



## **Independent Audit Committee**

### **City & County of Denver**

Meeting Minutes

Thursday, November 17, 2016

#### **Opening**

Chairman Timothy M. O'Brien, CPA, Auditor, called the meeting to order.

#### **Members Present**

Vice-chairman Rudy Payan, Florine Nath, Edward Scholz, Charles Scheibe, Leslie Mitchell and Jack Blumenthal were present.

#### **Also Present**

Deputy Auditor Valerie G. Walling and Committee staff Mollie Horne were also in attendance.

#### **Approval of October 20, 2016 Minutes**

The minutes were approved as written.

#### **Audit Report Briefing: Denver International Airport Airline Agreements**

Audit Supervisor Sonia Montano, Senior Auditor Karin Doughty, and Senior Auditor Darrell Finke presented the audit findings and recommendations. Gisela Shanahan, Executive Vice President, Chief Financial Officer; Mookie Patel, Senior Vice President, Airline Affairs & Commercial Property; and Hugh Curran, Senior Vice President, Financial Management were present on behalf of Denver International Airport (DIA) to respond to the audit report.

The audit report was discussed. DIA agreed with twelve of the Audit Team's fourteen findings and recommendations. The recommendations and DIA responses from the audit report are summarized below. For the full text of DIA's written response to the recommendations, please see the report itself by visiting [www.denvergov.org/auditor](http://www.denvergov.org/auditor). Click on the Audit Services tab, then Audit Reports. This report is published under the 2016 Audit Reports header and is titled "DIA Airline Agreements." The video recording of the audit report discussion can be found at [www.denvergov.org/auditor](http://www.denvergov.org/auditor). Click on the [Audit Committee](#) tab, then the "Watch Audit Committee meetings" button at the top of the page. The most recent video will be listed first.

**Recommendation 1.1**

The Senior Vice President (SVP) of Financial Management should establish criteria for writing off accrued interest penalties and develop appropriate policies and procedures, which should require documentation when decisions are made to adjust invoices in this manner.

**Auditee Response:** Agree, Implementation Date: January 31, 2017

**Recommendation 1.2**

The SVP of Financial Management should ensure that the policies and procedures are revised to include a process for assessing the required interest for late Passenger Facility Charges payments.

**Auditee Response:** Disagree

*Auditee Narrative:* The Airport does not currently assess penalty interest on Passenger Facility Charges (PFCs). In fact, during the period 2014-2015, 99.94% of the \$210 million in PFCs owed were collected. We are evaluating the cost/benefit implications of implementing an interest penalty on PFCs. Any late penalties would be included in the total authorized PFC collections and would, therefore, not result in additional revenues. Once total collection authorization is reached, PFC collection authority expires. Late penalties, therefore, do not generate additional revenues, and not assessing late penalties does not result in lost PFC revenues.

*Auditor's Addendum:* Governing documents related to managing PFCs allow for assessing interest for late payments. Denver Municipal Airport System Rules and Regulations 120 states that PFC payments not made to the City when due shall accrue interest at the rate of 18% per annum commencing five (5) business days after the due date. In addition, the DIA Finance Unit's policies and procedures related to managing PFCs provide for the assessment of a late fee for late payments but note that PFC payments are rarely late. FAA guidelines do not prohibit assessing interest for late PFC payments.

**Recommendation 1.3**

The SVP of Financial Management should ensure a procedure is developed to require airlines to provide documentation identifying the invoices and fees covered by payments submitted.

**Auditee Response:** Agree, Implementation Date: January 31, 2017

**Recommendation 1.4**

The SVP of Financial Management should ensure that the Finance Unit's policies and procedures for managing airline space are updated to align with current practices, and add a process ensuring timely airline space change financial processing.

**Auditee Response:** Agree, Implementation Date: January 31, 2017

**Recommendation 1.5**

The SVP of Financial Management should ensure that DIA Finance personnel are cross-trained on key roles and responsibilities so operations are not impacted when personnel are unavailable or leave the organization.

**Auditee Response:** Agree, Implementation Date: January 31, 2017

**Recommendation 1.6**

The SVP of Airline Affairs and Commercial should ensure that the Properties Division's policies and procedures are updated to indicate a timeframe within which airline use and lease agreements should be updated to reflect periodic space changes.

