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November 18, 2021

The objective of our audit of the city’s expense report approval process was to determine the extent of expense categorization issues identified by our internal risk analytics. We also wanted to understand why expense reports with poor documentation and inaccurate expense categories were passing the approval process.

This audit builds on knowledge from the October 2020 “Travel Expenses” audit, which examined travel expense reports. While this latest audit focused on nontravel expenses, the findings relate to the overall expense report approval process and its controls — which apply to all expense reports. I am pleased to present the results of this audit.

The audit revealed a high percentage of expense reports were approved without appropriate documentation or accurate expense categories. Further audit work revealed the roles and responsibilities for employees tasked with approving expense reports are not adequately defined or uniformly understood. This insufficient process allows for purchases to be approved even though the purchase or its supporting documentation may not comply with city rules. Additionally, expenses can be categorized inaccurately, which reduces transparency in reporting city spending.

By implementing recommendations for stronger policies for approvers and for better monitoring of the approval process, the Department of Finance will be better equipped to protect the city from possible misuse, abuse, and fraud — either unintentional or intentional — and it will be better able to identify problematic expense reports and follow up on questionable costs that city employees seek reimbursement for.

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

We extend our appreciation to the personnel in the Department of Finance who assisted and cooperated with us during the audit. For any questions, please feel free to contact me at 720-913-5000.

Denver Auditor's Office

Timothy M. O'Brien, CPA
Auditor
Expense Report Approval Process

NOVEMBER 2021

Objective

To examine the city’s process for approving expense reports and to identify why the approval process allows for poorly documented and miscategorized expenses to pass through — an issue initially identified by our risk analytics.

Background

The City and County of Denver reimburses city employees for out-of-pocket expenses they make on behalf of the city. To be reimbursed, an employee submits an expense report through Workday, the city’s financial record system. The report should include information to fully describe the expenses.

The Controller’s Office, within the Department of Finance, develops and manages the expense report approval process. After an employee submits an expense report, the document is then routed through multiple levels of approval, culminating in final approval by the Controller’s Office.

A Poorly Defined and Monitored Expense Report Process Leaves the City at Risk for Inappropriate and Misclassified Spending

- The city’s expense report approval process is insufficient. We identified a high percentage of approved expense reports that lacked adequate documentation to support the dollar amounts listed and that did not include sufficient explanations of what an expense was for. Several expenses were also categorized inaccurately.

- The roles and responsibilities for employees tasked with approving expense reports are not adequately defined or uniformly understood.

- The insufficient approval process allows for potentially questionable purchases to be approved, even though they may not comply with city rules.

- The approval process created by the Controller’s Office for the City Council president’s expense reports, in most cases, violates the separation-of-duties requirement in the city’s Fiscal Accountability Rules.

- The Controller’s Office does not formally review the expense report approval process to identify and fix deficiencies and ensure it works as intended.

WHY THIS MATTERS

By not having a sufficient approval process and by not properly monitoring compliance citywide when reimbursing employees for business-related expenses, the city risks:

- Processing improper expenses and reimbursing employees for them, which can waste or misuse taxpayer money.

- Misclassifying expenses in financial accounts — causing potential inaccuracies in how agencies spend money, which can influence budget forecasts.
## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BACKGROUND</strong></td>
<td>1</td>
</tr>
<tr>
<td><strong>FINDING AND RECOMMENDATIONS</strong></td>
<td>7</td>
</tr>
<tr>
<td>A Poorly Defined and Monitored Expense Report Process Leaves the City at Risk for Inappropriate and Misclassified Spending</td>
<td></td>
</tr>
<tr>
<td>Many Expense Reports Were Approved despite Being Incomplete and Sometimes Inaccurate</td>
<td>8</td>
</tr>
<tr>
<td>The Process to Approve Expense Reports for the City Council President Does Not Align with City Fiscal Rules</td>
<td>23</td>
</tr>
<tr>
<td>The Controller's Office Does Not Formally Review the Expense Report Approval Process to Address Deficiencies and Mitigate Risks</td>
<td>26</td>
</tr>
<tr>
<td><strong>AGENCY RESPONSE TO AUDIT RECOMMENDATIONS</strong></td>
<td>29</td>
</tr>
<tr>
<td><strong>OBJECTIVE, SCOPE, AND METHODOLOGY</strong></td>
<td>33</td>
</tr>
<tr>
<td><strong>APPENDICES</strong></td>
<td>35</td>
</tr>
<tr>
<td>Appendix A – Sampling Methodology and Testing Results</td>
<td>35</td>
</tr>
<tr>
<td>Appendix B – Survey Questions</td>
<td>37</td>
</tr>
</tbody>
</table>
BACKGROUND

Through an expense report approval process, the City and County of Denver reimburses city employees for out-of-pocket expenses made on behalf of the city. To be reimbursed, an employee submits an expense report through Workday, the city’s financial record system. The report should include information to fully describe the expenses — including the benefit to the city and any itemized receipts — and it should be categorized appropriately based on the type of expense.

The report is then routed through multiple levels of approval in a predefined business process, culminating in final approval by the Controller’s Office. If approved, the employee receives reimbursement.

The Controller’s Office, within the Department of Finance, develops and manages the expense report approval process. Furthermore, the Controller’s Office — in conjunction with city agencies — establishes and maintains the city’s Fiscal Accountability Rules and some procedures to guide the reporting, tracking, and approval of all expenses, including those reimbursed through the expense report process.

The Controller’s Office

The Controller’s Office was established to “ensure the City and County of Denver’s financial integrity by promoting effective, efficient, and accountable government, utilizing best practices, and ensuring the highest quality of customer service.”

The office is specifically responsible for payroll, accounts payable, general accounting, financial reporting, and citywide fiscal rules and policies. The office also provides financial management services to 17 city agencies.

It maintains the city’s Fiscal Accountability Rules to ensure city employees understand and comply with the rules. According to the Department of Finance, “these Fiscal Accountability Rules set parameters for fiscal activities of the City and County of Denver” with the purpose of assisting “officers and employees in conducting financial activities and in making fiscal decisions.”

The Financial Services Division of the Controller’s Office provides accounting services to city agencies, manages the city’s accounts payable, maintains city financial records, and reports directly to the city controller. The division develops and maintains the expense report approval process, gives guidance to employees and officials on how to complete expense reports, and ensures compliance with the Fiscal Accountability Rules.

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reports, and provides final approval on all expense reports.

The team consists of 10 employees who review and provide final approval on expense reports to ensure compliance with the Fiscal Accountability Rules. As shown in Figure 1, the director of Financial Services oversees the accounts payable services team, which grants final approval of city employees’ expense reports.

FIGURE 1. Financial Services Division Organizational Chart

![Organizational Chart]

Note: This is the division’s organizational structure as of Sept. 1, 2021.
Source: Workday, the city’s financial management system of record.

Expense Reports

Using taxpayer money, city employees can acquire and pay for goods and services in different ways, such as purchase orders, city-issued purchase cards and travel cards, or petty cash.³

City employees can also use their own money to pay for expenses incurred on behalf of the city in the performance of their official duties.

An employee who uses personal funds must then request reimbursement from the city for any business-related expenses they want the city to pay for. The city reimburses employee-paid expenses primarily using expense reports, which are separated between nontravel expenses and travel-related expenses.

When seeking reimbursement of travel expenses or nontravel expenses — such as office supplies or costs related to official functions — employees must fill out an expense report in Workday, the city’s system of record. Either the employee or a designated agency representative can initiate an expense report. All itemized receipts related to the reimbursable expenses must be attached to the expense report.⁴

⁴ A separate Workday process exists for expenses related to business travel.
OTHER WAYS CITY EMPLOYEES ACQUIRE AND PAY FOR GOODS AND SERVICES
Aside from paying for expenses themselves and then seeking reimbursement, city employees might also procure goods and services using:

- **PURCHASE ORDERS** – the preferred method when terms and conditions are required or when the city has established arrangements, such as agreed-upon prices.
- **PURCHASE CARDS AND TRAVEL CARDS** – city-issued credit cards with built-in spending limits, which are assigned to some employees.
- **PETTY CASH** – money doled out by an agency when other purchasing options are not feasible or when the purchase is nominal, such as transactions of $125 or less.

