181	\$ 8,029	\$ -	\$ 8,029
Lufthansa German Airlines	\$ 2,153,601	\$ 2,152,461	\$ 1,140	\$ 1,140	\$ -
Mexicana Airlines, Inc	\$ 507,484	\$ 505,264	\$ 2,220	\$ 2,016	\$ 204
Miami Air International	\$ 35,152	\$ 34,859	\$ 293	\$ 293	\$ -
Prima Oil and Gas Company	\$ 400,070	\$ 398,285	\$ 1,785	\$ 1,785	\$ -
United Airlines, Inc.	\$ 44,626,015	\$ 44,626,015	\$ -	\$ -	\$ -
Totals	\$ 81,311,610	\$ 81,187,387	\$ 124,223	\$ 79,613	\$ 44,610

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Summary of Performance-continued

The Internal Audit Division categorizes the audits issued into four categories. Below is a listing of the four categories along with the respective audit reports. For more detailed information, refer to the applicable highlights herein starting on page 14, or view the entire audit report located on the Internet at www.denvergov.org/auditor.

CITY PERFORMANCE AND COMPLIANCE AUDITS

The objective of these audits was to determine compliance with applicable City rules and regulations, contract conditions, and accounting and administrative internal controls. In addition, we attempted to determine whether the financial accounts of the auditee within the City's accounting system were fairly stated.

<u>Audit</u>	<u>Highlights Page</u>
City Council	14
Citywide Procurement Card Program	14
Citywide Software Licensing Performance	15
Community Planning and Development Agency	16
Denver Metro Convention and Visitors Bureau, Inc.	16
Denver Police Department Photo Radar	17
Emergency Telephone System Trust Fund	18
Mayor Office of Contract Compliance	18
Office of the Auditor	19
Salary Redirection Plan for Eco Pass Program	20
Skyline Funds Financial Related	20

LEGALLY REQUIRED OR REQUESTED AUDITS AND REVIEWS

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

<u>Audit</u>	<u>Highlights Page</u>
Central Services Leave and Accounting Practices	21
Processing Long-Term Receivables of PeopleSoft	22

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Summary of Performance-continued

Airport Contract Compliance Audits

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

<u>Audit</u>	<u>Highlights Page</u>
ABX Air, Inc. dba Airborne Express, Inc.	22
Air Canada	23
AT&T Wireless Services of Colorado, LLC	23
Ayala's Incorporated	24
Frontier Airlines, Inc.	25
Grand Holding, Inc. dba Champion Air	25
Lufthansa German Airlines	26
Mexicana Airlines Incorporated	27
Prima Oil & Gas Company	27
United Airlines, Inc.	28

AIRPORT EXPENDITURE AUDIT

The objective of this audit was to determine whether the City paid the correct fees under the terms of the contract to the service provider. In addition, we tested compliance with Denver Municipal Airport Systems Rules and Regulations, Federal Aviation Administration Regulations, Executive Orders and relevant provisions in the City Charter and the Denver Revised Municipal Code. We also tested reported and deposited gross revenues as well as reimbursement for expenses incurred.

<u>AUDIT</u>	<u>HIGHLIGHTS PAGE</u>
Executive Petroleum Services	29

OTHER PROJECTS, ANALYSIS AND REPORTS

During 2004, the Internal Audit division also completed the following special projects, analysis, and reports.

- We identified and informed the Department of Aviation of internal control weakness in their interest computation and application process for handling

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Summary of Performance-continued

late charges. Three suggestions were made to Aviation to consider maximizing efforts to bill and collect interest as required by contracts.

- An audit of Miami Air International, Inc. was discontinued due to not being beneficial or cost effective. Our preliminary work indicated Miami Air owed the City \$293 for late payments and landing fees.
- We distributed an interim administrative letter of the permit process audit that we were performing during the year. The letter alerted management to observations and problem areas in advance of completing the audit, so that corrective action could be taken.
- We reviewed the City Attorney's reassessment of control employees' personal use of City vehicles for propriety. We proposed adjustments to retroactive amounts determined to be in compliance with IRS regulations.

SEPARATION AUDITS

In addition to the audits and other projects listed above, the division audited the final pay of all employees leaving the City in 2004. The objective of these audits was to determine whether the employees were properly paid for their vacation, sick, overtime, and regular pay.

