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AUDITOR'S LETTER

June 1, 2023

In keeping with generally accepted government auditing standards and Auditor’s Office policy, as authorized by city ordinance, we have 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.

After following up on the “Expense Report Approval Process” audit report issued in November 2021, we determined the Department of Finance fully implemented five of seven recommendations it agreed to. Of the remaining two recommendations, one is partially implemented and the other is not implemented.

During the original audit, we found a high percentage of approved expense reports lacked adequate documentation to support the dollar amounts and sufficient explanations of what an expense was for. The roles and responsibilities for employees tasked with approving expense reports were not adequately defined or uniformly understood, and there was no mechanism to monitor whether employees were compliant with approval procedures.

Based on our follow-up work, we determined the Department of Finance made significant progress but did not fully address all the risks associated with our initial findings. Consequently, we may revisit these risk areas in future audits to ensure the city takes appropriate corrective action.

We appreciate the leaders and team members at the Department of Finance who shared their time and knowledge with us throughout the audit and the follow-up process. Please contact me at 720-913-5000 with any questions.

Denver Auditor’s Office

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

Original Report Issued: NOVEMBER 2021
Follow-up Report Issued: JUNE 2023

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 left the city at risk for inappropriate and misclassified spending

- The city’s expense report approval process was 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 were not adequately defined or uniformly understood.
- The insufficient approval process allowed 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, violated the separation-of-duties requirement in the city’s Fiscal Accountability Rules.
- The Controller's Office did 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.

FULLY IMPLEMENTED 5
PARTIALLY IMPLEMENTED 1
NOT IMPLEMENTED 1

Denver Auditor Timothy M. O'Brien | (720) 913-5000 | www.DenverAuditor.org
The Department of Finance fully implemented five recommendations made in the original audit report. The department has defined and documented the responsibilities for each level of approver as well as developed standardized training guides for expense reports. Training was provided to some of the employees who are engaged in this process. Training materials and financial newsletters provide clear information about the expense report process with links to related job aids and Fiscal Accountability Rules.

### Action Since Audit Report

**Expense Report Approval Process**

7 recommendations proposed in November 2021

The Department of Finance fully implemented five recommendations made in the original audit report. The department has defined and documented the responsibilities for each level of approver as well as developed standardized training guides for expense reports. Training was provided to some of the employees who are engaged in this process. Training materials and financial newsletters provide clear information about the expense report process with links to related job aids and Fiscal Accountability Rules.

- **FULLY IMPLEMENTED** 5
- **PARTIALLY IMPLEMENTED** 1
- **NOT IMPLEMENTED** 1

### REMAINING RISKS

The two recommendations the department did not fully implement present several lingering risks. Among them:

- Finance officials acknowledge they are skipping the manager approval step when approving expense reports for employees who are listed as their own manager or do not have a manager in Workday, the city's system of record. Although the expense reports still go through two levels of review and the Department of Finance considers this sufficient, there is a risk of expenses by some managers not being adequately scrutinized.

- The Department of Finance has created procedures to analyze the percentages of expense reports sent back for adjustments and resubmission as a portion of all expense reports by city agency, but there is no process to confirm whether the reports that are not sent back are also compliant with the required procedures.
FINDING | A poorly defined and monitored expense report process leaves the city at risk for inappropriate and misclassified spending

FULLY IMPLEMENTED

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, Career Service Rules, related procedures, and job aids.
- The documentation associated with expense reports that each role is responsible for checking and approving.

AGENCY ACTION

Agency’s original target date for completion: March 31, 2022

Expense reports go through several levels of review and approval before being processed. This includes review by the employee’s manager, the cost center approver, and accounts payable staff. Department of Finance staff provided us with new training materials from January 2022 and November 2021, and two newsletters from January 2023 and March 2022, where they had documented the responsibilities for each level of expense report approver.

Newsletters and training materials provide details about how to process and how to review expense reports. The manager is to review the appropriate and prudent use of city funds and supporting documentation. The cost center reviewer is to review the same as well as compliance with applicable laws, sufficiency of budget, and ensure that coding in Workday is accurate. The final review is by accounts payable staff who, in addition to the previous tasks, must review transaction completeness to ensure all information and documentation is accurate and appropriate.

In addition, the training materials and newsletters provide links to the appropriate Fiscal Accountability Rules. These include, among other things,
rules related to internal controls and expenditures.

Department of Finance newsletters and training materials sufficiently define expense report approver responsibilities and provide clear links to additional resources and laws. Based on these changes, we consider this recommendation fully implemented.

**Recommendation 1.2**

**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 ACTION**

**Agency’s original target date for completion: March 31, 2022**

The Department of Finance developed training guides and provided training for those who submit and review expense reports. Expense training was conducted for accounts payable staff in January 2022 and for additional accounting, administrative, and management staff in November 2022. We reviewed the list of training attendees, which appeared reasonable based on their respective roles. Training is not mandatory, but it was offered to those who may need additional instruction. Finance staff said they are also available to provide additional training as needed.

We reviewed training documents that describe what an expense report is, common reimbursements, and the review process. The Department of Finance also included a question-and-answer and demonstration section to confirm that participants understood the information. Each training has links to access additional job aids as well as relevant fiscal rules for expenses, supporting documentation, and internal controls.

Therefore, we consider this recommendation fully implemented.