APPLICABLE FISCAL RULES – The city’s Fiscal Accountability Rules govern all city expenditures. Several rules outline the requirements for approving expenses and the types of expenses that can be made on the city’s behalf and are, therefore, considered reimbursable. Specifically, the rules require that:

- All financial transactions — including those submitted through an expense report — must be authorized by an “expending authority,” which is the employee appointed by an agency to make financial decisions. This is to ensure all transactions are reasonable, necessary, and consistent with city charter, city ordinances, policies and procedures, and other applicable laws and regulations.
- Financial duties should be divided so that no one person has control over an entire process or fiscal activity. For example, the same employee should not submit a reimbursement for an expense and then also approve it and reconcile agency records to the accounting system. This separation of duties deters fraud and concealment because collusion among multiple individuals would be required to complete a fraudulent act.
- Supporting documentation must be included for all financial transactions to substantiate the expense.
- Employees should assess whether an expense is appropriate and a prudent use of city funds, because the city “is accountable to the

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One city fiscal rule says the city “is accountable to the citizens of Denver for the appropriate and prudent use of City funds.” To make this determination, employees should ask themselves a series of questions — such as whether the expense is for official city business, whether it is in the city's best interest, and whether the expense provides a “valid benefit to the City without providing personal benefit to an employee or without creating the appearance of providing [a] personal benefit to an employee.”

Additionally, the city has rules on the use of procurement methods, including purchase orders and purchase cards. These rules say all purchases must have a purchase order. However, they allow some exceptions including purchases governed by a contract with the City Attorney’s Office, those defined as emergency purchases, those made using a purchase card, or those authorized by a supplier invoice request. When purchases violate these procurement rules, they are classified as unauthorized purchases.

While these procurement rules do not mention expense reports and there is no city guidance on specific limits for dollar amounts of reimbursement through the expense report process, there is general guidance that expenses must be “reasonable.”

To put the city's fiscal rules into practice, the Controller’s Office creates the workflow assignments for expense report approvals in Workday and publishes job aids that highlight the required elements of an expense report.

THE EXPENSE REPORT APPROVAL PROCESS — The city’s system of record, Workday, includes a feature for expense reporting and safeguards to help ensure employees comply with spending rules. The city uses a designated process in Workday for employees to track, upload, and submit expense reports. This process was developed and is maintained by the Controller’s Office.

Employees should be reimbursed only when an expense complies with city Fiscal Accountability Rules. At a high level, this means the expense is necessary for a business purpose, is of benefit to the city, and includes sufficient documentation to support the amount and purpose of the expense.

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9 City and County of Denver, “General Services Purchasing Procurement Policy and Procedure Manual” (2017), accessed Oct. 7, 2021, https://www.denvergov.org/content/dam/denvergov/Portals/573/documents/Purchasing%20Policy%20Manual%2009202017.pdf. This rule mentions “non-[purchase order] vouchers.” However, these are now referred to in both Workday and newer policies and procedures as “supplier invoice requests.”
Typically, expense reports require three levels of approval: by a manager, by the “cost center” — which is the agency or unit to which the expenses will be charged, and by an accounts payable specialist in the Controller’s Office. Figure 2 illustrates this process, which involves the following steps:

1. **CREATE THE EXPENSE REPORT** – Either the employee or a designated agency representative can initiate an expense report. For the worker completing the expense report, the city provides job aids in Workday that provide detailed instructions on how to enter the data and supporting documentation.

2. **REVIEW THE EXPENSE REPORT** – If a designated representative submits the expense report, the employee seeking reimbursement reviews the report. The employee is primarily responsible for the accuracy and completeness of the report before submitting it for approval. Once the employee submits and reviews expenses in Workday, the system automatically notifies the first approver, which is the manager.

3. **APPROVAL BY MANAGER** – The manager, typically the employee’s direct supervisor, will review and approve the expense report. Once approved, the expense report is sent to the cost center approver.

4. **APPROVAL BY COST CENTER APPROVER** – The cost center approver is the expending authority and has the right to spend money on behalf of their agency. Once they approve an expense report, the report is sent to the Controller’s Office’s accounts payable services team.

5. **APPROVAL BY ACCOUNTS PAYABLE DATA ENTRY SPECIALIST** – A data entry specialist on the Controller’s Office’s accounts payable services team generally provides the final approval for an expense report, while the accounts payable manager is the final approver for expense reports of $3,000 or more.

11 We are describing the “default” process used by most city agencies, including independent agencies. The Denver Police Department, the District Attorney’s Office, and Denver International Airport use slightly different processes, which have additional layers of review.

12 If the expense is associated with a grant, it goes to the grants manager for review and approval before being routed to the Controller’s Office’s accounts payable services team.
Approvers in this chain can add other approvers throughout the process, as necessary. For instance, if the expending authority or another approver is not available, then they may temporarily delegate approval authority to another manager.
FINDING AND RECOMMENDATIONS

A Poorly Defined and Monitored Expense Report Process Leaves the City at Risk for Inappropriate and Misclassified Spending

We found between 12% and 39% of nontravel expense reports from January 2018 through December 2020 were approved even though they had deficiencies in documentation, insufficient explanation, or inaccurate expense categorization — indicating the city’s approval process for these reports is inadequate.

This finding aligns with our October 2020 audit of travel expense reports, which also identified inadequate supporting documentation in travel transactions and expense reports.¹³ That audit focused on why employees were filling out the reports incorrectly and it found the Department of Finance — the owner and maintainer of the expense report process — was not tracking performance metrics to determine how well city employees followed the rules.

Because of what we found in that previous audit and based on our testing results for this audit, we conclude the documentation issues extend to all types of expense reports.

Therefore, we examined the approval process as a whole because it is the main control to ensure all types of expense reports include sufficient documentation as required by one city fiscal rule, so that any approver or reviewer can determine the expense is appropriate in accordance with another fiscal rule.¹⁴ Our findings for this audit focus on cases with deficiencies in the approval process and recommendations to improve that process.

Specifically, we found:

- Staff tasked with approving expense reports are not clear on their roles and responsibilities, and some questionable purchases were approved in recent years that did not appear to align with city rules.
- The process used for approving the City Council president’s expense reports violates the separation-of-duties requirement in the city’s


Fiscal Accountability Rules.

- The Controller’s Office — which establishes and maintains the approval process and the job aids on expense reports and historically provides assistance to city agencies on completing expense reports — does not formally review the expense report approval process to identify and fix deficiencies and ensure the process works as intended.

By not having a sufficient approval process and by not properly monitoring compliance citywide when reimbursing employees for business-related expenses, the city risks misappropriating taxpayer funds, approving potentially inappropriate expenses, and approving expenses best made through other procurement processes.

Many Expense Reports Were Approved despite Being Incomplete and Sometimes Inaccurate

Among the expense reports we tested, a large proportion in recent years did not have appropriate documentation and did not sufficiently explain what the expense was for. Many also included miscategorized expenses, which can affect budget forecasts.

As shown in Figure 3 on the following page, from January 2018 through December 2020, the city approved nearly 8,700 expense reports with more than 27,300 unique line-items, totaling almost $3.4 million. The majority of those line-items — about 22,000, valued at more than $2.5 million — were for travel-related expenses.

Among the remaining expenses, the two most common categories of expensed items were for “official functions” and “office supplies,” which is where we focused our testing for this audit. We identified 1,284 expense reports with at least one expense line-item categorized as an official function and 1,299 expense reports with at least one expense line-item categorized as office supplies. The total value of these two categories of expenses was about $368,000.

THE SCOPE OF OUR FINDINGS

The city’s approval process is a control for all expense reports. While this audit did not test travel expenses, the findings from our population of nontravel expense reports align with the findings of our October 2020 “Travel Expenses” audit in identifying poorly documented expenses.

The approval process that this audit focuses on is the same for both travel and nontravel expenses. Therefore, the deficiencies we identified and the recommendations we provide relate to the process as a whole that controlled the entire $3.4 million worth of reimbursed employee expenses from January 2018 through December 2020.
To test the city’s expense report review process, we randomly selected expense reports from both of these groups, for a sample of 170 expense reports. We examined each expense report for the required elements — such as whether they included an explanation of the expense, whether the documentation supporting the transaction was attached, and how the expense was accounted for.

We found many of these approved expense reports had issues, as summarized in Figure 4 on the following page. Specifically:

- **DOCUMENTATION FAILURES** – Twelve percent of the 170 expense reports in our sample failed the documentation requirements. One of the city’s Fiscal Accountability Rules requires supporting documentation for all financial transactions to substantiate the transaction. Some expense reports had only a non-itemized credit card receipt or they had missing amounts from itemized receipts.

