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Audit Committee, City Council and Management
City and County of Denver
Denver, Colorado

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the City and County of Denver (the City) as of and for the year ended December 31, 2020, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be a significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be a deficiency, significant deficiencies or material weaknesses.

Material Weaknesses

Refer to the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

Significant Deficiencies

Refer to the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

Deficiency

2020 D-1 Review of Access Privileges – City

Finding: Per our review of access privileges for the in-scope applications, an annual review of user access (re-certification) is not performed by the business owners for Enterprise Cashiering System, iasWorld, and GenTax applications. Periodic re-certification helps control risks associated with segregation of duties issues arising from personnel changing functional responsibilities and unauthorized access resulting from delays in disabling accounts for terminated users.

Recommendation: Although the review may be coordinated by Technology Services, we recommend that the City's business owners perform a periodic documented review of logical access for users of applications supporting general ledger and its supporting sub-systems, databases and operating systems.

Views of Responsible Officials and Planned Corrective Actions: Technology Services (TS) will assemble the current list of all users for their respective system, then coordinate an audit with/by the Agency/Department users for the respective system. TS will then have a review with the Agency/Department users to verify understanding of any/all changes, then have the Agency/Department contact enter a service ticket for each user needing security/permission changes. Any users needing removal will be handled in one ticket/security group/system, then the appropriate TS team will perform any requested security group changes and/or access terminations. Access terminations will be prioritized first with security group changes second.

Person(s) responsible for implementing: Alex Taylor, Brian Young, and Nikki Nguyen, Technology Services.

Implementation date: September 30, 2021.

INTERNAL CONTROL OVER COMPLIANCE

In planning and performing our audit, we considered City and County of Denver's (the City) internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However as discussed below we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be a deficiency or significant deficiencies:

Significant Deficiencies

Refer to the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance.

Deficiency

<u>*2020 D-2 Subrecipient Monitoring*</u>

Finding: The City posts a sample risk assessment matrix, a sample subrecipient information form and a pass-through responsibilities checklist on its internal DenverHub webpage of grant resources for departments to use. Additionally, agreement templates are available that include standard language outlining federal requirements and subrecipient responsibilities to comply with those requirements. Furthermore, the City can ensure the eligibility and determination of subrecipient status through the completion of a Subrecipient vs. Contractor worksheet. At the onset of the pandemic, the City did not fully utilize the documents available, specifically the Subrecipient vs. Contractor worksheet to ensure subrecipients were properly identified, and required federal information was disseminated.

Recommendation: We recommend that the City complete the Subrecipient vs. Contract worksheet and utilize the documents available to ensure subrecipients are properly identified and required information is communicated.

Views of Responsible Officials and Planned Corrective Actions: We agree with this finding. The City will build upon initial training to grant personnel provided in May 2021 on proper subrecipient management by circulating the subrecipient vs. contractor worksheet and other pertinent documentation to agency finance and contract personnel.

Person(s) responsible for implementing: Rory Regan, Federal Grants Manager.

Implementation date: August 31, 2021.

OTHER MATTERS

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements.

2020 OM-1 Desktop Computers

As part of current year testing, we reviewed some of the controls around technology as it related to physical equipment in the remote environment. We noted that a number of computers were assigned to 24 individuals no longer employed as of year-end, and support could not be provided that the equipment was returned prior to the employees termination. As part of the City's return to work process, we recommend that the City evaluate whether all computers checked out by employees due to COVID-19 are accounted for, and are returned as individuals return to the office. Additionally, we recommend that any unaccounted desktop computers from former employees be located and returned to the City.

Views of Responsible Officials and Planned Corrective Actions: Technology Services (TS) will reach out to agency asset liaisons and request that the 24 computers assigned to individuals that are no longer with the city be either returned to TS, re-assigned or stored with the liaison.

Through CARES funding, we purchased laptops to provide more flexibility to desktop users. TS is reaching out to managers of the individuals that created ServiceNow tickets to see if these employees will be bringing their desktop back into the office or if they will become a hybrid worker and would like to be migrated to a laptop. This information will be documented in ServiceNow and all equipment will be accounted for during this process.