In 2004, 950 employees' separations were audited by the Division. There were exceptions noted in 338, or about 36%, of these separations. This percentage of errors is 13% more than 2003. Amounts determined as due to the City totaled \$182,167; additional amounts due to employees totaled \$75,642 resulting in a net adjustment of \$106,525 due the City. This net adjustment due the City is over 50% higher than the net amount that was due from separations in the year 2003.

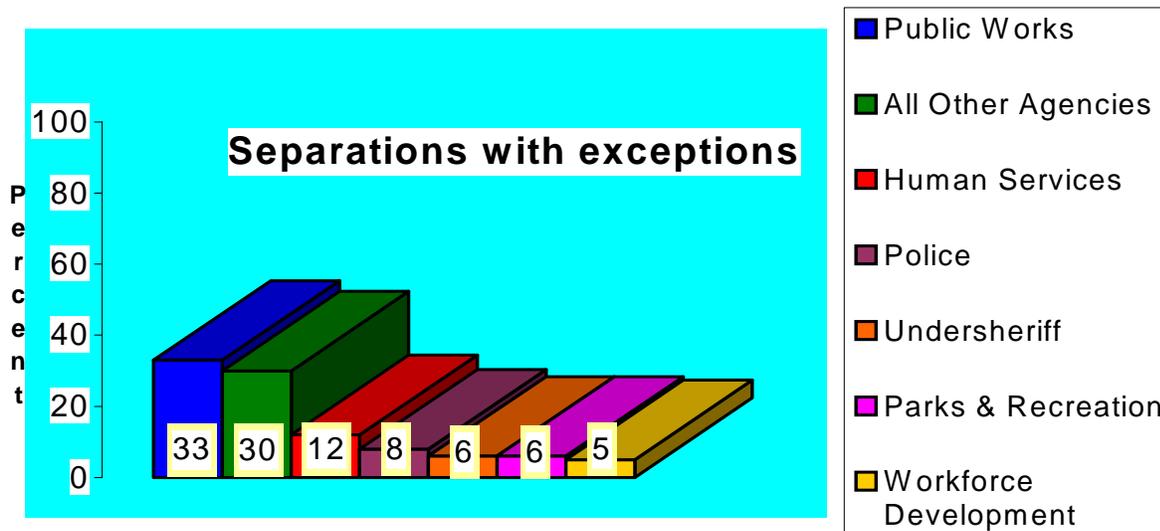
There were approximately 599 individual errors detected in auditing separations for 2004. The most frequent errors, in order, were:

- ✓ Overpayment on last employee paycheck.
- ✓ Incorrect leave accruals.
- ✓ Failure to process separation documentation in a timely manner.
- ✓ Leave record posting error.
- ✓ LWOP taken but not deducted from pay.
- ✓ Sick payout miscalculated.
- ✓ Underpayment on last employee paycheck.

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Summary of Performance-continued

For the following schedule, we selected the six city agencies with the highest percentage of errors. These six agencies accounted for 70% of all separation errors.



The Internal Audit staff has put forth an effort to try and reduce the overall error rate in separations by sending letters to agency heads and meeting with managers.

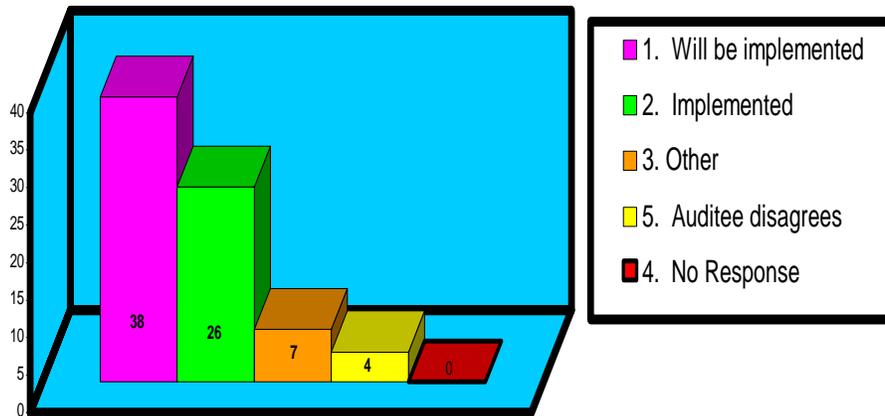
AUDIT FOLLOW-UP

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

After the issuance of each audit report, a form entitled "Audit Follow-up" is completed. The form summarizes and categorizes the audit's findings and the auditee responses. Findings are categorized based on type, activity, or function. Responses are categorized within a range from implementation of corrective measures to no auditee response. For audit reports issued during 2004, the auditee responses are categorized as follows:

