

**INTERNAL AUDIT DIVISION
2006 ANNUAL REPORT**

Dennis J. Gallagher, Auditor

Kip R. Memmott, Director of Internal Audit



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



CITY AND COUNTY OF DENVER

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Dennis J. Gallagher
Auditor

October 5, 2007

Honorable Dennis J. Gallagher
Auditor
City and County of Denver

This report summarizes the objectives and accomplishments of the Internal Audit Division of the Auditor's Office for the year ending December 31, 2006.

A significant accomplishment involved the Division's successful completion of an external peer review during 2006. Government Auditing Standards require audit organizations to undergo a peer review by an independent review team every three years. The external peer review team concluded that the Division's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards.

In addition to successfully completing the peer review, the Division issued a number of audit reports and performed several non-audit advisory services. These reports and services fully supported and helped to further the continuous improvement activities of the City and County.

The Internal Audit Division is proud of the numerous contributions made during 2006. While I was not on board during 2006, I am pleased with the Division's many accomplishments during the year and look forward to building upon these successes in the year to come.

Sincerely,

A handwritten signature in black ink that reads "K. Memmott".

Kip R. Memmott, CGAP
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.

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Background

City Charter, Article V, Part 2, Section 1, *General Powers and Duties of Auditor*, 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 City electorate approved an amendment to the Charter of the City and County of Denver on November 7, 2006. The amendment significantly changes the role of the Auditor as defined in Article V, Part 2, Section 1, *General Powers and Duties of Auditor* and is effective January 1, 2008. Specifically, among other items, the amendment provides the Auditor with broad authority to conduct audits of the City's departments and agencies. Additionally, the Charter mandates that the Auditor have access to all records and prohibits the adoption of any ordinance that may compromise the independence of the Auditor as defined by Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States.

In order to best execute these enhanced Charter responsibilities, the Auditor has reorganized the Auditor's Office into the following three divisions: Management Services, Audit Services, and Prevailing Wage.

The Audit Services Division (formerly the Internal Audit Division) provides elected officials and City management with information and analysis regarding the adequacy and effectiveness of the City's system of internal controls and the quality of operating performance. Information provided by the Division includes quality recommendations intended to enhance City continuous improvement activities.

The Division is comprised of 24 employees (2006 budgeted FTEs) 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 provider contracts. The downtown office focuses on auditing City agencies, contracts, programs, operations, and employee separations.

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Vision, Mission, and Objectives

The Auditor's Office Vision:

To improve the accountability of the City & County of Denver's use of resources provided by taxpayers.¹

The Auditor's Office Mission Statement:

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.¹

AUDIT SERVICES DIVISION

The Audit Services Division established the following objectives in 2006 to fulfill this vision and mission.

Vision

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

Mission

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

Objectives

Status

- | | |
|---|----------|
| ● Address the need for formal authoritative enabling legislation. | Complete |
| ● Undergo an external quality control review commonly known as a peer review. | Complete |
| ● Perform a self-assessment to ascertain the adequacy of the Division's internal quality control system and to assess adherence to Government Auditing Standards. | On-going |
| ● Conduct audits and nonaudit services as requested by the Auditor, City's Management, and City Council. | On-going |

¹Effective as of June 25, 2007.

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Vision, Mission, and Objectives-continued

<u>Objectives–continued</u>	<u>Status</u>
● Revise the Policies and Procedures Manual to address normal maintenance, peer review comments, and Government Audit Standards revisions.	On-going
● Update the annual risk based audit plan to prioritize and assess the adequacy and effectiveness of the City’s system of Internal Controls.	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 promptly by identifying and actions taken.	reporting 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
● Prepare and issue the annual report summarizing the Division’s activities.	Complete

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Operations

CURRENT STAFF

As of December 31, 2006, the Internal Audit Division had 23 audit staff positions and 1 administrative staff. Of the staff positions, the director and two staff auditor positions were vacant. Subsequent to the end of the year, the Division has hired a director, Kip Memmott on May 7, 2007.

Director of Internal Audit

Vacant

Acting Director of Internal Audit

Richard Wibbens, CPA

Administrative Assistant

Kathleen Howard

Audit Supervisors

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

Lead Auditors

Adeniyi Kelani, Ph.D.
Sonia Montano
Anita Thompson
Mike Widner

Senior Auditors

Jacob Claeys
Jane Harlow
Traci Napue
Norine Reigan, CPA
Wayne Sanford

Staff Auditors

Rebecca Corral
Anna Hansen
Freddie Martin
Jessica Quintana
Manijeh Taherynia, CPA
Vacant
Vacant

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Operations-continued

Division auditors have bachelors' degrees in one or more of the following areas: accounting, business administration, economics, finance, fine arts, general business, marketing, and recreation. Four staff members have masters' degrees and one has a doctorate.

PROFESSIONAL DEVELOPMENT

The Division ensured that professional staff met 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.

Audit staff were actively involved in several professional organizations including: the American Institute of Certified Public Accountants, Association of Airport Internal Auditors, Association of Certified Fraud Examiners, Association of Government Accountants, Colorado Chapter Association of Certified Fraud Examiners, Colorado Government Finance Officers Association, Colorado Society of Certified Public Accountants, Government Finance Officers Association, Institute of Internal Auditors, National Association of Black Accountants, Inc., and 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 following represents the 2006 Internal Audit Division budget vs actual:

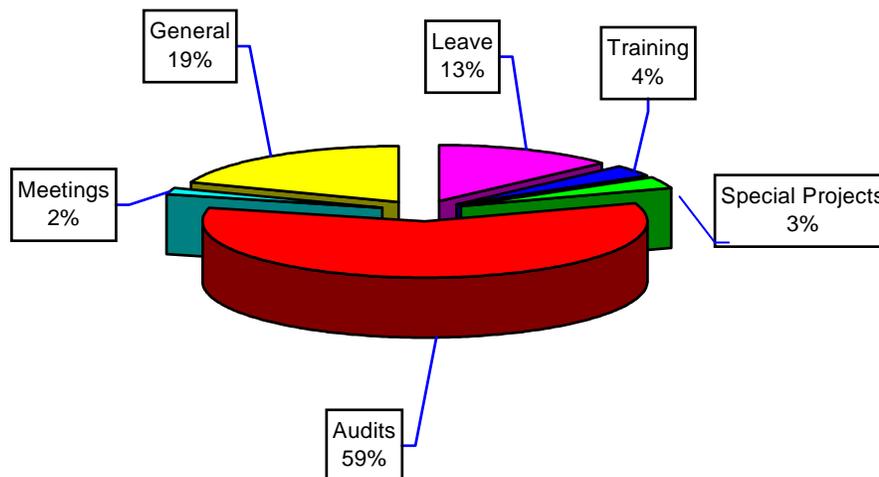
	<u>BUDGET</u>	<u>ACTUAL</u>
	<u>AMOUNT</u>	<u>AMOUNT</u>
General Fund Operations	\$1,233,414	\$1,187,230
Airport Enterprise Fund Operations	<u>548,114</u>	<u>516,273</u>
Totals	<u>\$1,781,528</u>	<u>\$1,703,503</u>

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Operations-continued

TIME ALLOCATION

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



AUDIT SELECTION PROCESS

The Division utilizes a risk assessment model for preparation of an annual audit plan and audit selection. The objective of using the risk assessment model is to identify and prioritize audits based on the highest areas of risk in the City. Division staff established an audit universe, or population of potential audits, and determined there were 348 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 2006, the Division's 2006 Annual Audit Plan established a goal of initiating 61 audits. The following was the status of those 61 audits at the end of 2006:

- ✓ 19 audits were completed and a report issued.
- ✓ 26 audits were in progress at year-end
- ✓ 16 audits had not been started at year-end.

In addition, during 2006 we completed six other audits and projects, planned and unplanned, from past and current periods.

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Summary of Performance

REVENUE AND EXPENDITURE CONTRACTS

Thirteen of the audits issued in 2006 were revenue and expenditure contract audits. The following chart is a breakdown of these contract audits with amounts due and paid the City or auditee.

REVENUE AND EXPENDITURE CONTRACT AUDIT	AMOUNT DUE THE CITY (AUDITEE)	AMOUNT PAID TO THE CITY (AUDITEE)	AUDIT BALANCE DUE CITY (AUDITEE)	PAID CITY (AUDITEE) THROUGH 6/07/2007	REMAINING BALANCE OWED TO CITY (AUDITEE)
Air Transport International, LLC	\$ 226,242	\$ 225,288	\$ 954	\$ 954	\$ -
AT&T Comcast Corporation	\$ 4,882,691	\$ 4,878,093	\$ 4,598	\$ 4,598	\$ -
ATA Airlines, Inc.	\$ 3,145,294	\$ 3,145,294	\$ -	\$ -	\$ -
Champion Broadband, LLC	\$ 35,563	\$ 35,523	\$ 40	\$ 40	\$ -
Concessions International/Panda Express, J.V.	\$ 1,071,395	\$ 1,070,286	\$ 1,109	\$ 1,109	\$ -
ConocoPhillips Company	\$ 524,840	\$ 524,840	\$ -	\$ -	\$ -
Jardel Enterprise, Inc. dba Burger King	\$ 458,954	\$ 458,954	\$ -	\$ -	\$ -
Key Lime Air Corporation	\$ 261,523	\$ 259,239	\$ 2,284	\$ 1,407	\$ 877
Mesa Airlines, Inc.	\$ 2,399,797	\$ 2,399,797	\$ -	\$ -	\$ -
Ryan International Airlines, Inc.	\$ 1,002,162	\$ 898,085	\$ 104,077	\$ 98,267	\$ 5,810
Steamboat Springs Rental & Leasing, Inc. dba Advantage Rent-A-Car	\$ 2,018,224	\$ 1,936,150	\$ 82,074	\$ 82,074	\$ -
Subway Real Estate Corporation	\$ 58,185	\$ 54,945	\$ 3,240	\$ 3,240	\$ -
Vanguard Car Rental USA, Inc.	\$ 17,428,533	\$ 17,428,533	\$ -	\$ -	\$ -
Totals	\$ 33,513,403	\$ 33,315,027	\$ 198,376	\$ 191,689	\$ 6,687

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Summary of Performance-continued

All audits and other projects issued by the Division fall into one of nine categories. Below is a listing of the nine categories along with the respective audit reports. For more detailed information, please refer herein to the applicable highlights 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 is to determine compliance with applicable City rules and regulations, contract conditions, and accounting and administrative internal controls. In addition, an attempt is made to determine whether the financial accounts of the auditee within the City's accounting system are fairly stated.

<u>Audit</u>	<u>Highlights Page</u>
Central Services Division	14
Citywide Vehicle Usage	15
Denver Election Commission	17
DIA Assistant Deputy Manager	18
DIA Operations: Payroll and Leave Accounting	19
Finance Office Budget Process	21
Office of Clerk and Recorder	22
Office of Telecommunications	22
Theaters and Arenas Division	23

CITY CONTRACT COMPLIANCE AUDITS

The objective of these audits is to determine whether the cable companies or concessionaire paid the correct fees. In addition, we determined compliance with the City Charter, Denver Revised Municipal Code, Executive Orders, and other relevant provisions in the contract.

<u>Audit</u>	<u>Highlights Page</u>
AT&T Comcast Corporation	24
Champion Broadband, LLC	25
Subway Real Estate Corporation	25

CITY EXPENDITURE AUDITS

The objective of these audits is to determine whether the City has paid the correct amount, under the terms of the contract, to the service provider.

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Summary of Performance-continued

In addition, we determined compliance with the City Charter, Denver Revised Municipal Code, Executive Orders, and other relevant provisions in the contract.

<u>Audit</u>	<u>Highlights Page</u>
Denver Community Television, Inc.	26

AIRPORT CONTRACT COMPLIANCE AUDITS

The objective of these audits is to determine whether the airline, concessionaire, or other service provider paid the correct fees to the City. In addition, 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 was tested.