- **MEMO LINE FAILURES** – Thirty-nine percent of the expense reports’ memo lines did not describe how the expenses benefited the city and 30% did not describe the purpose of the expense. City rules require the memo line of an expense report to describe the purpose of the expense and its benefit to the city.

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15 For details on the sampling methodology, see Appendix A.

FIGURE 4. Failure Rates for Expense Report Analysis

These results are based on our random sample of 170 expense reports that had at least one line-item categorized as either “office supplies” or “official function.”

<table>
<thead>
<tr>
<th>Category</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Memo: Benefit</td>
<td>39%</td>
</tr>
<tr>
<td>Memo: Purpose</td>
<td>30%</td>
</tr>
<tr>
<td>Spend Category</td>
<td>26%</td>
</tr>
<tr>
<td>Documentation</td>
<td>12%</td>
</tr>
</tbody>
</table>

Source: Workday, the city’s financial management system of record.

However, we identified many generic memo lines, such as “employee reimbursement.” One instance of the language “employee reimbursement” was used to describe a $272 expense for snacks and ice for the Department of Public Safety during a COVID-19 antibody testing event for department staff.

- **SPEND CATEGORY FAILURES** – Twenty-six percent of the reports in our sample were not placed in the most appropriate spend category, which agencies and the city’s Budget and Management Office use when analyzing budgets and public reporting on an agency’s expenses.

  When filling out an expense report, employees place each expense into an “expense item category.” Workday provides 37 expense item categories, which the system translates into 18 spend categories.

  Examples of misclassified expenses we identified include a weapons reimbursement for the Sheriff Department and protective boots for the Department of Public Health and Environment — which were placed into the “other employee reimbursements” expense item category and translated to the “office supplies” spend category. A more accurate expense item category for these expenses would be “safety equipment,” which translates to the “personal safety and protection equipment” spend category.

  We also found multiple instances where employees placed expenses that meet the definition of an “official function” into the “office supplies” category. Official functions have their own spend category.

  These failures indicate the city’s expense report approval process is not working as it should. This leaves the city at risk for inappropriate spending and a lack of transparency in how city agencies use taxpayer funds.

  The expense report approval process failed to catch these issues for three primary reasons:

  1. A lack of defined roles or responsibilities for the staff who approve expense reports.
2. A lack of standardized training for those employees.
3. The employees’ use of information outside Workday when reviewing an expense report.

As the Controller’s Office says on its website, the office’s goal is to “promote accountability and responsibility for financial activities and assets, ensure legal use of public funds, maintain public trust, promote strong internal controls ... and provide management with financial data that is timely, accurate, and understandable.”

The U.S. Government Accountability Office emphasizes the significance of determining key roles, assigning responsibilities to achieve objectives, and developing and maintaining documentation of an organization’s internal control structure — which is the system of policies, procedures, techniques, and mechanisms that help achieve an organization’s objectives and address identified risks.

The Controller’s Office Has Not Defined the Roles and Responsibilities for Employees Who Approve Expense Reports

We found the Controller’s Office has no policies or procedures that define the roles and responsibilities for those tasked with approving expense reports. While the city’s Fiscal Accountability Rules and associated job aids provide general guidance on what is expected in an expense report, employees assigned to an “approver” role do not have a document that clearly describes the purpose or responsibilities of their specific level of approval.

The Fiscal Accountability Rules and their related procedures provide descriptive guidance for purchase cards, travel expenses, and purchases made with purchase orders and contracts — but they provide only limited guidance related to reimbursements made to employees who use personal funds for business-related purchases. Being responsible for the report approval process includes designating the different approval roles, and the Controller’s Office has historically been the point of contact for agencies that have issues completing expense reports.

The GAO emphasizes the significance of determining and defining key roles. Defining key roles not only enables an organization to respond to risks, but it also allows management to prepare succession plans and contingency plans to address personnel changes that could make it harder for the organization to achieve its objectives and manage risk.

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19 U.S. Government Accountability Office, para. 3.07.
20 U.S. Government Accountability Office, para. 4.06.
We spoke with Finance Department staff about the different approver roles (e.g., manager, cost center approver, data entry specialist, etc.), and the results of our testing. While they said the roles are “self-explanatory,” they also acknowledged that one approver may rely on another approver to ensure an expense report is completed as required.

However, when we surveyed employees and officials who were first-level approvers of the 170 expense reports in our sample for audit testing, we found these approvers do not have a uniform understanding of their role.

All but one of the employees we surveyed was a manager approver. The results from the 49 employees who responded indicate city employees’ interpretations of their responsibilities vary greatly.

- First, we asked respondents to identify the elements of an expense report they review when they act as an approver.

As shown in Figure 5, most respondents — 92% — said they looked at the supporting documentation. Eighty-eight percent said they reviewed any attached secondary information, such as emails describing the expense; 80% said they read the memo line; and 71% said they looked at the chosen cost center and the expenses’ classification.

**FIGURE 5. Specific Elements of an Expense Report Approvers Said They Examine**

- 92% The documentation associated with the purchase (i.e., receipts and invoices)
- 88% The secondary information attached (i.e., forms for official functions or emails describing the expense)
- 80% The memo line
- 71% The cost center selected
- 71% The classification of the expense (e.g., if it was an office supply, was the office supply category selected?)

*Note: Respondents could choose more than one answer.*

*Source: Auditor’s Office survey of expense report approvers.*

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21 We sent surveys to 72 approvers who were active employees at the time of the survey. The only one who was not a manager was the senior vice president approver for Denver International Airport, who has an additional layer of review in the airport’s expense report approval process.

22 Respondents could choose more than one answer.
With respect to what respondents felt responsible for: Figure 6 shows that 96% said the appropriateness of the expense was their responsibility — while 89% said it was the documentation, 78% said it was the dollar amounts associated with the expense, and 71% said it was the description in the memo line.  

Finally, we asked approvers to indicate how often they feel they are reviewing more than their role requires. Seventy-one percent of respondents said they were doing more than they should some of the time, and 24% said they were doing more than they should at least half the time.

Survey respondents could not identify clear differences between the distinct approver roles.

We also asked the survey respondents to identify which level of approver is most responsible for looking at different elements of an expense report such as the expense classification, the cost center selection, the memo language, and the supporting documentation. We again received a range of responses.

For all elements, most respondents indicated the manager was the most responsible, followed by the cost center approver, then the accounts payable specialist in the Controller’s Office. For example, 69% of respondents said the manager was responsible for reviewing the cost center selection, while only 53% of respondents said that the cost center approver was responsible for this task.

These responses show approvers do not have a uniform understanding of the different approver roles and that the responsibilities of each role are, in fact, not self-explanatory.

Without clearly defined roles for each level of approval for expense reports, there will continue to be confusion among those individuals who are assigned approval roles about their authority and responsibilities — which may lead to inconsistent approvals of expense reports.

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23 Respondents could choose more than one answer.
24 Respondents could choose more than one answer.
25 Respondents could indicate that one reviewer has multiple responsibilities.
The Controller’s Office Provides No Standard Training for Expense Report Approvers

Another cause for the failures we found in the approval process is that the Controller’s Office does not provide standard training for expense report approvers. Controller’s Office staff told us they provide only ad-hoc training to approvers when those employees reach out for clarification or assistance.

However, staff were unable to provide notes describing any training that was provided or records showing how many approvers had received this ad-hoc training. The absence of any standard training does not align with principles from the U.S. Government Accountability Office, which say training is crucial to develop competency and enforce standards of conduct.\(^\text{26}\)

Although ad-hoc training has historically been provided by the Controller’s Office for individuals who reach out to the Department of Finance, formal training should be provided on what is expected from each of the approval roles.

When we asked the expense report approvers where they received training on how to review an expense report, only 19% of respondents said they received any formal training. Absent the formal training, our survey revealed the most common forms of training approvers receive are informal and self-directed. For example, 55% of respondents said they received help from colleagues and 43% said they used job aids to learn about the process. Seventeen percent said they received no training at all.

Our survey responses also indicated a need for a resource to teach approvers about their role. For example, as shown in Figure 7, only 15% of respondents said they have not had a question on how to review an expense report.

