

FOLLOW-UP REPORT

Citywide Land and Infrastructure

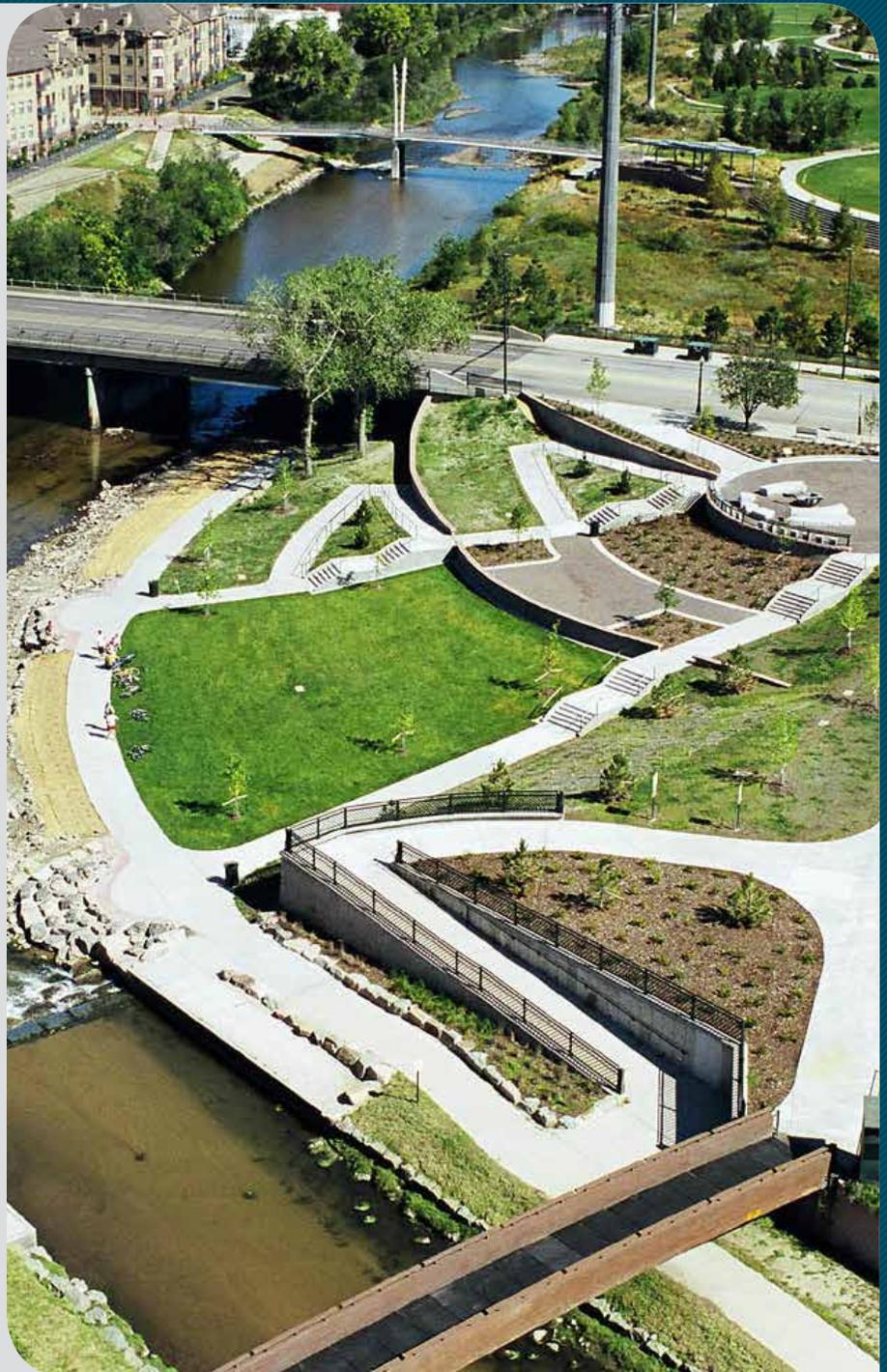
Capital Assets Audit

May 2017

**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.

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May 4, 2017

Ms. Machann, City Controller
Controller's Office
City and County of Denver

Mr. Gilmore, Deputy Executive Director
Department of Parks and Recreation
City and County of Denver

