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 and oversees the City’s Comprehensive Annual Financial Report (CAFR).

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.

### Audit Committee

<table>
<thead>
<tr>
<th>Dennis Gallagher, Chair</th>
<th>Robert Bishop</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maurice Goodgaine</td>
<td>Robert Haddock</td>
</tr>
<tr>
<td>Jeffrey Hart</td>
<td>Bonney Lopez</td>
</tr>
<tr>
<td>Timothy O’Brien</td>
<td></td>
</tr>
</tbody>
</table>

### Audit Staff

- John Carlson, Deputy Director, JD, MBA, CIA, CICA
- Heather Darlington, Internal Audit Supervisor, MS, CPA
- Marcus Garrett, Lead Auditor, CIA, CGAP
- Jessica Quintana, Senior Auditor
- Emily Gibson, Staff Auditor, MS

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**Office of the Auditor**

201 W. Colfax Avenue, Dept. 705 • Denver CO, 80202

(720) 913-5000 • Fax (720) 913-5026

Or view an electronic copy by visiting our website at:

[www.denvergov.org/auditor](http://www.denvergov.org/auditor)
Mr. Claude Pumilia, Chief Financial Officer  
Department of Finance  
City and County of Denver

Dear Mr. Pumilia:

Attached is the Auditor’s Office Audit Services Division’s report regarding Financial Management for the Treasury Division. The purpose of the audit included, but was not limited to, ensuring compliance with the City’s Investment Policy, evaluating the City’s organizational and oversight approach, assessing relationships with third party contractors, and determining whether internal controls in place were adequate under the circumstances.

Audit work determined the Treasury Division is not in compliance with the City’s Investment Policy. The majority of Investment Policy requirements are met, including those governing authorized investments, portfolio constraints, collateralization and custody. However, the Division has not developed written procedures as required by the Investment Policy.

In addition, auditors observed that requirements for policy amendments could be strengthened as they vary from auditors’ benchmarking results and guidance provided by the Government Finance Officers Association. My office has provided recommendations for addressing these noted issues.

If you have any questions, please contact Kip Memmott, Director of Audit Services, at 720-913-5027.

Sincerely,

Dennis J. Gallagher  
Auditor

cc:  Honorable John Hickenlooper, Mayor  
Honorable Members of City Council  
Members of Audit Committee  
Ms. Roxane White, Chief of Staff  
Mr. David T. Roberts, Chief Services Officer  
Mr. David Fine, City Attorney  
Mr. L. Michael Henry, Staff Director, Board of Ethics  
Ms. Lauri Dannemiller, City Council Executive Staff Director
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.
AUDITOR’S REPORT

We have completed a performance audit of the Treasury Division’s Financial Management Section covering the period January 1, 2009 through December 31, 2009. The purpose of the audit was to examine and assess the Treasury Division and to identify possible inefficiencies and opportunities for improvement.

This performance audit is authorized pursuant to the City and County of Denver Charter, Article V, Part 2, Section 1, General Powers and Duties of Auditor, and was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit revealed the Treasury Division has not developed written procedures as required by the City’s Investment Policy. Additionally, approval requirements for policy amendments can be strengthened to mirror benchmark cities’ investment policies and the Government Finance Officers Association guidance regarding sufficient review and oversight of policy revisions.

We extend our appreciation to the Treasury Division and Controller’s Office personnel for their assistance and cooperation throughout the audit.

Audit Services Division

Kip Memmott, MA, CGAP, CICA
Director of Audit Services
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EXECUTIVE SUMMARY

The Financial Management section of the Treasury Division is responsible for the day-to-day operations of the City’s investments totaling approximately $2 billion. Overall, audit work determined that the investment process is governed by a sound Investment Policy and that robust controls are in place to ensure compliance with the Investment Policy. However, two areas for improvement exist.

Finding 1: Treasury Division Not in Full Compliance with the City’s Investment Policy

The Financial Management section currently relies on the City’s Investment Policy to provide guidance on investment activity. The majority of requirements set forth in the Investment Policy are adhered to and monitored on a regular basis. However, audit work noted the Treasury Division lacks written procedures for day-to-day operations as required by the Investment Policy. Without written procedures detailing the elaborate processes in place, there is no way to ensure these activities will be completed properly or continue should there be personnel changes. We recommend that the Treasury Division document procedures consistent with the requirements of the Investment Policy.

