



## **Independent Audit Committee**

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

Meeting Minutes

Thursday, August 16, 2018, 9:00 a.m.

#### **Opening**

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

#### **Members Present**

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

#### **Also Present**

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

#### **Approval of July 19, 2018 Meeting Minutes**

Leslie Mitchell called for a minor correction to the minutes. Auditor O'Brien accepted a motion from Ms. Mitchell to approve the minutes as amended, and Jack Blumenthal seconded the motion. The minutes were approved unanimously.

#### **Audit Report Briefing: Office of Economic Development – Workforce Development**

Audit Supervisor LaKeshia Allen Horner, Lead Auditor Brad Harwell, Senior Auditor Maria Durant, Senior Auditor Shaun Wysong, and Staff Auditor Daniel Summers presented the audit findings and recommendations for this report issued in July 2018.

Tony Anderson, Director, Workforce Development Services; and Dana Williams, Programs Manager, Workforce Development Services were present to respond to the audit report on behalf of the Office of Economic Development.

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 "[Workforce Development](#)." 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.

Workforce Development agreed with all seven of the Audit Team’s recommendations. The recommendations and the agency responses from the audit report are summarized below.

**Recommendation 1.1**

**Aligning the Local Plan with the Law**—The Executive Director of Economic Development should work with the Denver Workforce Development Board to update the Denver Workforce Development Board Local Plan to include statewide rapid response coordination strategies, integrated case management information system strategies, and up-to-date performance measures.

**Auditee Response:** Agree

**Recommendation 1.2**

**Performance Reporting**—The Executive Director of Economic Development should coordinate with its one-stop and other service providers to ensure that monthly and quarterly reporting requirements reflect the performance measures required by WIOA, as contained in the updated Denver Workforce Development Board Local Plan.

**Auditee Response:** Agree

**Recommendation 1.3**

**Evaluating Cost and Quality**—The Executive Director of Economic Development should develop a formal, systematic, and comprehensive approach for evaluating the City’s privatization of workforce development programs and services, including an analysis of the full cost of the different services provided, transition costs, and costs associated with monitoring and oversight resulting from a change in provider services.

**Auditee Response:** Agree

**Recommendation 1.4**

**Ensuring Data Reliability**—The Executive Director of Economic Development should develop policies and procedures to ensure that the data used to support workforce development program operations and performance is complete, accurate, and valid.

**Auditee Response:** Agree

**Recommendation 1.5**

**Contract Monitoring Policies and Procedures**—The Executive Director of Economic Development should develop detailed, contract-specific policies and procedures to guide its contract monitoring activities related to the provision of the City’s workforce development programs and services. The policies and procedures should identify the precise contract provisions to be monitored and the evidence required to demonstrate that all terms have been met.

**Auditee Response:** Agree

**Recommendation 1.6**

**Contract Monitoring Reporting**—After developing detailed, contract-specific policies and procedures to guide contract monitoring activities related to the provision of the City’s workforce development programs and services, the Executive Director of Economic Development should establish deadlines for reporting that will enable timely identification and resolution of compliance and performance issues.

**Auditee Response:** Agree

**Recommendation 1.7**

**Contract Monitoring Training**—The Executive Director of Economic Development should establish and require participation in a formal training or certification program for staff engaged in contract monitoring for workforce development program and services contracts.

**Auditee Response:** Agree

**Audit Report Briefing: Department of Parks and Recreation – Flog, LLC at Willis Case**

Audit Supervisor Sonia Montano, Senior Auditor Dave Hancock, and Senior Auditor Marc Hoffman presented the audit findings and recommendations.

Fred Weiss, Director of Finance and Administration, Department of Parks and Recreation; and Allegra “Happy” Haynes, Executive Director, Department of Parks and Recreation were present to respond to the audit report on behalf of the Department of Parks and Recreation and Flog, LLC.

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 “[Department of Parks & Recreation: Flog, LLC at Willis Case](#).” 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 Department of Parks and Recreation agreed with four of the Audit Team’s recommendations and disagreed with two. The recommendations and the agency responses from the audit report are summarized below.

**Recommendation 1.1**

**Revenue Reporting** – Flog, LLC, should adjust reporting practices to ensure compliance with the revenue reporting terms established in the contract.

**Auditee Response:** Agree

**Recommendation 1.2**

**Point-of-Sale System Capabilities** – Flog, LLC, should ensure the point-of-sale system and recordkeeping procedures are enhanced to properly track and report gross revenues and meet the City’s contract requirements.