<u>Audit</u>	<u>Highlights Page</u>
Air Transport International, LLC	27
ATA Airlines, Inc.	27
Concessions International/Panda Express, J.V.	28
ConocoPhillips Company	28
Jardel Enterprise, Inc. d/b/a Burger King	28
Key Lime Air Corporation	29
Mesa Airlines, Inc.	30
Ryan International Airlines, Inc.	30
Steamboat Springs Rental & Leasing, Inc. d/b/a Advantage Rent-A-Car	31
Vanguard Car Rental USA, Inc.	32

LEGALLY REQUIRED OR REQUESTED AUDITS

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

<u>Audit</u>	<u>Highlights Page</u>
Citywide Petty Cash	32

ATTESTATION ENGAGEMENTS

The objective of the engagement is to determine the appropriateness of selected transactions and to determine the validity of various complaints and assertions of improper activities.

<u>Attestation Engagement</u>	<u>Highlights Page</u>
Winter Park Recreational Association	33

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Summary of Performance-continued

OTHER PROJECTS, ANALYSES, AND NONAUDIT SERVICES

During 2006, the Division also completed the following nonaudit services:

- A review of the City's W-9 process for adding new vendors. We recommended that the City provide line-by-line instructions with the W-9 form for new vendors. In addition, we suggested that the verification of vendor name and taxpayer identification number (TIN) with IRS records should occur within a week (rather than a month) of establishing a new vendor's account.
- A review of a complaint regarding the Denver Art Museum's utilities. The complaint alleged that two pieces of equipment had been replaced that could have been repaired. After reviewing the contract, cost comparison charts, and discussing this matter with the entity's appropriate management, we were unable to substantiate the complaint.

EMPLOYEE SEPARATION AUDITS

In addition to the audits listed above, the division audits the final pay of all employees leaving the City. The objective of these audits is to determine whether the employees are being properly paid for their vacation, sick, overtime, and regular pay.

In 2006, 1,033 employee separations were audited by the Division. There were exceptions identified in 445, or about 43%, of the separations. This error rate matched the same rate as determined in 2005. Amounts determined as due to the City totaled \$223,002; additional amounts due to employees totaled \$72,292 resulting in a net adjustment of \$150,710 due the City. This net adjustment due the City is 8% lower than the net amount that was due from separations in 2005.

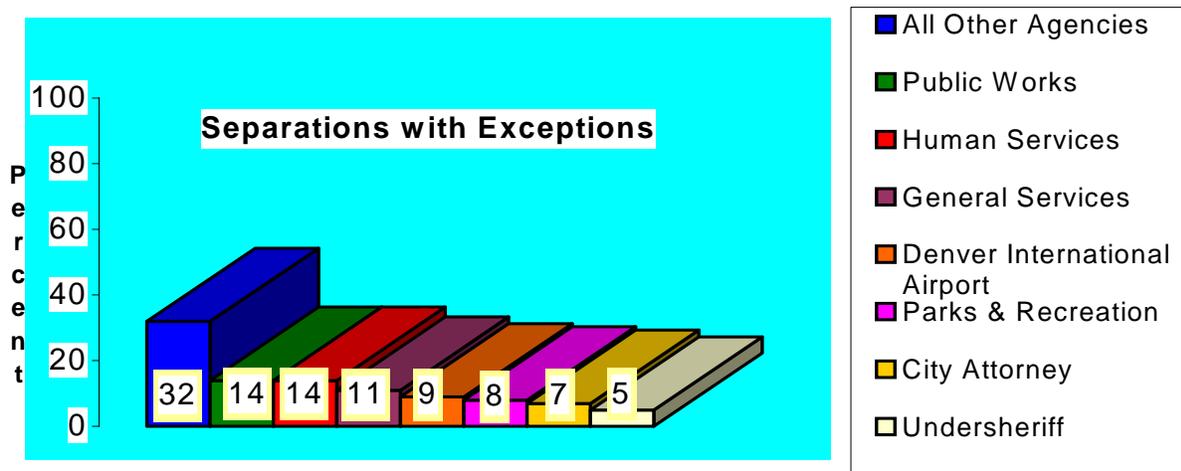
There were approximately 733 individual errors detected in auditing separations for 2006. The most frequent errors, in order, were:

- ✓ Incorrect leave accruals
- ✓ Overpayment on last employee paycheck
- ✓ Underpayment on last employee paycheck
- ✓ Failure to process separation documentation in a timely manner
- ✓ Incorrect monthly contributions for health & dental benefits
- ✓ Sick leave payout miscalculated
- ✓ LWOP taken but not deducted from pay
- ✓ Math/Computation error

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Summary of Performance-continued

The following graph identifies the seven city agencies with the highest percentage of separation errors. These seven agencies accounted for 68% of all employee separation errors.



Besides processing its own payroll, General Services processes 12 other agencies; their separation exceptions are included in General Services'.

The Division 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. Additionally, beginning January 1, 2006, there was a significant change in the collection process for overpayments to employees that separated from employment with the City.

In the past, the Division communicated the overpayments to agency payroll personnel. The agency was responsible for notifying the employees of the overpayment, arranging for reimbursement to the City, and, if unsuccessful, referring the overpayment to the appropriate authority.

Currently, the Division facilitates the collection procedure in accordance with the new Fiscal Rule 10.1-7. The Division sends a copy of the Separation Pay Authorization containing the reasons for the overpayment and the amount involved to the former employee. A copy of this documentation is provided to Treasury-Asset Recovery personnel.

From 1999 through 2004, the historical collection rate that we calculated based on the information given to us from agencies and Treasury was approximately 7%. With the 2006 new collection process, the collection rate has increased by approximately 30%.

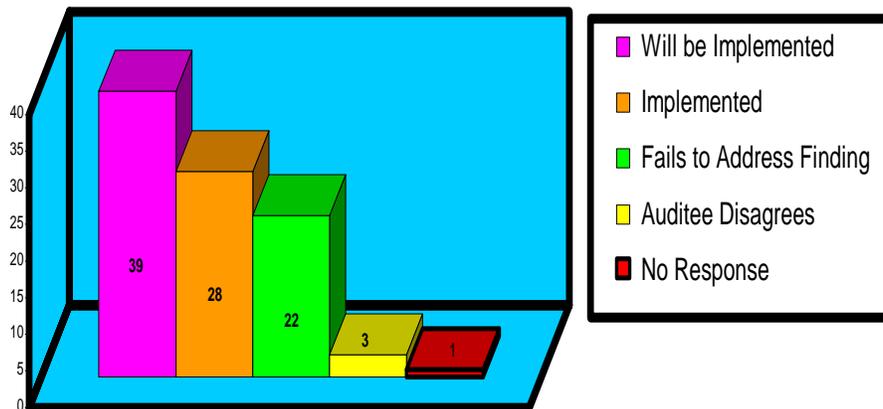
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Summary of Performance-continued

AUDIT FOLLOW-UP

To meet the standard of due professional care, the 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 Division's on-going objectives is to track the status of management's actions to mitigate findings and implement recommendations.