**FIGURE 7. Resources Approvers Use When They Have Questions on Expense Reports**

<table>
<thead>
<tr>
<th>Resource</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coworker or manager</td>
<td>64%</td>
</tr>
<tr>
<td>Department of Finance staff</td>
<td>55%</td>
</tr>
<tr>
<td>Fiscal Accountability Rules</td>
<td>47%</td>
</tr>
<tr>
<td>Job Aids</td>
<td>40%</td>
</tr>
<tr>
<td>Have not had a question on how to review an expense report</td>
<td>15%</td>
</tr>
<tr>
<td>Procedures found on the city’s intranet</td>
<td>9%</td>
</tr>
</tbody>
</table>

_Note:_ Respondents could choose more than one answer.

_Source:_ Auditor’s Office survey of expense report approvers.

When approvers were asked which resources they use when they do have a question, the most common answer among the remaining 85% of respondents was their coworkers or manager (64%), followed by Department of Finance staff (55%), the city’s Fiscal Accountability Rules (47%), and job aids (40%).

As shown in Figure 8, when approvers want to be sure their review is complete, 62% of respondents said they consult the city’s fiscal rules, 60% ask coworkers or their manager, 55% ask Department of Finance staff, 43% use job aids, and 9% use procedures found on the city’s intranet.

**FIGURE 8. Resources Approvers Use to Ensure a Complete Review**

<table>
<thead>
<tr>
<th>Resources</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal Accountability Rules</td>
<td>62%</td>
</tr>
<tr>
<td>Coworker or manager</td>
<td>60%</td>
</tr>
<tr>
<td>Department of Finance staff</td>
<td>55%</td>
</tr>
<tr>
<td>Job Aids</td>
<td>43%</td>
</tr>
<tr>
<td>Procedures found on the city’s intranet</td>
<td>9%</td>
</tr>
</tbody>
</table>

*Note: Respondents could choose more than one answer.*

*Source: Auditor’s Office survey of expense report approvers.*

Combined, these results suggest most respondents not only have questions about the process, but they rely on other city employees and Department of Finance staff for help more than they rely on documented sources, such as job aids. Finance staff have also historically maintained the process and answered questions related to expense reports from city agencies when contacted.

After this audit began, members of the accounts payable service team began drafting guidance for expense report approvers in the Department of Finance. As of August 2021, this guidance appeared to still be under review.

Meanwhile, we found limitations in how useful the city’s Fiscal Accountability Rules are with respect to an approver’s responsibilities.

The rules provide only limited definitions of what constitutes an appropriate expense. For example, “official functions” are well-defined (i.e., an authorized non-routine event) and describe the types of allowable expenses (e.g., snacks, meals, beverages, equipment rentals, labor charges, etc.). Alternatively, a “travel expense” can include a “miscellaneous travel expense,” which is not defined, and “office supplies” or “safety equipment” are not mentioned or defined in the Fiscal Accountability Rules, even though those are common types of expenses.

Furthermore, although the Fiscal Accountability Rules describe the levels of documentation required for all financial transactions, they do not describe procedures around any of the approval processes. Our survey responses found the fiscal rules are the most popular resource approvers consult to
ensure an expense report review is complete, but approvers do not review the rules frequently or at all. Fifty percent said they reviewed expense-related fiscal rules over a year ago and 18% said they had never reviewed the rules.

Meanwhile, we analyzed the records that show how often city employees access the job aids, and our findings align with the survey responses — suggesting job aids are not a primary source of information for approvers. The Department of Finance provides expense report job aids on the city’s intranet and in the Workday learning platform. However, from 2018 through 2020, records show only 47 unique employees accessed the job aids on the intranet and only 39 unique employees accessed the job aids through Workday.

The lack of standardized training creates inconsistencies in how expense reports are approved and diminishes how well-equipped approvers are to fulfill their duties. Current job aids show only how to complete an expense report; they do not outline the responsibilities and expectations of each approver.

**Approvers Rely on Information Outside the System of Record When Reviewing Expense Reports**

One Fiscal Accountability Rule requires every transaction to include adequate supporting documentation that provides a clear picture of the transaction. Failing to provide adequate supporting documentation may require city staff to perform additional work. For example, staff from the Budget and Management Office said when an expense report lacks adequate information, an analyst who is unfamiliar with the transaction needs “to hunt” for details to understand the expense in order to complete their analysis of where agencies spend funds so the budget office can prepare future budget estimates or report on spending details.

Given the importance of supporting documentation, our survey of expense report approvers included questions about why an expense report would be approved when it lacks adequate documentation or contains memo language that does not describe an expense’s purpose or benefit to the city.

In one question, we provided the respondents with the exact memo language of an expense report they previously approved and asked whether they believed the memo sufficiently described the expense’s purpose and benefit to the city. The purpose of this question was to understand from the approvers whether they relied on other information not included in Workday when they approved the expense report.

Forty-three percent said the memo language was not descriptive enough. However, they said they relied on other information not included with the

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expense report — such as a supplemental form or their own familiarity with the transaction — to understand the purpose and benefit of the expense.

We also asked approvers to rank items by importance when performing their review. Respondents ranked their personal knowledge of the expense (e.g., discussing the expense with the employee requesting reimbursement) as the most important, followed by receipts or other documentation related to the transaction. These answers show approvers hold a greater reliance on their personal understanding than on the information documented in Workday, the city’s system of record.

Finally, we asked approvers about their agency’s use of supplemental forms. Supplemental forms are optional documents that can assist an individual in ensuring that all required documents and descriptions are included in an expense report. Supplemental forms match the requirements of an expense report, in that the purpose of the event and how it benefits the city must be completed as well as the amount requested for reimbursement.

Seventy-three percent of respondents said their agency uses a supplemental form for expenses related to official functions, and 24% of respondents said their agency uses a supplemental form for office supply expenses. Supplemental forms for official functions were specifically made for those types of expenses, while the supplemental forms for office supply expenses in our sample varied from petty cash request forms to generic requests for reimbursement.

The city’s Fiscal Accountability Rules provide guidance for expenses related to official functions with detailed definitions of what an “official function” is. This guide refers to a supplemental form for official function expenses, which is used to gather more information and ensure the expense contains the necessary documentation and explanation. This supplemental form is considered optional, and agencies may use it to ensure all information related to the function is recorded. However, the fiscal rules do not describe or provide guidance for office supply expenses with the same level of detail.

We believe the use of a supplemental form and the varying levels of detailed language in the fiscal rules affects how thoroughly and accurately staff complete the expense report approval process.

In analyzing the expense reports from our random sample, we found more supplemental forms associated with official functions than office supplies. Furthermore, official function expense reports failed the test for documentation

FOR MORE INFORMATION
See Appendix A for more discussion of our sampling methodology and testing results.

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less often than the office supplies expense reports. When employees use the supplemental forms and include them as part of the expense report documentation, it adds context to the nature of the expense that is often missing when these documents are not included.

A breakdown of our testing results between the expense reports for official functions and those for office supplies shows the reports for office supplies lacked adequate documentation and were miscategorized at much higher rates than those for official functions.

While the use of contextual information, such as conversations and supplemental forms is not a problem, this information should be included in Workday, too, so all approvers have the same information and so the transactions are documented in accordance with fiscal rules.

**An Insufficient Approval Process Exposes the City to Potential Misuse and Fraud and Decreases the Transparency of City Spending**

The lack of documented roles and responsibilities for expense report approvers, the lack of standardized training materials for approvers, and the use of information outside Workday has led to expense reports that are miscategorized and do not always meet the documentation standards needed for a person unfamiliar with the expense to understand the nature of the expense.

Even though our audit analysis did not identify fraud, this issue leaves expense report approvers — and thereby, the city itself — at risk for approving expense reports where an employee or official may be engaging in fraud, waste, or abuse, either intentionally or unintentionally.

In identifying the primary weaknesses that contributed to occupational fraud in 2020, the Association of Certified Fraud Examiners found that 32% of occupational fraud resulted from a lack of internal controls and 18% was attributed to a lack of management review. The best method to detect expense reimbursement fraud is by performing a detailed review of expense reimbursement documents. Without documented roles and responsibilities and without standardized training, the U.S. Government Accountability Office says management may have a difficult time identifying fraud risk factors and responding to fraud risks.

Furthermore, approving expense reports that are classified in the wrong expense category limits the effectiveness of the city’s budget forecasting, its ability to ensure it meets financial obligations, and the transparency of public reporting of taxpayer dollars.

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The city’s Budget and Management Office uses forecasting to shape the annual city budget. To do this, the office looks at each agency’s spending in the previous year. If the budget office’s forecast is informed by misclassified expenses, the office may need to perform additional work to understand the difference between an agency’s anticipated expenses versus its actual ones.

