



Independent Audit Committee

City & County of Denver

Meeting Minutes

Thursday, October 18, 2018, 9:00 a.m.

Opening

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

Members Present

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

Also Present

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

Approval of September 13, 2018 Meeting Minutes

The minutes were approved as written.

Audit Report Briefing: Purchasing and Accounts Payable – Purchasing and Payment Processes

Audit Supervisor Cody Schulte, Lead Auditor Vilma Balnyte, Senior Auditor Robert Persichitte, Senior Auditor William Morales Ferrer, and Associate Auditor Brandon Stolba presented the audit findings and recommendations.

Bill Riedell, Director of Financial Services; Lance Jay, Chief Procurement Officer; John Utterback, Supply Chain Enterprise Manager; Murphy Robinson, Executive Director General Services; and Brandon Gainey, Deputy Executive Director General Services were present to respond to the audit report on behalf of Purchasing and Accounts Payable.

For the full text of the report, including the agency responses, please visit denverauditor.org/auditservices/audit-reports. Scroll down to "Audit Report Archives." This report is published under the "2018 Audit" tab and is titled "[Purchasing and Payment Processes](#)." View the video recording of the report discussion by navigating to

denverauditor.org/auditservices/audit-committee and scrolling down to the [Audit Committee Archive Page](#) link under “How to Watch.” The most recent video will be listed first.

Purchasing and Accounts Payable agreed with all 21 of the Audit Team’s recommendations. The recommendations and DEN’s responses from the audit report are summarized below.

Recommendation 1.1

Create Key Identifier among Databases Used in the Bidding Process – The Purchasing Division should consider developing a key identifier field that is shared among all procurement-related systems and databases in order to more effectively track the procurements that have gone through the solicitation process and have been awarded.

Auditee Response: Agree

Recommendation 1.2

Integrate Key Bid Information – The Purchasing Division should consider developing a plan and timeline that would better integrate key information from the different bidding systems used across the City in order to enable more visibility and provide access to consistent reports which can facilitate executive and management reviews.

Auditee Response: Agree

Recommendation 1.3

Improve Request for Proposal Intake Process – The Purchasing Division should continue making improvements to the Request for Proposal intake process, including the implementation of standardized tools and forms and timely identifying requests that require review by Technology Services.

Auditee Response: Agree

Recommendation 1.4

Enforce Bidding Exception Documentation Requirements – The Purchasing Division should develop a plan to better enforce documentation requirements for bidding exceptions.

Auditee Response: Agree

Recommendation 1.5

Change Order Reporting and Analysis – The Purchasing Division should develop procedures to analyze purchase order changes to improve process efficiency. The Purchasing Division should consider working with Technology Services as necessary to create a Workday report that facilitates this analysis.

Auditee Response: Agree

Recommendation 1.6

Identify P-Card Transactions Associated with Master Purchase Orders – The Accounts Payable team, in consultation with the Purchasing Division, should work with Technology Services to require that users identify whether a P-card purchase is associated with a Master Purchase Order. Assess the use of Master Purchase Orders for P-card purchases to reduce disallowed splits and recurring purchases. Instead of a technical solution, the Accounts Payable team could reduce splits and recurring purchases made with P-cards by modifying policies and procedures.

Auditee Response: Agree

Recommendation 1.7

Create Online P-Card Training – The Accounts Payable team should update the City’s P-card policies and procedures, which are used as training material for City employees being issued a P-card and continue to work with the Controller’s Office to create an online P-card training program that can be accessed by new P-card holders at any time.

Auditee Response: Agree

Recommendation 1.8

Improve Unauthorized Purchase Document Enforcement – We recommend that the Purchasing Division improve enforcement of unauthorized purchases by developing and implementing a plan to require fully completed unauthorized purchase documentation. Consider updating policies and procedures to allow for additional flexibility in specific instances.

Auditee Response: Agree

Recommendation 1.9

Create Emergency Purchase Order Tracking Log – The Purchasing Division should develop, implement, and evaluate an Emergency Purchase Order number tracking log to ensure all emergencies are approved and in accordance with City Charter.

