Audit Committee, City Council and Management  
City and County of Denver  
Denver, Colorado

In planning and performing our audit of the financial statements of City and County of Denver (the City) as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the City’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and a deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City’s financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be deficiencies, significant deficiencies or material weaknesses.

**Material Weaknesses**

Refer to the Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.*
Significant Deficiencies

Refer to the Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.

Deficiencies

2018 D-1 Traffic Signal Additions and Deletions

Finding: The City uses a “first-in, first-out” approach when disposing of traffic signals. Instead of writing off the actual item that was disposed or replaced, the City removes the oldest remaining traffic signal from its capital asset inventory. The net result of this procedure is not material and did not result in adjustment, but could potentially lead to material errors.

Recommendation: We recommend that the City remove the actual traffic signal being replaced rather than the oldest in-service signal.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding. Public Works and the Controller’s Office will work together to determine the approach for removing a specific traffic signal rather than using the FIFO method. The in-service date for signals installed prior to 2005 is not always available. However, we believe we have other data elements available that would provide for a more accurate dollar value related to removing a specific traffic signal.

Person(s) responsible for implementing: Don Andriese, Financial Director, Public Works and Kelli Bennett, Director of Accounting and Financial Reporting, Controller’s Office

Implementation date: August 31, 2019

2018 D-2 Debt

Finding: During the year, the City issued $67.9 million of 2018B General Obligation Justice System Facilities Refunding Bonds. In accordance with Governmental Accounting Standards Board (GASB) standards, the City performed a calculation to determine the deferred gain or loss on the refunding transaction. However, there was an error in the City’s calculation which resulted in a $3.3 million dollar audit adjustment. This adjustment was proposed and recorded by management.
In addition, we noted three outstanding issuances: Refunding Certification of Participation, Series 2013A (Buell Theatre Property); General Obligation, Better Denver and Refunding Bonds, Series 2013A; and General Obligation Refunding Bonds, Series 2013 B1 and B2 which were due to have an arbitrage calculation performed during 2018. Based on testing performed and discussions with management, arbitrage calculations were not performed during 2018 and had not been performed at the time of CAFR issuance.

**Recommendation:** We recommend that all future refunding calculations be reviewed and prepared by two different individuals. In addition, we recommend that the delinquent arbitrage calculations be obtained as soon as possible. Finally, we recommend that the City develop or identify a tracking mechanism to help ensure future arbitrage calculations are performed timely.

**Views of Responsible Officials and Planned Corrective Actions:** We agree with the finding. Shortly before the fiscal year 2018 year-end process and audit, the Controller’s Office had employee turnover in the position that handles debt-related functions. This position has now been filled by a knowledgeable employee familiar with accounting and financial reporting requirements over debt. The addition of this employee will also allow us to document the process and provide for a more robust review that will assist in catching errors and effectively maintaining arbitrage reports.

*Person(s) responsible for implementing:* Shanna Tohill, Manager of Financial Reporting, Controller’s Office

*Implementation date:* July 31, 2019

**2018 D-3 Component Units**

**Finding:** The City includes a number of component units within its reporting entity because of the significance of their operational or financial relationships with the City in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* – an amendment of GASB Statement No. 14, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* – an amendment of GASB Statements No. 14 and No. 34, and GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. As part of audit inquiries, it was determined that one of the Component Units (Five Points BID) had financial activity in the prior year but was not included within the 2017 CAFR. The impact was not material and would not have mislead the users of the CAFR. In addition, it was determined that the City is not re-evaluating Component Unit determinations on an annual basis.
Recommendation: We recommend that the City complete an annual re-evaluation of all potential Component Units to determine if treatment within the CAFR is appropriate. While we understand this may be a very time consuming process given the number of component units the City has, the City many also consider reevaluating all major component units annually and preforming a reevaluation of the other component units on a rotating basis.

Furthermore, we recommend the City utilize a “component unit checklist” when compiling the CAFR to aid in ensuring the listing of component units in the CAFR is complete.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding. During 2019 the Controller’s Office will reevaluate all component units to ensure that they are reported properly. Going forward, all major component units will be assessed annually, and non-major component units will be assessed on a rotating schedule. The Controller’s Office will also develop a component unit checklist to ensure all applicable component units are properly reported.