Additionally, inaccurate expense classifications also diminish the city’s ability to communicate the precise use of taxpayer money to the public. For example, if a group of travel expenses is misclassified between categories (e.g., meals, lodging, etc.), or a piece of personal protective equipment for a police officer is misclassified as an office supply, the city will not accurately describe how it spends public funds. The ability to accurately communicate the use of taxpayer funds and remain accountable to the public is paramount.

Finally, an approval process that is not well defined and for which approvers are uncertain of their roles and responsibilities may allow for expense reports to be approved when they lack the documentation to fully describe the expense and verify the expense meets fiscal rules related to allowable expenditures.\(^{32}\)

The Insufficient Expense Report Approval Process May Allow for City Officials and Staff to Be Reimbursed for Potentially Questionable Purchases

Because of the deficiencies in the city’s expense report approval process — where approvers are unclear what information is required and who in the approval process is responsible to ensure the expense report is supported and described to meet city rules — those individuals who approve expense reports may authorize purchases that have the appearance of not being appropriate because of their lack of documentation, or they may approve purchases that do not comply with city rules.

Through our testing, we saw several instances of home office equipment and information technology assets purchased by city employees and officials, who were reimbursed through expense reports. Many of these expense reports lacked documentation to allow a reviewer to understand the nature of the purchase or whether it aligned with city rules.

We identified nine expense reports reimbursing city staff and officials for over $8,000 worth of office equipment during the pandemic — items that were shipped to home addresses. Only one of the expense reports provided documentation that fully described the purchase to demonstrate the items were for city use. Fiscal Accountability Rules require expenses be made in the city’s best interest and they must not provide a “personal benefit to an employee or [create] the appearance of providing [a] personal benefit.”

The fiscal rules also say financial transactions, which include reimbursements related to expense reports, must be documented to fully describe the nature and purpose of the transaction. Additionally, the city’s Career Service Rules — which apply only to career service employees and not elected officials — say the city will supply an employee with only one workstation setup either at home or at a city site.

Meanwhile, we also identified information technology items reimbursed to staff and officials across multiple agencies through 18 expense reports — totaling $11,680. Two of those assets were MacBook laptops; one of which, at the time of this audit, was not registered on the city’s information technology asset list. This indicates the computer, which may be linked to city networks, is an unknown asset. It, therefore, may not have the same level of security, increasing the city’s cybersecurity risk.

The city’s Executive Order No. 18 describes the role and responsibility of the city’s Technology Services agency, and it says Technology Services must review and approve all technology assets connected to the city’s network. According to city policy, agencies might also need approval from the Budget and Management Office for budgeted or unbudgeted technology assets “depending on the type and cost of the product.”

Furthermore, Technology Services is supposed to receive all deliveries of technology hardware and software unless an agency receives prior approval for direct delivery. All purchases must also be “supportable” by Technology Services. The city’s Career Service Rules also specify that any equipment “supplied by the department/agency/Technology Services is owned and will be maintained by the department/agency/Technology Services.”

But in no cases did the expense reports for the two laptops we identified include documentation showing any communication between the

33 City and County of Denver, Fiscal Accountability Rules, “Rule 7.1 – Propriety of Expenditures.”
individual asking for reimbursement, their agency, or Technology Services
that would indicate the agency received prior approval as required under
Executive Order 18.

Furthermore, notations within the approval process records in Workday
identified these as nonstandard purchases — indicating accounts payable
staff questioned their appropriateness. While the purchases were
ultimately approved, these examples highlight that:

1. The approver closest to the purchase — i.e., the manager — did
   not raise questions and did not request essential documentation,
   perhaps because they had information outside Workday to make their
   assessment. However, without this information in Workday, future
   approvers could not make the same determination.

2. When the expense process is used in unintended ways, such as
   purchasing information technology assets, city equipment is
   potentially not tracked or recorded as required.
   
   Acquiring technology assets without the review and approval of
   Technology Services increase the city’s vulnerability to threats, such
   as phishing and viruses, because the equipment is connected to
   the city’s network without having the approved and appropriate
   protections installed and maintained.

Finally, while an evaluation of the appropriateness of the procurement
method used was out of scope for this audit, the types of items and
amounts reimbursed through expense reports creates a potential risk for
unauthorized purchases, as defined in the city’s procurement rules.\(^\text{38}\)

\begin{mdframed}
\textbf{1.1 RECOMMENDATION Define Responsibilities for Expense Report Approvers}

The Department of Finance should define and document the responsibilities for each
level of approver for expense reports: manager, cost center approver, grants manager,
and accounts payable data entry specialist. These definitions should address, but not be
limited to:

- Definitions for each approver role that communicates the authority of each role.
- The responsibility of each approver role with clear links to Fiscal Accountability Rules,
  Careers Service Rules, related procedures, and job aids.
- The documentation associated with expense reports that each role is responsible for
  checking and approving.

\textbf{AGENCY RESPONSE: AGREE, IMPLEMENTATION DATE – MARCH 31, 2022
SEE PAGE 29 FOR THE AGENCY’S FULL RESPONSE TO OUR RECOMMENDATIONS.}
\end{mdframed}

\(^{38}\) City and County of Denver, “General Services Purchasing Procurement Policy and Procedure Manual” (2017), accessed
1.2 RECOMMENDATION Develop and Implement Standardized Guidance

The Department of Finance should develop, implement, and communicate standardized training, guides, and/or a set of procedures for approvers, so they fully understand the expense report process and their roles and responsibilities as an approver. The training, guides, and/or procedures should answer any commonly asked questions.

AGENCY RESPONSE: AGREE, IMPLEMENTATION DATE – MARCH 31, 2022
SEE PAGE 29 FOR THE AGENCY’S FULL RESPONSE TO OUR RECOMMENDATIONS.

1.3 RECOMMENDATION Promote Compliance with City Rules

As part of implementing Recommendation 1.2, the Department of Finance should include in its standardized training, guides, and/or set of procedures for approvers information about city executive orders, Fiscal Accountability Rules, and Career Service Rules that pertain to expenses and reimbursement. The department should emphasize to city agencies the importance of these regulations and promote the need for consistent compliance.

AGENCY RESPONSE: AGREE, IMPLEMENTATION DATE – MARCH 31, 2022
SEE PAGE 29 FOR THE AGENCY’S FULL RESPONSE TO OUR RECOMMENDATIONS.

1.4 RECOMMENDATION Update Policies and Procedures

The Department of Finance should update its policies and procedures for expense reports to include a description of how city employees and expense report approvers should document in the city’s system of record, Workday, any clarifying conversations or agency-level forms that further describe the nature and purpose of an expense.

AGENCY RESPONSE: AGREE, IMPLEMENTATION DATE – MARCH 31, 2022
SEE PAGE 29 FOR THE AGENCY’S FULL RESPONSE TO OUR RECOMMENDATIONS.
Our review of approved expense reports found that the process requires the president of the Denver City Council to approve their own expense reports, acting as the manager-level approver in the city’s system of record, Workday.

Based on our analysis of over 200 other expense reports including other expending authorities and elected officials, this appears to be an isolated issue. However, this instance does not fully align with one of the city's Fiscal Accountability Rules, which requires a separation of duties for financial transactions.

That is, no one person should have control over an entire process or fiscal activity. For example, the same individual should not pay for an expense and then also approve their own expense report seeking reimbursement. While there are other levels of approvals in the process we observed, allowing the individual asking for reimbursement to provide manager-level approval erodes the separation of duties required by the fiscal rules. As noted in the rules: “Separation of duties acts as a deterrent to fraud or concealment since collusion with another individual is required to complete a fraudulent act.”

Under normal circumstances and in accordance with the fiscal rules, the expending authority of an agency (i.e., the individual appointed by city ordinance or the employee delegated the authority by an agency to make financial decisions) must approve all expenditures for that agency. For many expense reports, approval authority is delegated to supervisors — who approve the expense reports of the employees who report directly to them.

When the employee seeking reimbursement is also the expending authority, the role for the manager-level approver of their expense report is typically unassigned in Workday. In these cases, Finance Department staff said they will reassign the manager role to maintain a separation of duties, as required by the city fiscal rule.

We confirmed this arrangement exists in all city agencies — including independent agencies not under the Mayor’s Office — with one exception: City Council.

