

FOLLOW-UP REPORT

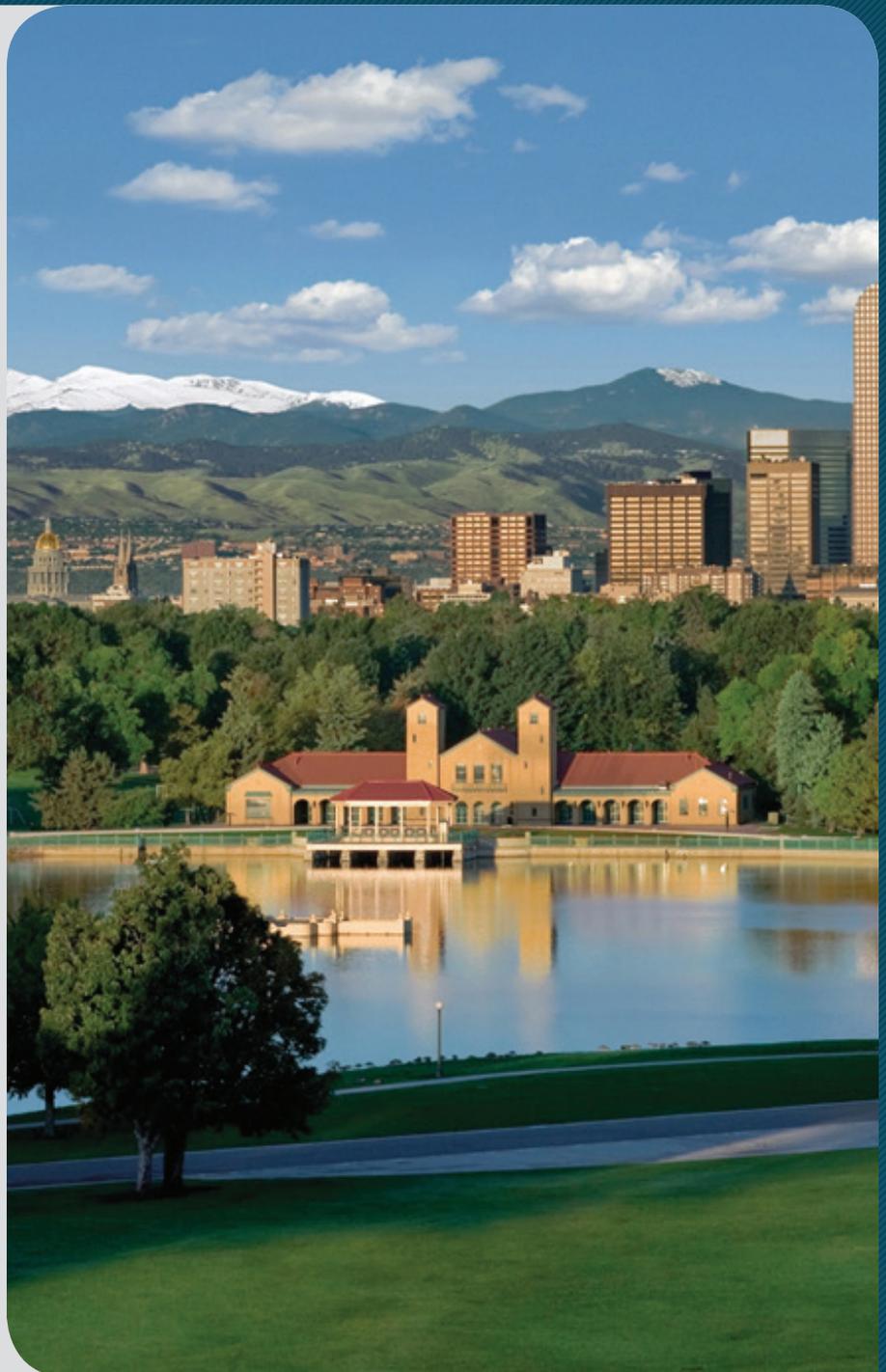
Innovation Fund Audit

April 2016

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



Timothy M. O'Brien, CPA
Denver Auditor



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.

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April 13, 2016

Honorable Michael Hancock, Mayor
Mayor's Office
City and County of Denver

Re: Audit Follow-Up Report

Dear Mayor Hancock:

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 Innovation Fund audit issued July 16, 2015. Our review determined that the Mayor's Office, Technology Services, and the Budget and Management Office have 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 personnel from the Mayor's Office, Technology Services, and the Budget and Management Office 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 Katja Freeman, Audit Supervisor, at 720-913-5158.

Denver Auditor's Office

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

Timothy M. O'Brien, CPA
Auditor



Innovation Fund April 2016

Status

The Mayor's Office, Technology Services, and the Budget and Management Office have implemented all six recommendations made in the July 2015 audit report.

Background

The Innovation Fund (iFund) was officially established in June 2012. It replaced the Information Technology Investment Council (ITIC) created by Mayor John Hickenlooper. The iFund was designed to fund improvement projects that would measurably improve operations and service delivery within the City and County of Denver (City). Although the iFund is administered by Technology Services (TS), eleven standing Committee members are responsible for reviewing and approving proposed projects. Members of the iFund include leadership from the Mayor's Office, the Budget and Management Office, the Departments of Finance, Technology Services, Human Resources, Community Planning and Development, Human Services, Parks and Recreation, Public Works, and Safety, as well as the City Attorney's Office. The iFund distributes approximately \$10 million each year to approved projects.

Purpose

The purpose of the audit was to:

- Determine if the iFund provides an equitable and transparent governance structure; and
- Assess whether the iFund's financial tracking and reporting is accurate.