After the issuance of each audit report, a form entitled "Audit Follow-up" is completed. The form summarizes and categorizes audit findings and the auditee's response, which is included in the audit report. 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 2006, the responses are categorized as follows:



Six months after our audit report's issuance, a follow-up letter may be sent to the auditee depending upon the content of the findings. This letter requests written confirmation of all actions taken to correct or otherwise resolve the findings and recommendations included in the audit report. The Division reviews 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 activities. A letter of disclosure may be sent to the appropriate City officials to convey the status of taking corrective action, if deemed necessary.

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Future Goals

For the year 2007, the Audit Services Division has set the following goals to pursue:

- ⇒ Coordinate, facilitate, and implement formal authoritative enabling legislation effective January 1, 2008.
- ⇒ Define our role in modeling companion legislation as referred to within the Auditor's enabling legislation effective January 1, 2008.
- ⇒ Implement an automated audit project management system to enhance the efficiency and quality of audit and non-audit projects and services.
- ⇒ Enhance reporting tools to more effectively communicate information generated by audit and nonaudit projects and services.
- ⇒ Prepare our annual audit plan by the third Monday of October for the ensuing fiscal year and submit to the Mayor and City Council. Seek City management and Audit Committee input for the annual risk assessment plan.
- ⇒ Review and evaluate the impact of the revised Yellow Book standards on the Division's quality control system.
- ⇒ Address routine upkeep needed within Internal Audit's Policies and Procedures Manual.
- ⇒ Improve overall audit efficiency including project management activities.
- ⇒ Continue participation in the A.L.G.A. reciprocity peer review program.
- ⇒ Develop and implement a standardized training program for new audit staff.
- ⇒ Prepare for an external quality control review to meet Government Audit Standards in 2009.
- ⇒ Explore benefits of an internship program.

Internal Audit Division
2006 Annual Report

Highlights

CITY PERFORMANCE AND COMPLIANCE AUDITS

Audit Title: **Central Services Division**
Audit Period: January 1, 2003 through December 31, 2004.

Summary of Reportable Conditions:

- Not all revenue, billed for goods and services provided by Central Services, was collected.
- Reconciliation procedures were not in place to make certain revenue collected and recorded by other agencies for Central Services was credited to the agency.
- The written policies and procedures in place for maintaining the subsidiary accounts receivable system were not followed, and management oversight was lacking.
- Central Services recorded revenue and expenditures in one organization number without making full use of the PeopleSoft financial system.
- Employees used leave inappropriately.
- Separations payouts were not submitted in a timely manner; payroll adjustments (i.e. merit increases) were not communicated to employees.
- Time and attendance records for exempt employees were not kept.
- Overtime hours were not always reconciled and approved.
- Internal Controls over fixed assets were weak.
- \$112,529 of assets that had been surplussed was still on the Asset Inventory Report causing an overstatement of fixed assets.
- Employees in the agency's various cost centers were not required to sign confidentiality agreements making the information susceptible to potential misuse.
- Records Management Division lacked experienced personnel and adequate management oversight to operate efficiently.
- The agency failed to make timely deposits of revenue.
- Internal controls for cash handling were weak.

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Highlights-continued

Disposition:

The Central Services Division reacted positively to the findings and was implementing corrective measures.

Comment:

The audit findings to be addressed were for the time period January 1, 2003 through December 31, 2004. Subsequent to this audit period, several major changes had been made to the structure and operations of Central Services. Going forward, any and all the items identified in the findings, which had not been already corrected, would be resolved without delays.

Audit Title:

Citywide Vehicle Usage

Audit Period:

January 1, 2002 through December 31, 2004.

Summary of Reportable Conditions:

- The City did not currently have a unilateral policy for employee use of City-owned vehicles that conformed to IRS regulations and governed all City employees, including those of independent agencies.
- Executive Order (EO) No. 25 did not clarify that the employees, drivers and all passengers, who carpooled between home and work, using a City vehicle, be required to reimburse the City for the value of the commute.
- EO 25 did not mandate that authorizations for City vehicle usage should not only be initiated in writing but also renewed in writing on at least an annual basis thereafter.
- EO 25 did not make adequate distinction between various members of the City's safety divisions who might be exempt from reimbursement to the City for commuting and personal use of unmarked safety vehicles.
- The City's information system's existing structure was not conducive to expedient and efficient monitoring and verifying aspects of City vehicle use by employees.
- The City's vehicle assets were dispersed among three separate databases. PeopleSoft, the City's primary financial database, had only 55% of City's vehicles recorded and did not contain information helpful for identifying the vehicle assigned to an employee.
- The vehicle cost information was net of any trade-ins or other deductions.

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Highlights-continued

- The City's fleet maintenance divisions did not maintain records of employees authorized to use City vehicles. Therefore, all mileage and fuel could not be attributed to the employee assigned the vehicle.
- The City's PeopleSoft Human Resource system lacked information to identify those employees authorized to use City vehicles or sufficient information to adequately determine periods of vehicle use and timely reimbursements to the City for any personal use of City vehicles.
- 100% of the agencies that assigned City vehicles to employees for use during business hours and 67% of the agencies that had employees commuting between home and work in City vehicles did not maintain authorizations in writing.
- Employees did not document vehicle use according to the information required on the City's prescribed vehicle use forms.
- Approximately 1,471 monthly reimbursements were not made by employees, totaling approximately \$82,686.
- City agencies failed to charge employee for the personal use of a City vehicle even though the employee had submitted the requisite documentation.
- 78% of employees failed to make reimbursements to the City in a timely manner.
- 24% of the "Mileage Summary Sheets" had not been certified by a supervisor or appointing authority.
- 50% of the employees in 2002, 30% in 2003, and 23% in 2004 had responded to less than the 12 required emergencies or after-hour service requests to justify commuting use of a City vehicle.
- 52% of the agencies under the Mayor did not require employees to complete and submit the "Business Use of Personal Automobiles" form prior to requesting mileage reimbursements.
- Agencies were not adequately verifying that mileage reimbursement requests submitted by employees were accurate, submitted in a timely manner, and properly substantiated.

