This annual report summarizes the objectives and accomplishments of the Audit Services Division (Division) of the Auditor’s Office for the year ending December 31, 2012. The Division issued 18 audit reports during the year and conducted a diverse array of audit types that had a tangible impact on the improvement of City and County operations and services. All of the reports issued by the Division during the year are summarized herein. We also completed all follow-up work for issued audits over the prior four years and will be issuing a citizen-centric Impact Report summarizing the results of this work in 2013. The report, something new to the profession, will cite audit examples, metrics, and audit follow up data, along with other information, to demonstrate the value and impact of the Auditor’s Office to the citizenry and administration. As required by the City Charter, the Division underwent an external quality assessment (peer) review during the year which determined that the Division fully complied with Government Auditing Standards for work performed during the previous three years. The peer review team also recognized the Division for utilizing several best practices.

The Division developed and executed an annual risk-based audit plan in full compliance with City legal requirements. The annual audit plan not only complied with requirements and was effectively executed, but it also gained traction within the field as a best practice. For example, the Institute of Internal Auditors (IIA) featured the “audit horizon” methodology in their national journal. Multiple audit executives from around the country contacted the Division to learn more about its risk-assessment process. A key attribute and benefit of the approach is that it requires substantially fewer resources than traditional audit risk assessment practices, meaning the Division utilizes a highly efficient and effective audit plan risk assessment process. The Division also developed a formal performance metrics program during the year. This metrics program is a best practice model that allows the Division to not only better demonstrate its impact and proficiency but also to regularly perform self-assessment and trend analysis in order to initiate continuous improvement activities. The adoption of such a program also demonstrates the Division’s philosophy of “walking the walk” in terms of holding itself to the same performance standards that we hold city entities to through our audit work.

The Division’s methods, work, and contributions continued to receive national attention from a diverse array of professional organizations and publications and served as a national model for how to conduct local government auditing. For example, the Division was featured in several national publications throughout the year including: Governing Magazine, the IIA’s Internal Auditor magazine, the American Society for Public Administration PA Times journal and in the Association of Local Government Auditors (ALGA) Quarterly journal. Additionally, Division personnel made several presentations to professional organizations throughout the year.

We continue to establish a local and national reputation, and Division personnel hold leadership and support positions in all of the major national auditing organizations. Specifically, three Division staff members serve as ALGA committee chairs, and Division personnel hold leadership positions in the IIA and the Mountain and Plains Intergovernmental Audit Forum. We also sent Division staff to serve on peer review teams three times during 2012. Finally, the Division’s Communication Specialist serves as the editor for the ALGA Publication Committee and IIA Denver Chapter newsletter.
In addition to producing high-impact audit reports and providing a number of advisory services, the Division made several other notable accomplishments during the year. Division accomplishments included co-hosting a well-attended and well-received Mountain and Plains Intergovernmental Audit Forum with the United States Government Accountability Office for the third consecutive year and providing multiple presentations to professional organizations throughout the year including the Institute of Internal Auditors and the Association of Local Government Auditors among other groups. Division personnel are scheduled to deliver additional presentations to a variety of professional organizations in 2013.

Finally, the Division continued to apply its strategy of building and maintaining collaborative relationships with City leadership and employees. The Director participated in over 25 meetings with City officials during the year as part of the audit plan risk assessment process and maintained standing meetings with the City Controller, Chief Performance Officer and the Manager of Aviation. The Director also presented the 2013 annual audit plan to the Mayor, his cabinet and all his appointees in November of 2012. The Auditor’s Office sincerely appreciates the Mayor’s invitation to make this presentation. The Division will continue to undergo further transition during 2013 as we implement improved activities and processes focused on enhancing the quality of audit services. We are fully committed to meeting the expectations of the citizens of Denver related to maintaining a robust, independent internal audit function by working in a collaborative manner with City management to ensure that the City conducts business in a transparent, efficient, and effective manner.

Sincerely,

Kip R. Memmott, MA, CGAP, CRMA
Director of Audit Services
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Our audits focus on strengthening governance, enhancing efficiency, increasing revenues, reducing costs, and improving the quality of services provided to citizens by the City and County of Denver.

OVERVIEW

The Audit Services Division (Division) of the Auditor’s Office conducts independent performance audits of City agencies, programs, and contracts. Our audits focus on strengthening governance, enhancing efficiency, increasing revenues, reducing costs, and improving the quality of services provided to citizens by the City and County of Denver. The Division, under the leadership of the elected Auditor, strives to keep residents informed about the activities of their City and County government by adhering to a citizen-centric focus. Our reports are structured to communicate the work performed by the Division in an easily understood manner and we formally present audits during the City’s audit committee meetings, which are open to the public and televised to promote government transparency and accountability.

In 2012, the Division issued 18 performance audit reports and conducted a diverse array of audit types that had a tangible impact on the improvement of City and County operations and services. While the Division maintains the capability to perform financial audits and attestation engagements, we primarily conduct performance audits. According to the Government Auditing Standards promulgated by the Comptroller General of the United States, “performance audit objectives may vary widely and include assessments of program effectiveness, economy and efficiency, internal control, compliance and prospective analysis.” Specific audits issued by the Division in 2012 are summarized herein. As required by the City Charter, the Division underwent an external quality assessment (peer) review during the year which determined that the Division fully complied with Government Auditing Standards for work performed during the previous three years. The peer review team also recognized the Division for utilizing several best practices.
The Division developed and executed an annual risk-based audit plan in full compliance with City legal requirements. The annual audit plan gained traction within the field as a best practice. For example, the Institute of Internal Auditors (IIA) featured the “audit horizon” methodology utilized by the Division in their national journal. Multiple audit executives from around the country contacted the Division to learn more about its risk-assessment process. A key attribute and benefit of the approach is that it requires substantially fewer resources than traditional audit risk assessment practices, meaning the Division utilizes a highly efficient and effective audit plan risk assessment process. The Division also developed a formal performance metrics program during the year. This metrics program is a best practice model that allows the Division to not only demonstrate its impact and proficiency but also to regularly perform self-assessment and trend analysis in order to initiate continuous improvement activities. The adoption of such a program also demonstrates the Division’s philosophy of “walking the walk” in terms of holding itself to the same performance standards that we hold city entities to through our audit work.

In addition to effectively executing our primary mission of providing value-added services for the citizens of the City and County of Denver, another key goal of the Auditor’s Office is to network and collaborate with other federal, state, and local government auditing organizations and associations to enhance the auditing and accountability profession. In relation to this goal, the Division’s methods, work and contributions continued to receive national attention from a diverse array of professional organizations and publications and served as a national model for how to conduct local government auditing. For example, the Division was featured in several national publications throughout the year including: Governing Magazine, the Institute of Internal Auditor’s (IIA) Internal Auditor magazine, the American Society for Public Administration (ASPA) PA Times journal and the Association of Local Government Auditors (ALGA) Quarterly journal.

