



Independent Audit Committee

City & County of Denver

Meeting Minutes

Thursday, May 19, 2016

Opening

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

Members Present

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

Also Present

Deputy Auditor Valerie G. Walling, Director of Audit Services Kip Memmott, and Committee staff Mollie Horne were also in attendance.

Approval of March April 21, 2016 Minutes

The minutes were approved as written.

Follow-Up Audit Report Briefing: Change Management Practices

Lead Auditor Nick Jimroglou presented the follow-up audit recommendations and findings. Chief Information Officer Scott Cardenas and Chief Technology Officer Chris Todd were present to respond to the follow-up audit report.

The follow-up audit report was discussed. The findings, summarized below, indicated that Technology Services has not fully mitigated the inherent risks within the Change Management process, and continued improvements are needed to fully mature the process.

Recommendation 1.1—IMPLEMENTED

The Technology Services Information Technology Services Management (ITSM) team should incorporate additional best practices into their change management practices, and should verify that Playbooks contain key responsibility definitions for developer and information security roles.

Auditee Action: Technology Services has incorporated best practices, such as the Information Technology Infrastructure Library (ITIL), into its change management processes. Playbooks, or process guides, were created to document key responsibilities for developer and information security roles.

Recommendation 1.2—IMPLEMENTED

Technology Services management should develop stronger metrics to identify trends in change management effectiveness.

Auditee Action: Technology Services developed stronger metrics that measure the effectiveness of the change management process. Metrics that were developed include critical success factors and key performance indicators. Management regularly reviews these performance metrics to monitor the success of the change management process.

Recommendation 1.3—IMPLEMENTED

The Technology Services ITSM team should limit agencies' implementation of changes on an emergency basis to changes that are true emergencies. The ITSM team should provide emergency change statistics and trends to agency management to discourage classifying comprehensive changes as emergencies.

Auditee Action: Technology Services has educated agencies about the importance of allowing sufficient lead time when requesting changes to discourage the use of using emergency changes and educated agency liaisons on the importance of proper classification of changes. The number of emergency changes has decreased to 12 percent as a result of Technology Services efforts.

Recommendation 1.4—IMPLEMENTED

Technology Services management should ensure that descriptions of emergency changes in the change management software include a business justification for the emergency classification.

Auditee Action: Technology Services educated agency liaisons on adding descriptions of emergency changes in the change management software, including a business justification for any change that is classified as an emergency.

Recommendation 1.5—IMPLEMENTED

The Technology Services ITSM team should populate the configuration management database with all pertinent information about configuration items. A procedure should be developed to ensure that all configuration item information is complete, accurate, and updated.

Auditee Action: Technology Services established a process specific to populating the change management database. It covers the roles and responsibilities for the parties involved in maintaining and updating the database. All items within the database are identified and controlled. Additionally, each item lists the version in use, attributes, and relationships to other configuration items. When a new item needs to be added to the database, a form must be filled out and reviewed by the team that manages the change management database. This process adds to the accuracy of the data and has reporting capabilities.

Recommendation 1.6—IMPLEMENTED

Technology Services management should ensure that application changes performed by system administrators are monitored by someone independent of the system administrator function or the person who implemented the change, and should be performed on a periodic basis. Additionally, individuals should use their own accounts to perform changes to the application to establish user accountability.

Auditee Action: Technology Services has developed a policy for reviewing application change logs on a periodic basis. This helps to provide guidance for the application service owner to perform a periodic review when changes to applications are required. Additionally, a process has been developed to ensure that program changes are reviewed prior to being implemented and the review is conducted by someone independent of the system administrator function.

Recommendation 1.7—IMPLEMENTED

Technology Services management should ensure that passwords used to control shared service accounts are periodically changed.

Auditee Action: Technology Services has developed a process to establish a standard for creation of strong passwords, the protection of those passwords, and the frequency of changing the passwords for administrator access.

Recommendation 1.8—AGREED, NOT IMPLEMENTED

Technology Services management should ensure that developer access is removed from the production application servers.

Auditee Action: Technology Services has established a process to transition administrative responsibilities from developers to application administrators. Access has been terminated for two out of seven developers identified in the original audit, however the remaining five developers still retain access to production systems. The five developers who have production access are currently working on a project with an unspecified timeframe.

Recommendation 1.9—IMPLEMENTED

Technology Services management should ensure that former employee accounts are removed from the production application servers.

Auditee Action: Technology Services removed former employee accounts with access to the production servers as identified in the original audit.

Recommendation 1.10—IMPLEMENTED

Technology Services management should establish a process to perform periodic reviews of access to production to ensure that the appropriate users are authorized to have access to perform application changes. Reviews should take into account former employee access, developer access, and users without a business purpose.

Auditee Action: Technology Services established a process to perform periodic reviews of access to production. The initial review encompassed privileged accounts for systems identified

in the original audit. Technology Services plans to expand the reviews to include additional systems.