Finding 2: Requirements for Investment Policy Amendments Could be Strengthened

Auditors reviewed and assessed the City’s Investment Policy by comparing it to the investment policies of ten other cities, as well as the model investment policy developed by the Government Finance Officers Association (GFOA). Audit work determined that the City’s policy is generally consistent with that of other cities and the GFOA model. However, the current approval process for policy amendments is in contrast to the majority of benchmarked cities and the GFOA guidance.

Specifically, the City’s Investment Policy gives the Manger of Finance sole discretion to make policy amendments. While changes to the City’s Investment Policy are infrequent, the existing approval process creates an opportunity for one individual, the Manager of Finance, to exert undue control over the investment process. We recommend the Investment Policy be updated to mandate additional approvals (i.e. controls) for the policy amendment process.
INTRODUCTION & BACKGROUND

Role of the Investment Administration Team

The Treasury Division (Treasury) within the Department of Finance acts as the fiscal custodian of all funds received by the City and County of Denver. Treasury is separated into three functions:

- Administration;
- Financial Management; and
- Tax Compliance/Operations.¹

The City's investment administration team is housed under the Financial Management Section of the Treasury Division and is comprised of the Director of Financial Management, a portfolio administrator and a senior financial management analyst. Overall, according to the City's 2008 Comprehensive Annual Financial Report, the City's investments aim to provide for the highest investment return consistent with the preservation of principal and provision of the liquidity necessary for daily cash flow demands. All investments must be executed in accordance with the City Charter, Sec. 2.5.3(c), Denver Revised Municipal Code (D.R.M.C.), Sec. 20-21, and the City's Investment Policy (IP).

The investment administration team is responsible for the day-to-day operations regarding the City's investments. The City's investments consist of six separate portfolios, which totaled approximately $2 billion as of December 31, 2009.²

¹ 2009 City and County of Denver Budget Book.
² Data obtained from the December 31, 2009, Investment Portfolio Performance Report.
Funding for the portfolios have various sources including but not limited to, revenues, taxes, fees, bequests and bond proceeds. Each portfolio is aligned to a distinct investment strategy and serves a separate cash flow or liquidity need. For example, monies can be allocated for daily operating expenses, payroll, construction costs and debt service payments. While each portfolio does serve a cash flow need to the City, the investment administration team is not responsible for managing the City’s debt obligations.

The investment administration team does not manage the Denver Employees Retirement Plan or Denver Water Board funds.

Investment Requirements

The City Charter and D.R.M.C give the Manager of Finance broad discretion to invest any non-appropriated money credited to City funds with minimal restrictions. Authorized investments include the following:

- obligations of the United States Government;
- obligations of the United States Government agencies and United States Government sponsored corporations;
- prime bankers' acceptances;
- prime commercial paper;
- certificates of deposit issued by banks and savings and loan institutions;
- repurchase agreements;
- security lending agreements;
- highly rated municipal securities;
- money market funds that only purchase the types of securities specified by Charter and D.R.M.C.; and
- other similar securities as may be authorized by ordinance.

Building on this foundation, the City’s IP seeks to ensure City Charter and D.R.M.C. requirements are fulfilled, while balancing the City’s three investment objectives. These objectives, in order of priority, are to safeguard principal investment amounts, to have sufficient liquidity for cash flow needs, and to obtain the highest total yield, consistent with the other objectives. Further, the IP specifies that all investments shall be made with judgment, care and a standard of prudence.

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3 The Manager of Finance is also referred to as the Chief Financial Officer. More information on the Department of Finance and the role of the Chief Financial Officer can be found at: http://www.denvergov.org/HomePage/tabid/387202/Default.aspx.
4 These include Resolution Funding Corporations Securities, Debt Service Reserve Fund PUT Agreements, and Forward Purchase Agreements.
The IP is designed to carry out these objectives and requirements. Specific IP attributes include the following:

**Constraint Summary**⁶ – This portion of the IP provides specific guidance regarding the investments authorized by City Charter and D.R.M.C. It details the maximum allowable percentage the City may invest in certain types of investments and the maximum allowable percentage the City may invest with an individual provider by investment type. Further, it specifies maximum allowable maturity timeframes for each type of investment and minimum allowable credit ratings for providers. The Manager of Finance has the authority to waive the constraints when it is deemed necessary or desirable and in the best interests of the City. No approval is required for a waiver to the constraint summary. However, the Manager is required to document and explain the rationale via a memorandum submitted to the Treasurer.

