



## **Independent Audit Committee**

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

Meeting Minutes

Thursday, June 21, 2018, 9:00 a.m.

#### **Opening**

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

#### **Members Present**

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

#### **Also Present**

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

#### **Approval of May 17, 2018 Meeting Minutes**

The minutes were approved as written.

#### **Audit Report Briefing: Budget and Management Office Indirect Cost Accounting Practices**

Audit Supervisor Jared Miller, Lead Auditor Pat Schafer, Senior Auditor Robert Persichitte, and Staff Auditor Chris Wat presented the audit findings and recommendations.

Stephanie Adams, Budget and Management Director; and Michelle Garrett, Consultant, MGT were present to respond to the audit report on behalf of the Budget and Management Office.

For the full text of the report, including the agency responses, please visit [denverauditor.org/auditservices/audit-reports](http://denverauditor.org/auditservices/audit-reports). Scroll down to "Audit Report Archives." This report is published under the "2018 Audit" tab and is titled "[Indirect Cost Accounting Practices](#)." View the video recording of the report discussion by navigating to [denverauditor.org/auditservices/audit-committee](http://denverauditor.org/auditservices/audit-committee) and scrolling down to "How to Watch." The most recent video will be listed first.

The Budget and Management Office agreed with all six of the Audit Team’s recommendations. The recommendations and the agency responses from the audit report are summarized below.

**Recommendation 1.1**

**Review Future Reimbursements to State and Rectify Settlement Process**—The City’s Budget and Management Office needs to develop a documented procedure by which the Federal Cost Allocation Plan’s summary schedule is reconciled to the state’s reimbursement schedule prior to submitting a reimbursement request to the state. Further, the Budget and Management Office should ensure that the settlement process between the State of Colorado and City and County is resolved.

**Auditee Response:** Agree

**Recommendation 1.2**

**Develop Policies and Procedures**—The City’s Budget and Management Office should develop and incorporate a well-documented review process with corresponding written procedures that cover the primary elements included in both cost allocation plans specific to the supporting schedules to ensure submitted reimbursement requests are supported, accurate, and complete.

Procedures should include:

- a) Ensuring uniform department descriptions, fund numbers, and organizational codes within both plans; and
- b) Collaboration between the City’s Budget and Management Office and MGT to ensure that changes to either plan are fully documented to ensure accuracy.

**Auditee Response:** Agree

**Recommendation 1.3**

**Address the Understatement to the Airport**—The City’s Budget and Management Office should work with the airport to rectify the \$108,541 understatement that occurred as a result of the 2017 Citywide Cost Allocation Plan.

**Auditee Response:** Agree

**Recommendation 1.4**

**Develop Written Policy**—The City’s Budget and Management Office should develop a written policy to increase its involvement in the preparation of the Federal Cost Allocation Plan incorporating the following activities:

- a) Actively participating in meetings between MGT and City departments
- b) Using its knowledge of the City's departments and functions to assist MGT in the proper identification of necessary adjustments from gross costs
- c) Retrieving supporting documentation when MGT is unable to obtain it
- d) Reviewing the types, amounts, and departments that MGT has identified as having adjustments from gross costs to identify potential overlooked items or incorrect adjustments

**Auditee Response:** Agree

**Recommendation 1.5**

**Review Federal Guidelines**—The City’s Budget and Management Office should review the federal Uniform Guidance that dictates allocable costs to gain an understanding of the composition of costs that are permitted to be allocated. The Budget and Management Office should then ensure MGT gains a similar understanding and applies the provisions in the ongoing and future cost allocation process.

**Auditee Response:** Agree

**Recommendation 1.6**

**Develop Process to Analyze Expenditures**—The City’s Budget and Management Office should develop a process to analyze expenditures for allowability at a more detailed level. For example, the Budget and Management Office could consider using the City’s financial system, Workday, to facilitate a more detailed description of specific expenditures.

**Auditee Response:** Agree

**Follow-Up Audit Report Briefing: Denver Zoo Cooperative Agreement**

Audit Supervisor Emily Owens and Lead Auditor Kharis Eppstein presented the follow-up audit findings and recommendations.

Charlie Wright, Chief Financial Officer, Denver Zoo; and Allegra “Happy” Haynes, Executive Director, Department of Parks and Recreation were present to respond to the follow-up audit report on behalf of the Denver Zoo and the Department of Parks and Recreation.

For the full text of the follow-up report, including auditee actions, please visit [denverauditor.org/auditservices/audit-reports](http://denverauditor.org/auditservices/audit-reports). Scroll down to “Audit Report Archives.” This report is published under the “2018 Audit” tab and is titled “[Denver Zoo – Cooperative Agreement: Follow-Up](#).” View the video recording of the report discussion by navigating to [denverauditor.org/auditservices/audit-committee](http://denverauditor.org/auditservices/audit-committee) and scrolling down to “How to Watch.” The most recent video will be listed first.

The follow-up audit report was discussed. The findings, summarized below, indicate that the Denver Zoological Foundation could improve its role as agent for the City to manage and operate the Denver Zoo.