Disposition:

The Mayor's Office concurred that Fiscal Rules and policies and procedures should be used for employee use of City-owned vehicles; that it may benefit the City to have improved coordination in its information systems regarding vehicle usage and to take additional steps to ensure compliance. The responder disagreed with the recommendations to hire outside tax counsel because City

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Highlights-continued

Attorney's Office is staffed with tax-knowledgeable attorneys; also disagreed to centralize the vehicle usage administration. The Mayor's Office indicated their belief that EO 25 meets the requirements of being an "accountable plan" and that they would require additional information from the Auditor's Office as to the feasibility and estimated cost if the City were to implement the audit's recommendations.

Audit Title: **Denver Election Commission**
Audit Period: August 1, 2005 through September 30, 2006.

Summary of Reportable Conditions:

- The Election Commission did not maintain a detailed operational plan for any given election.
- The Election Commission did not maintain a written policy and procedure manual for all divisions.
- The warehouse lacked appropriate temperature control.
- The voting machines were not protected from possible water damage in the event that the fire sprinkler system went off.
- The warehouse was constructed of brick and wood. Given the amount of wood in the structure and the age of the building, if a fire were to occur there would be nothing, other than the sprinkler system, that would contain the fire and limit the loss of inventory.
- There was access from an underground tunnel not properly secured.
- The security system was not visually monitored from an outside location.
- Lack of proper electrical connections and malfunctioning of the exterior lighting impacted the overall security of the building.
- Warehouse was not in compliance with ADA requirements.
- Many staff personnel did not have job descriptions for their positions.
- There was no cross training of staff between sections.
- On-call personnel were on duty for extended periods of time.
- The Election Commission was not utilizing any non-Election Commission City employees resources during elections.
- The Election Commission did not have clear written descriptions of duties and responsibilities for commissioners and administrative staff.

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Highlights-continued

Disposition:

The Election Commission was developing its operational plans which would include a more long-term approach. Likewise, it agreed to develop a more inclusive and organized written policies and procedures manual, which would include general duties and responsibilities of the commissioners. The Election Commission was looking at alternative long-term solutions ranging from major upgrades to the warehouse to termination of lease and relocation to a new site.

Comment:

The purpose of the audit was to determine if the Election Commission's operational plan was adequate and effective for the use of vote centers in the 2006 Primary and General Elections.

Audit Title:

DIA Assistant Deputy Manager

Audit Period:

January 1, 2001 through December 31, 2003

Summary of Reportable Conditions:

- It was determined the Assistant Deputy Manager for Airport Security (ADMAS) took 35.5 paid work days off without approved leave during the years 2001 through 2003. The employee owed the City a total of \$12,170 for those unauthorized absences.
- It was determined the ADMAS failed to disclose reimbursements totaling \$5,331 from an outside organization for two conference trips made in 2002 and 2003.
- For the years 2001 through 2003, the ADMAS failed to submit monthly mileage reimbursements cards for 13 months and owed the City a total of \$612.
- It was noted that the ADMAS failed to "return" 21 hours "owed" the City related to the use of an alternative work schedule during weeks with a City holiday and owes the City \$857.

Disposition:

The majority of the responses were positive and favorable for taking corrective action. However, the Department of Aviation disagreed with our recommendation to use the security badge history reports as a time measurement system because

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Highlights-continued

badge history records were only intended for accessing secured areas of the airport.

Comment:

The Auditor's Office urged Aviation to reevaluate our recommendations to implement the KRONOS time reporting system for exempt and non-exempt personnel in lieu of the badge history system.

Audit Title: **DIA Operations: Payroll and Leave Accounting**
Audit Period: January 1, 2000 through December 31, 2003

Summary of Reportable Conditions:

- An organized "under the table" compensatory (comp) time system, which had existed for at least five years, allowed Operations personnel to circumvent Aviation and CSA rules and regulations. Many of the rules violations resulted in financial and work related benefits to the participants.
- Employee participation included all 25 non-exempt Assistant Aviation Operations Managers (AAOMs), 13 exempt supervisory Airport Operations Managers (AOMs), the Chief Aviation Operations Manager (CAOM), and the Deputy Manager of Aviation for Operations (DMO).
- The comp time records revealed 12 of the 13 AOMs participated in the comp time system. The combined comp time records for the 12 employees who documented their transactions indicated a total of 1,173 hours "earned" and 879 hours "used" for the time period 1999 through 2003.
- The AOMs accrued a combined total of 420 hours of comp time that was designated as "adjustments" or lacked an explanation entirely.
- There were three instances totaling 51 hours where one employee "donated" comp time to another employee.
- Eight different AOMs accrued a combined total of 209 hours of comp time as "trips", "training", "Mayor's gift", "claimed worked", "certification work", or "meetings".
- Operations section management consistently allowed AAOMs to deviate from an established 7 day work cycle as mandated by CSA and the Department of Labor.
- The Deputy Manager of Operations failed to account for 84 full days off from his own established work schedule and failed to report and pay for the

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use of a City vehicle which he used to commute 80 miles each work day over a three year period. The manager was consistently negligent in overseeing Operations personnel and staffing issues.

- The Chief Aviation Operations Manager was primarily responsible for allowing staff to inappropriately accrue and use comp time for both the AOM and AAOM employees. The CAOM took 20 work days off without approved leave during 2001 through 2003.
- The “staff” AOMs showed a consistent pattern of failing to work full shifts using unauthorized comp time and earning overtime without working their full shifts.
- Operations management implemented a special 32 hour week schedule for their AOMs but the individuals were paid for a full 40 hour work week.