**Delegation of Authority**⁷ – Since the City Charter and D.R.M.C. give the Manager of Finance broad discretion and authority over investments, this portion of the IP requires the Manager of Finance to establish written procedures for the operation of the investment program. The procedures are required to include “explicit delegation of authority to employees responsible for investment transactions and shall establish a system of controls to regulate the activities of the employees who are involved in the execution of investment transactions.” The IP further requires procedures for specific security transactions.

**Investment Advisory Committee (IAC)**⁸ – D.R.M.C. and the IP require the Manager of Finance to appoint an IAC with the purpose of providing advice regarding departmental investment activities and an independent third party review of investment results. Members are appointed for two-year terms and serve without compensation. There are no term limits and members must certify that they do not have any conflicts of interest with the City’s investment activities.

**IP Amendments**⁹ – The Manager of Finance, as conditions warrant, may amend the IP at any time and no approval is required. The IAC is required to review any changes, but the committee has no authority to reject a change and the review may occur after the amendment is made.

**Investment Advisor or Consultant**¹⁰ – The IP gives the Manager of Finance the authority to appoint an independent advisor or consultant to assist and advise the City on investment activities. Any advisor or consultant appointed must be selected through a competitive process, unless the Manager of Finance deems it appropriate to utilize a different selection method. If an appointment is made via an alternative, non-competitive process, then it is expected that any contract will be for a narrowly defined scope of work or a limited duration of 12 months or less. The current firm serving as the City’s Investment Advisor, Chandler Asset Management (Chandler) was not selected utilizing a

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⁶ Investment Policy, Section H.
⁷ Investment Policy, Section F.
⁸ Investment Policy, Section I.
⁹ Investment Policy, Section K.
¹⁰ Investment Policy, Section J.
competitive process; however, the contract is for a limited scope of work and duration of
time. The Treasury Division reports that they fully intend on sending out a request for
proposal when the current contract expires.

The Investment Management Process and Controls

Investment transactions occur daily and can be initiated by either the City’s investment
administration team or Chandler, taking into consideration the various requirements and
constraints. When the City initiates a transaction, they often utilize the services of
Bloomberg Professional (Bloomberg). Bloomberg is a source of real-time and historical
financial news and information. It can be used to initiate trades, research and for
communications. For City initiated transactions, information regarding the purchase or
sale is forwarded to Chandler, JPMorgan Chase & Co. (JPMorgan) and the Office of the
Controller. Conversely, if a transaction is originated by Chandler, Chandler must alert the
investment administration team, JPMorgan and the Office of the Controller. Audit work
determined that controls are in place to verify necessary parties receive complete
information on an efficient basis.

Furthermore, additional controls are in place to address compliance with the IP
Constraint Summary. For example, an automated Excel-based tool was created by the
investment administration team to monitor compliance against the investment
requirements and Bloomberg has the ability to search only those investments that follow
the IP parameters. Additionally, the City utilizes industry benchmarks to guide investment
selections and gauge performance.

Parties regularly involved in the investment process include:

Office of the Controller – The City’s Office of the Controller is responsible for all
accounting tasks involving investment transactions. Documentation for each transaction
is sent to the accounting team to be recorded in Sympro, the City’s investment
management software and in the City’s accounting system, PeopleSoft.

JPMorgan – JPMorgan contracts with the City to perform various banking responsibilities,
including the provision of a custodian account for investment activities. All investments,
with the exception of monies held within the Local Government Investment Pool (LGIP),
are included in the JPMorgan custodian account.

Chandler – As referenced earlier, Chandler acts as the City’s investment consultant and
actively manages $400 million of the approximate $2 billion in the City’s investment
portfolios. To meet the City’s investment requirements, Chandler utilizes Charles River, a

11 The original contract was for the period of August 2009 – December 2009 and was extended for the calendar year of 2010.
Further, Chandler’s activities have been limited to advising the City and managing only a portion of the City’s investment
portfolio. Chandler manages $400 million of the approximate $2 billion portfolio.