**Auditee Response:** Agree

**Recommendation 2.1**

**Point-of-Sale System’s Functionality** – The Department of Parks and Recreation’s Director of Finance and Administration should obtain an understanding of the Flog, LLC, point-of-sale system’s functionality so Parks and Recreation can properly monitor compliance of gross revenues reported.

**Auditee Response:** Agree

**Recommendation 2.2**

**Requirements of the Point-of-Sale System** – The Department of Parks and Recreation’s Director of Finance and Administration should discuss detailed requirements of Flog, LLC’s, point-of-sale system with the concessionaire to ensure accurate reporting of gross revenues.

**Auditee Response:** Agree

**Recommendation 2.3**

**Amend the Current Contract Definition of Gross Revenues** – The Department of Parks and Recreation’s Director of Finance and Administration should amend the definition of gross revenues in the Flog, LLC, contract to address how discounts and complimentary items should be reported.

**Auditee Response:** Disagree

**Recommendation 2.4**

**Review Flog’s 2016 – 2017 Financial Records for Compliance to Revenue Terms and Seek Collection** – The Department of Parks and Recreation’s Director of Finance and Administration should require a review of Flog, LLC’s, 2016 and 2017 financial records for compliance with reporting of gross revenues and seek collection of unpaid revenue.

**Auditee Response:** Disagree

**Audit Report Briefing: Department of Parks and Recreation – Pahaska Tepee Concessions, LLC**

Audit Supervisor Sonia Montano, Senior Auditor Dave Hancock, and Senior Auditor Marc Hoffman presented the audit findings and recommendations.

Fred Weiss, Director of Finance and Administration, Department of Parks and Recreation; Allegra “Happy” Haynes, Executive Director, Department of Parks and Recreation; and Bill

Carle, Owner, Pahaska Tepee Concessions, LLC were present to respond to the audit report on behalf of the Department of Parks and Recreation and Pahaska Tepee Concessions, LLC.

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 “[Department of Parks & Recreation: Pahaska Tepee Concessions, LLC](#).” 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 Department of Parks and Recreation agreed with seven of the Audit Team’s recommendations and disagreed with three. The recommendations and the agency responses from the audit report are summarized below.

**Recommendation 1.1**

**Revenue Reporting** – Pahaska Tepee Concessions, LLC, should adjust reporting practices to ensure compliance with the revenue reporting terms established in the contract.

**Auditee Response:** Agree

**Recommendation 1.2**

**Improve Vending Revenue Controls** – Pahaska Tepee Concessions, LLC, should design and implement a form for monthly vending machine revenue reporting, collect all vending revenue monthly, begin to document machines with zero balances during the month, and require a witness signature on all cash counts.

**Auditee Response:** Agree

**Recommendation 1.3**

**Correct Errors Through Registers** – Pahaska Tepee Concessions, LLC, should ensure managerial corrections of register errors are made through the register and occur at the time of the error, or at least by the end of the business day. Corrections should be well-documented separately from the cash register tapes and be thorough enough to identify all discrepancies.

**Auditee Response:** Agree

**Recommendation 1.4**

**Acquire Retail Management Software** – Pahaska Tepee Concessions, LLC, should acquire retail management software to enable entity-wide reporting, to minimize manual data entry of revenue figures, and to provide more accurate information to calculate percentage payments to the City. The system must be able to provide daily, monthly, and annual revenue reports. New system capabilities should completely remove any estimation out of the percentage payment calculation.

**Auditee Response:** Agree

**Recommendation 1.5**

**Settlement Process** – Pahaska Tepee Concessions, LLC, should work with the Department of Parks and Recreation’s Director of Finance and Administration to determine whether a settlement payment is necessary to make up for past inaccuracies. If so, both parties must agree on a mutually satisfactory dollar amount to adjust for inexact payments based on misreported gross revenues. The settlement agreement should consider misreported gross revenues and neglecting to pay 2018 payments according to the “holding over” clause in the contract.

**Auditee Response:** Disagree

**Recommendation 2.1**

**Point-of-Sale System’s Functionality** – The Department of Parks and Recreation’s Director of Finance and Administration should obtain an understanding of the Pahaska Tepee Concessions, LLC, point-of-sale system’s functionality so Parks and Recreation can properly monitor compliance of gross revenues reported.

**Auditee Response:** Agree

**Recommendation 2.2**

**Point-of-Sale System’s Requirements** – The Department of Parks and Recreation’s Director of Finance and Administration should discuss detailed requirements of the Pahaska Teepee Concessions, LLC, point-of-sale system to ensure accurate reporting of gross revenues.