Additionally, the Division co-hosted a well-attended and well-received Mountain and Plains Intergovernmental Audit Forum with the United States Government Accountability Office for the third consecutive year and Division personnel made several presentations to professional organizations throughout the year including the IIA and ALGA, among other groups. Division personnel hold leadership and support positions in all of the major national auditing organizations. Specifically, three Division staff members serve as ALGA committee chairs. Additionally, Division personnel hold leadership positions in the IIA and the Mountain and Plains Intergovernmental Audit Forum. We also sent Division staff to serve on peer review teams three times during 2012. Finally, the Division’s Communication Specialist serves as the editor for the ALGA Publications Committee and IIA Denver Chapter newsletter.
To ensure that audit engagement follow-up work is completed and to assess the effectiveness and impact of audit engagements, the Division continues to employ and improve upon its audit follow-up program which utilizes in-depth audit work to verify that corrective actions have been taken to address prior audit findings. Through this audit follow-up program, the Division will continue to monitor the quality and feasibility of its audit recommendations and to identify opportunities for improvement. During 2012, the Division completed all follow-up work for audits issued over the last four years and will be issuing a citizen-centric Impact Report summarizing the results of this work in 2013. The report, something new to the profession, will cite audit examples, metrics, and audit follow up data, along with other information, to demonstrate the value and impact of the Auditor’s Office to the citizenry and administration. The report will also highlight on-going risks and issues facing the City based on a comprehensive trend analysis of audit history.

Finally, the Division continued to apply its strategy of building and maintaining collaborative relationships with City leadership and employees. The Director participated in over 25 meetings with City officials during the year as part of the audit plan risk assessment process and maintained standing meetings with the City Controller, Chief Performance Officer and the Manager of Aviation. The Director also presented the 2013 annual audit plan to the Mayor, his cabinet and all his appointees in November of 2012. The Auditor’s Office sincerely appreciates the Mayor’s invitation to make this presentation. The Division will continue to undergo further transition during 2013 as we implement improved activities and processes focused on enhancing the quality of audit services. We are fully committed to meeting the expectations of the citizens of Denver related to maintaining a robust, independent internal audit function by working in a collaborative manner with City management to ensure that the City conducts business in a transparent, efficient, and effective manner.

The Division sincerely thanks Auditor Gallagher and his executive team, the Mayor’s Office, City Council members, the Clerk and Recorder, City management and employees, and especially the citizens for their collaboration, trust, and support throughout the year.
ROLE AND AUTHORITY

City Charter, Article V, Part 2, Section 1, General Powers and Duties of Auditor, establishes the duties and responsibilities of the Auditor. Through the 2006 November election, Denver citizens voted to amend the City Charter to improve and streamline the City’s financial structure while enhancing the important role of the independent Auditor.

The amendment to the City Charter significantly changed the role of the Auditor effective January 1, 2008. Historically, the Auditor served as the general accountant for the City and, as such, maintained the City’s financial records and paid City expenses including payroll. However, based on the Charter revision, the accounting and payroll functions transitioned to the Controller’s Office in June 2007. The Chief Financial Officer officially assumed Charter responsibility and authority for those functions on January 1, 2008.

In addition to making these changes to the City’s financial governance structure, the Charter revisions significantly enhanced the independent standing and authority of the Auditor. Specifically, the Charter authorizes the Auditor to conduct audits of all City entities in accordance with Government Auditing Standards promulgated by the United States Comptroller General. These standards establish clear definitions and requirements related to the independence of the audit function. The fact that the Denver City Charter now requires the Auditor to comply with these standards has resulted in the establishment of one of the most structurally independent government audit functions in the country.

Denver Audit Model Framework

Several key components serve as the cornerstone for the Denver Audit Model. These elements provide the Auditor with optimal independence resulting in the subsequent high impact potential of the City’s internal audit model.

Elected Auditor – The City and County of Denver has an elected Auditor that is completely independent from other elected officials and operational management.

Comprehensive Access – City Charter and Code authorize the Auditor to have access to all officers, employees, records, and property maintained by the City and County and to all external entities, records, and personnel related to their business interactions with the City and County.

Formal Audit Response Requirements – City ordinance requires that audited City and County agencies and departments formally respond to all audit findings and recommendations.

Adherence to Professional Audit Standards – The Auditor’s Office conducts all audits in accordance with Generally Accepted Government Auditing Standards (GAGAS) promulgated by the United States Comptroller General.

Formal Independent Audit Committee – The City Charter establishes an independent audit committee, chaired by the Auditor and consisting of six other members. The Mayor, City Council, and Auditor each appoint two members.
Additionally, the Charter and resulting City ordinance citations include other provisions intended to strengthen the role and impact of the City’s internal audit function.

- The Charter authorizes the Auditor to have “access at all times to all of the books, accounts, reports, vouchers or other records or information maintained by the Manager of Finance or by any other department or agency of the City and County.”

- Ordinance (Sec. 20-276) requires that audited City agencies and departments formally respond to audit findings and recommendations. Responses must specify either agreement with findings and recommendations or reasons for disagreement with findings and recommendations, plans for implementing solutions to issues identified, and a timetable to complete such activities.¹

- The Charter establishes a formal, independent Audit Committee chaired by the Auditor and consisting of six other members. The Mayor, City Council, and Auditor each appoint two members. The Audit Committee performs several critical functions including, among other responsibilities, annually commissioning and monitoring an independent external audit of the finances of the City (known as the Comprehensive Annual Financial Report or CAFR) and communicating findings and recommendations of internal audit reports.

Under the revised Charter and ordinance provisions, the Division has significantly expanded our performance and information technology audit capability. The continued development of these two audit specialty areas will significantly improve the Division’s ability to examine City government programs, processes, and internal controls, thereby assisting management to reduce costs, improve the quality of services, and enhance the transparency of City operations.

¹ Audit follow-up activity is an essential component of the audit process. The Division conducts audit follow-up work to evaluate the efforts made by management to address weaknesses and risks identified by audit reports. The follow-up process ensures that management takes action to address issues identified by audits and helps the Division to assess management responsiveness to organizational risks and issues (i.e., “tone at the top,” a key annual audit plan risk assessment criterion).
DIVISION HIGHLIGHTS

External Quality Assurance (Peer) Review

As noted, the amendment to the City Charter in 2008 requires the Division to comply with Government Auditing Standards in the performance of its work activities. One key standard requires the Division to undergo an external quality assurance (peer) review every three years. The objective of a peer review is to determine whether an audit organization’s quality control system is suitably designed and operating effectively. The peer review process also provides assurance that an audit organization is following its established policies and procedures and applicable auditing standards. In October 2012 the Association of Local Government Auditors (ALGA) conducted a peer review of our Division.