12 Additional information regarding Bloomberg can be found at: http://www.bloomberg.com.

13 Controls in place include daily cash reconciliations, monthly JPMorgan to Sympro, the City’s investment management
software, reconciliations, and monthly PeopleSoft, the City’s accounting system, to Sympro reconciliations all prepared by
Controller’s Office. Additionally, Chandler performs reconciliations between their system data and JPMorgan.

14 The City currently uses the 90-day Treasury bill for its most liquid assets, while the Merrill Lynch 1-5 year and 1-10 year
benchmarks are used for longer term funds.
compliance software system. The City’s investment parameters have been loaded into Charles River and it is continuously updated with the City’s current investments. The system will warn Chandler any time a transaction may potentially breach an investment requirement.

**Dominion Capital Group, Inc. (Dominion)** – The City contracts with Dominion to perform quarterly reviews of the City’s investments for compliance with the IP. Specifically, the investment administration team prepares quarterly performance reports, which are accompanied by the Sympro details for each portfolio. These documents are then reviewed for conformity to the IP, including verifying credit ratings and policy constraints. Dominion provides the City with a statement of compliance after each review.¹⁵

**Local Government Investment Pool** – To the extent the City has excess cash on a given day, after meeting daily cash obligations and making any security purchases, the funds can be deposited into LGIP. Deposited funds can be accessed daily and earn a daily rate of return. The funds need to be deposited by 11am daily if the City is to obtain the best interest rate for the day. The City regularly deposits funds into LGIP.

**Investment Oversight Activities**

The D.R.M.C. requires the Manager of Finance to appoint an IAC to advise the Manager regarding departmental activities. In 2008, it was determined that the existing IAC was not meeting the needs of the Treasury Division. As such, during 2009, the Manager of Finance began appointing new members to the IAC and by September 2009 the group initiated their first meeting. Meeting discussions may include topics such as the review of IP amendments or waivers, current economic activity, investment performance and/or technical finance issues. Additionally, the committee receives quarterly performance reports that are prepared by the Financial Management Section.¹⁶

Additionally, Treasury has created an internal Investment Committee. This committee is comprised of management level employees within the Treasury Division, including the Manager of Finance, Deputy Chief Financial Officer, Debt Administrator and Cash Manager. The committee meets monthly, or as needed, and was created as an additional control to assist the Division with properly managing the City’s investments. The first formal meeting of this group was held March 2009.

**SCOPE**

Auditors examined the Financial Management section of the Treasury Division’s investment approach and portfolio management practices for the period January 1, 2009 - December 31, 2009. The Treasury Division does not manage the Denver Employees ¹⁵ See Appendix A for an example of the Statement of Review provided by Dominion on a quarterly basis. ¹⁶ These reports highlight investment performance, consolidated portfolio information, various portfolio topics, and other managed investments.
Retirement Plan or Denver Water Board funds, and, therefore, they are excluded from this audit. The audit scope also excluded debt management practices, including interest rate swap agreements. Within the next year, Audit Services Division will be performing an audit of this area.

OBJECTIVE

Audit objectives included: 1) Assessing the Financial Management Section of the Treasury Division’s internal controls to ensure compliance with the City’s investment policy; and 2) Evaluating the City’s organization and oversight approach to identify possible opportunities for improvement.

METHODOLOGY

The evidence gathering and analysis techniques used to meet our audit objectives included, but were not limited to:

- Reviewing the City’s Investment Policy and related sections of the Denver Revised Municipal Code and City Charter;
- Evaluating the City’s organizational and oversight approach;
- Reviewing the City’s Investment Strategy;
- Interviewing various City and third party personnel;
- Assessing relationships with third party contractors;
- Reviewing third party contracts, procedures, and SAS 70 audit reports;
- Benchmarking and researching other, judgmentally selected, municipalities’ investment policies and strategies;¹⁷
- Analyzing investment portfolios and related accounting reconciliations; and
- Evaluating systems security and related controls.