**Auditee Response:** Agree

**Recommendation 2.3**

**Communicate Payment Schedule** – The Department of Parks and Recreation’s Director of Finance and Administration should communicate the proper payment schedule to the accountant for Pahaska Tepee Concessions, LLC, and offer an opportunity to discuss the appropriate payment schedule.

**Auditee Response:** Agree

**Recommendation 2.4**

**Amend the Current Contract Definition of Gross Revenues** – The Department of Parks and Recreation’s Director of Finance and Administration should amend the definition of gross revenues in the Pahaska Tepee Concessions, LLC, contract to address how discount items should be reported.

**Auditee Response:** Disagree

**Recommendation 2.5**

**Settlement Process** – The Department of Parks and Recreation’s Director of Finance and Administration should work with Pahaska Tepee Concessions, LLC, to determine whether a settlement payment is necessary to make up for past inaccuracies. If so, both parties must agree to a mutually satisfactory dollar amount to adjust for inexact payments based on misreported

gross revenues. The settlement agreement should consider misreported gross revenues and neglecting to pay 2018 payments according to the “holding over” clause in the contract.

**Auditee Response:** Disagree

### **Update on Data Analytics and Continuous Auditing:**

Data Analytics & Methodology Specialist Sam Gallaher, PhD provided the Audit Committee with a brief overview of what Continuous Auditing is, as well as its role in the Auditor’s Office audit activities throughout the year.

The Continuous Auditing team was assembled in 2016, at which point most of the work it conducted involved inductive analysis. This year the team has shifted toward more of a deductive analysis approach with the goal of improved analysis over time and even better sharing of information between the audit teams and the Continuous Auditing team.

Dr. Gallaher gave an overview of the types of software used by the team, as well as a number of their credentials. He also provided a summary of some of the applications of the team’s recent work, including an analysis of P-card (purchase credit card) data for use in an audit report.

To close, Dr. Gallaher highlighted a number of community involvement activities the team has participated in, both in academia and in the audit world.

### **Audit Report Briefing: Denver County Courts IT General Controls**

Audit Manager Kevin Sear, Lead IT Auditor Nick Jimroglou, and Senior IT Auditor Karin Doughty presented the audit findings and recommendations.

Theresa Spahn, County Court Judge; Kris Griffin, IT Director; Terrie Langham, Court Administrator; and Jonathan Moskoe, Senior IT Systems Administrator were present to respond to the audit report on behalf of Denver County Court.

For the full text of the report, including the Court’s 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 “[Denver County Court: IT General Controls](#).” 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.

Denver County Court agreed with two of the Audit Team’s recommendations and disagreed with one. The recommendations and the Court’s responses from the audit report are summarized below.

#### **Recommendation 1.1**

**Update Existing Policies and Procedures Using the NIST Framework** – The Denver County Court’s IT department should update its IT policies and procedures for user access and change management based on the National Institute of Standards and Technology’s 800-53 standard and

the system backup policies and procedures based on the National Institute of Standards and Technology's 800-34 standards as soon as possible. These updated policies and procedures should address the following areas:

1. Reflect the current operational practices
2. Clearly identify each control in place
3. Specify who performs each control
4. Describe how the performance of each control should be documented
5. Establish the retention period for control documentation

**Auditee Response:** Agree

**Recommendation 1.2**

**Relocate Data Center** – Denver County Court's IT department should work with Technology Services to move the Court's computer servers to the City's existing data center colocation facilities as soon as possible.

**Auditee Response:** Disagree

**Recommendation 1.3**

**Update Backup Process** – Denver County Court's IT department should use online backup solution or set up a physical backup solution on a nightly basis using the best practice Grandfather/Father/Child backup rotations as soon as possible.

**Auditee Response:** Agree

At the conclusion of the audit report presentation, Auditor O'Brien reminded the audience that the next Audit Committee meeting will be held on Thursday, September 13, 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 is scheduled one week earlier than usual; it is a deviation from the regular third-Thursday schedule.

**Confidential Audit Topics (in Executive Session)**

The Auditor then entertained a motion to go into Executive Session to discuss confidential audit topics. Jack Blumenthal moved to go into Executive Session. Rudy Payan seconded the motion, and the motion passed. The public portion of the meeting adjourned at 10:52 a.m.

The meeting continued in Executive Session. With no other business, the Committee adjourned at 11:19 a.m.

Prepared by Mollie Horne, Audit Committee staff