The peer review team consisted of three accomplished auditors representing local government audit functions from around the country. The team reviewed the internal quality control system of our audit organization and conducted various tests to determine whether our internal quality control system complies with Government Auditing Standards.

The reviewers opined that the Division was in full compliance with Government Auditing Standards for the review period. This determination of full compliance is the highest possible level of compliance under the ALGA peer review program. In addition to their finding of full compliance, the review team identified areas where the Division excels including core audit tenets and processes that are critical for not only an effective system of internal control required for full compliance with Government Auditing Standards but also for ensuring that work activities performed by the Division add significant value to City operations and to the citizenry. The review team acknowledged the significant improvement in audit quality during the review period and recognized the enhancement of the presentation and readability of our audit reports, as well as the effectiveness of the Division’s Information Technology audit work among other best practice areas. These areas have been high continuous improvement priorities for the Division. The Division will be undergoing its next peer review in 2015.
Performance Metrics Program

The Division developed and piloted a formal performance metric program in 2012. The metrics are intended to provide a performance framework consisting of a diverse range of indicators to help the Division continuously assess the efficiency and effectiveness of its audit activities as well as communicate achievements and accomplishments to external parties, most significantly the citizenry. As the Division and auditing profession continue to evolve and undergo continuous improvement, these metrics will be reviewed and, adjusted on an annual basis as needed to reflect emerging strategies and changes within the profession.

The following are the adopted metrics and results for 2012.

<table>
<thead>
<tr>
<th>Performance Metric</th>
<th>Target Goal</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendations Accepted - Number of audit recommendations agreed with by audited entities as a percentage of total recommendations offered each calendar year.</td>
<td>92%</td>
<td>99%*</td>
</tr>
<tr>
<td>Recommendations Implemented - Number of audit recommendations implemented within six-months of target date over the prior three-year period as a percentage of total recommendations accepted.</td>
<td>75%</td>
<td>74%</td>
</tr>
<tr>
<td>Percentage of Audit Plan Completed: Planned audits completed in the calendar year.</td>
<td>75%</td>
<td>82%</td>
</tr>
<tr>
<td>Audit or Non-Audit Service Requests: Number of audit or non-audit service requests from third parties including City officials, and the public.</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Risk Assessment Outreach Meetings – Number of outreach meetings held with elected officials, executives and the public during the calendar year.</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>Professional Contributions and Recognition – Number of formal instances during the calendar year when the Division contributes to the accountability profession or when the Division is formally recognized by a professional organization.</td>
<td>5</td>
<td>18</td>
</tr>
<tr>
<td>Quality Assurance Peer Review – Formal opinion of compliance rendered by an external assessment entity.</td>
<td>Compliance</td>
<td>Compliance</td>
</tr>
</tbody>
</table>

* For 2012, 149 of 151 recommendations were accepted.
Audit Follow-Up Program

While the Division previously utilized an audit follow-up process that tracked the status of audit findings and recommendations, the Division increased our emphasis on audit follow-up activities during 2012. As denoted by the Division’s performance metrics program, two key measures of the general effectiveness of an audit function are the organization’s audit recommendation acceptance and implementation rates. In a nutshell, these rates are some of the clearest indicators of whether an organization is utilizing information provided by internal audit reports to mitigate or reduce identified risks and to enhance performance and efficiency of operations. In the case of the “Denver Audit Model,” these rates also reflect the positive impact of the Division following the City Charter amendments that redefined the mission and role of the Auditor’s Office.

Throughout 2012, the Division endeavored to verify the status of all recommendations rendered in audit reports issued since 2009 – the year after changes to the City Charter became effective. In 2013, the Division will report the results of its implementation analysis to the Mayor, City Council, and citizenry through an Impact Report. The report, something new to the profession, will cite audit examples, metrics, and audit follow up data, along with other information, to demonstrate the value and impact of the Auditor’s Office to the citizenry and administration. This report will include comprehensive data on the rate at which the audited entities agreed with and implemented the Division’s recommendations for all audits issued since 2009. In addition, the report will include a trend analysis within and across City departments and programs in terms of management responsiveness and “tone at the top” related to audit findings and recommendations.

While the Impact Report will provide comprehensive impact and trend analysis data and conclusions, the Division is using this annual report to present some of the initial analysis resulting from our follow-up work conducted during 2012. Specifically, using formal responses to audits, which are required by D.R.M.C., the Division determined that audited entities have agreed to implement approximately 94 percent of audit recommendations (453 out of 484) made from 2009 to 2011. This high percentage of agreement clearly reflects the value and diversity of the recommendations being proffered by the Division as a result of high quality audit work. Additionally, approximately 74 percent of audit recommendations (334 out of 453) from 2009 to 2011 have been confirmed as implemented. Follow-up work is in progress for audit reports issued in 2012 as adequate time needs to be allowed for city entities to implement agreed upon audit recommendations before this assessment can be completed. While industry baseline and best practice percentages have not been established related to these rates, based on our professional experience that includes work experience within multiple levels of
government entities in a variety of regions as well as within the private sector, these rates are very high. These recommendations cover a plethora of diverse and eclectic operational areas within the city and clearly demonstrate a tangible, positive and wide-ranging impact resulting from our audit work.

In 2013, the Division will continue implementing its enhanced follow-up program that utilizes in-depth audit work to verify that corrective actions have been taken to address prior audit findings. The program includes regular and formal reporting to the City’s elected officials, audit committee members, and operational management on the status of various audit findings and recommendations. Through the audit follow-up program and other reporting, the Division will continue to monitor the quality and feasibility of its audit recommendations and to identify opportunities for improvement.

Professional Contributions

The Division made numerous professional contributions during the year. As noted, a key goal of the Auditor’s Office, in addition to effectively executing our primary mission of providing value-added services for the citizens of the City and County of Denver, is to network and collaborate with other federal, state, and local government auditing organizations and associations to enhance the auditing and accountability profession.

Presentations

During 2012, Division personnel made several presentations on elements and facets of the “Denver Audit Model.”

Audit Report Writing Presentations – In January 2012, Director of Audit Services Kip Memmott, Audit Supervisor Chris Horton, and Communications Specialist Emily Jacobson made a presentation to the Institute of Internal Auditors (IIA) Denver Chapter entitled “Audit Report Writing: Creating Impact Through Effective Written Communication.” The presentation discussed the importance of effective audit report writing and included numerous tips and tools for accomplishing this goal, as well as highlighting real examples of Division report writing techniques and reports. As noted below, Chris and Emily made a similar presentation in August 2012 at the Mountain and Plains Intergovernmental Audit Forum, which was very well received.
Association of Local Government Auditors (ALGA) Conference – In May 2012, Division personnel made various presentations at the ALGA 2012 Annual Conference held in Tempe, Arizona.