We analyzed 20 expense reports paid to the expending authorities of each independent agency (i.e., the City Council, the Denver County Court, the Clerk and Recorder’s Office, and the Office of Human Resources), and we also looked at over 180 randomly and judgmentally selected reports that included expending authorities from other agencies, including the Mayor’s Office.

Regarding the expense reports paid to the expending authority of the independent agencies and one expense report for the mayor, our results

found that for all but the City Council president, the manager-level approval was provided by a separate individual (e.g., the cost center approver, the agency’s grants manager, or an individual outside the agency). But for the 11 expense reports that reimbursed a City Council president, the president provided their own manager approval.

As it pertains to the City Council president’s self-approval, we reviewed those individuals’ expense reports approved between January 2018 and December 2020 — which included 11 expense reports submitted while they were an acting president and nine expense reports submitted while they were not president.

Overall, this analysis showed the three individuals who had served as City Council president during this time were reimbursed for a total of $7,655. Of that, $6,895 was spent while the individual was council president and they, therefore, self-approved those expenses. When they were reimbursed for the remaining $760 while not serving as City Council president, they had another individual act as their manager approver for those expense reports.

By comparison, as shown in Figure 9, all other City Council members were reimbursed for about $55,900 in expenses during that same time.

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**FIGURE 9. City Council Members’ Expense Reports from January 2018 through December 2020**

- Expenses self-approved by City Council presidents
- All other City Council members’ reimbursed expenses

$55,860 | $6,895 | $62,755

*Source: Auditor’s Office analysis of expense report information in Workday, the city’s financial management system of record.*

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Finance Department staff said, in general, they designed the Workday approval process to align with city fiscal rules and to mirror the approval process for purchase cards, which are city-issued credit cards assigned to certain employees. Through this design, the default process automatically assigns a worker’s direct supervisor as the manager approver. When a worker does not have a direct supervisor — such as an expending authority — the manager approval is left unassigned in Workday.

In these cases, Finance staff said the manager approver of the expense report should be designated to someone else, possibly someone outside the agency. For City Council members, the manager approver is set to the City Council president because the annual budget ordinance designates the president as the council’s expending authority.⁴⁰

This routing logic appears to explain why the City Council president is...

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automatically routed their own expense report for the manager-level approval — rather than being assigned to someone outside the agency to perform the manager-level approval, like all other expending authorities we tested.

Although the approval process then routes the expense report to other approvers, the manager-level approver is considered a critical role in the approval process. Among the approvers we surveyed — and the Finance staff we interviewed — they believe the manager-level approver provides the most oversight. According to our survey of approvers, about 79% of the 49 respondents ranked the manager approver as the most responsible for ensuring:

- The classification selection is correct.
- The cost center selection is correct.
- The memo line adequately describes the purpose of the expense and its benefit to the city.
- The supporting documentation is appropriate.

With respect to the other levels of approval, about 38% of respondents ranked the cost center approver as most responsible for these items, and only about 16% ranked the Controller’s Office’s accounts payable specialist as the most responsible.

Before our audit, the Department of Finance was not aware of this self-approval issue, and as of September 2021, the department had not yet addressed the problem.

While this arrangement works for approving other City Council members’ expense reports, it violates the separation-of-duties requirement when the council president is the one seeking reimbursement. It also does not conform with the U.S. Government Accountability Office’s guidance on the significance of separating duties. The GAO notes that a separation of duties helps address the risk of a manager circumventing existing controls, which increases the risk of fraud.

Because the expending authority is responsible for complying with the city’s fiscal rules, they should not be approving their own expenses for reimbursement, and the GAO says an organization’s management should identify, analyze, and respond to risks related to achieving the organization’s objectives.

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43 U.S. Government Accountability Office, para. 7.01.
1.5 RECOMMENDATION Identify and Address Separation-of-Duties Issues

The Department of Finance should identify workflows with the appropriate expending authority where the expense report approval business process does not align with Fiscal Accountability Rule 2.4 related to the separation of duties — such as the workflow for a City Council president’s expense reports. For the identified workflows, the Department of Finance should develop a tailored Workday process to align with the fiscal rules related to the separation of duties and the department should verify the process is implemented.

AGENCY RESPONSE: AGREE, IMPLEMENTATION DATE – DEC. 31, 2021
SEE PAGE 29 FOR THE AGENCY’S FULL RESPONSE TO OUR RECOMMENDATIONS.

The Controller’s Office Does Not Formally Review the Expense Report Approval Process to Address Deficiencies and Mitigate Risks

In our analysis of the expense report approval process, we discovered the Controller’s Office has no formal review procedure to determine whether the city’s expense report approval process is working as desired. While some degree of human error in an approval process is expected, the Controller’s Office does not analyze expense reports to verify procedures are being followed or to identify how often errors occur.

The Department of Finance relies on the Controller’s Office’s accounts payable team to uncover recurring issues — such as agencies submitting incorrect expense reports — but there is neither a process for doing so nor a metric to calculate how often expense reports are rejected. Through interviews with Controller’s Office staff, we learned they determine problems through informal discussions only among themselves. However, there are no periodic meetings between Finance staff and other agencies to identify or address issues.

This absence of any metric prohibits the Controller’s Office from targeting its corrective efforts to address the problem of expense reports being approved without the required documentation. Furthermore, without documentation tracking how often approvers need assistance, the Controller’s Office cannot determine how effective the resources available to approvers are when they have questions about their role.

Meanwhile, the absence of a structured review process does not allow the Controller’s Office to identify instances when employees are approving their own expense reports, as we found with the City Council president’s role.

Again, the U.S. Government Accountability Office says “management should identify, analyze, and respond to risks related to achieving the defined objectives.”44 The Government Finance Officers Association’s guidance on

performance measures also says government organizations should collect and use information from existing systems to measure the performance of the organization, to evaluate the effectiveness and efficiency of the organization’s internal controls, and to help make informed decisions.\textsuperscript{45}

Related to this, the GAO says management should evaluate and document “the results of ongoing monitoring and separate evaluations to identify internal control issues.”\textsuperscript{46} Management should then use that evaluation to determine how effective its internal controls — such as policies, procedures, and prescribed workflows — are.

The GAO says any differences between the initial assessment and ongoing monitoring can flag problems (e.g., monitoring how often an expense report is returned because of insufficient documentation and then identifying what step in the review process is allowing such an expense report to be approved).\textsuperscript{47} This allows an agency to identify weaknesses in its processes.

As mentioned, the Controller’s Office was established to “ensure the City and County of Denver’s financial integrity by promoting effective, efficient, and accountable government, utilizing best practices, and ensuring the highest quality of customer service.”\textsuperscript{48} Because the Controller’s Office maintains the city’s Fiscal Accountability Rules and their associated procedures and is the owner of that process, the office should establish and monitor performance indicators to evaluate the effectiveness of those rules and procedures and work with expending authorities to ensure they comply with the fiscal rules.

By creating key performance metrics that measure how often agencies are not complying with the fiscal rules, the accounts payable services team can better target its resources to training these agencies. Without these metrics, agencies that may be struggling with compliance cannot be targeted effectively for corrective action.

Consequently, agencies face several risks when the Controller’s Office does not properly monitor compliance citywide. For example, agencies may:

- Submit expense reports without the documentation needed to be compliant with fiscal rules.\textsuperscript{49}
- Process improper expenses and reimburse employees for them, which can waste or misuse taxpayer money.


\textsuperscript{47} U.S. Government Accountability Office, para. 16.09.


• Misclassify expenses in financial accounts, causing potential inaccuracies that can influence budget forecasts.

Therefore, the Controller’s Office should periodically review the expense report approval process to determine whether the process is generating expense reports that comply with the fiscal rules and related procedures, so it can address cases of noncompliance.

1.6 RECOMMENDATION Develop Performance Metrics

The Department of Finance should develop key performance metrics to measure how effective the expense report approval process is at ensuring reports are complete and accurate and in accordance with fiscal rules.

AGENCY RESPONSE: AGREE, IMPLEMENTATION DATE – MAY 31, 2022
SEE PAGE 29 FOR THE AGENCY’S FULL RESPONSE TO OUR RECOMMENDATIONS.

1.7 RECOMMENDATION Monitor Compliance

The Department of Finance should develop and implement a method to periodically assess and monitor city agencies' compliance with the expense report approval process — including applicable fiscal rules and related procedures — and it should develop and implement a method to systematically respond to deficient approvals or approvers’ questions related to the approval process.