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Summary of Performance-continued



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

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Future Goals

For the year 2005, the Internal Audit division has set the following goals to pursue:

- ⇒ Expand the professional guidance available to assess the reliance on computer processed data and the work of others.
- ⇒ Review and evaluate the impact of the 2003 Peer Review on our quality control system.
- ⇒ Revise Internal Audit's Policies and Procedures Manual to address the impact of the 2003 Peer Review and revised Yellow Book Standards.
- ⇒ Plan and prepare for the performance of an external quality control review to meet Government Audit Standards, in 2006.
- ⇒ Address the need for formal authoritative enabling legislation for Internal Audit operations.
- ⇒ Review and evaluate the impact of the revised Yellow Book standards on our quality control system.
- ⇒ Strive to improve overall audit efficiency by increasing the hours of direct time spent on audits.
- ⇒ Strive to reduce the staff hours necessary to perform audits.
- ⇒ Strive to issue more timely audits.
- ⇒ Continue encouragement and support for staff members participation in the N.A.L.G.A. reciprocity peer review program.
- ⇒ Review and assess the Annual Audit Plan process for currency and validity.
- ⇒ Analyze the value added concept for management as it relates to the types of audits performed.
- ⇒ Seek City management's participation in the annual audit planning process.
- ⇒ Develop and implement a standardized training program for new audit staff.

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Highlights

CITY PERFORMANCE AND COMPLIANCE AUDITS

Audit Title: **City Council**
Audit Period: Years Ended December 31, 2003, 2002, 2001, and 2000

Summary of Reportable Conditions:

- Cellular phone reimbursements were not made in a consistent manner.
- Only five of seven councilmembers who were issued city-owned vehicles submitted reimbursement to the City for personal mileage.
- Some travel expenditures were not reconciled completely or within the required time. Some travel costs appeared to be excessive.
- The Payment Request Form used by City Council lacks information to justify expenditures. Some payments appear not to be in the best interest of the City and as such may be unreasonable business expenses.
- Revenue received for services were not recorded in a revenue account, but rather were charged against an expenditure account. In addition, not all revenue transactions are adequately documented.
- Two special revenue funds have not properly closed resulting in having cash balances remaining idle.

Disposition:

The majority of responses received from City Council were positive and included corrective actions taken or to be taken.

Comment:

The Denver City Council is composed of 13 elected members. The current Council took office in July 2003; 10 of the 13 members were newly elected. The City Council stated that recommendations are helpful to the new Council.

Audit Title: **Citywide Procurement Card Program**
Audit Period: January 2002 through September 2003

Summary of Reportable Conditions:

- There were no reportable conditions disclosed in this audit report.

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Highlights-continued

Disposition:
Not Applicable.

Comment:
We suggested the Procurement Card Administrator convene a meeting with the Purchasing Process Enhancement Task Force to discuss the development of a strategic plan for the City's procurement card program. This strategic plan will develop and implement an overall action plan and performance measurement system for procurement cards.

Audit Title: **Citywide Software Licensing Performance**
Audit Period: November 2003 through March 2004

Summary of Reportable Conditions:

- The City lacked a centralized and structured policy regarding software licensing.
- Not all agencies were keeping records of software licensure.
- Several instances were found where employees loaded software onto their computers, regardless of proof of licensure.
- A majority of the computers audited had trial versions of software installed.
- Peer-to-Peer software, which can allow outside users a backdoor into the City's programs and files, was found on two occasions.
- Spyware was located on some of the City's computers.

Disposition:
The responses received were generally in agreement with the recommendations.

Comment:
It is apparent on the basis of positive and favorable responses received that a citywide policy will be implemented regarding software licensing with the exception of keeping records of software licensure. Technical Services believes that agencies are already doing this function.

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Highlights-continued

Audit Title: **Community Planning and Development Agency**
Audit Period: January 1, 2002 through May 31, 2003

Summary of Reportable Conditions:

- Performance Enhancement Program Reports for employees were not always being completed timely.
- Retroactive pay increases were computed incorrectly resulting in some overpayments.
- Delinquent accounts receivables are not being aggressively pursued; resulting in uncollected revenue.
- There are weaknesses in the internal controls surrounding expenditures.
- A number of contract violations were found surrounding the Community Resource contract.