Disposition:

The Department of Aviation’s responses indicated some positive steps were being taken to prevent or correct the findings contained in the report. However, Aviation showed a distinct difference of opinion from the Auditor’s Office regarding the use of security badges as a time measurement system, and specifically refused to have Aviation’s exempt personnel use the electronic KRONOS time keeping system to account for their daily work hours. Both the Deputy Manager of Operations and the Chief Aviation Operations Manager resigned at the conclusion of the audit and the City collected amounts related to their unauthorized absences. The Department of Aviation and the City Attorney’s Office negotiated confidential agreements with the other Operations employees for amounts assessed by the audit.

Comment:

The Auditor’s Office replied that all City employees, both exempt and non-exempt, should account for the time for which they are paid. The Auditor’s Office also expressed concern about Aviation’s decision to limit the availability of the “badge history records” to only 180 days, to not require exempt employees to use KRONOS for time accountability, and to continue the practice of allowing select exempt employees to work a 32 hour week and still be paid for a full 40 hours.

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Highlights-continued

Audit Title: **Finance Office Budget Process**
Audit Period: January 1, 2004 through December 31, 2005.

Summary of Reportable Conditions:

- The City did not fully fund the Charter required 2% contingency fund.
- The uses of the contingency fund did not concur with the City Charter; the uses of its reserve were not tracked on the City's financial system.
- Although agencies were required to identify their key objectives for the upcoming budget year, there was no tracking that the agencies' objectives were completed by the following year.
- The City used fund balance to supplement its operating budget, not solely for one-time uses as required in the financial policies.
- BMO had experienced an unusually high 78% personnel turnover within the last year.
- BMO compared agencies' expenditures and revenues to the assigned budget but did not perform standard monthly budget variance reporting to assist the administration and avoid unexpected overruns at year end.
- BMO did not use a budgeting process that required justification of the expenses for each program or service: agencies started with the prior year's budget and added to or subtracted from it.
- No formal continued training or peer interaction was required or budgeted for budget analysts.
- The City followed most of the National Advisory Council on State and Local Budgeting (NACSLB) recommendations during its budget process, but not all were accomplished.

Disposition:

Corrective measures were being developed and would be implemented.

Comment:

BMO disagreed with the recommendation of funding a full 2% contingency fund because it would not be the best use of the citizens' taxes.

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Audit Title: **Office of Clerk and Recorder**
Audit Period: January 1, 2004 through April 30, 2005

Summary of Reportable Conditions:

- The Clerk and Recorder's Office was not properly accounting for, identifying, and safeguarding the City's fixed assets.
- The agency had not properly surplused an obsolete, zero-value asset with a historical cost of \$57,301. This caused an overstatement on the City's statement of net assets for capital assets, and a potential loss of revenue to sell an expensive asset in a timely manner.
- The Clerk and Recorder's Office failed to capitalize \$222,819 of expenditures during the years 2003 through 2005, causing an overstatement of expenditures and a corresponding understatement of capital equipment on the City's statement of net assets.
- The agency was not properly utilizing their petty cash fund for expenditures of less than \$75, thereby creating inefficiencies in the City's purchase requisitioning system.

Disposition:

The responses received from the Clerk's office showed that corrective actions had been or would be implemented on each reportable condition.

Audit Title: **Office of Telecommunications (OTC)**
Audit Period: January 1, 2003 through March 31, 2004

Summary of Reportable Conditions:

- OTC did not have a written policies and procedures manual.
- OTC did not adequately monitor and enforce the provisions of the management and franchise agreements.
- OTC did not provide written notification to Comcast and Champion for the 5% allowable amount of franchise fees on franchise fees as required by contract. This resulted in approximately \$246,000 in allowable franchise fees not collected.

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- The City did not provide the cable companies with timely notification of the City's intent to exercise certain provisions of the contract. This resulted in approximately \$353,500 in Public, Educational, or Governmental fees not collected.
- Comcast did not include the national advertising revenue in their calculation of gross revenue.
- OTC consented to a change of control in the cable companies, which the City is entitled to be reimbursed for all costs and expenses. OTC did not bill for these changes in control, which resulted in undetermined lost revenue to the City.
- OTC did not adhere to the City's Fiscal Rules for fixed assets resulting in the assets not recorded correctly in the financial statements.
- An employee attended a conference in Denver and these costs should have not been reimbursed to the employee per the Denver Revised Municipal Code.

Disposition:

OTC agreed with all of the findings and addressing corrective measures. The finding regarding the national advertising revenue and the 5% allowable amount on franchise fees were both directed to City Council to decide if these should be implemented.

Comment:

City Council decided not to implement the national advertising revenue and the 5% allowable amount on franchise fees. If the City did implement these items, the cost would pass through to the consumer.

Audit Title:

Theaters and Arenas Division

Audit Period:

January 1, 2004 through December 31, 2005.

Summary of Reportable Conditions:

- The Theaters and Arenas Division did not have the appropriate authorized signatures on two event contracts.
- The reporting of revenue from an event contract in the incorrect fiscal year caused revenues to be understated for 2005 and overstated for 2006.

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- The Theaters and Arenas Division was not issuing receipts for cash received from customers leading to problems with ensuring all cash was received and recorded.
- The division was not properly accounting for, identifying, and safeguarding the City's capital assets.
- Theaters and Arenas failed to make timely deposits of revenues collected from events at the Denver Coliseum.
- An event contract's terms and conditions were not followed as stated in the document resulting in an understated billing amount to the customer.
- Performance evaluations of staff were not being conducted in a timely manner or in accordance with CSA rules.
- There were some general weaknesses in the internal control environment for leave recordkeeping.

Disposition:

All of the responses from the Theaters and Arenas Division indicated a proactive approach for taking and implementing corrective action.

CITY CONTRACT COMPLIANCE AUDITS

Audit Title: **AT&T Comcast Corporation**
Audit Period: January 1, 2003 through March 31, 2004

Summary of Reportable Conditions:

- Comcast underreported gross revenue by \$91,961 resulting in an underpayment of franchise fees amounting to \$4,598.
- The gross revenue statement that was to be audited by a Certified Public Account was not provided to the City.
- The name on the Letter of Credit and performance bond had not been changed to "AT&T Comcast Corporation."