AGENCY RESPONSE: AGREE, IMPLEMENTATION DATE – MAY 31, 2022
SEE PAGE 29 FOR THE AGENCY’S FULL RESPONSE TO OUR RECOMMENDATIONS.
AGENCY RESPONSE TO AUDIT RECOMMENDATIONS

October 28, 2021

Auditor Timothy M. O’Brien, CPA
Office of the Auditor
City and County of Denver
201 West Colfax Avenue, Dept. 705
Denver, Colorado 80202

Dear Mr. O’Brien,

The Office of the Auditor has conducted a performance audit of the Expense Report Approval Process.

This memorandum provides a written response for each reportable condition noted in the Auditor’s Report final draft that was sent to us on October 20, 2021. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING 1
A Poorly Defined and Monitored Expense Report Process Leaves the City at Risk for Inappropriate and Misclassified Spending

RECOMMENDATION 1.1
Define Responsibilities for Expense Report Approvers. The Department of Finance should define and document the responsibilities for each level of approver for expense reports: manager, cost center approver, grants manager, and accounts payable data entry specialist. These definitions should address, but not be limited to:

- Definitions for each approver role that communicates the authority of each role.
- The responsibility of each approver role with clear links to Fiscal Accountability Rules, Careers Service Rules, related procedures, and job aids.
- The documentation associated with expense reports that each role is responsible for checking and approving.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
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</thead>
<tbody>
<tr>
<td>Agree</td>
<td>03/31/2022</td>
<td>Alexandra Esquibel</td>
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Narrative for Recommendation 1.1
The Controller’s Office will define and document the responsibilities for each level of approver for expense reports, including the manager, cost center approver, grants manager, and accounts payable data entry specialist.
entry specialist. Where applicable, the documentation will include links to fiscal accountability rules, procedures, and job aides.

<table>
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<th>RECOMMENDATION 1.2</th>
<th>Develop and Implement Standardized Guidance. The Department of Finance should develop, implement, and communicate standardized training, guides, and/or a set of procedures for approvers, so they fully understand the expense report process and their roles and responsibilities as an approver. The training, guides, and/or procedures should answer any commonly asked questions.</th>
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Narrative for Recommendation 1.2
In conjunction with recommendation 1.1, the Controller’s Office will develop a set of procedures for approvers or modify existing procedures, so they fully understand the expense report process and their roles and responsibilities as an approver.

<table>
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<tr>
<th>RECOMMENDATION 1.3</th>
<th>Promote Compliance with City Rules. As part of implementing Recommendation 1.2, the Department of Finance should include in its standardized training, guides, and/or set of procedures for approvers information about city executive orders, Fiscal Accountability Rules, and Career Service Rules that pertain to expenses and reimbursement. The department should emphasize to city agencies the importance of these regulations and promote the need for consistent compliance.</th>
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Narrative for Recommendation 1.3
Where applicable, the Controller’s Office will include in its standardized training, guides, and/or set of procedures for approvers information about Fiscal Accountability Rules that pertain to expenses and reimbursement.
Update Policies and Procedures. The Department of Finance should update its policies and procedures for expense reports to include a description of how city employees and expense report approvers should document in the city’s system of record, Workday, any clarifying conversations or agency-level forms that further describe the nature and purpose of an expense.

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<tr>
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<td>03/31/2022</td>
<td>Alexandra Esquibel</td>
</tr>
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Narrative for Recommendation 1.4
The Controller’s Office will update its policies and procedures for expense reports to include a description of how city employees and expense report approvers should document in the city’s system of record, Workday, any clarifying conversations or agency-level forms that further describe the nature and purpose of an expense.

RECOMMENDATION 1.5
Identify and Address Separation-of-Duties Issues. The Department of Finance should identify workflows with the appropriate expending authority where the expense report approval business process does not align with Fiscal Accountability Rule 2.4 related to the separation of duties — such as the workflow for a City Council president’s expense reports. For the identified workflows, the Department of Finance should develop a tailored Workday process to align with the fiscal rules related to the separation of duties and the department should verify the process is implemented.

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<tr>
<td>Agree</td>
<td>12/31/2021</td>
<td>Bill Riedell</td>
</tr>
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Narrative for Recommendation 1.5
The Controller’s Office will create a new validation in Workday that prevents expense report supervisor approval by the person being reimbursed.

RECOMMENDATION 1.6
Develop Performance Metrics. The Department of Finance should develop key performance metrics to measure how effective the expense report approval process is at ensuring reports are complete and accurate and in accordance with fiscal rules.
Narrative for Recommendation 1.6
The Controller’s Office will create a metric to measure the number and percentage of approved expense reports that are returned to the agency.

RECOMMENDATION 1.7
Monitor Compliance. The Department of Finance should develop and implement a method to periodically assess and monitor city agencies’ compliance with the expense report approval process — including applicable fiscal rules and related procedures — and it should develop and implement a method to systematically respond to deficient approvals or approvers’ questions related to the approval process.

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<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>05/31/2022</td>
<td>Alexandra Esquibel</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 1.7
This recommendation will be satisfied by the completion of recommendation 1.6.

Please contact Bill Riedell at 720-913-4854 with any questions.

Sincerely,

William Riedell
Bill Riedell, CGFM
Controller

cc: Valerie Walling, CPA, Deputy Auditor
Katja E. V. Freeman, MA, MELP, Audit Director
Samuel Gallaher, Audit Analytics Supervisor
Brendan Hanlon, Chief Financial Officer
Sondra Esquibel, Director of Financial Services
OBJECTIVE

To examine the city’s process for approving expense reports and to identify why the approval process allows for poorly documented and miscategorized expenses to pass through — an issue initially identified by our risk analytics.

SCOPE

We reviewed the city’s expense report approval process — including:

- Detailed testing of expense reports for nontravel expenses approved from January 2018 through December 2020 for our random sample of 170 expense reports.
- Detailed testing of expense reports for nontravel expenses approved from June 2018 through July 2021 for our keyword search across all 3,692 expense reports that had line-items for official functions and office supplies.

For each, we compared the documentation and expensed items with relevant city rules, executive orders, and procedures. We excluded expense reports from the Auditor’s Office and the District Attorney’s Office from our analysis.

METHODOLOGY

We used several methodologies to gather and analyze information related to the audit objectives. The methodologies included but were not limited to:

- Interviewing Controller’s Office staff to ask about updates to policy and procedure, to determine the flow of the approval process, and to assess communication of city fiscal rules and related procedures, as well as methods of training.
- Sampling and testing expense reports related to office supplies and official functions to evaluate the completeness of documentation, the classification of expenses, and the approvals for reimbursement.
- Surveying expense report approvers to determine their knowledge of the policies and responsibilities of a reviewer.
• Reviewing and analyzing chapters 2 and 7 of the city's Fiscal Accountability Rules and their related procedures.
• Reviewing Career Service Rule 9 and Executive Order No. 18.
• Consulting leading practices established by the U.S. Government Accountability Office, the Association of Certified Fraud Examiners, and the Government Finance Officers Association.

Further details on our sampling methodologies are included in Appendix A, and a list of our survey questions is available in Appendix B.
APPENDICES

Appendix A – Sampling Methodology and Testing Results

Sampling Methodology

From January 2018 through December 2020, there were 8,691 expense reports with 27,323 unique line-items, totaling $3,393,273.

We removed travel-related expense reports from the population. Among the nontravel-related expenses, the two most common categories of expensed items were official functions and office supplies. Our analysis found 1,284 expense reports with at least one expense line-item categorized as an official function and 1,299 expense reports with at least one expense line-item categorized as office supplies. The total value of these two categories of expenses was $368,316.

We separately chose a random sample from these two groups based on the rate of occurrence using the EZ-Quant statistical sampling tool. We based this on the following criteria:

• A presumed error rate of 5%.
• A desired maximum precision range of 10%.
• A desired confidence level of 90%.

This resulted in a sample size of 85 items for expense reports that contained the description of office supplies and a second sample of 85 items for reports that contained the description of official functions — for a total of 170 expense reports.

Testing Results

The following are additional details of our testing results not documented in the body of the report.

We reviewed each expense report and its supporting documentation within the system of record, Workday, across the following three attributes:

1. Was the expense report’s memo line filled out in alignment with Fiscal Accountability Rule 7? (Rule 7 requires the business purpose and benefit to the city to be made clear. Furthermore, the city’s job aid says the memo lines are required and must include the purpose of an expense and the expense’s benefit to the city.)

