

# FOLLOW-UP REPORT

## Denver Public Library *Library Financial Processes*

NOVEMBER 2021



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*Cover photos by Denver Auditor's Office staff.*

# City and County of Denver



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## AUDITOR'S LETTER

November 4, 2021

In keeping with generally accepted government auditing standards and Auditor's Office policy, as authorized by city ordinance, the Audit Services Division has a responsibility to monitor and follow up on audit recommendations to ensure city agencies address audit findings through appropriate corrective action and to aid us in planning future audits.

In our follow-up effort for the "Library Financial Processes" audit report issued in June 2020, we determined the Denver Public Library fully implemented three recommendations and partially implemented one other it agreed to in the original audit report. However, six other recommendations to improve financial controls in alignment with the city's Fiscal Accountability Rules were not implemented, and the risks associated with the audit team's initial findings have not been fully mitigated. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure the city takes appropriate corrective action.

The Highlights page in this report provides background and summary information about the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation.

I would like to express our sincere appreciation to the personnel at the Denver Public Library who assisted us throughout the audit and the follow-up process. For any questions, please feel free to contact me at 720-913-5000.

Denver Auditor's Office

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

Timothy M. O'Brien, CPA  
Auditor



# Library Financial Processes

NOVEMBER 2021

## Objective

To evaluate the effectiveness and efficiency of internal controls over the Denver Public Library’s accounting processes.

## Background

The Denver Public Library is an independent agency of the city that serves as a valuable resource for Denver residents, offering a variety of services, programs, and activities. The city budgeted the library over \$55.8 million to support its administration and operations in 2019.

The Denver Public Library’s financial activities involve purchasing, accounting, budgeting, and contract negotiation. City rules provide the guidance needed to appropriately conduct these activities, and several software systems support the library’s day-to-day operations involving purchasing and accounting for the various goods and services needed to provide this public resource.

# ORIGINAL REPORT HIGHLIGHTS

### The Denver Public Library Had Deficiencies in Its Financial Internal Controls

Auditors identified various internal control deficiencies in the Denver Public Library’s financial operations, including:

- Inadequate policies and procedures.
- Untimely payroll approvals.
- Insufficient use of invoices.

### The Denver Public Library’s Digital Assets Were Not Correctly Accounted for in Citywide Financial Records

We found errors in the accounting treatment for the library’s electronic materials.

### The Denver Public Library Is Appropriately Discontinuing Its Use of Store Credit Cards as a Purchasing Method

The library determined its store credit card program was creating an unnecessary risk, and by the time we finalized our audit testing in December 2019, the library had started taking appropriate steps to end the use of these cards – switching employees to city-issued purchase cards instead.

#### WHY THIS MATTERS

**The city’s Fiscal Accountability Rules provide guidance on how a city agency should develop safeguards – such as policies and procedures – to ensure it meets its objectives.**

**Not having adequate policies and procedures for financial processes at the Denver Public Library could lead to a misuse of resources.**



3

FULLY IMPLEMENTED



1

PARTIALLY IMPLEMENTED



6

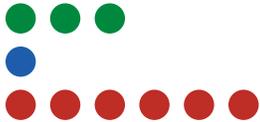
NOT IMPLEMENTED

Nov. 4, 2021

# Action Since Audit Report

## Library Financial Processes

10 recommendations proposed in June 2020



FULLY  
IMPLEMENTED

3



PARTIALLY  
IMPLEMENTED

1



NOT  
IMPLEMENTED

6

While the Denver Public Library implemented three recommendations made in the “Library Financial Processes” audit report, seven other recommendations have yet to be fully implemented or acted upon.

The lack of progress toward implementing these seven recommendations presents many lingering risks.

- While the library did update its procedures, many are insufficient — which could lead to inadequate oversight of key financial processes in the future.
- Inadequate procedures related to the receipt and deposit of overages and shortages — as well as the lack of a resolution plan for overages and shortages — can lead to ineffective monitoring of cash reporting, inadequate detection of anomalies, and overlooking potential misuses of library funds.
- Staff duties are not separated, so a single staff member may still have all knowledge and control over a particular process or fiscal activity — which can increase the risk of fraud or abuse.
- Without procedures for contract monitoring, library staff cannot adequately oversee library contracts.
- The library’s failure to create a formal succession plan opens it to the risk of future disruptions of financial operations, and it risks not retaining employees.
- The library’s failure to enforce timely approvals of time sheets exposes the city to potentially inaccurate payroll reporting and possible fraud.
- While the library closed most of its store credit cards, we could not verify one outstanding card was closed. Using store credit cards increases the risk of fraud and misconduct — such as through unauthorized purchases, misuse, or opportunities for abuse.