**Office of the Medical Examiner Presentation** – Audit Supervisor Chris Horton provided some key takeaways from a 2011 audit of the Medical Examiner (Coroner’s) Office. The presentation covered two important methodologies used during the audit, including developing a new metric to compare the cost-effectiveness of various-sized Coroner offices in Colorado. The presentation also discussed the impact of the audit, including a request to perform a similar audit of Denver’s Animal Care and Control, and feedback from the Douglas County Coroner on the interest expressed in our county comparison data at the Metro [Denver] Coroners Roundtable.

**City Fleet Management Presentation** – Audit Supervisor Dawn Hume presented the 2011 audit of the City Fleet Vehicle Management. The presentation discussed the use of benchmarking to learn more about the organization structure, controls, and resource management of other municipalities. The presentation also covered the impact of the audit including improved transparency and accountability with fleet operations and the initiation of the Fleet Optimization Initiative to Lean/Six operations. Dawn also discussed a Special Advisory report released after the audit that was used as a tool to highlight specific issues with and possible benefits of fleet consolidation.

**Performance Auditing Roundtable** – Director of Audit Services Kip Memmott and Audit Supervisor Chris Horton moderated a discussion on performance auditing with individuals representing varying levels of audit experience and responsibility. Numerous topics were covered in the discussion including report writing techniques; working effectively in political environments; in-house communication assistance; branding the audit function; challenges and techniques for risk assessment; and ways to be more citizen-centric in our audit work.

**Knighton Award Presentation** – Lead Auditor Nancy Howe moderated a concurrent session of the Knighton Gold Award for the medium shop category entitled “Municipal Court Operations.” Nancy presented the award and assisted the 2011 Knighton Gold Award winner in facilitating the discussion of their audit.
Tools You Can Use from Ethics Audits and Fraud Hotlines Presentation – In July 2012, Supervisor Chris Horton co-presented an ALGA webinar on ethics auditing and fraud hotlines with Jason Hadavi, head of the fraud investigations team for the City Auditor’s Office in Austin, Texas. Chris discussed an audit of Denver’s ethics program performed in 2010, including the approach of the audit, methodologies, lessons learned, and impact. The presentation also highlighted the importance of considering ethics programs in an audit shop’s annual risk assessment, since the lack of a good ethics program presents a significant risk to the reputation of local governments.

City Auditors Roundtable – In September 2012, Auditor Dennis Gallagher and Director of Audit Services Kip Memmott, were panelists for the City Auditor Roundtable session at the IIA Southern Regional Conference in Austin, Texas. The panelists discussed current issues in city government, effective allocation of limited audit resources, outsourcing opportunities, differences between elected and appointed city auditors, techniques for keeping diverse constituencies engaged with auditing activities and the recruitment and retention of performance and IT auditors. The panel received excellent reviews from attendees.

Business Ethics and Compliance Presentation – In November 2012, Division Deputy Director John Carlson presented an overview of business ethics and compliance (E&C) programs and posed questions to the Executive MBA cohort at the University of Colorado. John reviewed a detailed 50-year timeline discussing the changes to the concept of business ethics and discussed how leaders must be competent in E&C matters facing their organizations. The presentation discussed tools and techniques internal auditors can use when performing a review of E&C programs within their organizations.

National Publications

In 2012 we strived to improve our participation and communication with local and national audit publications. As noted below, the Division successfully contributed articles to various professional trade magazines throughout the year.

Governing Magazine – In the May 2012 issue of Governing Magazine, the Denver Auditor’s Office was featured in an article, The Inspector’s Tale by Katherine Barrett and Richard Greene, about the endangered role of performance auditors in state and local governments. Governing magazine is a national publication that covers policy, politics, and management of government enterprises and is distributed to approximately 85,000 state and local elected officials. The article states that, throughout the country, audit offices are closing or being downsized due to cutbacks. Our office was featured as a role model for expanding rather than reducing the performance audit function. This
expansion can be directly attributed to the independence built into the Denver Audit Model.

**Internal Auditor Magazine** – The Institute of Internal Auditors (IIA), the largest internal audit professional organization, featured the article *Peak Performance* by Audit Services Director Kip Memmott and Communications Specialist Emily Jacobson, in their October 2012 edition of the magazine. This publication is distributed to approximately 90,000 public and private sector auditors worldwide. The article highlighted the Denver Audit Model and focused on the Division’s use of performance audits to further accountability and provide recommendations for improvement. The article resulted in multiple audit executives from around the country contacting the Division to learn more about our structure, processes, and audit work.

**American Society for Public Administration, PA Times** – In the November / December 2012 issue of the PA Times, the article, *Denver Auditor’s Office Creates Strategy for Managing Transitions* was featured as a front page story. Written by Kip Memmott, Chris Horton, and Emily Jacobson, the article discussed the need to strategically manage transitions to ensure that citizen services are met, relationships with long-term city leaders are strengthened, and that the quality of audit work is continually enhanced.

**Local Government Auditing Quarterly (LGAQ)** – The Division had several articles published in LGAQ a quarterly publication distributed by the Association of Local Government Auditors (ALGA). The Spring 2012 issue featured an article by Director Kip Memmott and Communications Specialist Emily Jacobson entitled, *The Evolution of the Audit Plan Risk Assessment Process: Looking Towards a New Horizon*. Identifying the differences between an audit universe versus an audit horizon, the article detailed the strategy and risk assessment methodology used by the Denver Auditor’s Office to execute a less cumbersome, realistic, flexible, and transparent audit horizon. In the Summer 2012 issue, Audit Supervisor Chris Horton submitted an article on *Performance Measurement Auditing*. The article highlighted a framework used in the Denver Auditor’s Office to evaluate agency performance measures. The article provided basic elements for successful performance
measurement auditing and analysis by discussing the organization’s strategic plan structure, types of performance measures, and the effectiveness of consistent measurement. The article also provided two case studies of how the Division utilized performance measurement auditing practices.

The article, *Creating Significant Impact through the Audit Planning Phase*, written by Audit Supervisor Dawn Hume and Lead Auditor Brian Hartman, was featured in the Fall 2012 issue. The article focused on effective audit planning and its resulting impact to stakeholders. By doing preliminary work up-front, considering the political climate, asking the right questions, narrowing the scope and collecting sufficient information, an audit team can produce reports that are more meaningful and have greater impact for government entities and constituents.