Disposition:

Comcast did not contest the \$4,598 amount due. They have modified their franchise fee calculations to be consistent with the finding. Comcast proposed a language change to the gross revenue statement. Comcast requested a rider be

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issued for the performance bond and the applicant name be changed to the Letter of Credit.

Comment:

The change to the gross revenue statement would allow the statement be signed by the Controller of the West Division who is a Certified Public Accountant. We were in agreement with this change.

Audit Title: **Champion Broadband, LLC**
Audit Period: January 1, 2003 through March 31, 2004

Summary of Reportable Conditions:

- Champion did not calculate gross revenue according to the agreement resulting in an underpayment of the franchise fees to the City.
- The required annual report was not submitted.
- The name on the Letter of Credit had not been changed to "Champion Broadband, LLC."

Disposition:

Champion agreed to the error of calculating gross revenue and immediately revised their method of calculating gross revenue to ensure correct fees are paid in the future. Champion subsequently submitted the required annual report and will submit future reports as required. The Letter of Credit was changed.

Audit Title: **Subway Real Estate Corporation**
Audit Period: January 1, 2004 through September 30, 2005

Summary of Reportable Conditions:

- General Service did not have written policies and procedures for monitoring the Subway contract.
- Subway did not pay one lease payment and one payment was for the incorrect amount. This resulting in the City being underpaid \$2,466.74 and an additional \$691.30 in interest.
- Subway paid some utility payments late resulting in \$82.01 in interest due.

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- Subway has not provided the City a performance bond, irrevocable Letter of Credit or such other acceptable surety as required by the contract.
- Subway did not provide the City a true and accurate statement of the total of all of their revenues and business transacted during the 2004 calendar year.

Disposition:

General Services hired a new employee that will be the point person for the Subway contract. This employee will update the policies and procedures manual. General Services will bill Subway for the appropriate amounts due. Facilities Planning and Management will either enforce the contract provision or amend the contract to eliminate the performance bond, irrevocable Letter of Credit or such other acceptable surety. The statement of the total of all of Subway's revenues and business transacted during the 2004 will be requested.

CITY EXPENDITURE AUDITS

Audit Title: **Denver Community Television, Inc. (DCTV)**

Audit Period: January 1, 2003 through March 31, 2004.

Summary of Reportable Conditions:

- DCTV did not furnish the City an annual report showing additions, substitutions, or other changes to the listing of Public Access Equipment.
- DCTV did not mention in any news release, sign, brochure, or other media dissemination prepared or distributed by or for the DCTV that the City and the cable company(s) made the project possible.

Disposition:

DCTV did not respond.

Comment:

The City terminated the contract and the support of DCTV effective September 30, 2005.

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AIRPORT CONTRACT COMPLIANCE AUDITS

Audit Title: **Air Transport International, LLC (ATI)**
Audit Period: Year Ended December 31, 2004

Summary of Reportable Conditions:

- It was determined ATI owed the City \$954 for under reported maximum gross landing weights.

Disposition:

The Department of Aviation's and ATI's responses agreed with the amount due. Aviation also responded that they will discuss the landing weight error with ATI to ensure correct fees are paid in the future.

Audit Title: **ATA Airlines, Inc. (Formerly American Trans Air, Inc.)**
Audit Period: Year ended December 31, 2003

Summary of Reportable Conditions:

- There were no reportable conditions disclosed in this audit.

Disposition:

Not Applicable

Comment:

The objective of the audit was to determine whether ATA paid the City the correct amounts for operational and maintenance fees, for deicing charges, passenger facility charges, for interest on late payments, and if both ATA and the City complied with other terms and conditions of the Contract, as well as other City rules and regulations.

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Audit Title: **Concessions International/Panda Express, J.V.**
Audit Period: Year ended December 31, 2004

Summary of Reportable Conditions:

- It was determined that Panda Express owed the City \$1,109 for interest accrued on payments not paid when due.

Disposition:

The Department of Aviation agreed to bill the concessionaire for the amount due. Panda Express declined to respond.

Audit Title: **ConocoPhillips Company**
Audit Period: Year ended December 31, 2004

Summary of Reportable Conditions:

- There were no reportable conditions disclosed in this audit.

Disposition:

Not Applicable

Comment:

Procedures performed during the audit included determining compliance with the lease agreement, lease amendments, and the sublease between the City and Conoco.

Audit Title: **Jardel Enterprises, Inc. d/b/a Burger King**
Audit Period: Year ended December 31, 2004

Summary of Reportable Conditions:

- There were no reportable conditions disclosed in this audit.

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Disposition:
Not Applicable

Comment:
The purpose of the audit was to determine whether Jardel and the City and County of Denver complied with the terms of the contracts and whether internal controls in place were adequate under the circumstances.

Audit Title: **Key Lime Air Corporation**
Audit Period: Year Ended December 31, 2004

Summary of Reportable Conditions:

- It was determined Key Lime Air owed the City \$2,284 for interest charges.
- The Department of Aviation invoiced Key Lime on August 12, 2005 for additional landing fees that should have been billed in February 2004.

- It was determined Aviation and Key Lime have been utilizing pulse reports generated by the Mega Data Pulse System. The data obtained from these reports have not been tested, thus have not been proven to be reliable, accurate or complete.

Disposition:
The Department of Aviation agreed to invoice Key Lime \$1,407 for interest charges. Aviation will not invoice the difference (\$877) in interest charges because of their oversight by billing additional landing fees in August 2005 instead of February 2004. Aviation is analyzing the accuracy, usefulness and cost benefit of using the Mega Data System for monitoring the landing fees. If the airport determines they wish to continue using this system, then procedures currently being written will be reviewed and approved by management.

Comment:
Aviation had not realized that they had not billed Key Lime in February 2004. During the course of the audit, this item was detected and brought to their attention.

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Audit Title: **Mesa Airlines, Inc.**
Audit Period: Year ended December 31, 2003

Summary of Reportable Conditions:

- There were no reportable conditions disclosed in this audit.

Disposition:
Not Applicable

Comment:

Mesa Airlines, Inc. operated under code-share agreements with United, Frontier, and American Airlines. As a result, many Mesa flights were actually booked by these code-share airlines. PFC charges for these flights were collected and paid by the code-share airlines and were not included in the scope of this examination.