## Finding 1 | The Denver Public Library Has Deficiencies in Its Financial Internal Controls

### Recommendation 1.1

**UPDATE AND IMPROVE PROCEDURES** – The Denver Public Library should develop and/or update, as appropriate, formal, documented procedures for all financial processes including: donated assets, accounts receivable, supplemental staffing, purchasing, gifts, food purchases, personnel budget projections, grants, fees, deposits, accounts payable, cash handling, and P-cards. Management should ensure all procedures align with the city’s Fiscal Accountability Rules, are dated, and are appropriately approved.



**NOT  
IMPLEMENTED**

### AGENCY ACTION

**Original target date for completion: Sept. 1, 2020**

Recommendation 1.1 required the Denver Public Library to perform two steps for full implementation:

1. Personnel in the library’s Finance and Facilities department needed to update and revise their policies and procedures, including the dates of implementation and appropriate approval.
2. Management needed to ensure those procedures aligned with the city’s Fiscal Accountability Rules.<sup>1</sup>

While the library’s finance procedures contain a date of adoption or revision for each procedure, the document lacks adequate detail for carrying out various financial processes.

Procedures are “step-by-step descriptions of the tasks required to support and carry out organizational policies.”<sup>2</sup> They must be detailed enough that staff know how something is to be done, when it is to be done, and by whom.

During our follow-up work, we found that of all the procedures that needed to be updated as part of Recommendation 1.1, only five aligned with the city’s Fiscal Accountability Rules and contained adequate procedures. Seven did not.

For example, the fiscal rule on grant management says grant recipients must develop, implement, maintain, and monitor processes around

<sup>1</sup> City and County of Denver, Fiscal Accountability Rules, accessed Aug. 25, 2021, <https://www.denvergov.org/Government/Agencies-Departments-Offices/Department-of-Finance/Fiscal-Accountability>.

<sup>2</sup> University of California Office of the President, “Determining Whether a Statement Is a Policy or a Procedure,” accessed Jan. 23, 2020, [https://www.ucop.edu/ethics-compliance-audit-services/\\_files/policy-toolkit/policy-or-procedure.pdf](https://www.ucop.edu/ethics-compliance-audit-services/_files/policy-toolkit/policy-or-procedure.pdf).

equipment and property inventory and around safeguarding assets against loss, damage, and theft.<sup>3</sup> But the library lacks documented procedures that lay out a step-by-step description of who in the library is supposed to be doing what and when for all requirements of this fiscal rule.

By not ensuring formal, documented procedures are sufficiently developed for all financial processes in alignment with the city's Fiscal Accountability Rules, the library risks not adequately overseeing key financial processes. Therefore, we consider this recommendation not implemented.

## Recommendation 1.2

**IMPROVE CASH-HANDLING PROCEDURES** – In conjunction with Recommendation 1.1, the Denver Public Library's updated procedures for cash handling should include adequate detail to require consistent and accurate recording of overages and shortages in Workday, and they should include an over or short resolution plan as required by Fiscal Accountability Rule 3.4.



**NOT  
IMPLEMENTED**

### AGENCY ACTION

**Original target date for completion: Sept. 1, 2020**

The library's Finance and Facilities department created procedures for cash handling but did not include adequate detail to ensure staff consistently and accurately record overages and shortages in Workday, the city's system of record.

Furthermore, the procedure does not align with Fiscal Accountability Rule 3.4, as directed in the recommendation. According to that fiscal rule, a city agency "shall create and maintain an Over/Short Resolution Plan addressing how they will respond to employees experiencing receipt and deposit overages/shortages."<sup>4</sup> But library staff did not include this plan in their procedures and they provided no further documentation of procedures relating to the recording of overages and shortages or a related resolution plan.