**Recommendation 1.1—IMPLEMENTED**

**Amend Cooperative Agreement** – The Foundation, in conjunction with the Department of Parks and Recreation, should work with the City’s Budget and Management Office and the City Attorney’s Office to develop a plan of action with designated milestones to enable an official review and update of contractual language within the City’s Cooperative Agreement with the Foundation to (1) ensure that current practices are formally documented and followed and (2) add a provision requiring that the Denver Zoo maintain its USDA license and accreditation with

a leading national zoological association, such as the Association of Zoos and Aquariums, to ensure the health and safety of the zoo animals.

**Recommendation 1.2—IMPLEMENTED**

**Analyze City’s Use of Zoological Gardens Special Revenue Fund** – The City should analyze whether the Zoological Gardens SRF should be treated as an SRF in the future and make any necessary changes to this funding mechanism.

**Recommendation 1.3—PARTIALLY IMPLEMENTED**

**Define Monitoring Roles** – The Foundation and the Department of Parks and Recreation should work together, with the City Attorney’s Office as necessary, to clearly define the role and responsibilities in a policy document that includes measures to strengthen monitoring practices.

**Recommendation 1.4—IMPLEMENTED**

**Assess and Revise Board Member Attendance Requirement** – The Foundation’s Board of Trustees should assess the current Board member attendance requirement in its bylaws, and revise as needed, with the goal of improving Board member attendance rates.

**Recommendation 1.5—IMPLEMENTED**

**City Representation on the Executive Committee** – At least one City representative should serve as a member of the Foundation’s Board of Trustees’ Executive Committee as allowed by the Cooperative Agreement. At a minimum, the Executive Director of the Department of Parks and Recreation should serve on the Executive Committee or designate a mayoral appointee Board member to serve on the Executive Committee.

**Recommendation 1.6—IMPLEMENTED**

**Formal Board Member Training** – The Foundation’s Board of Trustees should continue to develop its new member orientation and training program to include important elements such as the history of the Zoo, all governing documents and policies, an overview of member responsibilities and legal obligations, and financial information. This training program should be consistently used to ensure that new Board members are familiar with bylaws, other guiding documents, and the Cooperative Agreement with the City.

**Recommendation 1.7—IMPLEMENTED**

**Document the Authority of the Board and Its Committees** – The Foundation’s Board of Trustees should develop charters, or other guiding documents, for the Board, Executive Committee, and other standing committees, that clearly document the authority of each body and the responsibilities of committee members.

**Recommendation 1.8—PARTIALLY IMPLEMENTED**

**Incorporate Best Practices in Bylaws and Governing Document** – The Foundation’s Board of Trustees should include the following best practices in its bylaws or other governing documents: (1) conduct and document regular reviews of Board bylaws and governing documents, (2) require a majority of Board members for a quorum, (3) outline the required process for obtaining independent legal advice when necessary to avoid the potential for conflicts of interest, (4) disallow the Chief Executive Officer from acting as a voting member of the Board, and (5)

conduct and document formal evaluations of the Chief Executive Officer using a process that includes input from all Board members.

### **General Business:**

Before proceeding with the public portion of the assessment, Deputy Auditor Valerie Walling and Auditor O'Brien reminded the audience that the next Audit Committee meeting will be held on Thursday, July 19, 2018 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. This meeting will have a different format than usual. It will involve one hour of regular public meeting business, including an audit report, followed by two hours in Executive Session to meet with the External Auditors to discuss the Single Audit and Management Letter. The meeting is scheduled to conclude at 12:00 p.m.

### **Assessment Briefing: An Agency of the City & County of Denver – Cybersecurity Assessment**

Lead Auditor Nick Jimroglou and Audit Manager Dawn Wiseman introduced the team from Cornerstone Partners that conducted the assessment: Bill Evert, Partner; Donald McLaughlin, Lead Consultant; and Brian Cather, Lead Consultant.

David Edinger, Chief Information Officer; Chris Binnicker, Deputy Chief Information Officer; and James Stoner, Information Security Manager were present to respond to the assessment on behalf of Technology Services.

The Cornerstone Partners team discussed the scope and methodologies for the assessment, and they also provided a high-level overview of common social engineering techniques used by cyber attackers to gain unauthorized access to confidential information. The assessment and associated findings have been reported to the Agency and Technology Services, and the Agency has responded accordingly.

The Auditor then entertained a motion to go into Executive Session. Jack Blumenthal moved to go into Executive Session. Leslie Mitchell seconded the motion, and the motion passed. The public portion of the meeting adjourned at 10:08 a.m.

For the full text of the public portion of the assessment, please visit [denverauditor.org/auditservices/audit-reports](http://denverauditor.org/auditservices/audit-reports). Scroll down to "Audit Report Archives." This assessment is published under the "2018 Audit" tab and is titled "[Cybersecurity Assessment](#)." View the video recording of the assessment discussion by navigating to [denverauditor.org/auditservices/audit-committee](http://denverauditor.org/auditservices/audit-committee) and scrolling down to "How to Watch." The most recent video will be listed first.

### **Executive Session: Discussion of the Cybersecurity Assessment**

The meeting continued in Executive Session wherein Cornerstone Partners provided a detailed briefing of the Cybersecurity assessment. The Committee discussed the assessment findings, and the briefing concluded.

With no other business, the Committee adjourned at 10:41 a.m.

Prepared by Mollie Horne, Audit Committee staff