In addition, TS will start to receive the HR Terminations Report monthly. We will reach out to agency asset liaisons to retrieve equipment of employees that have left the city.

Person(s) responsible for implementing: Kathy Cruz.

Implementation date: October 1, 2021.

2020 OM-2 New Accounting Pronouncements

GASB Statement No. 87, *Leases*

In June 2017, GASB published Statement No. 87, *Leases*. This Statement was the result of a multi-year project to reexamine the accounting and financial reporting for leases. The new Statement establishes a single model for lease accounting based on the principle that leases represent the financing of the right to use an underlying asset. Specifically, GASB 87 includes the following accounting guidance for lessees and lessors:

***Lessee Accounting*:** A lessee will recognize a liability measured at the present value of payments expected to be made for the lease term, and an intangible asset measured at the amount of the initial lease liability, plus any payments made to the lessor at or before the beginning of the lease and certain indirect costs. A lessee will reduce the liability as payments are made and recognize an outflow of resources for interest on the liability. The asset will be amortized by the lessee over the shorter of the lease term or the useful life of the asset.

***Lessor Accounting*:** A lessor will recognize a receivable measured at the present value of the lease payments expected for the lease term and a deferred inflow of resources measured at the value of the lease receivable plus any payments received at or prior to the beginning of the lease that relate to future periods. The lessor will reduce the receivable as payments are received and recognize an inflow of resources from the deferred inflow of resources in a systematic and rational manner over the term of the lease. A lessor will not derecognize the asset underlying the lease. There is an exception for regulated leases for which certain criteria are met, such as airport-aeronautical agreements.

The lease term used to measure the asset or liability is based on the period in which the lessee has the noncancelable right to use the underlying asset. The lease term also contemplates any lease extension or termination option that is reasonably certain of being exercised.

GASB 87 does not apply to leases for intangible assets, biological assets (*i.e.*, timber and living plants and animals), service concession agreements or leases in which the underlying asset is financed with conduit debt that is reported by the lessor. Additionally, leases with a maximum possible term of 12 months or less are excluded.

GASB 87 is effective for the City's fiscal year ending December 31, 2022. Early application is encouraged. It is anticipated that leases would be recognized using the facts and circumstances in effect at the beginning of the period of implementation.

GASB Statement No. 91, *Conduit Debt Obligations*

The primary objectives of GASB 91 are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. GASB 91 clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures.

The requirements of GASB 91 are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of GASB 94 are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*

It has become common for governments to enter into subscription-based contracts to use vendor-provided IT. Subscription-based information technology arrangements (SBITAs) provide governments with access to vendors' IT software and associated tangible capital assets for subscription payments without granting governments perpetual license or title to the IT software and associated tangible capital assets. The objective of GASB 96 is to better meet the information needs of financial statement users by (a) establishing uniform accounting and financial reporting requirements for SBITAs; (b) improving the comparability of financial statements among governments that have entered into SBITAs; and (c) enhancing the understandability, reliability, relevance, and consistency of information about SBITAs.

Under GASB 96, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

The requirements of GASB 96 are effective for fiscal years beginning after June 15, 2022 and all reporting periods thereafter. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*

On June 23, 2020, GASB released Statement 97*, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, an amendment of GASB Statements 14 and 84, and a supersession of GASB Statement 32*. Under the new rule, Section 457 plans should be accounted for as either a pension plan or other employee benefit plan, depending on whether the plan meets the definition of a pension plan. Accounting and financial reporting requirements for 457 plans that meet the definition of a pension plan are defined and investment valuation requirements for all 457 plans are modified.

Statement 97 limits the application of the financial burden criterion regarding contributions to post-employment benefit plans to only defined benefit pension plans and defined benefit other post-employment benefit (OPEB) plans that are administered through trusts. The statement also clarified how the absence of a governing board should be considered in determining whether a primary government is financially accountable for purposes of evaluating potential component units. This will reduce costs of reporting of certain defined contribution pension and OPEB plans as fiduciary component units. This supersedes certain previous guidance in Statement 84 and Implementation Guide 2019-2.

The Section 457 Plan portions of GASB 97 are effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. Earlier application is encouraged.

This communication is intended solely for the information and use of Management, members of City Council and members of the Independent Audit Committee and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

June 25, 2021