Additionally, Lead Auditor Nancy Howe co-authored the article, *What Were the Judges Thinking? A Behind the Scenes Look at the Knighton Award Rubric* with Ken Gavett, Principal Management Auditor from the City of Portland. The article detailed the criteria, elements, and scoring for the Knighton Award and demystified the award judging process.

The publication of these articles significantly contributed to the auditing profession and further established our office as a benchmark organization.

**Mountain and Plains Intergovernmental Audit Forum (MPIAF)**

On August 23 and 24, the Division and the U.S. Government Accountability Office (GAO) co-hosted another successful gathering at Denver’s Magnolia Hotel for members of the Mountain & Plains Intergovernmental Audit Forum (MPIAF). The 2012 conference focused on providing real-world examples of how accountability offices can enhance their audit functions. Conference speakers provided the 125 attendees with concrete examples of how audit offices across the country are investigating fraud, becoming more efficient, and spreading the word about their successes to key audiences.

This year’s conference again welcomed a wide range of professionals, including internal and performance auditors, program evaluators and analysts, program managers, and CPAs from private industry. Local attendees hailed from Denver and the surrounding cities of Broomfield, Colorado Springs, Denver, and the surrounding cities.

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2 The Association of Local Government Auditors (ALGA) developed the Knighton Award in 1995 as a way to recognize exceptional performance audit reports, and to help audit shops continue to improve their performance audit programs.
Lakewood, and Littleton; others traveled from Iowa, Missouri, Nebraska, Washington, and Wyoming as well as Washington D.C. to attend. The diversity of the group was most apparent in the types of institutions represented from both the public and private sectors including state and local government audit functions; Offices of Inspectors General from a variety of federal departments including Housing and Urban Development, Homeland Security, Health and Human Services, Interior, and Environmental Protection; and other federal offices such as GAO, the National Science Foundation, the Defense Contract Audit Agency, and the Office of Natural Resources Revenue. This year marked the largest number of attendees yet at an MPIAF conference.

Denver Auditor and MPIAF Co-chair Dennis Gallagher welcomed attendees and introduced Denver’s Deputy Mayor and Chief Financial Officer, Cary Kennedy. Ms. Kennedy commended the Denver Auditor’s Office for creating a model that allows the Mayor to perform due diligence while collaborating with the Auditor to seek out efficiencies throughout the city. She emphasized the commitment that the Mayor’s office has to maximum accountability and improved business procedures, both of which the Auditor’s Office helps make possible.

Opening day of the conference featured a presentation on audit report writing by two members of the Division. Audit Supervisor Chris Horton and Communications Specialist Emily Jacobson provided the audience with examples of how to create impact through effective communication. Mr. Horton and Ms. Jacobson’s presentation was followed by several presentations that covered topics such as how GAO is using a new unit to identify and investigate potential fraud, criminal misconduct, and serious wrongdoing involving federal funds, programs, and activities; how GAO ensures continuous process improvement through its Engagement Efficiency Initiative based on the popular Lean/Six Sigma model; the importance of creating a knowledge legacy within an audit organization; and how mortgage fraud and other trends are affecting the housing industry.
Friday’s program opened up with two presentations about information technology (IT) audits and information-age fraud schemes. Additional presentations covered recent updates to the Generally Accepted Government Auditing Standards or “Yellow Book”, which primarily focus on matters of independence; audits performed by the Wyoming Legislative Service Office to assess the management of state trust lands; public relations strategies to improve the dissemination of work being done by audit agencies; and using IT to achieve powerful audit results.

Auditor Gallagher noted, “The fact that this year’s conference was sold out indicates to me that there is a real hunger within the region’s audit community for new ideas about how to improve their ability to bring about positive operational change in government.” The Denver Auditor’s Office intends to continue playing an integral role with the GAO in growing the Forum with timely information and valuable networking opportunities.

**Leadership Roles in Key National Accountability Organizations**

Several Division staff members accepted requests to participate in leadership roles within national auditing and accountability organizations. By serving in these positions, the Division is now strategically positioned within the three primary professional audit organizations: the Institute of Internal Auditors, which is the largest internal audit professional organization in the world and maintains chapters throughout Colorado; the Association of Local Government Auditors, the only national professional organization focused on local government auditing; and the National Intergovernmental Audit Forum, organized by the U.S. Government Accountability Office (the entity that promulgates the Government Auditing Standards), which exists to promote collaboration between federal, state, and local government auditing functions.

The Division’s participation in these organizations provides stellar professional networking opportunities, and ensures that the Division is completely up-to-date on new audit methods and techniques, risk assessment processes, audit topics, and professional standards along with other beneficial information. The audit profession is in a state of rapid evolution and by being at the forefront of this evolution through active participation in the organizations that are promoting and guiding this evolution, the Division is ideally positioned to help drive positive change within the field. This ability is of significant value to the citizens of Denver as it will continue to result in the Division identifying and applying cutting edge tools and processes to deliver high impact, efficient audit work to improve City operations. For example, the development of the Division’s “audit horizon” concept in 2009 (discussed later in this report) appears to have been noted by other audit functions and professionals nationally. For example, the City of Austin now adheres to a similar risk assessment methodology.
Association of Local Government Auditors (ALGA) – Kip Memmott, Director of Audit Services, was asked by ALGA Board of Directors to serve as Chairperson for the Membership Committee. Kip was appointed as the Chairperson in May 2011, and he continues to serve in that role. ALGA was formed in 1989 and has enjoyed a growing membership, presently comprising more than 300 organizational members and over 2,000 individual members. The ALGA membership base represents a wide variety of local government audit organizations, from one-person audit shops to large offices consisting of more than 75 professionals. Members include audit organizations serving cities, counties, and service districts such as school, transportation, and water districts. ALGA also welcomes associate memberships for auditors working in state and federal organizations as well as private auditing firms.

Kip’s appointment to a leadership position for a key ALGA governance committee allows Kip to promote the work being performed by the Denver Auditor’s Office at the national level. This appointment also provides an opportunity for Division staff members to work with fellow dedicated audit professionals working to move the profession forward. For example, the Denver Auditor’s Office worked closely with ALGA to develop a regional professional training seminar, which was held in Denver during October 2011.

Lead Auditor Nancy Howe and Audit Supervisor Chris Horton serve as chairpersons on the ALGA Awards Program and Education committees, respectively. Their participation on these committees demonstrates their commitment to the field and provides them with an outstanding opportunity to learn from and network with peers and further the audit profession.

Institute of Internal Auditors (IIA) – Audrey Donovan, Deputy Director of Audit Services, was selected to join and serve as a member of the IIA International Public Sector Committee in July 2011. This is a volunteer position with a three-year-term commitment. The mission of the committee is to influence and provide leadership and advice to the IIA and its international committees on public sector auditing matters and to promote the interests of the IIA’s public sector audit members. IIA members represent all areas of the global public sector auditing profession.