By not creating an over or short resolution plan and by not creating adequate procedures for recording overages and shortages in Workday, library managers cannot effectively monitor cash reporting, detect anomalies, or identify potentially misused library funds. They also cannot

<sup>3</sup> City and County of Denver, Fiscal Accountability Rules, "Rule 9.2 – Grant Management" (last revised 2014), accessed Aug. 25, 2021, [https://www.denvergov.org/files/assets/public/finance/documents/fiscal-accountability/chapter-9-grants/rule\\_9\\_2\\_grant\\_mgmt.pdf](https://www.denvergov.org/files/assets/public/finance/documents/fiscal-accountability/chapter-9-grants/rule_9_2_grant_mgmt.pdf).

<sup>4</sup> City and County of Denver, Fiscal Accountability Rules, "Rule 3.4 – Receipt and Deposit" (revised 2017), accessed Aug. 25, 2021, [https://www.denvergov.org/content/dam/denvergov/Portals/344/documents/Fiscal\\_Rules/chapter\\_3\\_Cash\\_Mgmt/Rules/Rule\\_3\\_4\\_Receipts\\_and\\_Deposits.pdf](https://www.denvergov.org/content/dam/denvergov/Portals/344/documents/Fiscal_Rules/chapter_3_Cash_Mgmt/Rules/Rule_3_4_Receipts_and_Deposits.pdf).

determine when corrective action or training is needed. Therefore, we consider this recommendation not implemented.

**Recommendation 1.3**

**DEVELOP WRITTEN PROCEDURES FOR ROTATING POSITIONS** – In conjunction with Recommendation 1.1, the Denver Public Library should develop written procedures for rotating positions in the Finance and Facilities department. These procedures should align with city Fiscal Accountability Rules 2.4 and 3.3.



**NOT  
IMPLEMENTED**

**AGENCY ACTION**

**Original target date for completion: Sept. 1, 2020**

The library included in its procedures steps for separating duties and rotating positions, but those procedures do not align with the city’s Fiscal Accountability Rules and they do not include clear instructions on how, or how often, the library’s Finance and Facilities department should rotate staff.

The procedures outline who specifically is responsible for authorizing and record-keeping and which positions are to be cross-trained in those roles. Additionally, the procedures include a high-level explanation of rotating multiple duties among staff. However, it is unclear when and how often these rotations are to take place.

Library staff said the Finance and Facilities department is not adequately staffed, so they cannot fully rotate duties.

The U.S. Government Accountability Office says small organizations face greater challenges in separating duties because responsibilities are concentrated among fewer staff, but management can respond to this increased risk by adding additional levels of review for key operational processes.<sup>5</sup> Furthermore, the city’s fiscal rule on the separation and rotation of duties says, in small agencies where separation is difficult to achieve, “a high level of management oversight of the financial related activities is required” as a compensating safeguard.<sup>6</sup>

By not developing adequate procedures for rotating staff in the Finance and Facilities department as outlined by the fiscal rule, the library may still be exposed to the risk that results from a single person having all knowledge

<sup>5</sup> U.S. Government Accountability Office, GAO-14-704G, “Standards for Internal Control in the Federal Government” (2014), accessed Sept. 5, 2019, <https://www.gao.gov/assets/670/665712.pdf>, para. OV4.05.

<sup>6</sup> City and County of Denver, Fiscal Accountability Rules, “Rule 2.4 – Separation and Rotation of Duties” (last revised 2008), accessed Aug. 25, 2021, [https://www.denvergov.org/content/dam/denvergov/Portals/344/documents/Fiscal\\_Rules/chapter\\_2\\_Internal\\_Controls/Rules/Rule\\_2\\_4\\_Sep\\_and\\_Rotation\\_of\\_Duties.pdf](https://www.denvergov.org/content/dam/denvergov/Portals/344/documents/Fiscal_Rules/chapter_2_Internal_Controls/Rules/Rule_2_4_Sep_and_Rotation_of_Duties.pdf).

or control over a particular process or fiscal activity. Therefore, we consider this recommendation not implemented.

**Recommendation 1.4**

**DEVELOP WRITTEN PROCEDURES FOR CONTRACT MONITORING** – The Denver Public Library should establish and document formal policies and procedures for contract monitoring that align with Executive Order No. 8 requirements for monitoring expiration dates and ensuring vendors’ compliance with the terms of a contract.