2. Was the expense report supported in a way to meet Fiscal Accountability Rule 2.5? (Rule 2.5 requires there be documentation that provides a clear understanding of the financial transaction, including itemized receipts.)

3. Based on the available documentation, was the expense in the correct spend category?

As summarized in Table 1 on the following page, the results varied between expenses categorized as office supplies and expenses categorized as official functions.
TABLE 1. Failure Rate for Each Test across Expense Reports for Official Functions and Office Supplies

We analyzed expense reports from Jan. 1, 2018, through Dec. 31, 2020. Specifically, we examined the memo line in two ways to capture the requirements of the Fiscal Accountability Rules and expense report job aids. We analyzed 1) whether it noted the purpose of the expenses and 2) whether it noted the expenses’ benefit to the city.

<table>
<thead>
<tr>
<th>Expense Category</th>
<th>Population</th>
<th>Report Memo Line</th>
<th>Documentation</th>
<th>Spend Category</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Purpose of Expense</td>
<td>Benefit to City</td>
<td></td>
</tr>
<tr>
<td>Official Function</td>
<td>85</td>
<td>39%</td>
<td>33%</td>
<td>9%</td>
</tr>
<tr>
<td>Office Supplies/Other*</td>
<td>85</td>
<td>21%</td>
<td>45%</td>
<td>14%</td>
</tr>
<tr>
<td>Overall</td>
<td>170</td>
<td>30%</td>
<td>39%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Note: *Workday automatically classifies any expenses categorized as “other” under “office supplies.”

Source: Auditor’s Office testing of expense reports and associated documentation in Workday, the city’s financial management system of record.

As to whether our sample of expense reports had appropriate memo lines describing the expenses’ business purpose or its benefit to the city, we found 35% of the expense reports categorized as office supplies and 39% those categorized as official functions did not. Furthermore, 14% of the expense reports categorized as office supplies and 9% of those categorized as official functions did not comply with Fiscal Accountability Rule 2.5, which requires sufficient documentation.

Lastly, based on a review of the supporting documentation, 47% of the expense reports categorized as office supplies and 5% of those categorized as official functions were not placed in the correct spend category.

Examples of each failure are provided in the body of the report.
Appendix B – Survey Questions

The following are the survey questions we sent to the expense report approvers, who approved the expense reports in our sample of 170 expense reports.

We surveyed the first-level approvers of the same randomly selected expense reports from which we did our attribute testing. Of the 72 approvers who were active employees at the time of the survey, 49 responded. All but one respondent was a manager approver. The only first-level approver who was not a manager was the senior vice president approver for Denver International Airport.

1. How many expense reports do you review in a typical year?
   a. Less than 5.
   b. 5-10.
   c. 11-15.
   d. More than 15.

2. Does your agency or department use forms that must be filled out prior to approving expenses related to... (Select all that apply.)
   a. Travel.
   b. Training.
   c. Office supplies.
   d. Official functions.
   e. Other (please specify).

3. Please rank the following for importance when performing your review:
   a. Personal understanding of the expense (e.g., you are knowledgeable of the expense and its purpose, or you discuss the report with the employee seeking reimbursement).
   b. The approval of another reviewer in the process.
   c. The memo line describing the purpose and benefit to the City and County of Denver.
   d. The receipts and other documentation related to the transaction.
   e. The secondary forms your agency requires (i.e., official function form, pre-travel form, etc.).

4. For your part of the review, what aspects do you examine? (Select all that apply.)
   a. The memo line.
   b. The documentation associated with the purchase (i.e., receipts and invoices).
   c. The secondary information attached (i.e., official function forms or emails describing the expense).
   d. The cost center selected.
   e. The classification of the expense. (For example, if it was an office supply, did you select the office supply category?)

5. Review the memo language in the email we sent you. This is from a report you approved in the past. Given that the memo line is required to describe the purpose of the expense and the benefit to the city, which of the following statements most closely aligns with your reasoning for approval at that time:
a. The memo line was descriptive enough to understand the purpose and benefit to the City and County of Denver.

b. While the memo line was not descriptive, I relied on other information (e.g., official function form or familiarity with the transaction) and did not need to rely on the memo line to understand the purpose and benefit to the City and County of Denver.

c. Other (please specify).

6. Please select the type of training(s) that you received on how to review expense reports. (Select all that apply.)
   a. Formal training (i.e., an individual walked you through requirements, procedures, or best practices).
   b. Informal (i.e., you received advice from colleagues).
   c. Semi-formal (i.e., you completed self-directed training of job aids or reviews of procedures online).
   d. No training.
   e. Other (please specify).

7. When reviewing an expense report, which resources do you use to ensure your review is complete? (Select all that apply.)
   a. Fiscal Accountability Rules.
   b. Job aids.
   c. Procedures found on the city's intranet.
   d. Department of Finance staff.
   e. Coworker or manager.
   f. Other (please specify).

8. If you have a question on how to review an expense report, which resources do you use? (Select all that apply.)
   a. Fiscal Accountability Rules.
   b. Job aids.
   c. Procedures found on the city's intranet.
   d. Department of Finance staff.
   e. Coworker or manager.
   f. I have not had a question on how to review an expense report.

9. When was the last time you reviewed the Fiscal Accountability Rules related to the following?
   a. Nontravel expense reports (Fiscal Accountability Rules 7.3 and 7.4).
      i. In the past six months.
      ii. In the past year.
      iii. It has been more than a year.
      iv. Never.
   b. Travel expense reports (Fiscal Accountability Rules 10.8 and 10.9).
      i. In the past six months.
ii. In the past year.
iii. It has been more than a year.
iv. Never.
c. Documentation requirements for journal entries (Fiscal Accountability Rule 2.5).
   i. In the past six months.
   ii. In the past year.
   iii. It has been more than a year.
   iv. Never.

10. Who do you feel is most responsible for checking that an expense report is filled out correctly and has appropriate documentation for each step? (Select all that apply.)
   a. Classification selection (i.e., office supplies, official event, personal safety equipment, etc.).
      i. Manager-level review.
      ii. Cost center review.
      iii. Budget analyst review (i.e., the Department of Finance).
      iv. Grant review (if applicable).
      v. Senior vice president review (airport process only).
   b. Cost center selection.
      i. Manager-level review.
      ii. Cost center review.
      iii. Budget analyst review (i.e., the Department of Finance).
      iv. Grant review (if applicable).
      v. Senior vice president review (airport process only).
   c. Memo description of the purpose and benefit to city.
      i. Manager-level review.
      ii. Cost center review.
      iii. Budget analyst review (i.e., the Department of Finance).
      iv. Grant review (if applicable).
      v. Senior vice president review (airport process only).
   d. Documentation to understand and describe transaction (in accordance with Fiscal Accountability Rule 2.5).
      i. Manager-level review.
      ii. Cost center review.
      iii. Budget analyst review (i.e., the Department of Finance).
      iv. Grant review (if applicable).
      v. Senior vice president review (airport process only).

11. Please rank these in order of importance:
   a. Classification selection (i.e., office supplies, official event, personal safety equipment, etc.).
b. Cost center selection.
c. Memo description of the purpose and benefit to city.
d. Documentation to understand and describe transaction (in accordance with Fiscal Accountability Rule 2.5).

12. What is your responsibility when reviewing an expense report? (Select all that apply.)
a. The appropriateness of the expense (i.e., the expense is eligible for reimbursement).
b. The appropriateness of documentation.
c. The appropriateness of the values.
d. The appropriateness of the description in the memo line.
e. Other (please specify).

13. When you review an expense report, how often do you feel you are doing more than your process step responsibility (i.e., the items you are reviewing are not your responsibility)?
Numeric Slider: 0 (Never) – 50 (Sometimes) – 100 (Always).
Office of the Auditor

The Auditor of the City and County of Denver is independently elected by the residents of Denver. He is responsible for examining and evaluating the operations of city agencies and contractors for the purpose of ensuring the proper and efficient use of city resources. He also provides other audit services and information to City Council, the mayor, and the public to improve all aspects of Denver's government.

The Audit Committee is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities regarding the integrity of the city's finances and operations, including the reliability of the city's financial statements. The Audit Committee is structured in a manner that ensures the independent oversight of city operations, thereby enhancing residents' confidence and avoiding any appearance of a conflict of interest.

Our Mission

We deliver independent, transparent, and professional oversight in order to safeguard and improve the public's investment in the City and County of Denver. Our work is performed on behalf of everyone who cares about the city, including its residents, workers, and decision-makers.