As a committee member, Audrey is well positioned to positively influence IIA support programs and outreach activities involving public sector auditing organizations. She works closely with an outstanding group of distinguished professionals from all over the world to gather and evaluate information, discuss issues, develop work programs, and recommend and participate in courses of action.
In addition, our Communications Specialist, Emily Jacobson, serves as editor for the IIA Denver Chapter Newsletter. As a member of the chapter’s Communications Committee, Emily plays a key role managing and editing content of the Chapter’s bi-monthly newsletter and events calendar, updating the chapter’s members about important opportunities for education and engagement.

**National Intergovernmental Audit Forum (NIAF)** – The U.S. Government Accountability Office (GAO) invited John Carlson, Deputy Director of Audit Services, to serve on the NIAF Professional Standards Liaison Committee and to join the NIAF Strategic Planning Task Force. The NIAF, an association of audit executives from federal, state, and local governments, exists to improve coordination and cooperation among accountability organizations in order to address common challenges, enhance government performance, accountability, and transparency, and increase public trust.

The NIAF Strategic Planning Task Force develops the NIAF Strategic Plan, which is designed to provide a foundation for the Forum’s future operations. It specifies the Forum’s mission and core values and discusses the main themes that are likely to be the focus of much of the Forum’s activities in future years. The plan also contains specific action items, presented in the form of strategies for addressing key goals, including fostering networking, dialogue, and collaboration on current and emerging issues of common interest within the audit community.
STAFFING RESOURCES
AUDITOR DENNIS GALLAGHER

Faxit justitia et ruant coeli – “Let justice be done though the heavens fall.”

Dennis J. Gallagher has held several elected positions in Colorado during the previous 40 years at both the state and local level. He was elected City and County of Denver Auditor in 2003 and re-elected in 2007 and 2011. Born in Denver, he is the son of Denver natives, Ellen Flaherty Gallagher and Bill Gallagher, a Denver Firefighter.

After his initial election as Denver Auditor, Auditor Gallagher undertook a major reorganization of the Auditor’s Office, streamlining it and reducing it from a cumbersome five divisions to a more efficient three divisions. He supported Denver’s charter change to remove payroll and accounting from the Auditor’s Office and transfer them to a newly created Chief Financial Officer in the City and County of Denver administration. Accompanying that change was the creation of a new independent Audit Committee, which he chairs. As a result of these improvements, the Auditor’s Office has an expanded and more robust performance audit and information technology audit function to better serve the citizens of Denver.

AUDIT SERVICES DIVISION

Over the past year we have strived to attract and retain a talented and diverse workforce. This group of highly skilled professionals is committed to delivering quality audits.
Audit Services Division – Leadership Team

The Division’s leadership team consists of knowledgeable and skilled professionals. Striving to set the tone at the top, our goal is to create an environment in which staff is committed to high ethical standards, fairness, full compliance, and delivering effective and factual audit reports.

Kip R. Memmott, MA, CGAP, CRMA
Director of Audit Services

Mr. Memmott has over seventeen years of auditing, consulting, and policy analysis experience at the federal, state, and local government levels and in the private sector. His professional positions include Internal Audit Manager with the County of San Diego, California, Senior Performance Auditor with the State of Arizona’s Office of the Auditor General, Senior Consultant with KPMG LLP, Legislative Analyst intern for the Arizona State Legislature, and intern for the U.S. Government Accountability Office. Mr. Memmott holds a Bachelor of Arts degree from the University of Utah and a Master of Arts degree with a certificate in Public History (Public Administration emphasis) from Arizona State University. He is a graduate of the Harvard University Kennedy School of Government’s Senior Executives in State and Local Government executive education program and is pursuing a Certificate in Public Leadership from the prestigious Brookings Institute. Mr. Memmott is a Certified Government Auditing Professional and is certified in Risk Management Assurance. He chairs the Association of Local Government Auditors’ Membership Committee.

John Carlson, JD, MBA, CIA
Deputy Director of Audit Services

Mr. Carlson brings over seventeen years of business experience including in the areas of government affairs, law, compliance, and internal audit. Six of these years he spent working in an internal audit role for private industry. He has served as a senior attorney with responsibility for the compliance audit program and ethics and compliance function of a Fortune 200 global company. Additional responsibilities included developing ethics training for domestic and international operations and managing an employee whistle-blower program. Mr. Carlson holds a bachelor’s degree from George Mason University. He earned a Juris Doctor from the University of Denver’s Sturm College of Law and a MBA from the University of Colorado. He is an active member of the Colorado Bar Association and the DC Court of Appeals and is a Certified Internal Auditor.
Audrey Donovan, CIA, CRMA
Deputy Director of Audit Services

Ms. Donovan has over twelve years of experience in the areas of internal audit, risk management and controls, and Sarbanes-Oxley advisory. She has a broad range of internal audit experience including performing compliance, performance-based, and operational audits; financial and data analysis; process improvement and development; controls implementation; and regulatory reporting. Ms. Donovan is considered a Sarbanes-Oxley Subject Matter Expert and has helped counsel Fortune 500 companies with their Sarbanes-Oxley implementation plans. She holds a bachelor’s degree in accounting from the University of Utah. Ms. Donovan is a Certified Internal Auditor and Certified in Risk Management Assurance. She is a current member of the Society of Corporate Compliance and Ethics and a member of the Institute of Internal Auditors. Ms Donovan is on the International Public Sector Committee for the Institute of Internal Auditors. She is active in her community and volunteers for local non-profits supporting families with triplets and other higher order multiples.
Audit Services Division Staff

Roman Bukhtiyar, CISA
*Information Technology Senior Auditor*

Mr. Bukhtiyar is a Certified Information Systems Auditor with a broad range of audit experience including operational, Information Technology (IT), and compliance audits. His work portfolio also includes data analysis, information security, and software configuration management. Mr. Bukhtiyar has several years of internal and external audit experience from Ernst & Young, LLP and First Data Corporation. At Ernst & Young, LLP his main focus was on the financial services, health care, technology, telecommunications, and oil and gas industries. Mr. Bukhtiyar holds a bachelor’s degree in Accounting from the Metropolitan State College of Denver and is currently enrolled in the master’s program in Information Systems Security at the University of Denver. Additionally, Mr. Bukhtiyar studied German Language and International Communications at the Pyatigorsk State Linguistics University in Russia. Mr. Bukhtiyar is an active member of the Denver Chapter of the Information Systems Audit and Control Association and the Institute of Internal Auditors. Mr. Bukhtiyar joined the City and County of Denver Auditor’s Office in February 2012.