Disposition:

The responses received were positive and favorable for taking corrective action.

Comment:

The accounts receivable software is being upgraded. The recommendation regarding the internal controls of expenditures was implemented before the audit was issued. All contracts will be monitored more closely in the future.

Audit Title: **Denver Metro Convention and Visitors Bureau, Inc.**
Audit Period: January 1, 2002 through October 31, 2003

Summary of Reportable Conditions:

- The Denver Metro Convention and Visitors Bureau, Inc. (DMCVB) did not maintain comprehensive auto liability insurance in amounts required by their agreement with the City.
- The DMCVB accounting records were not in sufficient detail to distinguish between expenditures of City funds from other sources.
- We were unable to determine if City funds were expended on alcoholic beverages due to the lack of detail maintained in the accounting records.
- The lack of detail and itemized expenditures.
- Persons with access to the accounting records also had access to cash receipts.

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Highlights-continued

Disposition:

DMCVB's responses indicated that changes would be implemented to address the findings. The Department of General Services responses were in agreement with all of the findings and stated the recommendations were appropriate.

Comment:

The Department of General Services Administration administers the two contracts the City has with DMCVB.

Audit Title: **Denver Police Department Photo Radar**

Audit Period: January 1, 2002 through March 31, 2003

Summary of Reportable Conditions:

- There are weak internal controls on the part of the City surrounding overall Photo Radar program (Program) coordination, and control of expenditures and personnel.
- The Denver County Court has overstated its payroll expenditures for personnel working on the Program.
- The Program should be accounted for separately in a special revenue fund in order to increase accountability for revenue and expenditures.
- The City executed a contract with ACS without obtaining a copy of their insurance certificate for business entities.
- The City has not refunded overpayments for violations in excess of the amount owed.

Disposition:

The majority of the responses received were positive and favorable for taking corrective action.

Comment:

The Budget and Management Office will take the special revenue fund under advisement. Refunds for the overpayments have been issued.

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Highlights-continued

Audit Title: **Emergency Telephone System Trust Fund**
Audit Period: January 1, 2000 through August 31, 2003

Summary of Reportable Conditions:

- The Emergency Telephone Service (ETS) trust fund had unauthorized expenditures for official functions totaling \$27,150.
- Accounting personnel did not deposit revenue checks by the next business day consistently. Internal procedures were not in accordance with City policy and procedures.

Disposition:

The Manager of Safety's response disagreed with our conclusion that ETS funds could not be used for official functions. The Manager of Safety responded that they would deposit the revenue according to their internal policy.

Comment:

The Auditor's Office response to the Manager of Safety was to obtain a legal opinion from the City Attorney. The City Attorney determined the official function expenditures were unauthorized. Subsequently, the general fund reimbursed the Emergency Telephone Service the \$27,150.

Audit Title: **Mayors Office of Contract Compliance**
Audit Period: Year Ended December 31, 2002

Summary of Reportable Conditions:

- A payment was processed without proper authorization and an executed contract modification. No documentation was available to support said payment.
- Segregation of duties is lacking between leave and payroll responsibilities.
- The office does not document time and attendance of employees.
- The office does not comply with the City Fiscal Rules regarding fixed assets, resulting in inaccurate PeopleSoft records.
- Telecommuting is allowed without written documentation, resulting in non-compliance with CSA rules.

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Highlights-continued

Disposition:

The responses received were positive and favorable for taking corrective action.

Comment:

The Mayor's Office of Contract Compliance is now the Division of Small Business Opportunity (DSBO).

Audit Title:

Office of the Auditor

Audit Period:

January 1, 2000 through December 31, 2003

Summary of Reportable Conditions:

- Weaknesses were noted in the internal controls for expenditures by not having properly segregated duties. Also, some training invoices were not pre-approved.
- Official functions did not always have a required signature or necessary information attached as is required.
- The Travel advance account was not reconciled timely, some travel advance forms were not signed off, some non-lodging expenses were reimbursed as lodging expenses, and a reimbursement of mileage for use of a personal car occurred when round-trip airfare was less expensive.
- There was no central log recording all monies received. The logs maintained in the office did not provide sufficient information to track receipts. There was a lack of segregation of duties regarding cash handling.
- Deposits of monies received were not made in a timely manner.
- Some retroactive pay increases had been computed incorrectly resulting in overpayments.
- The PeopleSoft Asset Management System listing for fixed assets was not correctly stated.