Person(s) responsible for implementing: Shanna Tohill, Manager of Financial Reporting, Controller’s Office

Implementation date: December 31, 2019

2018 D-4 Disaster Recovery Plan – City

Finding: The Information Technology Disaster Recovery Policy dated September 11, 2017 requires that the City annually test the disaster recovery plan and procedures in a suitable environment to ensure that the systems, networks, databases and other IT infrastructure elements can be recovered and returned to normal operations in the event of an unplanned interruption. Furthermore, designated disaster recovery team members and other participants are to remain familiar with the disaster recovery plan and procedures as well as their respective roles and responsibilities. During our review of the documentation provided and inquiry of the City’s personnel, we determined that the City has never performed a full backup recovery test of its critical financial sub-systems including GenTax, Oasis and ECS. Although the City performs individual recoveries when a file or a folder is lost or accidentally deleted, the restorability of critical financial systems has not been fully tested.

Recommendation: In compliance with policy, we recommend the City perform an annual documented restoration test of financial applications and data.
Views of Responsible Officials and Planned Corrective Actions: We agree with the finding. We will execute a Disaster Recovery Test of the GenTax Financial Application in its QA Environment by end of June. In addition, we will work with the GenTax vendor to plan and execute the Disaster Recovery test. The lessons learned during this test will inform how we conducts additional Disaster Recovery tests of its other Financial Applications as we work to improve our Disaster Recovery Plans and Procedures.

Person(s) responsible for implementing: David Rhiel, IT Project Manager, Technology Services

Implementation date: June 30, 2019

2018 D-5 Review of Access Privileges – City

Finding: Per our review of access privileges for the in-scope applications, an annual review of user access (re-certification) is not performed by the business owners. Periodic re-certification helps control risks associated with segregation of duties issues arising from personnel changing functional responsibilities and unauthorized access resulting from delays in disabling accounts for terminated users.

Recommendation: Although the review may be coordinated by Technology Services, we recommend that the City’s business owners perform a periodic documented review of logical access for users of applications supporting general ledger and its supporting sub-systems, databases and operating systems.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding. We performed user re-certification for GenTax in 2018. We will continue to work with CCD business owners to perform annual user access review for all in-scope applications, including the supporting sub-systems, databases and operating systems. The user review result will be appropriately documented.

Person(s) responsible for implementing: Julie Sutton, IT Governance Manager, Technology Services

Implementation date: August 31, 2019

2018 D-6 Review of Access Privileges over PropWorks – Airport

Finding: Although management indicated that they performed an annual review of PropWorks application users, documented evidence of the review and management sign-off was not readily available.
Recommendation: We recommend that all evidence of review be retained where the application owner provides a listing of the users accounts reviewed, notes on whether privilege changes are required or not, as well as signing and dating the review. Management should also implement a process to verify that the changes requested during the review were implemented in a timely manner.

Views of Responsible Officials and Planned Corrective Actions: We agree with this finding. Business Technologies will send the user list to the PropWorks business owner for a review of user privileges. The review will include documentation and sign-off.

Person(s) responsible for implementing: Tim Coogan, Chief Information Security Officer, Denver International Airport

Implementation date: June 1, 2019

2018 D-7 Firewall Ruleset Reviews – Airport

Finding: Although the Airport has deployed software tools to detect changes to firewall rules at unauthorized times, the Airport does not perform a regular and documented periodic review of firewall rulesets to identify unauthorized changes that may have not generated an alert or vulnerable legacy rules that are no longer needed or should be reconfigured to enhance security. In combination with the change detection tool, a periodic firewall configuration review would aid in identifying rules that could result in exploitable security vulnerabilities.

Recommendation: We recommend the Airport perform and document periodic reviews of the firewall rulesets.

Views of Responsible Officials and Planned Corrective Actions: We agree with this finding. DEN Business Technologies will implement a bi-annual firewall review process.