Auditee Response: Agree

Recommendation 2.1

Update Non-PO Voucher Guidance – The Accounts Payable team and the Purchasing Division should update and clarify guidance specifying when non-PO vouchers can be used for City agencies as well as for Accounts Payable employees.

Auditee Response: Agree

Recommendation 2.2

Analyze Inappropriate Non-PO Voucher Usage – The Accounts Payable team and the Purchasing Division should analyze inappropriate non-PO voucher usage and work with agencies to reduce noncompliance.

Auditee Response: Agree

Recommendation 2.3

Additional Training and Enforcement of Transaction Support Requirements – The Accounts Payable team should provide additional training and/or guidance for accounts payable specialists and agencies regarding adequate support for transactions. Additionally, the Accounts Payable team should enforce support requirements for all payments by not processing payments until all support is included, as required by Financial Accountability Rule and other policies and procedures.

Auditee Response: Agree

Recommendation 2.4

Create a Process to Verify Confidential Support – The Accounts Payable team should create and follow a process to ensure that confidential payment support exists and has been properly verified.

Auditee Response: Agree

Recommendation 2.5

Implement Additional Input Validation Controls – The Accounts Payable team should work with Technology Services to implement Workday data validation system controls to prevent exact duplicate ad hoc reference numbers and special characters in invoice numbers.

Auditee Response: Agree

Recommendation 2.6

Prevent Duplicate Ad Hoc payments – The Accounts Payable team should design and implement additional controls to detect and rectify duplicate ad hoc payments when an invoice number is created by the Accounts Payable team. Consider designing, generating, and periodically reviewing a report, which facilitates the identification of similar invoice numbers and other indicators of duplicate payments.

Auditee Response: Agree

Recommendation 2.7

Create and Analyze a Historic Report for Three-way Match Exceptions – The Accounts Payable team should collaborate with Workday consultants to create a historic report of all three-way match exceptions and periodically generate and analyze this report to identify trends and major issues.

Auditee Response: Agree

Recommendation 2.8

Resolve Workday Receipt Application Limitations – The Accounts Payable team should work with Technology Services to resolve limitations related to receipt application and exception

identification. If a technical resolution is not feasible, Accounts Payable should implement monitoring controls to mitigate the risk of overpayment.

Auditee Response: Agree

Recommendation 2.9

Resolve Three-way Match System Anomalies – The Accounts Payable team should work with Technology Services to resolve the three-way match system anomalies.

Auditee Response: Agree

Recommendation 2.10

Report Prompt Pay Interest to City Council – The Accounts Payable team should continue to prepare the 2018 annual report of prompt pay interest by each department or agency as required by the Prompt Pay Ordinance Section 20-115 and continue to do so annually in the future. As part of this effort, Accounts Payable should consider the need to confirm their interpretation of this section regarding what to do with the annual report and how to use it if City Council does not request a presentation of the results. Additionally, Accounts Payable should consider working with City Council on revising the prompt pay interest rate to better align it with the market rate.

Auditee Response: Agree

Recommendation 2.11

Analyze and Reduce Checks Held for Pick Up – The Accounting and Financial Reporting Division should analyze the volume and type of checks held for pick up and work to reduce the number of checks held.

Auditee Response: Agree

Recommendation 2.12

Reduce Payment Processing Costs by Increasing Electronic Payments – The Accounts Payable team should analyze the cost of payment methods and create a plan for payment processing cost reduction.

Auditee Response: Agree

Audit Report Briefing: Department of Finance – Workers’ Compensation Program

Audit Supervisor Jeremy Creamean, Lead Auditor Rob Farol, Senior Auditor Roberta Holbrook, and Senior Auditor Ron Keller presented the audit findings and recommendations.

Ray Sibley, Finance Director, Risk Management; Bob Gibson, Cash, Risk & Capital Funding Manager; and Stephanie Karayannis Adams, Budget and Management Director were present to respond to the audit report on behalf of the Department of Finance.

For the full text of the report, including the agency responses, please visit denverauditor.org/auditservices/audit-reports. Scroll down to “Audit Report Archives.” This report is published under the “2018 Audit” tab and is titled “[Workers’ Compensation Program](#).” View the video recording of the report discussion by navigating to denverauditor.org/auditservices/audit-committee and scrolling down to the [Audit Committee Archive Page](#) link under “How to Watch.” The most recent video will be listed first.