Disposition:

Corrective measures are being developed and will be implemented.

Comment:

We did not note any material misstatements in the financial records. We declared a potential impairment to our independence with respect to this audit of the Auditor's Office in accordance with generally accepted government auditing standards.

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Highlights-continued

Audit Title: **Salary Redirection Plan for Eco Pass Program**
Audit Period: Year Ended December 31, 2003

Summary of Reportable Conditions:

- The master tracking log, maintained by Environmental Services, should be updated on a regular basis.
- The policy regarding replacement fees was not adhered to throughout the City.
- Eco Pass payroll deductions were not always correct.
- Environmental Services personnel perform limited audits but they are not done timely and did not include a procedure to check payroll deductions.

Disposition:

The responses received were positive and favorable for taking corrective action.

Comment:

The purpose of the audit was to determine if the program was being monitored by the City in an efficient manner and to verify contract compliance.

Audit Title: **Skyline Funds Financial Related**
Audit Period: January 1, 2001 through September 30, 2002

Summary of Reportable Conditions:

- Reconciliations were not being performed on all accounts.
- Notes receivable were not being recorded properly.
- Amounts used to calculate interest were not always correct.
- Incoming invoices were not date stamped which is contrary to prompt payment guidelines.
- Receipt of payments were not recorded in accordance with Executive Order No. 2.
- A need to increase controls to assure contract compliance.

Disposition:

The initial responses noted that some changes might be delayed due to budgetary restraints. They disagreed on the method of calculating interest. The findings

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Highlights-continued

regarding the reconciliations, notes receivable, and receipt of payment were all findings in previous audits.

Comment:

The follow up indicated that all recommendations had been implemented or were in process. The Office of Economic Development was making changes resulting in more flexibility so interest is calculated on the loan amount borrowed not the amount of the promissory note.

LEGALLY REQUIRED OR REQUESTED AUDITS AND REVIEWS

Review Title: **Central Services Division Review of Leave and Accounting Practices**

Review Period: January 1, 2003 through December 31, 2003

Summary of Reportable Conditions:

- Some vacation and sick leave balances reflected in PeopleSoft were not correct.
- Some employees were working unauthorized work schedules.
- Overtime worked was not always preauthorized.
- Employee's supervisor did not always sign overtime slips.
- Some employees appeared to have excessive amount of overtime pay.

Disposition:

We are currently conducting an audit to determine the disposition of prior weakness as reported.

Comment:

The review and evaluation of leave and accounting practices was performed at the request of General Services.

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Highlights-continued

Review Title: **Processing Long-term Receivables of PeopleSoft**
Review Period: December 31, 2002 to December 31, 2003

Summary of Reportable Conditions:

- Written policies and procedures are not in place to ensure the receivables are recorded correctly.
- Review and update the accounts receivable fiscal rule.

Disposition:

The responses received were positive and indicated the recommendations will be implemented.

Comment:

The purpose of this review was to identify recorded and unrecorded long-term receivables for the City's governmental funds. We verified the methodology used in valuing the receivables and that the proper accounting procedures were in place for recording purposes.

AIRPORT CONTRACT COMPLIANCE AUDITS

Audit Title: **ABX Air, Inc dba Airborne Express, Inc.**
Audit Period: Year Ended December 31, 2003

Summary of Reportable Conditions:

- It was determined ABX Air owed the City \$58,426 for landing fees since air operations had been assigned to a non-signatory affiliated company.
- Airborne Express did not maintain insurance coverage at the level required.
- Airborne Express did not maintain the performance bond required by the contract.

Disposition:

The Department of Aviation's response indicated that they would invoice ABX Air for the amount due. Aviation also indicated they would calculate and invoice ABX for the interest due as well as obtain an insurance certificate and a performance bond from Airborne Express that complies with the contract requirements. Airborne Express chose not to respond to the report.

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Highlights-continued

Audit Title: **Air Canada**
Audit Period: Year Ended December 31, 2002

Summary of Reportable Conditions:

- It was determined Air Canada owed the City \$32,661. This amount due included unpaid baggage claim fees, AGTS and tunnel fees, and overpayment of landing fees and interest charges.