REPORT HIGHLIGHTS

Highlights from Original Audit

The iFund's governance structure does not ensure that projects are selected and managed in a transparent and accountable manner. First, the iFund Charter does not clearly describe the types of projects the iFund intends to support. This has led to confusion among City agencies regarding the purpose of the iFund and a reduction in the number of proposed projects. Additionally, the iFund has continued to support ongoing projects initially funded under the iFund's predecessor, the Information Technology Investment Council (ITIC), as well as system replacement projects that are more consistent with the projects funded by ITIC.

In addition, the iFund's decision-making and record-keeping practices lack transparency and accountability. We identified a variety of flaws in these processes including a lack of documentation of meeting minutes, no voting records regarding final decisions, and inconsistent post-implementation reviews. These gaps reduce the transparency of the iFund's funding decisions. In addition, without consistent post-implementation reviews, the iFund cannot readily assess whether funding objectives and outcomes were met or identify lessons learned regarding project implementation. Finally, we found that the financial reporting and accounting for iFund projects is incomplete and inconsistent. Specifically, the current reporting approach does not provide iFund Committee members with a complete view of all spending activity for the life of each project. This prevents the iFund members from fully understanding the financial performance, or lack thereof, of iFund projects.

Findings at Follow-up

The audit made six recommendations, all of which have been implemented. Specifically, the iFund Committee updated the iFund Charter to reflect, among other things, the definition of innovation as "strategic change resulting in performance improvement or breakthroughs." iFund project selection is now included as part of the City's annual budget process and included in Technology Services' budget presentation to City Council. The iFund Charter now includes a "Governance" section defining meeting minutes and project voting protocols. The iFund Committee also updated the post implementation review process. Additionally, a budget report of all active iFund projects is provided to iFund Committee members.

For a complete copy of this report, visit www.denvergov.org/auditor
Audit Contact Person: Katja Freeman | 720.913.5158 | Katja.Freeman@denvergov.org

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
Finding: The Utility and Equity of the City’s iFund Cannot Be Fully Assessed Due to Insufficient Levels of Transparency and Accountability.		
<p>1.1 Reassess the purpose of the iFund and update the iFund Charter accordingly to better explain the goals and purpose of the iFund and document the types of projects it will fund including, but not limited to, guidance on the minimum or maximum project cost that will be considered. To the extent that innovation or process improvement-related projects continue to be the focus of the iFund, include definitions of these terms in the Charter and designate a specific amount of iFund dollars each year to these types of projects and communicate that information to City agencies on an annual basis.</p>	<p>The iFund Charter was updated to address this recommendation. Specifically, the definition of innovation was updated to "strategic change resulting in performance improvement or breakthroughs." A narrative was also included in the updated Charter defining, among other terms, "strategic," "change," and "performance improvement." Additionally, the iFund Charter’s mission statement was modified to include both breakthroughs and continuous improvement programs and projects with definitions provided for both.</p>	<p>Implemented</p>
<p>1.2 Make iFund project selection decisions publicly available through a new iFund website or other public-facing method.</p>	<p>For the 2016 budget approval process, iFund project selection was included as part of Technology Services’ budget presentation to City Council. This meeting was open to the public and televised on Denver 8 TV.</p>	<p>Implemented</p>

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<p>1.3</p>	<p>Develop and document controls for the iFund review and decision-making process that include, at a minimum: devise a method to ensure all meetings are documented, such as appointing one or more individuals with responsibility to document meetings if needed; document in meeting minutes the vote of each iFund member in regard to official iFund business, and any discussion supporting iFund decisions; document and consistently follow the Support Committee and iFund Committee project scoring and review process; and document the required information that must be provided as part of iFund business cases.</p>	<p>Implemented</p>
<p>1.4</p>	<p>The iFund Charter was updated with a “Governance” section, which includes the following protocol: Meeting minutes will be taken at each meeting; reviewed, amended, and approved by the PMO Director; and stored on a shared drive available to all iFund Members. At the start of the meeting, the PMO Director will assign the responsibility of taking minutes. The 2016 iFund proposal instructions and scoring criteria are available on the Denver. One. Team. Intranet site. The audit team reviewed meeting minutes to assure that iFund member votes were documented and that the meeting minutes included documentation of the scoring and review of iFund projects. Auditors also verified documentation of the business cases.</p>	<p>Implemented</p>

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<p>1.5</p>	<p>Create and consistently follow standard guidance for the iFund and all City agencies that describes the iFund’s procedures for conducting post-implementation reviews and the minimum frequency with which these reviews should occur. The iFund should make this information available to all City agencies.</p> <p>The iFund Charter was updated to include guidance on post-implementation reviews. Specifically, the “Governance” section states:</p> <p>Post-implementation reviews will occur when the following milestones have been reached:</p> <ul style="list-style-type: none"> • Projects will be reviewed after major deployments. • For programs that are funded over multiple years, and contain individual projects, reviews will occur twice per year. • All projects and programs will be reviewed when fully completed. <p>All post-implementation reviews will be made available to city agencies.</p> <p>The audit team verified that the post-implementation review procedures were updated and that they comply with the audit recommendation.</p>	<p>Implemented</p>

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
1.6	<p>Work with BMO to ensure monthly financial reporting is provided to iFund members as well as business sponsors within the agency that shows spending for all active iFund projects. This reporting should also provide a summary level narrative highlighting budget variances as well as any risks or opportunities at the project level.</p>	Implemented

Conclusion

We found that the Mayor's Office, Technology Services, and the Budget and Management Office have 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 Innovation Fund.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from the Mayor's Office, Technology Services, and the Budget Management Office for their cooperation during our follow-up effort and their dedicated public service.