The Department of Finance agreed with 15 of the Audit Team’s recommendations and disagreed with one. The recommendations and the Department of Finance’s responses from the audit report are summarized below.

Recommendation 1.1

Salary Continuation Accounting and Reporting – We recommend the Workers’ Compensation Unit, in conjunction with the Department of Finance, develop an accounting and funding approach that allows salary continuation payments related to workers’ compensation claims to be:

- Accounted for in the Workers’ Compensation Internal Service Fund; and
- Calculate and report the liability associated with salary continuation in the Workers’ Compensation Internal Service Fund.

Auditee Response: Agree

Recommendation 1.2

Use Payroll System for Indemnity Payments – Before the end of 2018, we recommend the Workers’ Compensation Unit, in conjunction with the Controller’s Office, review the process for indemnity payments to determine whether it would be more efficient and effective to use the payroll system instead of the accounts payable system.

Auditee Response: Agree

Recommendation 2.1

Formal Strategic Plan – We recommend the Risk Management Office and the Workers’ Compensation Unit develop a formal strategic plan to address how to best provide workers’ compensation insurance in the most effective manner, including cost and level of service provided to injured employees. This plan should be developed by mid-2019 and be used to drive any identified process and program changes prior to the next budget and insurance bidding process.

Auditee Response: Agree

Recommendation 2.2

Update Formal Strategic Plan – In addition, we recommend a process be implemented to update the strategic plan on a regular basis to adjust for any changes in the workers’ compensation requirements or needs.

Auditee Response: Agree

Recommendation 2.3

Self-Insurance Retention Evaluation – We recommend the Risk Management Office and the Workers’ Compensation Unit evaluate the self-insurance retention level at higher, lower, and split levels based on higher- and lower-risk pools in conjunction with broker analysis and bidding to market for a new insurer whenever these insurance items are sent to bid.

Auditee Response: Agree

Recommendation 2.4

Calculate and Report Total Program Cost – We recommend the Workers’ Compensation Unit annually calculate and report on the total cost of the program, including medical, indemnity, direct and indirect administrative costs, and complete salary continuation costs.

Auditee Response: Agree

Recommendation 2.5

Develop Standard Key Performance Indicators – We recommend the Workers’ Compensation Unit develop standard key performance indicators for total program cost, claims processing, claims costs, and customer service, to help evaluate the program periodically against other model alternatives. All cost data should include all costs to the program.

Auditee Response: Agree

Recommendation 2.6

Report Key Indicators – We recommend the Workers’ Compensation Unit report its key performance indicators either in an annual report and publish certain key indicators regarding workers’ compensation cost and efficiency on either public- or City-facing websites, or both, as soon as possible.

Auditee Response: Agree

Recommendation 3.1

Update Policy and Procedures Annually – We recommend the Workers’ Compensation Unit dedicate resources to update policies and procedures at least annually to reflect current business processes.

Auditee Response: Agree

Recommendation 3.2

Strengthen Check Handling Controls – To strengthen existing internal controls, we recommend the Workers’ Compensation Unit use a daily check log and update workers’ compensation policies and procedures to include this requirement and consider setting up an Enterprise Cashiering Solution online receipting function for subrogation and restitution payments.

Auditee Response: Agree

Recommendation 3.3

Supervisor Reports – To strengthen existing internal controls, we recommend the Workers’ Compensation Unit:

- Continue its emphasis on training agency supervisors on their responsibilities to complete a timely supervisor report and develop a formal mechanism that measures noncompliance; and
- Establish an automated reminder process for past due supervisor reports with escalation to higher levels of management as part of the implementation of new reporting system

Auditee Response: Agree

Recommendation 3.4

Contract Monitoring – To strengthen vendor contract monitoring, we recommend the Workers’ Compensation Unit strengthen its existing contract monitoring program for all vendors providing services supplementing workers’ compensation operational and financial processes by:

- Identifying and assigning a designee(s) within the Workers’ Compensation Unit to manage the contract monitoring program; and
- Developing procedures to identify and address noncompliance with contract terms by service.