Disposition:

The Department of Aviation's response concurred with the amount due and the overpayments. Air Canada is due a credit not addressed in the audit. Aviation will continue to hold the credit and invoices, except the interest charges, until a ruling is issued by the Bankruptcy Court. Aviation will issue a credit for the overpayment of the interest charges. Air Canada chose not to respond.

Comment:

We agree with the Aviation response concerning the credit amounts not addressed in the audit. We did not address those amounts because they were not within the audit period. In the future airline audits, we will consider a disclosure of revenue credits and settlement amounts outside of an audit period that may have an impact on the balance due.

Audit Title: **AT&T Wireless Services of Colorado, LLC**
Audit Period: Year Ended December 31, 2002

Summary of Reportable Conditions:

- It was determined AT&T Wireless Services of Colorado owed the City \$37,508. The majority of this amount due (\$36,377) was related to hold over fees and interest pertaining to the hold over fees. The remainder (\$1,131) was related to the net of license fees, electrical charges and interest charges.
- AT&T Wireless Services did not submit the correct performance bond amount and was late submitting the entire performance bond.

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Highlights-continued

Disposition:

The Department of Aviation's and AT&T Wireless Services' responses did not agree with the amount of \$36,377 due to the City regarding the hold over fees and interest pertaining to the hold over fees. The Master Lease Agreement was delayed and therefore Aviation decided to waive holdover fees. A separate audit was completed by the DIA Audit Division and released October 10, 2001. DIA's audit stated that all payments were up to date and no further audit action was necessary. Also, when the Master Lease Agreement was executed all payments were indicated to be up to date. Aviation stated they would invoice and issue credit memos for the remaining \$1,131.

Comment:

The Auditor's response to the Department of Aviation and AT&T Wireless Services' responses was the Master Lease Agreement had no impact on the 2002, 2001, and 2000 hold over fees. Also, the audit performed by the DIA Audit Division did not cover the hold over compliance issues.

Audit Title:

Ayala's Incorporated

Audit Period:

For the year ended December 31, 2003

Summary of Reportable Conditions:

- The contract language had a discrepancy in the performance guarantee amount between the section area and the applicable summary page. Ayala did not submit the performance guarantee in accordance to the contract due date.

Disposition:

The Department of Aviation's response indicated they will review the process and determine if additional checklists are necessary to avoid such contradictions in the future. The Property Office Compliance Group delayed sending deficiency letters due to the contradiction resulting in the late date of submitting the performance guarantee. Ayala declined to respond.

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Highlights-continued

Audit Title: **Frontier Airlines, Inc**
Audit Period: Year Ended December 31, 2002

Summary of Reportable Conditions:

- It was determined a net balance in the amount \$17,839 is due to Frontier for interest charges and overpayment of passenger facility charges.
- The Department of Aviation's Account Receivable section did not follow the procedures for issuing the credit due to Frontier.
- The annual report of Passenger Facility Charges was not submitted in a timely manner.

Disposition:

The Department of Aviation response indicated they would invoice Frontier Airlines for the interest charges and issue a credit for the overpayment of Passenger Facility Charges. Additionally, Aviation indicated they will review the current procedures for issuing credits and determine if additional procedures are needed. Frontier Airlines chose not to respond.

Audit Title: **Grand Holdings, Inc. dba Champion Air**
Audit Period: Year Ended December 31, 2003

Summary of Reportable Conditions:

- Champion Air does not have a written permit or contract from the manager of aviation to use airport facilities at DIA.
- It was determined Champion Air owes the City \$8,029. The balance consists of under reporting of statistics used to determine fees and under billing using incorrect rates.

Disposition:

The Department of Aviation response indicated they will invoice Champion Air for the amount owed to the City. Aviation sent a current permit letter to Champion on August 18, 2004.

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Highlights-continued

Audit Title: **Lufthansa German Airlines**
Audit Period: Year Ended December 31, 2001

Summary of Reportable Conditions:

- It was determined Lufthansa German Airlines owed the City \$1,140.
- The City entered into an unwritten agreement with Lufthansa which was not properly documented or approved by the Denver City Council.
- Department of Aviation owes the City's general fund \$61,134 for excess credits taken in connection with the unwritten agreement.
- Credits issued to DIA by the City's general fund were netted against the anticipated indirect cost reimbursement to the general fund. Generally accepted accounting principles require such transactions be recorded as transfers.
- The Department of Aviation's Financial Planning Office and the Department of Revenue Accounting used different fiscal years in determining landing fee credits given to Lufthansa.