Re: Audit Follow-Up Report

Dear Ms. Machann and Mr. Gilmore:

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 that 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 Citywide Land and Infrastructure Capital Assets audit issued March 17, 2016. Our review determined that the Controller's Office has partially implemented all of the recommendations attributed to them in the audit report. Despite the Controller's Office's efforts, auditors determined that the risk associated with the audit team's initial findings has not been fully mitigated. As a result, the Division may revisit these risk areas in future audits to ensure that appropriate corrective action is taken. However, our review also determined that the Department of Parks and Recreation has adequately implemented all of the recommendations attributed to them 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 department 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 Cody Schulte, Internal Audit Supervisor, at 720-913-5066.

Denver Auditor's Office

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

Timothy M. O'Brien, CPA
Auditor



Citywide Land and Infrastructure Capital Assets

May 2017

Status

The original audit made four recommendations. The Controller's Office has partially implemented the two recommendations attributed to it, and the Department of Parks and Recreation has implemented the two recommendations attributed to it, in the March 2016 audit report.

Background

The City has a significant investment in capital assets, which are used in operations and have an initial useful life greater than one year. Capital assets include, but are not limited to, buildings, machinery, equipment, artwork and historical treasures, infrastructure, and land. They are recorded in the City's financial accounting system and tracked at various thresholds. The Controller's Office is responsible for the accuracy of financial reporting on capital assets but enlists the help of various City agencies.

Purpose

The purpose of the audit was to determine whether the City's policies and practices related to recording land and infrastructure capital assets allow for accurate and complete financial reporting. We also reviewed the City's approach to designating land managed by DPR as official park land.

REPORT HIGHLIGHTS

Highlights from Original Audit

In recent years, the Controller's Office has used issues that were both self-identified and identified by the CPA firm that conducted the annual audit of the City's financial statements to improve its capital asset processes. Process improvements include periodic reviews of construction projects in progress to determine when the project and related assets should be capitalized. Further, the Controller's Office conducted a reconciliation of various City land to identify capital asset land transactions not previously recorded or disposed of in the City's financial system of record. However, the audit identifies areas where additional improvements can be made to related policies and practices to help further enhance the accuracy of capital asset reporting.

Finding 1 discusses two areas where additional improvement can be made to the Controller's Office's policies and practices to enhance the accuracy of capital asset reporting. First, the City's Capital and Controlled Assets Fiscal Accountability Rule and corresponding procedure do not clearly define and address the processes surrounding land and infrastructure capital assets. Second, the Controller's Office's method for recording traffic signal dispositions by removing the oldest signal on record rather than the traffic signal actually disposed does not account for the potential that the actual traffic signal being reported for disposal may not be fully depreciated and may still have value. The Department of Public Works' internal inventory listing allows the Controller's Office to identify and remove actual traffic signals disposed of that were put in service after 2002.

Finding 2 discusses two areas of improvement regarding DPR's processes for managing land capital assets. Specifically, the audit identified a parcel of land that was donated to the City but DPR did not go through required legal and administrative processes prior to accepting the donation. In addition, DPR has not officially adopted a 2009 draft policy that outlines the process for formally designating City-owned land as park land.

Findings at Follow-up

The Controller's Office has not fully implemented the two recommendations from the March 2016 audit report. While they had updated a rule for year-end reporting, they have not clarified which assets must be in the system of record. With regard to traffic signals, they are awaiting the implementation of a new asset management system by the Department of Public Works before they can update their records.

The Department of Parks and Recreation has fully implemented both recommendations by formally adopting a Parks Designation Policy and creating a new standard operating procedure to clarify their gifts policy.