Follow-Up Audit Report Briefing: Innovation Fund

Audit Supervisor Katja Freeman presented the follow-up audit recommendations and findings. Chief Performance Officer David Edinger was present to respond to the follow-up audit report.

The follow-up audit report was discussed. The findings, summarized below, indicated that the utility and equity of the City's Innovation Fund (iFund) cannot be fully assessed due to insufficient levels of transparency and accountability.

Recommendation 1.1—IMPLEMENTED

Reassess the purpose of the iFund and update the iFund Charter accordingly to better explain the goals and purpose of the iFund and document the types of projects it will fund, including, but not limited to, guidance on the minimum or maximum project cost that will be considered. To the extent that innovation or process improvement-related projects continue to be the focus of the iFund, include definitions of these terms in the iFund Charter and designate a specific amount of iFund dollars each year to these types of projects and communicate that information to City agencies on an annual basis.

Auditee Action: The iFund Charter was updated to address this recommendation. Specifically, the definition of innovation was updated to “strategic change resulting in performance improvement or breakthroughs.” A narrative was also included in the updated Charter defining, among other terms, “strategic,” “change,” and “performance improvement.” Additionally, the iFund Charter’s mission statement was modified to include both breakthroughs and continuous improvement programs and projects, with definitions provided for both.

Recommendation 1.2—IMPLEMENTED

Make iFund project selection decisions publicly available through a new iFund website or other public-facing method.

Auditee Action: For the 2016 budget approval process, iFund project selection was included as part of Technology Services’ budget presentation to City Council. This meeting was open to the public and televised on Denver 8 TV.

Recommendation 1.3—IMPLEMENTED

Develop and document controls for the iFund review and decision-making process that include, at a minimum: 1) devise a method to ensure all meetings are documented, such as appointing one or more individuals with responsibility to document meetings if needed; 2) document in meeting minutes the vote of each iFund member in regard to official iFund business, and any discussion supporting iFund decisions; 3) document and consistently follow the Support Committee and iFund Committee project scoring and review process; and 4) document the required information that must be provided as part of iFund business cases.

Auditee Action: The iFund Charter was updated with a “Governance” section, which includes the following protocol: at each meeting, minutes will be taken, reviewed, amended, approved by the Project Management Office (PMO) Director, and stored on a shared drive available to all iFund Members. At the start of the meeting, the PMO Director will assign the responsibility of taking minutes. The 2016 iFund proposal instructions and scoring criteria are available on the Denver One Team (DOT) intranet site. The audit team reviewed meeting minutes to assure that iFund member votes were documented and that the meeting minutes included documentation of the scoring and review of iFund projects. Auditors also verified documentation of the business cases.

Recommendation 1.4—IMPLEMENTED

Adhere to Charter requirements regarding the minimum number of members needed to conduct official business.

Auditee Action: The “Membership” section of the iFund Charter was updated to include the requirement that each individual iFund member’s vote be documented. Meeting minutes now include a voting matrix showing attendance and voting results by name to demonstrate a quorum existed when voting took place.

Recommendation 1.5—IMPLEMENTED

Create and consistently follow standard guidance for the iFund and all City agencies that describes the iFund’s procedures for conducting post-implementation reviews and the minimum frequency with which these reviews should occur. The iFund should make this information available to all City agencies.

Auditee Action: The iFund Charter was updated to include guidance on post-implementation reviews. Specifically, the “Governance” section states:

Post-implementation reviews will occur when the following milestones have been reached:

- Projects will be reviewed after major deployments.
- For programs that are funded over multiple years, and contain individual projects, reviews will occur twice per year.
- All projects and programs will be reviewed when fully completed.

All post-implementation reviews will be made available to city agencies.

The audit team verified that the post-implementation review procedures were updated and that they comply with the audit recommendation.

Recommendation 1.6—IMPLEMENTED

Work with Budget Management Office (BMO) to ensure monthly financial reporting is provided to iFund members as well as business sponsors within the agency that shows spending for all active iFund projects. This reporting should also provide a summary level narrative highlighting budget variances as well as any risks or opportunities at the project level.

Auditee Action: In November 2015, financial reporting was included on the iFund Committee agenda and the BMO budget report was attached to the meeting minutes. In December 2015,

financial reporting was included on the agenda but the BMO budget report was not attached to the meeting minutes. BMO subsequently provided the budget report to the audit team and asserted that the budget report was distributed during the meeting to iFund Committee members. In January 2016, financial reporting was not included on the agenda. In February 2016, financial reporting was included on the iFund Committee agenda and the BMO budget report was attached to the meeting minutes.

Follow-Up Audit Report Briefing: Urban Renewal in Denver

Lead Auditor Nancy Howe presented the follow-up audit recommendations and findings. Department of Finance Financial Specialist John Karner was present to respond to the follow-up audit report.