**Auditee Response:** Agree, Implementation Date: January 31, 2017

**Recommendation 1.7**

The SVP of Airline Affairs and Commercial should ensure policies and procedures are updated to establish a timeframe within which space changes should be processed to ensure timeliness for billing and collections.

**Auditee Response:** Agree, Implementation Date: January 31, 2017

**Recommendation 1.8**

The SVP of Airline Affairs and Commercial should ensure the Property Division's policies and procedures include a process for conducting, documenting, and addressing concerns noted during on-site inspections of airline-leased spaces.

**Auditee Response:** Agree, Implementation Date: January 31, 2017

**Recommendation 1.9**

The SVP of Financial Management should ensure that the Finance Unit's policies and procedures include processes for the timely creation of invoices and the establishment of a due date for airline payments of non-preferential and customs gate utilization fees.

**Auditee Response:** Agree, Implementation Date: January 31, 2017

**Recommendation 1.10**

The SVP of Airline Affairs and Commercial should develop a process for tracking airline departure equivalents required by the airline agreements and ensure procedures are included in Property Division's policies and procedures.

**Auditee Response:** Agree, Implementation Date: January 31, 2017

**Recommendation 1.11**

The SVP of Airline Affairs and Commercial should enhance controls related to monitoring liability insurance and surety bonds to ensure compliance with airline use and lease agreements.

**Auditee Response:** Agree, Implementation Date: January 31, 2017

**Recommendation 1.12**

The SVP of Financial Management should include the analysis of all airline rentals, fees, and charges on an annual basis (the Year-End Settlement) and specify the creation of associated reports in the Finance Division's policies and procedures.

**Auditee Response:** Agree, Implementation Date: January 31, 2017

**Recommendation 1.13**

The Chief Financial Officer should update or amend the WJ Advisors scope of work to incorporate specific requirements for the Year-End Settlement process, including noting the annual settlement report as a required deliverable.

**Auditee Response:** Disagree

*Auditee Narrative:* The WJ Advisors contract expires on 12/31/16. The Airport is currently completing a competitive procurement process to select a vendor to provide financial consulting services as required by its bond ordinance to begin in January 2017. The new contract will contain language addressing scope in compliance with all City procurement rules.

**Recommendation 1.14**

The SVP of Financial Management should ensure the Finance Unit's policies and procedures are revised to include payment due dates and interest penalty enforcement dates that are consistent with those identified in the Code of Federal Regulations and airport rules and regulations.

**Auditee Response:** Agree, Implementation Date: January 31, 2017

**Audit Report Briefing: Denver Fire Department Resource Allocation Practices**

Audit Supervisor LaKeshia Allen Horner, Audit Supervisor Cody Schulte, Lead Auditor Nicholas Jimroglou, and Senior Auditor Sam Gallaher presented the audit findings and recommendations. Eric Tade, Fire Chief, Denver Fire Department; Todd Bower, Deputy Fire Chief, Denver Fire Department; and Laura Wachter, Deputy Director, Department of Public Safety were present to respond to the audit report.

The audit report was discussed. The Denver Fire Department (DFD) agreed with four of the Audit Team's findings and recommendations and *agreed in part* with one of them. The recommendations and DFD responses from the audit report are summarized below. For the full text of DFD's written response to the recommendations, please see the report itself by visiting

[www.denvergov.org/auditor](http://www.denvergov.org/auditor). Click on the Audit Services tab, then Audit Reports. This report is published under the 2016 Audit Reports header and is titled “[Fire Department Resource Allocation Practices](#).” The video recording of the audit report discussion can be found at [www.denvergov.org/auditor](http://www.denvergov.org/auditor). Click on the [Audit Committee](#) tab, then the “[Watch Audit Committee meetings](#)” button at the top of the page. The most recent video will be listed first.

**Recommendation 1.1**

To ensure that staffing levels keep pace with attrition and to reduce reliance on overtime, DFD should assess its hiring strategies to narrow the gap between vacant positions and the number of personnel authorized by the department’s budget.