Person(s) responsible for implementing: Tim Coogan, Chief Information Security Officer, Denver International Airport

Implementation date: June 1, 2019
2018 D-8 Secondary Data Center Location – Airport

**Finding:** The DEN secondary data center is located less than five miles of the primary data center. Given their proximity, both data centers could be affected by the same regional events resulting in an extended service outage.

**Recommendation:** We recommend the Airport perform an evaluation of the location of the secondary data center and consider steps to increase the distance between the data centers.

**Views of Responsible Officials and Planned Corrective Actions:** We agree with this finding. The same finding was observed in the 2018 Denver Auditor’s Office “Data Center Audit”. Our action plan is that DEN will complete an evaluation to determine if its secondary data center should be relocated or augmented and this will occur once the Airport’s Carrier Diversity project has been completed.

**Person(s) responsible for implementing:** Tim Coogan, Chief Information Security Officer, Denver International Airport

**Implementation date:** December 31, 2020

2018 D-9 Periodic Security Badge Utilization Reviews – Airport

**Finding:** DEN Business Technologies Information Security does not currently perform a periodic review of “badge swipes” for individuals who have used, or attempted to use, a security badge to enter the Airport’s data centers. A frequent review of the logs would enhance existing security measures, such as strong badge control procedures and CCTV monitoring, and could help verify that no unusual activity is occurring that would indicate a potential security threat.

**Recommendation:** We recommend the Airport perform periodic reviews of the badge swipe logs in order to enhance existing security measures.

**Views of Responsible Officials and Planned Corrective Actions:** We agree with this finding. DEN Business Technologies will implement a process to review badge swipes accessing the data centers.

**Person(s) responsible for implementing:** Tim Coogan, Chief Information Security Officer, Denver International Airport

**Implementation date:** June 1, 2019
Finding: The PropWorks application authenticates through Active Directory. However, there is currently not a complete periodic and documented review of Active Directory access. A periodic review provides management with the opportunity to remove access for terminated users that were not otherwise caught in the normal termination process.

Recommendation: We recommend the Airport perform periodic reviews of the Active Directory Network Access. These reviews should be formally documented and maintained by the Airport.

Views of Responsible Officials and Planned Corrective Actions: We agree with this finding. The Airport Business Technologies will implement a process to review active accounts for terminated users.

Person(s) responsible for implementing: Tim Coogan, Chief Information Security Officer, Denver International Airport

Implementation date: June 1, 2019

OTHER MATTERS

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements.

Finding: City Fiscal Accountability Rules 9.2.17 requires that recipients drawdown grant funds from awarding agencies no later than the end of the month following the month in which the expenditure(s) occurred. This rule implies that drawdowns should occur monthly, at a minimum. During our testing of cash management, we noted drawdown requests occurring less frequently than required. This results in extended periods of time in which the City or DEN is covering the negative cash positions for these programs.
Recommendation: We recommend that the City remind program personnel of the internal policy and evaluate grant agreements and individual program cash management procedures in order to work towards compliance with this rule which will allow for more effective use of City financial resources.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding. Training will be developed to inform City agencies on the importance of efficient drawdown procedures to help ensure that the City is not operating in a negative cash position for applicable programs. Additionally, Fiscal Rule 9.2 – Grant Management, will be re-evaluated to update drawdown requirements as some grantors have contractual requirements, such as only performing quarterly drawdowns, that are not in line with the current fiscal rule.

Person(s) responsible for implementing: Shanna Tohill, Manager of Financial Reporting, Controller’s Office.

Implementation date: December 31, 2019

2018 Single Audit – OM-2 SEFA Preparation

Finding: Certain federal expenditure amounts reported in preliminary schedules of federal awards (SEFAs) were not accurate, potentially impacting major program determination. One issue was a result of improper set up of the award in WorkDay. The other issue was more clerical in nature whereas a budgetary amount was included rather than an actual amount.

Recommendation: We recommend that the City remind program personnel of the importance of properly setting up federal awards in WorkDay. In addition, we recommend cross training and review processes be considered to ensure preliminary SEFAs are accurate to minimize the risk of programs being tested as major unnecessarily and to ensure that errors are not carried forward to the final SEFA.