The follow-up audit report was discussed. The findings, summarized below, indicated that additional tax increment financing information can be made available to stakeholders.

Recommendation 1.1—IMPLEMENTED

The Chief Financial Officer should create a consolidated repository of Tax Increment Financing (TIF) cooperation agreements.

Auditee Action: The Department of Finance (DOF) worked with the Denver Office of the Clerk and Recorder to make sure records were accurate and complete and that records were not duplicated. DOF developed a consolidated list of active TIF areas with links to the cooperation agreements retained by the Office of the Clerk and Recorder.

Recommendation 1.2—IMPLEMENTED

The Chief Financial Officer should publish a list of active Denver Urban Renewal Plans and TIF areas.

Auditee Action: In February 2015, DOF developed a consolidated list of active TIF areas. Each TIF listing includes the reference number for the corresponding cooperation agreement and a link to the agreement as retained by the Office of the Clerk and Recorder. The list was produced in conjunction with the Denver Urban Renewal Authority (DURA) and is accessible from the DOF's webpage. DOF will annually update the list of active TIF areas; the most recent update occurred in March 2016.

Recommendation 1.3—IMPLEMENTED

The Chief Financial Officer should include urban renewal reporting on the Transparent Denver webpage to periodically report comprehensive urban renewal activity to the City and other stakeholders.

Auditee Response: In conjunction with implementing Recommendation 1.2, DOF updated its website with a link to the DURA website, where visitors can learn about urban renewal activity by redevelopment project. DOF determined that this was more efficient than including urban renewal reporting on the City's website. The link to the DURA website is also accessible within

the consolidated list of active TIF areas that was developed in conjunction with Recommendation 1.2.

Update on External Auditor RFP

Deputy Auditor Walling updated the Committee on the External Auditor Request for Proposals (RFP) process. The Audit Committee met on May 5 for an extensive review of the eight proposals it received. Finalist firms were chosen and will interview with the Committee on June 7. Auditor's Office personnel have checked each firm's references and will provide this valuable input, along with additional information, to the Committee prior to the June 7 interviews.

Presentation of Annual Report

The Auditor announced the publication of the Denver Auditor's Office Annual Report. He noted the caliber and professionalism of both the Auditor's Office staff and the Audit Committee.

Deputy Auditor Walling discussed new directions the Audit Services Division will be taking, including reorganizing teams and reallocating certain resources and talents toward the individual audits best served by those talents. The Office aims to better integrate IT auditing, financial auditing, and contract compliance. In addition, the Auditor's Office will be engaging in outsourcing in areas where specialized needs exist, such as cyber security.

With regard to the Annual Report, Ms. Walling highlighted the Rocky Mountain Human Services Audit Report, issued in December 2015. The report received a Knighton Award from the Association of Local Government Auditors (ALGA) in recognition of its impact on residents who receive RMHS services. The Auditor noted that the report also resulted in legislation at the state level that requires that community-centered boards receiving 75% of their revenues from federal, state, and local levels to be audited by the State Auditor on a regular basis. Ms. Walling commended Auditor's Office staff for its diversity of certifications and memberships in audit-related professional associations. Mr. Memmott then made mention of the external quality assurance review the Auditor's Office underwent late last year. This peer review found the Office in full compliance and cited it for several best practices, as well.

Director of Contracts & Accountability Jeffrey Garcia joined the table to speak on contract compliance, as well as the Prevailing Wage Division (PWD) and its contributions to Denver. The majority of the City's budget is spent on personnel and contracts, and the Auditor's Office is charged with reviewing every contract the City enters into. Each contract undergoes a dual-review process by Mr. Garcia and the Auditor. They also review change orders. In 2015, the Auditor's Office reviewed nearly 2,800 contracts.

The Auditor's Office is also charged with enforcing the Prevailing Wage Ordinance. This ordinance mandates that contractors working for the City pay their employees according to terms set by the Career Service Authority (CSA). In 2015, the eight members of the PWD oversaw 645 projects with a combined budget of over \$563 million, including over \$82 million in wages.

PWD investigators audited 34,000 payrolls and 29,000 invoices. They identified over 2,200 incidents of ordinance violations and were able to recover over \$273,000 in under-paid or unpaid wages.

Announcement of Auditor Open Houses in June

The Auditor will be hosting open houses for City employees every Monday in June from 1:00 p.m. to 3:00 p.m. The goal is to get one-on-one input from City employees about their concerns about their government because no one knows City government like those working within it.

The next Audit Committee meeting will be held on Thursday, July 21, 2016 at 9:00 a.m. in the Parr-Widener Community Room (#389) on the 3rd floor of the City and County Building at 1437 Bannock Street. There will be extra meetings to evaluate the CAFR and RFP in late May and early June.

With no other business the Committee adjourned at 9:53 a.m.

Prepared by Mollie Horne, Audit Committee staff