¹⁷ Municipalities in our scan included: Atlanta, GA, Boise, ID, Houston, TX, Los Angeles, CA, Philadelphia, PA, Portland, OR, San Diego, CA, San Francisco, CA, San Jose, CA and Seattle, WA.
FINDING 1

Treasury Division Not in Full Compliance with the Investment Policy

Treasury currently relies on the City’s Investment Policy (IP) to provide guidance on investment activity within the City and County of Denver. The majority of requirements set forth in the IP, including those governing authorized investments, portfolio constraints, collateralization and custody, are adhered to and monitored on a regular basis. However, audit work noted one instance where Treasury is not in compliance with the IP.

Specifically, the IP clearly requires the Treasury Division to have written procedures for the operation of the investment program. Procedures, according to Section F, “shall include explicit delegation of authority to employees responsible for investment transactions and shall establish a system of controls to regulate the activities of employees who are involved in the execution of the investment transactions.” Additionally, Section R requires the Manager of Finance to establish specific securities transactions procedures.

When Auditors requested copies of the aforementioned procedures Treasury management stated that no written procedures exist and claimed they do not have the resources available to document such procedures. Auditors recognize that Treasury has limited resources, however, there is increased risk placed on the City when no written procedures are available for investment activities.

For example, written procedures of organizational processes standardize performance in a manner that meets the organization’s needs. Additionally, well-defined and documented processes, along with records that detail process capability, can demonstrate an effective internal control system. While the current investment administration team has extensive processes and controls in place, clearly documented procedures would ensure they are consistently and efficiently applied and that investments are maximized. Examples of processes and controls include:

- City funds are invested into a Local Government Investment Pool (LGIP). The investment administration team currently deposits any idle cash receipts (in excess of expenses) into the LGIP account by 11 am everyday. This transaction is

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18 Investment Policy, Section F.
19 Auditors initially requested a “copy or source of current policies and procedures for investment management” in the engagement letter dated March 9, 2010. The requested procedures were not produced, however, the other two requested items were provided. Additionally, auditors discussed the lack of documented procedures with Treasury on several occasions, including: May 6, 2010 and May 21, 2010. During the audit exit conference on June 14, 2010, after reading the Draft audit report, Treasury provided us with a copy of outdated procedures. As our fieldwork was already completed, we did not test these procedures.
completed in an effort to maximize the City’s investments by receiving a favorable interest rate if funds are deposited prior to 11 am.

- Completion of the Quarterly Portfolio Performance reports which are provided to the Investment Advisory Committee (IAC) for their review.
- Coordination of the quarterly audit performed by Dominion Capital Group, Inc.

Without procedures detailing key investment processes, including the above mentioned controls, there is no way to ensure these activities will be completed properly or continue at all should there be turnover in the organization. The current investment administration team has experienced individuals, but should they decide to leave the City, it would be difficult for new employees to determine their responsibilities.

**Recommendation 1**

We recommend that the Treasury Division create procedures consistent with the requirements of the Investment Policy. Documented procedures should include, at a minimum:

- 1. A formal process that outlines procedures relating to the purchase and sale of securities;
- 1.2 The system of internal controls, designed to detect errors, misrepresentation or imprudent actions;
- 1.3 Cross training of department employees to allow for backup of critical investment duties; and
- 1.4 Mechanisms for ensuring procedures are continuously updated and reviewed.
FINDING 2

Requirements for Investment Policy Amendments Could be Strengthened

Auditors reviewed and assessed the City’s IP by comparing it to the investment policies of ten benchmark cities, as well as the model IP developed by the Government Finance Officers Association (GFOA). Key attributes reviewed included, but were not limited to, governing authority, investment objectives and constraints, establishment and authority of an investment oversight committee, and approval requirements for policy revisions. Overall audit work determined that the City’s policy is generally consistent with that of other cities; however, controls over policy amendments could be strengthened and improved.

Specifically, the City’s IP offers the Manager of Finance two avenues to circumvent the IP. First, the IP gives the Manager of Finance “the authorization to waive the stated portfolio constraints when such action is deemed to be necessary or desirable and in the best interest of the City.”20 Waivers must be documented in a memorandum from the Manager of Finance to the Treasurer; however, the Treasurer does not need to approve the memorandum as it is informational.