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Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
FINDING 1: The Controller’s Office Can Take Additional Actions to Enhance the Accuracy of Land and Infrastructure Capital Assets Financial Reporting		
<p>1.1</p> <p>The Controller's Office should update the Capital and Controlled Assets Fiscal Accountability Rule 4.2 and related procedures to distinguish between assets tracked in the City's financial system of record and those that are tracked by agencies outside of the system of record. The fiscal accountability rule and related procedures should also be expanded to include the rules and procedures applicable to assets not tracked in the system of record.</p>	<p>The Year-End Reporting Package Fiscal Accountability Rule 11.2 was updated to require additional disclosures from City agencies reporting year end packages to the Controller’s Office.</p> <p>The Controller’s Office is planning on updating the Capital and Controlled Assets Fiscal Accountability Rule 4.2 once they are able to assess the impact of a new accounting system, Workday. Workday is currently in the testing phase, and the rollout is scheduled to be finished in August 2017.</p>	<p>Partially Implemented</p>
<p>1.2</p> <p>In conjunction with the Department of Public Works Transportation Division, the Controller’s Office should consider leveraging existing reported data to more accurately account for traffic signal disposals. Specifically, the Controller’s Office should require reports from the Department of Public Works to include when the signal was placed into service, if available.</p>	<p>The Department of Public Works Transportation Division is in the process of implementing new asset management software. They will begin tracking actual costs once they have fully implemented this system. Once complete, information from this system should allow the Controller’s Officer to more accurately account for the disposal of traffic signals.</p>	<p>Partially Implemented</p>

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
FINDING 2: The Department of Parks and Recreation Can Enhance Certain Land Asset Management Practices		
<p>2.1 The Department of Parks and Recreation Executive Director should review and assess the requirements specified in City Charter, Executive Order 134, and its Gifts policy to clarify whether they relate to all land donations received by DPR. After this review, the Department of Parks and Recreation Executive Director should clarify processes where needed and communicate with Department personnel to reiterate the requirements.</p>	<p>The Land Donation Standard Operating Procedure has been updated and an email was sent to employees in the Department of Parks and Recreation.</p>	<p>Implemented</p>
<p>2.2 The Department of Parks and Recreation Executive Director should review the draft Parks Designation Policy to ensure that it reflects the current park designation process, and incorporate any necessary changes to the process. Subsequently, the Department of Parks and Recreation Executive Director should take the necessary steps to formally adopt the Parks Designation Policy.</p>	<p>The new Parks Designation Policy was formally adopted on November, 18, 2016, after having been presented to the City’s Policy Review Committee, the DPR Parks Designation Committee, the Parks Committee of the Inter-Neighborhood Cooperation, and the Parks and Recreation Advisory Board.</p>	<p>Implemented</p>

Conclusion

The transition from PeopleSoft to Workday as the financial accounting and reporting system of record will impact how the Controller's Office and other City agencies record assets, including infrastructure. According to the Controller's Office, they will update the Capital and Controlled Assets Fiscal Accountability Rule 4.2 only after assessing the impact of the new system. Fiscal Accountability Rule 11.2 now requires additional disclosures from City agencies reporting year end packages to the Controller's Office, but this change alone does not mitigate the risk as originally identified.

The Department of Public Works Transportation Division is in the process of implementing new software that will track the costs for traffic signals, including installation and equipment costs. The Controller's Office intends to utilize this new data, but there are additional steps required before the system can be utilized by the Department of Public Works Transportation Division.

The Audit Services Division's 2017 Audit Plan includes an audit that will review the accuracy and internal controls over the classification, recording, and inventory of the City's purchased or constructed buildings and associated infrastructure. The status of these recommendations and the impact will be revisited as part of the new audit.

While the Controller's Office has made steps towards implementing the recommendation made in the Citywide Land and Infrastructure Capital Assets audit report, they have not fully implemented either recommendation. Despite the Controller's Office's efforts, auditors determined that the risk associated with the audit team's initial findings has not been fully mitigated. However, we found that the Department of Parks and Recreation 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 Citywide Land and Infrastructure Capital Assets audit.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from the Controller's Office and the Department of Parks and Recreation for their cooperation during our follow-up effort and their dedicated public service.