**NOT  
IMPLEMENTED**

**AGENCY ACTION**

**Original target date for completion: Sept. 1, 2020**

The library’s finance procedures do not contain details about contract monitoring. While the procedures discuss a contract management-related policy, there are no related procedures tied to this policy detailing how library staff should monitor expiration dates and ensure vendors comply with the terms of a contract.

By not developing procedures on contract monitoring that comply with the city’s Executive Order No. 8, the library cannot ensure adequate oversight of its contracts. Therefore, we consider this recommendation not implemented.

**Recommendation 1.5**

**DEVELOP A WRITTEN SUCCESSION PLAN** – The Denver Public Library should establish and document a formal succession plan that:

1. Outlines the steps to ensure the transfer of knowledge and continuity of operations if key personnel leave the organization.
2. Details the library’s recruitment and retention strategies for key positions.
3. Identifies risks and strategies.



**NOT  
IMPLEMENTED**

**AGENCY ACTION**

**Original target date for completion: Sept. 1, 2020**

We found the Finance and Facilities department updated its succession documentation, but the updated policies and procedures detail only the department’s recruitment strategy – not steps to ensure the transfer of knowledge, how the department will retain staff, or how it will address

potential risks when key personnel leave the organization.

Specifically, the updates explain how job openings should be posted, the type of information that might be included in a job post, and insight into the hiring process. While these procedures address a portion of the recommendation, they do not cover all aspects of succession planning — such as steps to ensure the transfer of knowledge and the continuity of operations when key personnel leave.

According to the library’s documentation, up-to-date guidance about unforeseen personnel changes is in a separate emergency management plan. However, staff were unwilling to provide this plan, citing its sensitive contents — so we could not verify this.

By not fully developing a written and comprehensive succession plan, the library remains exposed to the possibility that staff turnover could disrupt financial operations. Therefore, we consider this recommendation not implemented.

**Recommendation 1.6**

**REVISE POLICIES AND PROCEDURES FOR PAYROLL APPROVALS** – The Denver Public Library should review and revise procedures to ensure timely enforcement of time sheet approval requirements in accordance with city policy.



**NOT  
IMPLEMENTED**

**AGENCY ACTION**

**Original target date for completion: Sept. 1, 2020**

We found the library’s financial policies and procedures align with the city fiscal rule regarding time and attendance.<sup>7</sup> However, when we randomly sampled four pay periods consisting of about 600 submitted time sheets per pay period during our follow-up work, we learned some managers continue to approve employee time sheets late.

In our original audit, we found 7% of employees’ time sheets were not approved within the required time frame. While the library updated its financial policies and procedures to align with city rules, we found during our follow-up work that the percentage of late time sheets increased to 10% from September 2020 through August 2021.

<sup>7</sup> City and County of Denver, Fiscal Accountability Rules, “Rule 10.13 – Time and Attendance” (last revised 2016), accessed Aug. 25, 2021, [https://www.denvergov.org/files/assets/public/finance/documents/fiscal-accountability/rule\\_10.13timeandattendance.pdf](https://www.denvergov.org/files/assets/public/finance/documents/fiscal-accountability/rule_10.13timeandattendance.pdf).

Given this 3 percentage point increase, the library's updated policies and procedures are not being properly enforced and the library is not compliant with the city fiscal rule.

By not enforcing timely approvals of time sheets, the library risks having inaccurate payroll reporting – which could cause financial loss to the city if employees are paid for time not worked. Therefore, we consider this recommendation not implemented.

**Recommendation 1.7**

**DEVELOP PROCESS FOR REQUESTING INVOICES** – The Denver Public Library should implement a process to require performers to submit invoices before the library issues payments.



**FULLY  
IMPLEMENTED**

**AGENCY ACTION**

**Original target date for completion: June 1, 2020**

Our original audit found the library's Finance and Facilities department did not have processes to ensure payment requests from performers were accurate or submitted after a performance, creating an opportunity for fraud.

Since then, the department updated its policies and procedures to closely match information detailed in the city fiscal rule that lists the supporting documents necessary for processing financial transactions.<sup>8</sup> For example, the library's policies now require information on the performers, the invoice dates, and descriptions of items.

We also tested a random sample of five performer transactions out of 25 transactions over a four-month time period and confirmed the library's new policies were being adhered to (i.e., performers were required to submit invoices before the library would pay them).

