



Independent Audit Committee

City & County of Denver

Meeting Minutes
Thursday, July 21, 2016

Opening

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

Members Present

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

Also Present

Director of Audit Services Kip Memmott and Committee staff Mollie Horne were also in attendance.

Approval of May 19, 2016 Minutes

The minutes were approved as written.

Audit Report Briefing: Department of Parks and Recreation Contract

Administration Practices

Audit Supervisor Sonia Montano, Senior Auditor Marc Hoffman, and Senior Auditor Drew Jeffries presented the audit findings and recommendations. Director of Finance and Administration Fred Weiss was present on behalf of the Department of Parks and Recreation (DPR) to respond to the audit report.

The audit report was discussed. DPR agreed with seven out of nine of the Audit Team's findings and recommendations, summarized below. For the full text of DPR's response to the recommendations, please see the report itself by visiting 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 "DPR Contract Administration Practices."

Recommendation 1.1

The Department of Parks and Recreation's Director of Finance and Administration should enhance application and quality review controls in Salesforce.

Auditee Response: Agree, Implementation Date – December 31, 2016

Auditor's Addendum: Although Executive Order 8 does not provide direct guidance regarding documentation necessary for other types of agreements that may have long terms, Executive Order 8 was utilized since it was the closest policy to cite, and its principles are sound. There is no citywide governance for this situation, and the exposure is high. Therefore, the concept of documenting decisions related to long contract terms in order to provide transparency related to all types of agreements still applies.

Recommendation 1.2

The Executive Director of the Department of Parks and Recreation should enhance the procedures related to how the number and size of contract awards are determined.

Auditee Response: Disagree

Recommendation 1.3

The Department of Parks and Recreation's Executive Director should finalize and implement a structure surrounding the mini-bid process to enhance consistency and transparency.

Auditee Response: Agree, Implementation Date – September 30, 2016

Recommendation 1.4

The Executive Director of the Department of Parks and Recreation should develop contingency and succession plans to ensure transfer of institutional knowledge and enhance continuity of operations.

Auditee Response: Agree, Implementation Date – December 31, 2016

Recommendation 1.5

The Department of Parks and Recreation's Director of Finance and Administration should develop policies and procedures for contract administration.

Auditee Response: Agree, Implementation Date – December 31, 2016

Recommendation 1.6

The Department of Parks and Recreation's Director of Finance and Administration should ensure that DPR's contract administration practices include clear definitions of roles and responsibilities for personnel.

Auditee Response: Agree, Implementation Date – December 31, 2016

Recommendation 1.7

The Department of Parks and Recreation’s Director of Finance and Administration should ensure that training is developed for current and future Contract Administrators and Project Managers.

Auditee Response: Agree, Implementation Date – December 31, 2016

Recommendation 1.8

The Executive Director of the Department of Parks and Recreation should consider revising the organizational structure of DPR to separate DPR’s administration and finance functions.

Auditee Response: Disagree

Recommendation 1.9

The Executive Director of the Department of Parks and Recreation should ensure that key decisions related to contract negotiations and administration are documented appropriately in contract files.

Auditee Response: Agree, Implementation Date – September 30, 2016

Summary of 2015 External Audit of City Finances

Along with BKD staff Chris Telli, Jodie Cates, and Nikki Kubly, City Controller Beth Machann and Manager of Financial Reporting Shanna Tohill presented a summary of the 2015 external audit of City finances. Reports discussed included the Comprehensive Annual Financial Report (CAFR), the Single Audit Report, and reports on Denver International Airport, the Wastewater Management Division, and the City’s Deferred Compensation Plan.

Mr. Telli commended the City on a very clean audit which resulted in an unmodified opinion from BKD.

Ms. Tohill discussed the CAFR, highlighting the City’s long record of excellence in financial reporting. Denver has received a certificate of excellence from the Government Finance Officers Association (GFOA) for 35 consecutive years. She fully expects the City to be recognized for 2015, as well. The full text of the CAFR is available at www.denvergov.org/finance. Click on “Financial Reports,” and select “Comprehensive Annual Financial Report.”

The first section of the CAFR, the Introduction, includes a Letter of Transmittal from CFO Brendan Hanlon to the Denver public. This letter discusses the City’s current economic conditions, as well as its financial policies and planning. The City and County of Denver is AAA rated by all three major credit rating agencies.