Secondly, the Manager of Finance can make unilateral amendments to the IP. In July 2008, the IP was updated to state, “This Investment Policy may be changed under the direction of the Manager of Finance as conditions warrant, with Investment Advisory Committee (IAC) review either prior to or subsequent to the effective date of the change.”21 However, the IP does not grant the IAC authority to reject a policy change – they can only provide input. In essence, the Manager of Finance may single-handedly change the IP, as long as the changes comply with Section 2.5.3(c) of the City Charter and Section 20–21 of the Denver Revised Municipal Code (D.R.M.C.).22

During the audit period, only one policy constraint waiver and two updates to the IP occurred. For these actions, the Manager of Finance adhered to the IP requirements described above. Audit work determined that in practice the investment administration team, the IAC, or some combination of the various parties, usually advocates for necessary policy changes. The draft language is developed by an investment administration team member and circulated to the other investment administration team members. Depending on the nature of the change, the internal Investment Committee (IC) and the IAC may also receive the draft language or a synopsis of the change. Any review by the IAC is documented in their meeting minutes.

20 Investment Policy, Section H.
21 Investment Policy, Section K. Prior to this update, the Investment Policy stated, “[t]his Investment Policy may be changed under the direction of the Manager of Finance as conditions warrant, with Investment Advisory Committee review.”
22 Investment Policy, Section K. The City Charter and Denver Revised Municipal Code present the Manager of Finance a list of authorized investments, but limitations and restrictions on the investments are not provided. The Investment Policy contains the limitations and restrictions related to the authorized investments.
However, benchmarking results found that eight of the ten cities reviewed require approval for changes made to their investment policies that extend beyond the Manager of Finance or equivalent. These additional authorizations include requiring approval from an oversight committee, City Council, and/or the Mayor. Two cities did not specifically address investment policy revisions. The specific oversight requirements of each city are highlighted in the following table.

**Table 1**

<table>
<thead>
<tr>
<th>City</th>
<th>Manager of Finance or Equivalent</th>
<th>Oversight Committee or Equivalent</th>
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<td>San Diego, CA (b)</td>
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<td>San Francisco, CA</td>
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<td></td>
<td>X</td>
<td>(c)</td>
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<tr>
<td>Seattle, WA</td>
<td></td>
<td></td>
<td></td>
<td>(d)</td>
</tr>
</tbody>
</table>

(a) Atlanta’s investment policy is silent regarding changes.
(b) San Diego’s investment policy is silent regarding changes, however, “[t]he Treasurer shall annually render to the Mayor, the Chief Financial Officer, the City Council, and the Investment Advisory Committee a statement of investment policy.”
(c) Any modifications by the Treasurer “shall be ratified by the County Treasury Oversight Committee within five working days to stay in effect.”
(d) Committee shall “acknowledge any significant revisions.”

Source: Respective city’s Investment Policy.

Additionally, the GFOA recommends the following language should be included concerning amendments to an investment policy, “Any changes must be approved by
the investment officer and any other appropriate authority, as well as the individuals charged with maintaining internal controls.”

The City’s current approval process for policy amendments is in contrast to the majority of benchmarked cities and the GFOA guidance. While changes to the City’s IP are infrequent, and must comply with City Charter and D.R.M.C, the existing approval process creates an opportunity for one individual, the Manager of Finance, to unduly control the investment process.

Recommendation 2

2.1 We recommend the Investment Policy be updated to require additional levels of approval prior to any changes taking effect. Additional approvals could include the IAC, the IC, member(s) of the investment administration team, the Mayor’s Office, or City Council.
APPENDIX

Appendix A – Dominion Capital Group Inc.’s Statement of Review

DOMINION CAPITAL GROUP INC.

STATEMENT OF REVIEW OF PORTFOLIO PERFORMANCE

Dominion Capital Group Inc., a Registered Investment Advisor with the State of Colorado, as Independent Consultant to the City and County of Denver, periodically reviews the City’s investment portfolio and represents the following:

1. The investments, as of December 31, 2009, are authorized by the Denver City Charter and are in compliance with the City’s Investment Policy;

2. Upon review of the City’s Investment Portfolio Performance Report, and relying on the independent market pricing verification provided by JPMorgan Chase Bank, N.A., the City’s securities appear to be priced accurately. DCG has performed no independent verification of the securities pricing provided herein; and

3. Investment performance as reported in the City’s attached Investment Portfolio Performance Report, for the period ending December 31, 2009, appears to be accurately reflected.