Given the library's updated policies and procedures and that our testing confirmed submitted invoices adhered to those updated policies and procedures, we consider this recommendation fully implemented.

<sup>8</sup> City and County of Denver, Fiscal Accountability Rules, "Rule 2.5 – Supporting Documentation" (last revised 2013), accessed Aug. 25, 2021, [https://www.denvergov.org/content/dam/denvergov/Portals/344/documents/Fiscal\\_Rules/chapter\\_2\\_Internal\\_Controls/Rules/Rule\\_2\\_5\\_Spt\\_Documentation.pdf](https://www.denvergov.org/content/dam/denvergov/Portals/344/documents/Fiscal_Rules/chapter_2_Internal_Controls/Rules/Rule_2_5_Spt_Documentation.pdf).

**Recommendation 1.8**



**FULLY  
IMPLEMENTED**

**USE WORKDAY TO MANAGE PRESENTER PROCESS** – The Denver Public Library should work with the Controller’s Office to determine whether it would be feasible to develop a Workday-based solution to fully manage the presenter payments.

**AGENCY ACTION**

**Original target date for completion: Sept. 1, 2020**

We confirmed the library and the Controller’s Office considered the feasibility of developing a Workday-based solution to fully manage presenter payments, as was recommended. After considering the difficulty in developing such a solution, the library determined that fully integrating Workday would needlessly complicate the process of requesting presenters.

Instead, the library began using an internal communications software, called FreshService, which allows library staff to submit a request for a performer at a branch location. The FreshService request file, along with the invoice, is then uploaded to Workday and approved by the Finance and Facilities department. Department staff said branch staff are more familiar with FreshService and feel a full Workday integration would not meet the library’s needs.

Because the library and the Controller’s Office considered the merits of a full Workday-based integration as recommended and because they mitigated the risk by finding a different solution, we consider this recommendation fully implemented.

## Finding 2 | The Denver Public Library's Digital Assets Are Not Correctly Accounted for in Citywide Financial Records

### Recommendation 2.1

**REVIEW LIBRARY BOOK ACCOUNTING** – The Denver Public Library should work with the Controller's Office to expand the information requested as part of the annual inventory process to ensure enough detail is captured to properly account for the assets. Further, the Controller's Office should adjust how it accounts for the library's capital assets in the city's Comprehensive Annual Financial Report to align it with rules established by the Governmental Accounting Standards Board.



**FULLY  
IMPLEMENTED**

### AGENCY ACTION

**Original target date for completion: Jan. 1, 2020**

Our original audit found the city was incorrectly reporting assets by not separately accounting for digital library materials in the city's Comprehensive Annual Financial Report. By grouping the library's digital materials (i.e., e-books) with its physical materials (i.e., printed books), the city was incorrectly depreciating the library's assets because physical materials have a different useful life than digital materials.

Beginning with the city's 2020 Comprehensive Annual Financial Report, the city now separately reports digital materials from physical materials – resulting in a more accurate valuation of library assets. Digital materials are now depreciated over a two-year life and physical materials continue to be depreciated over a four-year life.

Therefore, we consider this recommendation fully implemented.

## Finding 3 | The Denver Public Library Is Appropriately Discontinuing Its Use of Store Credit Cards as a Purchasing Method

### Recommendation 3.1



**PARTIALLY  
IMPLEMENTED**

**ENSURE CLOSURE OF STORE CREDIT CARD ACCOUNTS** – The Denver Public Library should close all remaining store credit card accounts.

#### **AGENCY ACTION**

##### **Original target date for completion: Jan. 1, 2020**

While the library began taking appropriate steps to phase out the high-risk use of store credit cards during our original audit, we could not confirm the library completed the process.

By the time we finalized our original audit testing in December 2019, the library had successfully closed two of the four store credit card accounts some of its branch locations had and it was in the process of closing the remaining two accounts.

Since then, library staff said the remaining two credit cards were closed and that there were no additional charges on either card since December 2019. However, at the time of our follow-up, staff provided confirmation that only one of the two outstanding cards was closed.

Having store credit cards increases the risk of fraud and misconduct – such as through unauthorized purchases, misuse, or opportunities for abuse. Given that we could not verify that both the remaining store credit cards were closed, we consider this recommendation only partially implemented.

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## 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.

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