Stephen E. Coury, CISA
*Information Technology Audit Supervisor*

Mr. Coury is a Certified Information Systems Auditor with over twenty-five years of experience in information technology, including over fifteen years in IT audit. He has extensive experience in municipal government, consumer banking, investment banking, insurance, and telecommunications. His areas of specialty are IT governance, risk management, information security, data network controls, data analysis, and software configuration management. Mr. Coury leads our IT audit team in the review of IT controls over systems used by agencies and the City’s overall IT infrastructure. He also helps implement new technologies for the Audit Services Division, such as electronic work papers and data analysis tools. Mr. Coury holds a Bachelor of Science degree in Business Administration from the University of South Dakota Business School. He is a member of the Information Systems Audit and Control Association, the Institute of Internal Auditors, and the Association of Local Government Auditors.
Ketki Dhamanwala, MBA, MS, CIA, CISA  
*Information Technology Senior Auditor*  

Ms. Dhamanwala is a Certified Information Systems Auditor and a Certified Internal Auditor with a bachelor’s degree in Computer Science from the University of Texas at Dallas. She also holds Master of Business Administration and Master of Science in Accounting degrees from the University of Texas at Dallas. Ms. Dhamanwala has over six years of auditing experience from AT&T, Inc. and has been with the City and County of Denver Auditor’s Office since October 2011. Ms. Dhamanwala is an active member of the Denver Chapter of the Information Systems Audit and Control Association and the Institute of Internal Auditors.

Bonnie M. Doty, MGPS  
*Senior Internal Auditor*  

Ms. Doty holds a Master of Global Policy Studies from the Lyndon B. Johnson School of Public Affairs at the University of Texas at Austin and a Bachelor of Arts in Political Science from the University of Arkansas. Prior to joining the City and County of Denver, Ms. Doty worked at the U.S. Government Accountability Office in Washington, D.C., where she contributed to several performance audits in emergency management, homeland security, public health preparedness, refugee resettlement, and global food security. Early in her career, she spent over three years assessing and implementing municipal government reform in Paraguay, South America, as part of the U.S. Peace Corps. She also has extensive experience in program monitoring and evaluation for nonprofit organizations in the U.S., Latin America, and east Africa. She is a member of the Institute of Internal Auditors, the Association of Local Government Auditors, and the American Society for Public Administration.

Katja Freeman, MA, MELP  
*Senior Internal Auditor*  

Ms. Freeman graduated from Vermont Law School with a Master’s degree in Environmental Law and Policy. In addition, she received a Master’s degree in Political Science from the University of Colorado at Boulder and completed all coursework toward a PhD in Political Science. Before joining the Auditor’s Office, she was a performance evaluator at the Legislative Service Office of the State of Wyoming and she also worked for non-governmental organizations (NGO) in Washington, D.C. and Boulder, CO. She joined the City and County of Denver Auditor’s Office in May 2012 and is a member of the Institute of Internal Auditors.
Mr. Garrett graduated from Sam Houston State University with a bachelor’s degree in Business Administration and joined the City and County of Denver Auditor’s Office in 2009. He has worked as an internal auditor for the Texas Department of Criminal Justice and the Williamson County Auditor’s Office. Mr. Garrett is an active member of the Institute of Internal Auditors and the Association of Local Government Auditors. Additionally, he holds a Certification in Risk Management Assurance and designations as a Certified Internal Auditor, and a Certified Government Auditing Professional.

Ms. Lovascio Hansen holds a Bachelor of Science degree in Business Administration with an emphasis in Accounting from the University of Colorado at Denver. She has been with the City and County of Denver Auditor’s Office since December 2005. She is a Certified Internal Controls Auditor and is a member of the American Society of Women Accountants, the Association of Local Government Auditors, and the Institute for Internal Controls.

Mr. Hartman joined the City and County of Denver Auditor’s Office after three years of performance audit experience with the U.S. Government Accountability Office. He also has experience in nonprofit program evaluation and public infrastructure finance. Mr. Hartman has a Master of Public Affairs degree from the Lyndon B. Johnson School of Public Affairs at the University of Texas where he studied city management and urban planning.
Chris Horton, Ph.D., CGAP, CRMA, CCSA
Internal Audit Supervisor

Mr. Horton has served in his current position with the Auditor’s Office since August 2009 and has six years of audit management experience. He manages a team of auditors who are responsible for projects relating to areas including the Mayor’s Office, the City Council, the City Attorney’s Office, and the Safety Department, as well as various special projects. Mr. Horton also manages the Control Risk Self Assessment efforts for the Auditor’s Office. He is a member of the Institute of Internal Auditors, the American Society for Public Administration, and the Association of Local Government Auditors, for which he chairs the Education Committee. Mr. Horton has a Bachelor of Arts degree in Political Science and History, and a Master of Arts degree in History, both from the University of Texas of the Permian Basin. He also has a doctorate in Public Administration from Arizona State University.

Ms. Howe has thirteen years of auditing experience, both within state and local government and as a consultant in the private sector. She holds a Bachelor of Arts degree from the University of Colorado at Boulder and a Master of Public Administration degree with a concentration in Policy Analysis from the University of Colorado at Denver. Ms. Howe is a member of the Institute of Internal Auditors, the Institute for Internal Controls, and the Association of Local Government Auditors. She also serves as chairperson on ALGA’s Awards Program Committee, the objective of which is to manage, evaluate, and promote the Association’s annual awards programs.

Dawn Hume, CRMA
Internal Audit Supervisor

Ms. Hume earned a Bachelor of Science degree in Business Administration with an emphasis in accounting from the Colorado State University at Pueblo. She has over twelve years of experience in operational, compliance, and process auditing, four of which have been in the government audit environment. Dawn is a member of the Institute of Internal Auditors and the Association of Local Government Auditors. She has been with the City and County of Denver Auditor’s Office since August 2008 and is currently pursuing the designations of a Certified Internal Auditor and Certified Government Auditing Professional.
Ms. Jacobson joined the Office in August 2011 to fill the newly created Communications Specialist role. She has a diverse background in the communications field, drawing on previous experience in both the public and private sector. She holds a Bachelor of Arts degree in Political Science from the University of Colorado at Boulder and a Master of Public Administration degree from the University of Colorado at Denver. She is a member of the American Society of Public Administration and the Institute of Internal Auditors, where she assists with communications for the Denver Chapter.

