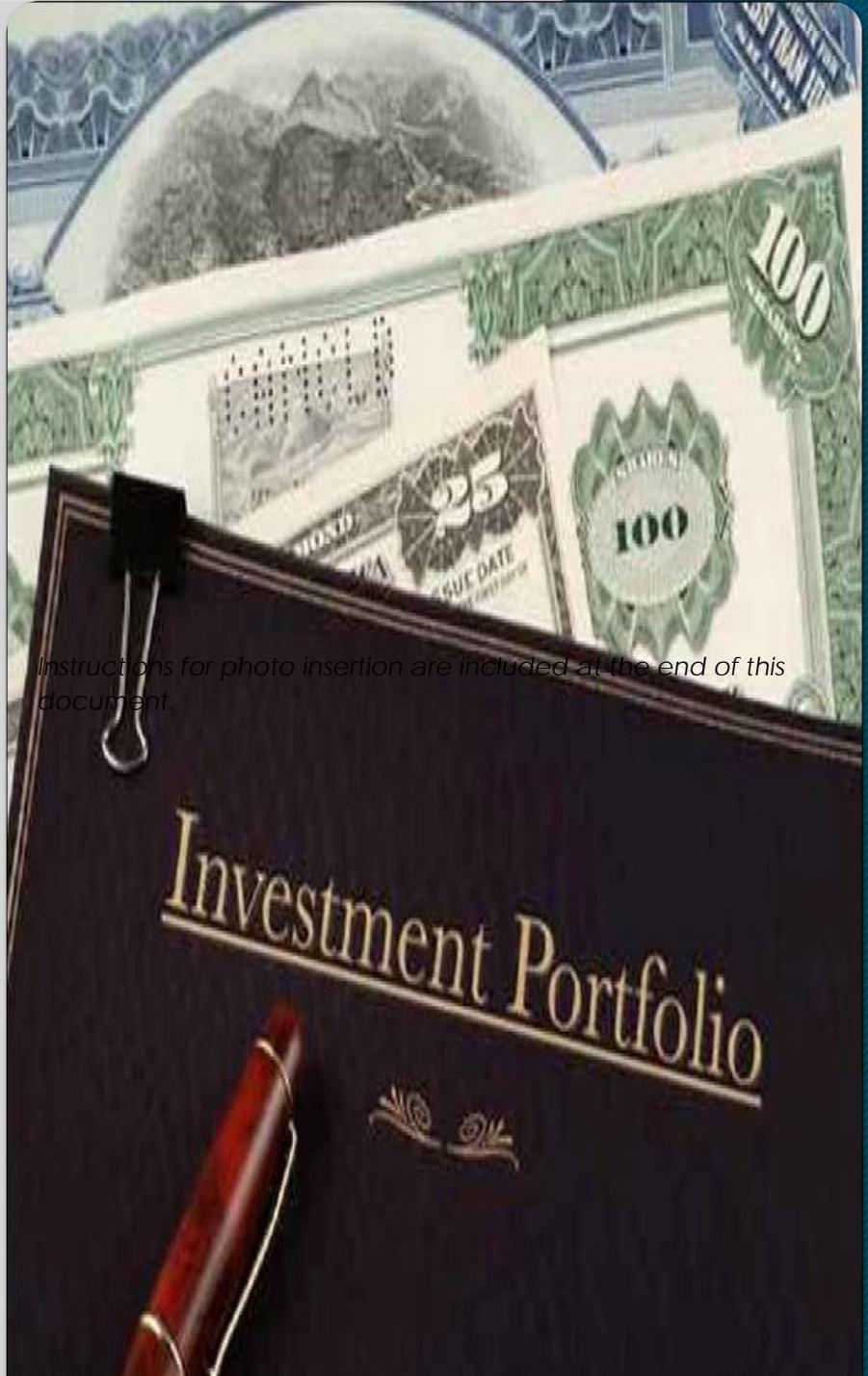


**FOLLOW-UP REPORT**  
**Department of Finance**  
*Investment Evaluation*  
**December 2018**

**Office of the Auditor**  
**Audit Services Division**  
**City and County of Denver**



**Timothy M. O'Brien, CPA**  
**Denver Auditor**



*Instructions for photo insertion are included at the end of this document.*

## Consultants for April 2017 Evaluation

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Dale A. Connors, CFA, Senior Consultant, Ellwood Associates

Sarah E. Chobot, Consultant, Ellwood Associates

## Audit Team for Follow-Up Report

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Rob Farol, CGAP, Lead Auditor

## Audit Management

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Timothy M. O'Brien, CPA, Auditor

Valerie Walling, CPA, CMC®, Deputy Auditor

Dawn Wiseman, CRMA, Audit Manager

## Audit Committee

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Timothy M. O'Brien, CPA, Chairman

Rudolfo Payan, Vice Chairman

Jack Blumenthal

Leslie Mitchell

Florine Nath

Charles Scheibe

Ed Scholz

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### **Office of the Auditor**

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# City and County of Denver

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**Timothy M. O'Brien, CPA**  
Auditor

December 6, 2018

## AUDITOR'S REPORT

The Audit Services Division's policy, as authorized by D.R.M.C. § 20-276, indicates our responsibility to monitor and follow up on recommendations to ensure that findings are being addressed through appropriate corrective action and to aid us in planning future engagements.

In our follow-up effort for the Investment Program Evaluation completed by Ellwood Associates and issued on April 20, 2017, we determined that the Department of Finance has adequately implemented the recommendations made in the evaluation report for the Consolidated Portfolio, the Airport Reserve Portfolio, the Workers Compensation Portfolio, and the Special Purpose Portfolios. The follow-up report includes a detailed implementation status update for each recommendation. The April 2017 evaluation report can be found on-line at [www.denverauditor.org/auditservices/audit-reports](http://www.denverauditor.org/auditservices/audit-reports).