Audit Title: **Ryan International Airlines, Inc.**
Audit Period: Year Ended December 31, 2003

Summary of Reportable Conditions:

- It was determined Ryan International Airlines, Inc. owed the City \$104,077. This amount included erroneous refunds issued to Ryan for \$91,998, net accounting and administrative errors in the amount of \$9,708, and interest on late payments \$2,371.
- The Department of Aviation did not use actual amounts paid, they used "revenue receivable amounts" to calculate Ryan's year-end adjustment.

Disposition:

The Department of Aviation agreed to invoice Ryan \$91,998 for the erroneous refunds. Aviation disagreed that \$3,439 of the \$9,708 various fees due were in error. As a result, Aviation will invoice Ryan for the remaining \$6,269. Aviation also disagreed with the audited interest charges because of their incorrect billing during 2003. Ryan chose not to respond.

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Comment:

The Auditor's Office responded that Aviation should collect the additional \$3,439, as no supportive evidence was found to justify any overpayments resulting in issuing credit memos. The Auditor's Office responded that the interest charges were calculated in accordance with the contract and urged Aviation to collect the \$2,371 accordingly. Since revenue receivable amounts were used, the Auditor's Office was not able to determine the proper deficiency or overpayment at year-end.

Audit Title: **Steamboat Springs Rental and Leasing, Inc.**

d/b/a Advantage Rent-A-Car

Audit Period: Year ended December 31, 2003

Summary of Reportable Conditions:

- It was determined Advantage owed the City \$53,228 for underpayment of concession fees; \$13,684 for late payment interest; and \$15,162 in audit costs since the understatement of the gross revenue exceeded 1% of the total revenue.
- Advantage did not submit the required audited annual report of all usage fees charged, collected and remitted.
- Advantage had not been submitting the required audited annual report of all revenues on a month-by-month basis on April 15 of the following year, for at least three years.
- Advantage charged a combined sales tax rate of 13.05% and the correct rate was 12.95%.

Disposition:

The Department of Aviation and Advantage's responses indicated that some corrective measures had already been implemented and others were being developed. Invoices with the amounts due to the City would be sent, and requests for the mandatory audited reports had already been sent.

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Audit Title: **Vanguard Car Rental USA, Inc.**
Audit Period: Years Ended December 31, 2004 and 2005

Summary of Reportable Conditions:

- It was determined Vanguard's usage fee statements for 2004 and 2005 did not include a breakdown of Rental Car Transaction Days nor usage fees collected.
- Vanguard's usage fee statement for 2004 was submitted to the City over one year late.

Disposition:

The Department of Aviation does issue an annual reminder regarding reporting requirements. They do not send a sample format for the Usage Fee Statement. Aviation will review the benefits of providing a sample and take action as required. Vanguard responded that they anticipate timely reports in the future and will include a breakdown of Rental Car Transaction Days. Vanguard also responded they did include Usage Fees Collected but it was labeled Usage Fees Charged.

LEGALLY REQUIRED OR REQUESTED AUDITS

Audit Title: **Citywide Petty Cash**
Audit Period: Years ended December 31, 2003 and 2004

Summary of Reportable Conditions:

- Approximately 38% of the City's petty cash funds, or 35 of 93, were located in the Webb Building. These 35 separately controlled petty cash funds accounted for \$13,480 cash on hand and experienced a combined net turnover rate of 4.15 for 2004. (An annual turnover rate between 8 and 12 indicates normal usage of the petty cash fund).
- Vendor invoices were not cancelled (marked paid).
- There was no recipient signature on petty cash receipt.
- The petty cash receipt number was not recorded on the vendor invoice.
- Account code was not recorded on the vendor invoice or on the petty cash receipt.

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- There were no petty cash receipts submitted with reimbursements.
- 35 petty cash funds maintained a turnover rate below the minimum annual rate. Eighteen of the 35 petty cash funds maintained an imprest amount greater than \$500 with a low turnover rate. The remaining 17 petty cash funds maintained fund amounts greater than \$200.
- 11 of the 93 petty cash funds showed no expenditure reimbursements during 2003 and/or 2004.
- 2 out of 33 physically counted petty cash funds had an overage and 1 had a shortage greater than \$2.00.

Disposition:

Management letters were sent to each agency having a petty cash fund but no responses were requested.

Comment:

The purpose of the audit was to determine if all funds were accounted for, whether agencies had adequate internal controls in place to safeguard these assets, and if they were in compliance to Fiscal Rules. The Auditor's Office is required to annually audit petty cash imprest funds according to Section 20-23 of the Revised Municipal Code.

ATTESTATION ENGAGEMENTS

Audit Title: **Winter Park Recreational Association**
Audit Period: July 1, 1996 through June 30, 2001

Summary of Anonymous Assertions:

- A real estate transaction constituting a "related party transaction" was not disclosed in the financial statements of the Winter Park Recreational Association (WPRA).
- The Mayor of the Town of Winter Park gained access to inside information to acquire property for resale to the association.
- The Mayor of the Town of Winter Park sold the property he acquired to the WPRA for an unreasonable profit.
- The Mayor was both the seller's broker and buyer's agent for the transaction to acquire and sell property to the WPRA.

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- The Mayor of the Town of Winter Park influenced the WPRA Board of Directors to abandon an existing agreement for the purchase of a gondola landing site in the Town of Winter Park in favor of the board acquiring his property for the site.
- Winter Park's Mayor failed to disclose his conflict of interest in the transactions as required by the WPRA bylaws.
- As a result of the above, the Mayor engaged in unethical and fraudulent behavior.

Conclusions based on the examination:

The Town Mayor was not a related party to the transaction; he did not purchase the property with the express intent of resale to the PWRA; he sold the property to WPRA at fair market value, and did not serve as agent for either buyer or seller. The municipal authority did not influence the Board to switch proposed gondola sites, and was neither fraudulent nor unethical.

Comment:

The purpose of the examination was to establish the validity of certain anonymous assertions made with regard to selected real estate transactions conducted by WPRA. The Auditor's Office examination found that the selected real estate transactions under review were arms length transactions. Further, that the assertions of impropriety made in relation thereto were either without factual basis or not subject to independent verification based upon the information provided.