

FOLLOW-UP REPORT

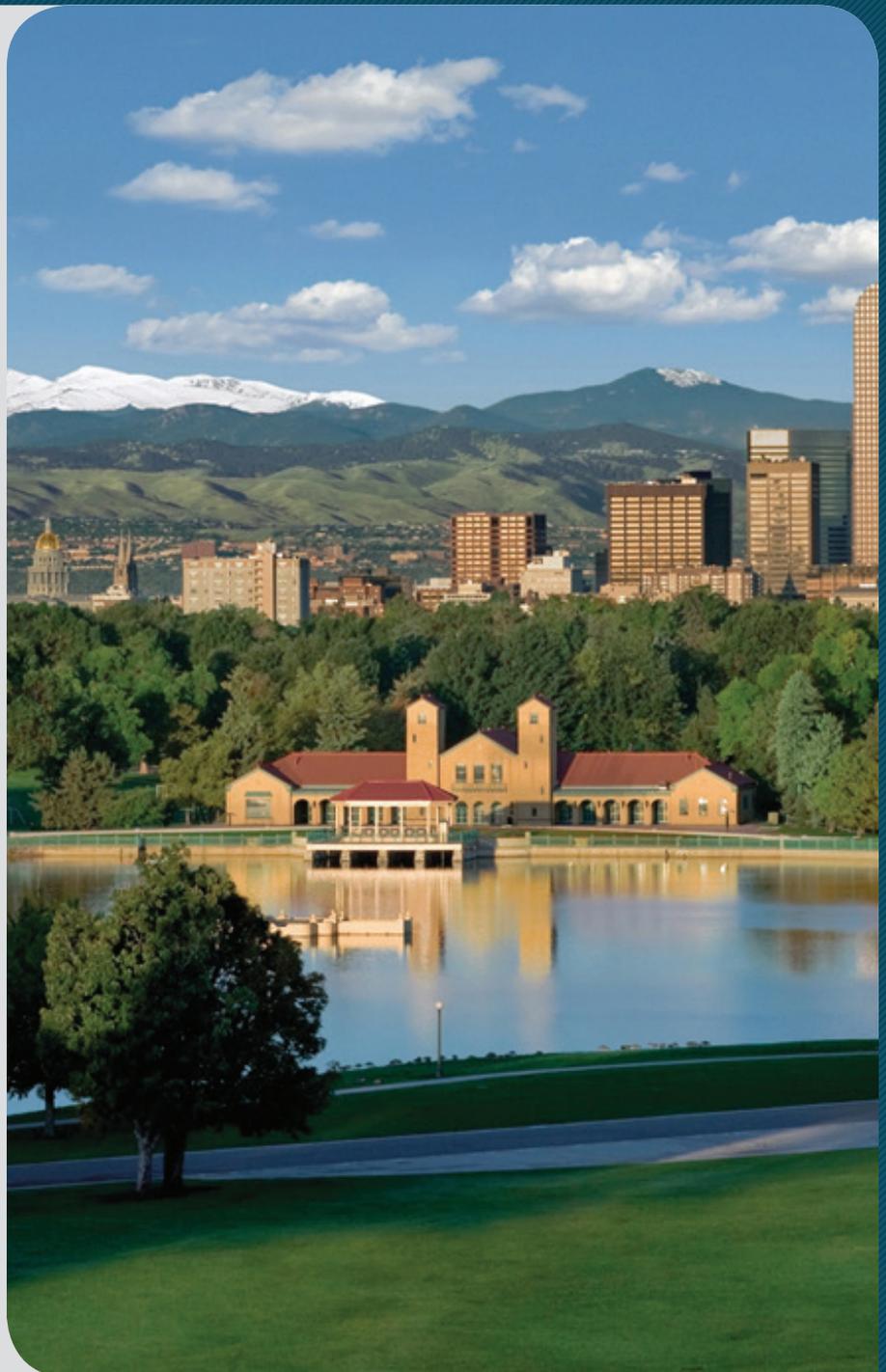
Business Improvement Districts Audit

March 2016

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



Timothy M. O'Brien, CPA
Denver Auditor



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March 2, 2016

Mr. Christopher Herndon, President
City Council
City and County of Denver

Re: Audit Follow-Up Report

Dear Councilman Herndon:

In keeping with generally accepted government auditing standards and the Audit Services Division's policy, as authorized by D.R.M.C. § 20-276, our Division has a responsibility to monitor and follow-up on audit recommendations to ensure audit findings are being addressed through appropriate corrective action and to aid us in planning future audits.

This report is to inform you that we have completed our follow-up effort for the Business Improvement Districts audit issued July 17, 2014. Our review determined that the City Council has adequately implemented all of the recommendations made in the audit report.

For your reference, this report includes a Highlights page that provides background and summary information on the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation.

This concludes audit follow-up work related to this audit. I would like to express our sincere appreciation to you and to City Council and Department of Finance personnel who assisted us throughout the audit and follow-up process. If you have any questions, please feel free to contact me at 720-913-5000 or Robyn Lamb, Internal Audit Supervisor, at 720-913-5046.

Denver Auditor's Office

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

Timothy M. O'Brien, CPA
Auditor



Business Improvement Districts

March 2016

Status

The City has implemented all three recommendations made in the July 2014 audit report.