Signed this 23rd day of February, 2010.

DOMINION CAPITAL GROUP INC.

Theresa Kruser, President
July 1, 2010

Mr. Kip R. Mennotti, MA, CGAP, CICA
Director of Audit Services
Office of the Auditor
City and County of Denver
201 West Colfax Avenue, Dept. 705
Denver, Colorado  80202

Dear Mr. Mennotti:

The Office of the Auditor has conducted a performance audit of the Treasury Division’s Financial Management Section for the audit period covering the period January 1, 2009 through December 31, 2009. The specific activity audited was the administration of the City’s investment activities by Treasury and the Controller’s Office. The investment administration team would like to express its appreciation to the Office of the Auditor’s staff for their professionalism and diligence throughout this important review.

This memorandum provides a written response for each reportable condition noted in the Auditor’s Report final draft that was sent to us on Tuesday, June 22, 2010. This response complies with Section 20-276 (b) of the Denver Revised Municipal Code (DRMC).

AUDIT FINDING 1: Treasury Division Not in Full Compliance with the Investment Policy

RECOMMENDATION 1: We recommend that the Treasury Division create procedures consistent with the requirements of the Investment Policy. Documented procedures should include, at a minimum:

- 1.1 A formal process that outlines procedures relating to the purchase and sale of securities;
- 1.2 The system of internal controls, designed to detect errors, misrepresentation or imprudent actions;
- 1.3 Cross training of department employees to allow for backup of critical investment duties; and
- 1.4 Mechanisms for ensuring procedures are continuously updated and reviewed.
RESPONSE/ACTION PLAN:

<table>
<thead>
<tr>
<th>State your agreement or reason for disagreement with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of primary individual responsible for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>September 1, 2010</td>
<td>Bob Gibson, Director of Financial Management: 720-913-9383</td>
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</tbody>
</table>

As discussed in the Auditor’s Report, the written procedures for performing the investment activities were acknowledged as out of date, primarily due to the recent retention of an investment advisory firm. Over the past six months, the staff, working with the consultant, have greatly modified the manner in which the City administers its investment activities. These modifications continue to evolve, but in acknowledgment of the importance of up-to-date procedures, Treasury has undertaken the process to acquire the services of a limited staff position during the summer of 2010 to assist with the expedient updating of these procedures.

AUDIT FINDING II: Requirements for Investment Policy Amendments Could be Strengthened

RECOMMENDATION 2: 2.1 We recommend the Investment Policy be updated to require additional levels of approval prior to any changes taking effect. Additional approvals could include the Investment Advisory Committee, the internal Investment Committee, member(s) of the investment administration team, the Mayor’s Office, or City Council.

RESPONSE/ACTION PLAN:

<table>
<thead>
<tr>
<th>State your agreement or reason for disagreement with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of primary individual responsible for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>September 1, 2010</td>
<td>Bob Gibson, Director of Financial Management: 720-913-9383</td>
</tr>
</tbody>
</table>

The Finance Department is pleased that the audit of the investment activities acknowledges that the Manager of Finance has the legal authority to modify the investment policy in order to have the flexibility to respond to financial market disruptions and opportunities. The City’s Charter and the Denver Revised Municipal Code specify the types of securities the investment staff may acquire. The Investment
Policy is therefore third in the hierarchy for managing the investment activities, which differentiates Denver from some of the cities cited in the Auditor’s report. Further, we believe the practices of the Finance Department do meet the GFOA objectives specified, namely, that the Manager of Finance, as the Chief Financial Officer for the City is the individual “charged with maintaining internal controls”, and that recommendations to modify the investment policy made by the investment officers, specifically the Treasury staff performing the daily investment activities are appropriate separation of functions. We do agree that a structured approval process documented in the investment policy is a good business practice. A modification to the investment policy will be made that document that the staff recommends and that the Manager must approve any modifications to the Investment Policy.

Please contact Steve Ellington, Acting Treasurer at 720-913-9384 with any questions.

Sincerely,

Steve Ellington, C.P.A.
Acting Treasurer

cc: Beth A. Machan, Controller
    Bob Gilson, Director of Financial Management
    Caroline Hendrickson, Cash Manager
    William Franz, Investment Administrator