**Recommendation 1.3**

**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’s original target date for completion: March 31, 2022

As noted in the agency action for Recommendation 1.2, the Department of Finance included links to expense report job aids and Fiscal Accountability Rules in its training materials. In addition, we reviewed two newsletters — one sent out from the Controller’s Office in March 2022 and one from the Financial Network in January 2023. Newsletters serve as an employee resource for financial processes, policy, and news at the City and County of Denver. Department staff said both newsletters will contain information about the expense report process at least once per year.

We reviewed both newsletters and found they included references and links to relevant expense report job aids, training materials, and Fiscal Accountability Rules. These updates from training and newsletters, along with references to the related Fiscal Accountability Rules, promote compliance, provide resources, and improve employee understanding of the expense report process.

Based on these changes, we consider this recommendation fully implemented.

Recommendation 1.4

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’s original target date for completion: March 31, 2022

While Department of Finance staff did not update any Fiscal Accountability Rules, they have developed training guides for those who submit and review expense reports. The training materials provide links to additional work aids and links to Fiscal Accountability Rules. Among the work aids, for those creating an expense report, there is a document that details the entire process for creating and submitting expense reports in Workday.

Additional job aids come from newsletters sent out from the Controller’s Office and Financial Network. The newsletters note the importance of including in Workday any communication to support the transaction. Additionally, providing sufficient details and supporting documentation will help a manager and cost center approver review and approve an expense report.
Based on this, we consider this recommendation fully implemented.

**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.

**AGENCY ACTION**

*Agency’s original target date for completion: May 31, 2022*

The Department of Finance has developed key performance metrics to measure the effectiveness of expense approvals by creating procedures to review and quantify reports that are sent back.

These are reports that have been “sent back” in the approval process in Workday. These reports are typically updated to comply with relevant guidance and submitted again and approved. Department staff said some expense reports were never approved or paid, which shows that the review and approval process helps identify items that do not qualify for reimbursement.

Procedures finalized in August 2022 require the sent-back report to be generated twice a year. Accounts payable staff must then analyze how many expense reports are submitted and sent back per agency. These procedures are used to identify agencies with a significant percentage of expense reports that are sent back.

In time, as accounts payable staff continue to create and analyze this report, the department will be able to better understand the results to determine what should be considered a “significant” percentage of sent-back reports that require further action.

We reviewed the relevant procedures as well as the sent-back report and the annual analysis prepared for 2022. The Department of Finance has begun to identify agencies with a significant number of sent-back reports and will offer additional trainings for those agencies.

Based on these changes, we consider this recommendation fully implemented.
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.

**AGENCY ACTION**

*Agency’s original target date for completion: May 31, 2022*

The Department of Finance developed and implemented procedures to identify the number of expense reports sent back during the approval process and it offers additional training. But there is no process to confirm that reports that are approved without anyone sending them back are also compliant with the expense report approval process.

Department staff said that after an expense report is approved, there are no additional spot checks of completed expense reports to verify compliance. But staff said there is an additional control that is triggered when an expense report is over $3,000. Those are forwarded to the accounts payable manager for approval.

Department staff said they are comfortable with the process because they send out reminders of the process and provide ongoing training to accounts payable clerks.

In the future, the Department of Finance may consider implementing additional spot checks to sample completed expense reports and identify potential errors during the review and approval process. The cost-benefit analysis of this has not been conducted.

In addition, department staff said they are working with the service provider for Workday to develop a variety of reports to better monitor financial operations of the city. Staff said monitoring expense reports for unusual activity could be one of these new processes.

Based on these changes, we consider this recommendation partially implemented.
**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.

**Agency’s Original Target Date for Completion: Dec. 31, 2021**

As explained in Recommendation 1.1, a normal approval process involves approvals from the manager, cost center, and accounts payable.

During the original audit, we found a president of the City Council was their own manager in Workday and approved their own expense reports.

Following our recommendation, the Department of Finance has identified workflows where the expense report approval process does not align with Fiscal Accountability Rules related to the separation of duties, such as approving one’s own reports.

There are two situations that affect the approval process: an employee is their own manager, or an employee does not have a manager in Workday.

As of April 2023, the department found three employees who were listed as their own managers in Workday, including the president of the City Council. Two of these employees have not submitted any reports from January 2022 through mid-April 2023. The City Council president submitted four reports during the same period that totaled just over $200.

Also, as of April 25, 2023, Department of Finance found 12 employees who did not have an assigned manager in Workday. This situation happens with department heads of independent agencies and some elected officials, such as the Denver Auditor or clerk and recorder. All City Council members have the president of the City Council marked as their manager in Workday. In addition to these 12 employees, Finance staff found 39 employees of Denver Health and six contingent workers who do not have a manager in Workday. These individuals have not submitted any reports between January 2022 and mid-April 2023.

For both situations, Department of Finance employees adjusted the workflow in Workday for the expense reports to bypass manager approval and move directly to the cost center approver followed by accounts payable.
Finance staff said assigning the review to another manager within the agency could sometimes mean that this person is approving their superior’s reports. This also would not be consistent with proper separation of duties. Department staff said the cost center approver’s and accounts payable approver’s reviews are sufficient as there is a limited number of transactions and because approvers still maintain separation of duties.

But we found this process to be lacking because typically the manager is the person who is most knowledgeable about the propriety and usefulness of the expense — making this initial manager review critical. In addition, cost center approvers are often, although not always, employees of the same agency where the expense was incurred. Therefore, the same separation of duty concerns apply when they must approve their superior’s expenses.

We found no additional compensating controls in place, such as periodic spot checks or data analysis, to address any risks associated with skipping the manager approval step.

Based on this, we consider this recommendation not implemented.
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.