



Denver City Council

Summary Finance Committee

Date: Monday, August 7, 2006 1:30 PM Council Conference Room

Committee Members Present: Boigon, Chair; Faatz, Vice-Chair; Brown, Garcia, Lehmann, Wedgeworth

Committee Members Absent: MacKenzie

Other Members Present: Hancock, Johnson, Linkhart, Montero, Robb, Rodriquez

1. Recommendations from the Mayor's Financial Task Force: Proposed Charter Amendments

Committee Action

The Committee agreed to set another meeting to further consider the Mayor's charter proposals regarding creating a chief financial officer and urged the Administration and the Auditor's Office to continue to work to develop a consensus proposal.

Summary of Discussion

Cole Finegan, City Attorney & Chief of Staff, explained that the City's current financial management system is compromised by two key issues: 1) the Auditor's Office audits its own work, and 2) the Auditor's Office lacks authority to perform internal financial and performance audits. He said the Task Force's recommendations address these issues and would meaningfully improve financial management checks and balances. Mr. Finegan reviewed the Mayor's rationale for creating the Task Force including:

- Repeated warnings from external auditors that the City's financial reporting and controls are substantially deficient including the following:
 - 2003 – 1 Material Weakness
 - 2004 – 4 Material Weaknesses, 4 Reportable Conditions
 - 2005 – 1 Material Weakness, 6 Reportable Conditions
 - 65 material corrections necessary by the external auditor
- Inability to effectively monitor and budget operations: The City closes its books in 90 days and its audit is completed in 165 days, compared to 30 and 45 days respectively for the federal government.
- Multiple steps and manual processes in payment and contracting procedures significantly delay the City's conduct of business and preclude maximizing the benefits of the City's \$20 million investment in its Oracle financial information system

- The City auditor audits its own accounting work
- Current post-Enron landscape for financial controls is entirely contradictory to the City's current practice

Mr. Finnegan also described the Task Force recommendations and their relationship to current best practices, noting the following:

- Consolidate accounting functions under the Controller who would report to the newly created Chief Financial Officer (CFO)
 - Increases accuracy and timing of reports
 - Improves controls
- Create true internal audit function performed by the Auditor's Office and eliminate most processing duties
 - Removes current conflict
 - Creates true first level check on the process (external auditor provides the only real check today)
- Establish specific goals for improvement of timeliness of reports, accuracy of reports and condition of controls
- Centralize payment authorization and review process within Administration
- CFO/Controller would be personally responsible for implementation of appropriate controls and would be measured for performance in this area
- Empower Auditor to regularly perform independent audits of the payment process to ensure compliance with appropriate procedures

According to Mr. Finnegan, the role of the Auditor is strengthened in this proposal by:

- Clear articulation of internal audit duties and authorization of access required to perform these duties
- Change in Auditor's budget process to requiring only a majority of City Council approval
- Change in Audit Committee structure to give Auditor/City Council representatives a combined majority and to give it authority to select outside auditor
- Independent review and oversight of the Auditor's internal audits and audit work plan
- Continuing to review and sign "material" contracts as defined by Charter or ordinance; current draft specifies \$500,000 threshold
- All contracts under this threshold would be subject to immediate and thorough audit and review by the Auditor's Office

Mr. Finegan concluded that the 2005 audit puts the City on notice again by KPMG that the City's financial system is broken. He said the Task Force has given the city a roadmap to improvement. A lack of action on these recommendations could leave the City vulnerable to valid criticisms in the future.

Councilwoman Faatz questioned why the proposal does not reference a specific function of performance auditing for the auditor. Mr. Broadwell noted that the language is broad, but specific language could be added to address performance auditing explicitly.

Auditor Dennis Gallagher said he was supportive of the concept of creating a chief financial officer but would prefer that a transition period with a CFO be implemented before changing the City's Charter. Auditor Gallagher presented the following concerns about the current proposal:

- The auditor provides a check on the strong mayor form of government in Denver and this balance needs to be retained.
- The rush to change the Charter is proceeding too quickly to provide an opportunity for thoughtful deliberation.
- Creating a \$500,000 threshold for auditor review of contracts will eliminate review of 93% of the contracts; in addition, it is unclear how contract change orders would be handled.
- There is no specific authority to perform performance auditing

Councilmembers made the following suggestions:

Councilman Brown asked the two sides to continue to work on a consensus proposal.

Councilwoman Rodriguez requested that the total dollar amounts for contracts under \$500,000 be calculated and provided to Council.

Councilwoman Faatz expressed concerns about reducing the auditor's role in countersigning contracts. She prefers a system that allows review of contracts before payments are made.

The Committee agreed to reconvene in special session on August 14, 2006 to review a redrafted proposal after continuing negotiations between the Mayor's and the Auditor's offices.