This concludes the follow-up work related to this evaluation. I would like to express our sincere appreciation to you and to Department of Finance personnel who assisted us throughout the evaluation and follow-up process. If you have any questions, please feel free to contact me at 720-913-5000 or Dawn Wiseman, Internal Audit Manager, at 720-913-5069.

Denver Auditor's Office

A handwritten signature in black ink, appearing to read "Timothy M. O'Brien".

Timothy M. O'Brien, CPA  
Auditor

## RECOMMENDATION STATUS OF IMPLEMENTATION

### FINDING 1: Investment Policy Analysis

#### Recommendation

- 1.1 **Investment Policy** – Ellwood recommended integrating portfolio-specific strategy guidelines into the Investment Policy and adding benchmarks for all managed pools of investments within the benchmarking section.

Status: Implemented

#### Auditee Action

The Investment Policy has been revised to include strategy descriptions for each portfolio, including benchmark information for clarity. The Investment Policy Statement is archived on a shared drive and hosted on the denvergov.org website to allow access for users of the document.

## RECOMMENDATION STATUS OF IMPLEMENTATION

### FINDING 2: Investment Procedures Analysis

#### Recommendation

- 2.1 **Investment Procedures** – Ellwood recommended maintaining an updated procedures manual, periodically reviewing Chandler's services, and considering staffing levels given the size of the investments.

Status: Implemented

#### Auditee Action

According to the Chief Investment Officer, the specific procedures mentioned in the summary recommendation have been updated and archived to a shared drive allowing access to investment staff. A specific recommendation to add and share procedures for corporate bonds will be completed by the end of the year. To stay updated with Chandler Asset Management services, the Investment Team continues to hold biweekly phone meetings and in-person meetings six times per year. The Chandler Asset Management contract will expire on December 31, 2019, and the Investment Team intends to release a request for proposal in conjunction with best practices.

The Chief Investment Officer has assessed the current portfolio value at \$6.3 billion as of October 31, 2018, nearly a 100 percent increase from \$3.2 billion as of March 31, 2017, which helps substantiate the need for additional staffing as recommended by Ellwood during the evaluation. In response to that recommendation, the investment team has been awarded a limited-term position through the end of 2019, which is critical to support Investment initiatives.

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## RECOMMENDATION STATUS OF IMPLEMENTATION

### FINDING 3: Investment Portfolios Analysis

#### Recommendation

- 3.1 **Investment Portfolios** – Ellwood recommended adjusting a weighted benchmark calculation from using ending weights to beginning weights and modifying the way corporate industry weights are evaluated. Ellwood also recommended adding additional documentation on benchmarks for the Consolidated and Airport Reserve Portfolios and cash flow procedures for the FAA Escrow Grant Fund and monitoring the Workers' Compensation and Cableland Home Foundation to a stated benchmark.

**Status:** Implemented

#### Auditee Action

According to the Chief Investment Officer, the investment team completed an analysis to quantify the significance of using ending weights versus beginning weights as recommended by Elwood. Working with Chandler Asset Management, the Department of Finance determined that the net effect of using beginning weights is negligible. Therefore, the Department of Finance has not changed the weighted benchmark calculation methodology. Although the weighted benchmark calculation did not change, the Strategy Guidelines, the companion to the Investment Policy, can be changed expediently depending on market conditions or unforeseeable requirements from the portfolio. Since the Strategy Guidelines are more restrictive than the Investment Policy, the investment team, in conjunction with Chandler Asset Management, has elected to remove all verbiage relative to corporate industry weights from the Strategy Guidelines, to allow the constraints of the Investment Policy to govern.

The investment team also worked with Chandler Asset Management to implement a strategy to manage the Workers' Compensation Portfolio. In addition to observing multiple benchmarks with similar duration structures, the investment team monitors annual actuarial studies conducted by an external firm, Bickmore Consulting. To monitor the Workers' Compensation Portfolio, the investment team performs an annual analysis to project the total number of years of all outstanding workers' compensation claims remaining on the books as liabilities. The investment team then manages the portfolio duration within a standard range of the total projected number of years remaining on all outstanding liabilities.

Based on the original response during the Audit Committee for this evaluation, there have been no changes to the management practices of the FAA Escrow Grant Fund and the Cableland Portfolio. The FAA Escrow Grant Fund will continue to be managed to the outstanding bonds cash flows that are required for defeasance.<sup>1</sup> Additionally, the Cableland Portfolio will be managed to a target yield return based on market conditions and annual maintenance needs for Cableland.<sup>2</sup> This approach to managing these two funds does not present a high risk to the City.

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<sup>1</sup> Defeasance is the process through which a borrower is released from the obligations of its debt by setting aside funds to pay off the debt.

<sup>2</sup> Cableland is the official residence for the Mayor of Denver.

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# CONCLUSION

We found that the Department of Finance has fully implemented all recommendations and adequately mitigated the risk identified during the original evaluation. As a result, we conclude our follow-up effort related to the Investment Policy Evaluation.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from the Department of Finance for their cooperation during our follow-up effort and their dedicated public service.

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## Office of the 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 and contractors for the purpose of ensuring the proper and efficient use of City resources. He also provides other audit services and information to City Council, the Mayor, and the public to improve all aspects of Denver's government.

The **Audit Committee** is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities regarding the integrity of the City's finances and operations, including the reliability 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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### Our Mission

We deliver independent, transparent, and professional oversight in order to safeguard and improve the public's investment in the City of Denver. Our work is performed on behalf of everyone who cares about the City, including its residents, workers, and decision-makers.

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