Auditee Response: Agree

Recommendation 3.5

Service Organization Controls – To strengthen internal controls surrounding subcontracted operational and financial controls, we recommend the Workers’ Compensation Unit request that all organizations providing services that affect operational and financial processing perform a Service Organization Control 1, Type II, report covering the company’s system of controls over services provided to the City. In the absence of such a report, we recommend the Workers’ Compensation Unit develop a mechanism of formal controls to ensure that subcontracted operational and financial controls are adequate and reliable.

Auditee Response: Agree

Recommendation 3.6

Multiple Claims Review – We recommend that the Workers’ Compensation Unit add a formal process to the workers’ compensation policies and procedures to include regular management review of cases where injured workers have multiple claims, sometimes spanning many years, to ensure that treatment and costs are coded to the proper claim, subrogation efforts are proper, approved treatments are not exceeded, and salary continuation and indemnity payments are accounted for properly.

Auditee Response: Agree

Recommendation 3.7

Current Target Fund Policy – We recommend the Workers’ Compensation Unit in conjunction with the Cash, Risk, and Capital Funding Division consider revising its current target base fund policy for the Worker’s Compensation Internal Service Fund to:

- Adopt the actuarially determined 80 percent confidence funding level;
- Specify a minimum 70 percent confidence funding level; and
- Incorporate the workers’ compensation claim reserve and fund reserve policy into the City’s financial and reserve policies.

Auditee Response: Disagree

Recommendation 4.1

Risk Management Information System Controls and Functionality – To strengthen internal controls and increase efficiencies in the claims management process, we recommend the Workers’ Compensation Unit:

- Ensure that data application controls such as required fields, drop-down selection menus, field edit controls, record deactivation capabilities, and system security and record edit reports be included in system requirements for the new risk management information system;
- Update departmental policy and procedures defining data field use and what is expected for data entry, especially for data fields that will have more open-ended information requirements;
- Improve controls and claims-processing efficiencies by including customizable screen views, flags for stipulations from previous claims, a three-point edit check for claim number, date of injury and body part injured match, and system enhancements to help adjusters better manage multiple claims for multiple injuries over multiple years;
- Automate interfaces between all IT systems used to the extent possible; and
- Develop additional manual compensating controls for all controls that cannot be implemented in the application.

Auditee Response: Agree

Assessment Report Briefing: An Agency of the City and County of Denver – Cybersecurity Assessment

Audit Manager Kevin Sear introduced the report. Bill Evert, Partner; Donald McLaughlin, Lead Consultant; and Brian Cather, Lead Consultant of Cornerstone Partners presented the assessment findings.

David Edinger, Chief Information Officer and Julie Sutton, Information Security Manager were present to respond to the assessment report on behalf of Tech Services.

For the full text of the public report, please visit denverauditor.org/auditservices/audit-reports. Scroll down to “Audit Report Archives.” This report is published under the “2018 Audit” tab and is titled “[Cybersecurity Assessment](#).” View the video recording of the public report discussion by

navigating to denverauditor.org/auditservices/audit-committee and scrolling down to the [Audit Committee Archive Page](#) link under “How to Watch.” The most recent video will be listed first.

The report was discussed at a high level, as is customary with Cybersecurity assessments, and highlighted important password guidelines, including the use of passphrases longer than 8 characters and the avoidance of commonly-used passwords.

Presentation of the 2019 ASD Audit Plan and Announcement of Next Meeting

At the conclusion of the assessment report presentation, Auditor O’Brien and Deputy Auditor Valerie G. Walling presented the 2019 Audit Services Division Audit Plan which was issued publicly on October 15, 2018.

Auditor O’Brien then reminded the audience that the next Audit Committee meeting will be held on Thursday, November 15, 2018 at 9:00 a.m. in the Parr-Widener Community Room (#389) on the 3rd floor of the City & County Building at 1437 Bannock Street.

Confidential Audit Topics (in Executive Session)

The Auditor proceeded to entertain 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 10:42 a.m.

The meeting continued in Executive Session. With no other business, the Committee adjourned at 11:05 a.m.

Prepared by Mollie Horne, Audit Committee staff