**Auditee Response:** Agree, Implementation Date: March 1, 2017

**Recommendation 1.2**

To guide and improve the department’s long-term decision-making, DFD should update and formalize its draft strategic plan. In accordance with best practices for strategic planning, the formal strategic plan should identify pathways for meeting long-term strategic goals; discuss the impact of external factors; define results-oriented performance measures; and provide managers and decision-makers with a better understanding of how resource allocation affects the organization’s ability to achieve its mission.

**Auditee Response:** Agree, Implementation Date: July 1, 2017

**Recommendation 1.3**

To systematically identify and address long-term resource allocation risks, DFD should develop a comprehensive and systematic risk management framework that will enable the department to identify, analyze, and respond to long-term risks associated with its resource allocation objectives. Within these risk management efforts, DFD should:

- Consider National Fire Protection Association (NFPA) Community Risk Assessment guidelines to determine whether there are alternative approaches to managing the department’s fire safety inspection workload, while maintaining a high level of preparedness and safety for its firefighters. Alternative approaches could include aligning fire safety inspection frequencies with building occupancy risks.
- Clearly define risk tolerances and key risk indicators (KRIs) to identify relevant metrics that provide useful insights about potential risks that may have an impact on the achievement of the organization’s objectives. DFD should include key risk indicators for the coverage issues identified in District 5 as a way to monitor and communicate the potential impact of the delayed development of the Northfield fire station to stakeholders.

**Auditee Response:** Agree (in Part), Implementation Date: July 1, 2017

*Auditee Narrative:* Multiple governing bodies and industry groups influence DFD’s policies for providing quality, timely, and professional emergency services in order to achieve the highest levels of preparedness and prevention. For instance, DFD looks to the National Fire Protection Association, the Insurance Services Office, the Center for Public

Safety Excellence, the International Association of Fire Chiefs, and the International Association of Fire Fighters for guidance and leading practices. For instance, the 2003 Fire Facilities Master Plan identified population and economic growth as major drivers of calls for service; it also identified current and anticipated coverage gaps. Each day, DFD measures response times and turnout times in order to manage risk by using real-time metrics for call types to maximize resource allocation.

DFD will release a three-year risk assessment and standard of coverage plan that meets the requirements for accreditation through the Commission on Fire Accreditation International at the Center for Public Safety Excellence. These documents represent how DFD will analyze and address long-term risks as conceptually recommended in this audit report. DFD only agrees in part with this recommendation because the risk management approach used may differ from the explicit language of the recommendation.

**Recommendation 1.4**

To fully understand the full costs and benefits of intergovernmental agreements (IGAs) to the City, DFD should continue to use its cost-benefit analysis template for all future agreements, including those agreements pending renewal. We also recommend that DFD periodically review its cost-benefit analysis for longstanding multi-year agreements.

**Auditee Response:** Agree, Implementation Date: March 1, 2017

**Recommendation 1.5**

To understand the full costs and benefits of IGAs, DFD should include indirect costs in its cost calculations. Furthermore, DFD should include complete and comprehensive documentation of the qualitative factors that were considered, even if the costs and benefits cannot be quantified.

**Auditee Response:** Agree, Implementation Date: March 1, 2017

**Update on External Auditor**

Auditor O'Brien explained that while the majority of the City's External Auditor contract was awarded to BKD—the Comprehensive Annual Financial Report (CAFR) and Denver International Airport—, a second firm was chosen to handle the City's Wastewater Management and Deferred Compensation Trust plan separately. The firm contracted for the latter two audits is Anton Collins Mitchell. This strategy was approved by the Audit Committee to build expertise in local CPA firms for the large, complicated audits Denver requires.

**Audit Committee Self-Assessment Process**

Auditor O'Brien explained the self-assessment process to the Committee. This annual process is required by the Audit Committee Charter. The questionnaire the Committee will use for self-evaluation was adopted from the American Institute of CPAs (AICPA) audit committee tool book. The Auditor asked the Committee to review the questionnaire before the next meeting. The

Committee will discuss and complete the self-assessment at the December meeting during an Executive Session. There will be an update in January about the Committee's self-evaluation.

The next Audit Committee meeting will be held on Thursday, December 15, 2016 at 9:00 a.m. in the Parr-Widener Community Room (#389) on the 3<sup>rd</sup> floor of the City & County Building at 1437 Bannock Street.

With no other business, the Committee adjourned at 10:36 a.m.

Prepared by Mollie Horne, Audit Committee staff