Background

A Business Improvement District (BID) is a quasi-municipal corporation and political subdivision of the state, in which property and business owners elect to make a collective contribution for the maintenance, development, and promotion of their commercial district. As of July 2014, there were nine BIDs in the City and County of Denver.

BIDs are created to provide services to the district that supplement those already provided by the municipality. Examples include cleaning streets, providing security, making capital improvements, and marketing.

BID activities are guided by Title 31 of the Colorado Revised Statutes. Title 31 also requires that the City provide oversight of BID activities.

Purpose

The purpose of the audit was to assess whether enhancements were needed to the City Council's current processes for overseeing Denver's BIDs.

REPORT HIGHLIGHTS

Highlights from Original Audit

Audit work identified a number of internal controls governing the creation and operation of Business Improvement Districts (BIDs). BID activities are funded by ad valorem taxes, assessments, and fees collected from commercial property owners within the BID. Because there is a limited amount of taxpayer dollars going to BIDs, the financial risk BIDs pose to the City is reduced.

Once created, BIDs are primarily self-governing entities with significant authority, including the authority to incur debt and impose fees on commercial property owners within the district. Despite limited financial risk, the City's oversight role is critical to ensuring a positive public perception of BID activities.

The audit identified three ways the City could enhance BID governance. Specifically, the City could strengthen future *Creation Ordinances*, review annual Operating Plan and Budgets more thoroughly prior to approval, and reassess and equitably apply fees charged to BIDs.

Findings at Follow-up

The City has implemented all three audit recommendations. Specifically, we found that the Creation Ordinances of three BIDs formed after the original audit—Fax-Mayfair, RiNo, and Santa Fe—reflected consistency and completeness. In addition, the City Council's Business Development Committee discussed all BID operating plans and budgets for 2015. Finally, the Department of Finance reassessed and restructured fees charged to BIDs. The new structure reduced the creation fee from \$5,000 to \$500 and eliminated the annual fee, which had been as high as \$15,000.

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Audit Contact Person: Robyn Lamb | 720.913.5046 | Robyn.Lamb@denvergov.org

Recommendations: Status of Implementation

| Recommendation | Auditee Action | Status |
|--|---|--------------------|
| Finding 1: City Council Can Enhance Oversight of Business Improvement Districts | | |
| <p>1.1 Model BID Creation Ordinance—City Council should work with the Department of Finance, the Department of Public Works, and the City Attorney’s Office to identify the elements to be included in future Business Improvement District Creation Ordinances to ensure completeness. These elements should include core requirements, specific annual reporting, and other requirements such as conflict of interest reporting that are important to the City Council. This should be completed prior to future Business Improvement District formation.</p> | <p>The Denver City Council continues to work with the Department of Finance to ensure that consistent creation ordinances are adopted. Since the 2014 audit, three new BIDs—Fax-Mayfair, RiNo, and Santa Fe—were formed. The ordinances reflect a consistent execution, recognizing the unique attributes of the businesses desiring formation and the establishment of City expectations. The Fax-Mayfair BID and Santa Fe BID were approved by City Council on August 20, 2014. Both BIDs were assigned to the Business Development Committee for a briefing on the creation and operating plans on August 5, 2014. On May 12, 2015, a briefing was scheduled for the Business Development Committee to discuss the creation of the RiNo BID (CB15-0304). City Council approved the RiNo BID on June 1, 2015.</p> | Implemented |
| <p>1.2 Review of Operating Plan and Budget—City Council should thoroughly review the Business Improvement District Operating Plans and Budgets presented by the Department of Finance each year. The City Council should also consider whether the current review process is effective for capturing the benefits that Business Improvement Districts provide to the City.</p> | <p>The Department of Finance continues to receive annually the BID Operating Plans and Budgets. They are reviewed and shared with the council member in whose district the BID is located. On October 28, 2014, a comprehensive briefing was scheduled for the Business Development Committee to discuss all BIDs and information regarding their 2015 Operating Plans and Budgets in addition to information being placed on the Council Consent Agenda dated October 30, 2014.</p> | Implemented |

Recommendations: Status of Implementation

| | Recommendation | Auditee Action | Status |
|-----|--|--|--------------------|
| 1.3 | Business Improvement District Fees —City Council should request that the Department of Finance reassess the fees charged to Business Improvement Districts, including the Letter of Intent fee and the annual fee. This should include evaluating the City’s goals regarding how much cost fees are intended to offset and the burden on the BID. Fees should then be uniformly applied. If a fee is adjusted or waived, the reasons should be documented. This should occur in advance of the next annual fee cycle. | The Department of Finance amended the Rules and Regulations pertaining to BID fees in December 2014. The new fee structure reduced the creation fee by eliminating the \$5,000 Letter of Intent fee and implementing a \$500 application fee. In addition, the new fee structure eliminated the variable annual fee. The purpose is to enable the BIDs to maximize their budgets for economic development activities, thus increasing retail activities and job creation, which lead to a more vibrant business climate in Denver. | Implemented |

Conclusion

We found that the City has fully implemented all recommendations and adequately mitigated the risk identified during the original audit. As a result, we conclude our follow-up effort related to the Business Improvement Districts audit.

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