Views of Responsible Officials and Planned Corrective Actions: We agree with the finding. The Controller’s Office will communicate to City agencies the importance of properly setting up grants in Workday as well as informing them on how to correct those grants that may not have been properly set up. Additionally, training will be developed, to coincide with other grant trainings, that will help ensure that agencies are informed of the importance of proper SEFA reporting and the impact it can have to reduce the risk of programs unnecessarily being tested.

Person(s) responsible for implementing: Shanna Tohill, Manager of Financial Reporting, Controller’s Office

Implementation date: December 31, 2019
2018 OM-3 New Accounting Pronouncements

GASB Statement No. 83, Certain Asset Retirement Obligations

GASB 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities.

GASB 83 is effective for the City’s fiscal year ending December 31, 2019.

GASB Statement No. 84, Fiduciary Activities

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

GASB 84 is effective for the City’s fiscal year ending December 31, 2019.
In June 2017, GASB published Statement No. 87, Leases. This Statement was the result of a multi-year project to reexamine the accounting and financial reporting for leases. The new Statement establishes a single model for lease accounting based on the principle that leases represent the financing of the right to use an underlying asset. Specifically, GASB 87 includes the following accounting guidance for lessees and lessors:

**Lessee Accounting:** A lessee will recognize a liability measured at the present value of payments expected to be made for the lease term, and an intangible asset measured at the amount of the initial lease liability, plus any payments made to the lessor at or before the beginning of the lease and certain indirect costs. A lessee will reduce the liability as payments are made and recognize an outflow of resources for interest on the liability. The asset will be amortized by the lessee over the shorter of the lease term or the useful life of the asset.

**Lessor Accounting:** A lessor will recognize a receivable measured at the present value of the lease payments expected for the lease term and a deferred inflow of resources measured at the value of the lease receivable plus any payments received at or prior to the beginning of the lease that relate to future periods. The lessor will reduce the receivable as payments are received and recognize an inflow of resources from the deferred inflow of resources in a systematic and rational manner over the term of the lease. A lessor will not derecognize the asset underlying the lease. There is an exception for regulated leases for which certain criteria are met, such as airport-aeronautical agreements.

The lease term used to measure the asset or liability is based on the period in which the lessee has the noncancelable right to use the underlying asset. The lease term also contemplates any lease extension or termination option that is reasonably certain of being exercised.

GASB 87 does not apply to leases for intangible assets, biological assets (*i.e.* timber and living plants and animals), service concession agreements or leases in which the underlying asset is financed with conduit debt that is reported by the lessor. Additionally, leases with a maximum possible term of 12 months or less are excluded.

GASB 87 is effective for the City’s fiscal year ending December 15, 2020. Early application is encouraged. It is anticipated that leases would be recognized using the facts and circumstances in effect at the beginning of the period of implementation.
GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB 88). This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

GASB 88 is effective for the City’s December 31, 2019 financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89). This Statement improves financial reporting by providing users of the financial statements more relevant information about capital assets and the cost of borrowing for a reporting period. It will require that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the costs is incurred. As a result, the interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type or enterprise fund.

GASB 89 is effective for the City’s December 31, 2020 financial statements, with earlier application encouraged.

GASB Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*

GASB Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61* (GASB 90). An equity interest is a financial interest in a legally separate organization evidenced by ownership of shares of the organizations stock or by otherwise having an explicit, measurable right to the net resources of the organization that is usually based on an investment of financial or capital resources by a government. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and
the method for measuring the government’s share of the entity’s net resources is determinable. This statement modifies guidance for reporting a government’s majority equity interest in a legally separate organization and will require organizations to re-evaluate any arrangements presently reported as a joint venture.

GASB 90 is effective for the City’s December 31, 2019 financial statements.

While several of these standards are not effective in the short-term, we recommend the City begin assessing the potential impact on the financial statements of all of these statements and begin the process of communicating this impact with those charged with governance and other stakeholders.

Management’s written response to the deficiencies, significant deficiencies, and material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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This communication is intended solely for the information and use of Management, members of City Council, and members of the Independent Audit Committee and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

June 18, 2019