Disposition:

The Department of Aviation response agreed Lufthansa owes the City \$1,140 and will issue an invoice for that amount. Aviation also agreed they owe the City \$61,134 and will credit the general fund for this amount. The Department's responses were positive and favorable for taking corrective action on all of the reportable conditions. Lufthansa German Airlines chose not to respond.

Comment:

The audit disclosed that the City entered into an unwritten incentive agreement with Lufthansa German Airlines whereby a portion of Lufthansa's landing fees would be paid by the City's general fund. After the audit report was released, a bill for an ordinance approving the agreement was proposed and passed by Denver City Council on November 15, 2004.

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Highlights-continued

Audit Title: **Mexicana Airlines Incorporated**
Audit Period: Year Ended December 31, 2002

Summary of Reportable Conditions:

- It was determined Mexicana Airlines owed the City \$2,220. This amount included unpaid AGTS and tunnel fees (\$212), conventional baggage equipment fees (\$1,766), interest charges for late payments (\$695), and overpayment of landing fees (\$453).

Disposition:

The Department of Aviation's response indicated they invoiced Mexicana \$1,978 for the AGTS and tunnel fees and the conventional baggage equipment fees. Aviation issued a credit memo to Mexicana in the amount of \$453 for the overpayment of the landing fees. Aviation responded their interest system was modified in January 2002 to run the interest program weekly, with materiality basis of more than \$20 per invoice. This reflects a disagreement with amount due for interest charges. Mexicana Airlines, Inc. chose not to respond.

Comment:

The modifications to the policy and procedures by Aviation are contrary to contract conditions. The Department of Aviation should pursue making the appropriate contractual language changes to reflect the current practice and procedures.

Audit Title: **Prima Oil & Gas Company**
Audit Period: Year Ended December 31, 2002

Summary of Reportable Conditions:

- It was determined Prima Oil & Gas Company owes the Department of Aviation oil royalties in the amount of \$1,785.
- The contract is not specific as to when monthly royalty payments are due by the lessee, and should be amended.

Disposition:

The Department of Aviation's response indicated they will put procedures in place to ensure that amounts owed are paid. Aviation's intent was to follow industry

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Highlights-continued

standards and not have a specific date of payment in the contract. Aviation was basing this on the Colorado Revised Statute (CRS) 34-60-118.5 (2) (a).

Comment:

The Auditor's response to the Department of Aviation was CRS 34-60-118.5 (2) (b) provides for terms of arrangement for payment that differ from those set forth in the CRS paragraph (a). Aviation should evaluate if the lease should be modified.

Audit Title: **United Airlines, Inc**
Audit Period: Year Ended December 31, 2002

Summary of Reportable Conditions:

- United uses an incorrect formula to compute its Passenger Facility Charges (PFC).
- United was over billed and they over paid estimated ground rent during 2002.
- United may owe the City \$25,261 in interest charges for late PFC and ground rent payments if these charges should be released under United's Stipulation Order.

Disposition:

The Department of Aviation responded that United's independent auditors will be notified of the incorrect formula being used to compute the PFC. United and the Federal Aviation Administration (FAA) have been notified in the past of this issue. The Department of Aviation will continue to recalculate the PFC using the FAA's accepted formula. Aviation's finance system is limited and the billing rate table can only use three decimal places that contributed to the over billing. Aviation will continue to use the automated system for calculating the estimated ground rent. Aviation's response was that any interest on PFC and ground rent late charges that were not included in the Stipulated Order will not be charged to United. United chose not to respond.

Comment:

There is no amount due to the City regarding the PFC charges because this amount was used to reduce the United revenue sharing credit. We agree that the year-end "true-up" will resolve any variances between actual and estimated ground rent.

INTERNAL AUDIT DIVISION
2004 ANNUAL REPORT

Highlights-continued

AIRPORT EXPENDITURE AUDIT

Audit Title: **Executive Petroleum Services**
Audit Period: Year Ended December 31, 2001

Summary of Reportable Conditions:

- There were no reportable conditions disclosed in this audit.

Disposition:
Not Applicable.

Comment:
The audit objective was met to determine whether Executive Petroleum Services properly reported service provided to the City and received compensation from the City in accordance with their contract. The audit also determined if Petroleum Services and the Department of Aviation complied with the other terms and conditions of the contract, applicable City rules and regulations, and good accounting and administrative internal controls.