The Financial section includes the report of the external auditor. As stated earlier, the City received an unqualified and unmodified opinion from BKD. The management discussion and analysis section that follows contains a two-year summary and comparison of financial statements with brief explanations of year-over-year changes. The Financial section includes the

basic financial statements, beginning with entity-wide statements. This is followed by fund statements and footnotes to provide additional information.

The final Statistical section of the CAFR is considered unaudited, though it is reviewed by BKD for consistency with the basic financial statements. This section highlights financial trends over 10 years, including net position, change in net position, fund balance, change in fund balance, etc. It also shows revenue capacity, debt capacity, demographic and economic information, and operating information.

BKD's Jodie Cates went on to discuss the Single Audit Report which tracks and reports on the compliance of federally-funded programs. The City received just over \$175 million in federal funding in 2015. BKD audited and reported on nine major programs. BKD had one finding of *material non-compliance*. The number of smaller issues that roll into that one finding decreased from prior years. There were four other findings which are considered *other matters* or *significant deficiencies*. Again, this shows a marked improvement over time. The goal is for the City to be considered a low-risk auditee which would decrease the coverage percentage BKD has to achieve, thereby decreasing the number of programs BKD has to audit. Fewer audited programs would result in even more cost savings for the City.

Mr. Telli discussed the Management Letter which outlines BKD's findings and recommendations to the Audit Committee, City Council, and Management. It discusses the material weakness and significant deficiency related to capital assets. Mr. Telli noted, however, that these deficiencies have been greatly reduced over the last several years. Much progress has been made with capital assets, in general. One of the other matters discussed was BKD's recommendation that contracts at DIA clearly spell out the ownership of specific assets being constructed and that finance and accounting personnel are included in this business.

DIA Hotel and Transit Center (HTC) Report

The Auditor explained how, on a number of occasions, he has been asked how much the Hotel and Transit Center actually cost. As such, he worked with BKD to establish *agreed-upon procedures*. This is not an audit report.

Nikki Kubly discussed some of the specifics of the [HTC report](#). The full text of this document is available in the "News" tab of the Auditor's website at www.denvergov.org/auditor. It was [published on July 21, 2016](#).

The initial budget for the HTC project, which was announced in 2011, was \$500 million. In 2013, the airport hired a dedicated City and County employee as the HTC project manager. The City also hired an external consultant to provide change management and general oversight services. The budget was revised in 2013 to \$544,117,417.00.

An additional \$128 million was budgeted toward other capital projects at DIA and other RTD-related costs. One major additional cost resulted from a dispute between RTD and the airport over the airport train station. Stu Williams, the Senior Vice President of Special Projects at DIA and HTC Program Manager, joined the table to provide additional information on this dispute. In

the original 2007 memorandum of agreement between the City, the airport, and RTD, there was a particular cut-off line delineating which costs would be assumed by the airport and which would be assumed by RTD. At this point, the actual layout of the program was not yet well-established. In developing its budget, the airport assumed costs for a 400-foot platform and all related infrastructure within the airport. Once the updated designs for the project were completed in early 2012, however, in association with Denver Transit Partners, it was determined that the project required an 800-foot platform for operational purposes. Mr. Williams said the airport “didn’t have much say” in this matter. At this point, excavation was already underway for the originally-proposed 400-foot platform. The extension of the platform resulted in \$57 million of what the airport considers *other RTD-related costs* (encompassing the required additional excavation, retaining walls, utilities, communications, etc.). The dispute arose in 2011 at which point RTD and airport leadership agreed not to hold up development of the project. An eventual arbitration process and court process resulted in the airport paying the cost of the extension.

The total budget for the HTC project and other related projects was \$672 million. As of December 31, 2015, spending on the projects totaled \$714.9 million. This represents a 6.38% variance over budget. The airport expects some change orders in 2016 and an additional \$3.9 in project-related costs.

External Auditor Selection Update

Auditor O’Brien announced the selection of BKD as the City’s external auditor. BKD will continue with its contract for the CAFR audit and the DIA audit. The contracts for Wastewater Management Division and Deferred Compensation Plan will be awarded to other audit firms. The Auditor is currently in contact with two potential firms and expects to have more information at a later date.

The next Audit Committee meeting will be held on Thursday, August 18, 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.

With no other business the Committee adjourned at 10:43 a.m.

Prepared by Mollie Horne, Audit Committee staff