Shannon Kuhn, CISA
Information Technology Lead Auditor

Ms. Kuhn joined the Office in October 2012 as a Lead IT Auditor on the Information Technology Audit team. She comes to the City and County of Denver with 12 years of experience managing technology controls, assessing application security, and ensuring adherence to regulatory compliance. In her previous position at Dish Network, she managed and executed operational technology control examinations, as well as Sarbanes-Oxley audits. Shannon is an active member of the Information Systems Audit and Control Association and the Institute of Internal Auditors. She is also a Certified Information Systems Auditor. A third generation Colorado native, Shannon holds a Bachelor’s degree in Information Systems from Metropolitan State College of Denver. In her free time, she enjoys attending live music venues, outdoor activities, and cultural events.

Rudy M. Lopez, MS
Lead Internal Auditor

Mr. Lopez has been with the City and County of Denver Auditor’s Office since January 2007 and has several years of experience as a small business owner and manager. He is a member of the Institute of Internal Auditors and Association of Local Government Auditors. Mr. Lopez holds a Bachelor of Science degree in Business Administration from Colorado State University at Pueblo and a Master of Science degree with an emphasis in Management from Colorado State University.
Sonia Montano, CGAP, CRMA  
*Internal Audit Supervisor*

Ms. Montano is a Certified Government Auditing Professional and has a Certification in Risk Management Assurance. She has a bachelor’s degree in Accounting from Adams State University. She also has over seventeen years of professional experience in the government sector. Ms. Montano is a member of the Institute of Internal Auditors and Association of Airport Internal Auditors. In addition, she is an active member of the Association of Local Government Auditors and has participated in multiple peer reviews which involve evaluating and reporting on other audit organizations’ compliance with Government Auditing Standards.

Emily Owens, MPA  
*Senior Internal Auditor*

Ms. Owens joined the Office after spending more than two years with the U.S. Government Accountability Office in Washington, D.C. She earned a Master of Public Affairs degree from the Lyndon B. Johnson School of Public Affairs at the University of Texas at Austin where she studied a variety of subjects including program evaluation and environmental law. Ms. Owens is a member of the Institute of Internal Auditors, the Association of Airport Internal Auditors, and the Association of Local Government Auditors.

Manijeh Taherynia, MS, CPA, CFE, CICA  
*Senior Internal Auditor*

Ms. Taherynia holds a Master of Science degree in Accounting from the University of Colorado at Denver and three active professional certifications. She has over nine years of experience in tax compliance and governmental internal auditing and is a member of the Institute of Internal Auditors, the Association of Local Government Auditors, the American Society of Women Accountants, and the Association of Certified Fraud Examiners.
Ms. Thompson has over twenty years of professional experience in the private sector and is a Certified Administrative Professional in Organizational Management. Providing administrative services to the Division, she plays a key role in the office and has been instrumental in the design and creation of outgoing correspondence, specifically, in creating innovative templates for our audit reports, annual audit plan, and annual report. She is a member of the International Association of Administrative Professionals and the American Society of Administrative Professionals.

Chris Wedor, MBA, CICA
Internal Audit Supervisor

Mr. Wedor joined the City and County of Denver Auditor’s Office in 2010 and brings over five years of experience with a Fortune 100 global company in operational, financial, compliance, and performance auditing. He holds a Bachelor of Science degree in Economics from the Colorado School of Mines and a Master of Business Administration degree with an emphasis in accounting from the University of Denver. Mr. Wedor is a member of the Institute of Internal Auditors, the Association of Local Government Auditors, and the Institute for Internal Controls.
Professional Development

The professional staff of the Audit Services Division meets continuing professional education (CPE) requirements in accordance with Government Auditing Standards set forth by the Comptroller General of the United States. These standards require staff auditors to obtain eighty hours of continuing professional education every two years.

In 2012, audit staff was actively involved in numerous professional organizations.
A high quality and transparent annual audit plan is critical for meeting the goals, objectives, and mission of the Office.

2013 ANNUAL AUDIT PLAN AND 2012 AUDITS

Description of Annual Audit Plan

The Division adheres to an overall audit strategy that a high quality and transparent annual audit plan is critical for meeting the goals, objectives, and mission of the Office. The Division utilizes professional standards and guidelines developed by the Institute of Internal Auditors for the development of the annual audit plan. These guidelines recognize that an annual audit plan and work schedule benefit the organization by:

- Establishing which agencies, programs, contracts, or other areas will be prioritized for audits on an annual basis;
- Permitting an efficient allocation of limited audit resources;
- Providing a flexible basis for managing audit personnel;
- Projecting an estimated timetable for initiating and completing audits for the year;
- Eliminating the potential for overlapping audits within the Division and with other audit organizations; and
- Providing an identifiable basis for the role of the Division and justification for obtaining budgetary funds.

Preparing the Annual Audit Plan

Audits included in the annual audit plan are selected and prioritized using a risk-based approach. Risk assessment is a process used to identify and prioritize audits based upon specific risk factors related to the quality of internal controls and the estimated liability and level of exposure to the City and County of Denver related to various City departments,
programs, activities, and contracts. The Division utilizes several techniques to identify and prioritize audits in the annual plan. These techniques include:

- Utilization of industry standard risk assessment criteria;
- Analysis of operations and internal controls derived from previous internal audits, including trend analyses to identify recurring audit findings and control deficiencies, as well as formal audit follow-up and outstanding-recommendation tracking activities;
- Assessment of operations and controls derived from previous external audits including information in the City’s Comprehensive Annual Financial Reports (CAFRs), Single Audit Reports, and external audit management letters;
- Input from elected officials, Audit Committee members, operational management, peer audit groups, and members of the public;
- Benchmarking against the audit priorities of other governmental entities; and
- Consideration of current local events, financial conditions, and public policy issues.

In addition to the performance and financial audits identified using the criteria and process described above, the annual audit plan also includes specialized information technology (IT) audits, which are derived from the Division’s Citywide IT risk assessment. This risk assessment establishes an inventory of all critical IT systems and comprises four primary IT audit categories: IT business processes, business applications (either existing or under development), IT infrastructure (e.g., data networks), and IT facilities (e.g., data centers).

The audit plan is based on developing a realistic audit horizon of planned high-risk audits covering a three-year period. The Division bases its annual audit plan on the development of such an audit horizon rather than developing a subjective, overly complex, and incomplete “audit universe.” Historically, many audit organizations have attempted to develop a comprehensive “audit universe” from which to identify and prioritize audits. However, this process is cumbersome, time consuming, and generally reveals that there are literally thousands of possible audits that would require tens of thousands of audit hours and other resources. Additionally, the inclusion of such a “universe” could potentially mislead City officials and citizens to believe that all of the audits included on the
Instead of developing an overly complex “audit universe,” the Audit Services Division utilizes a realistic audit horizon strategy and approach to identify, prioritize, and manage audits deemed to be critical to City operations. Specifically, using the described risk-based methodology the Division identifies and prioritizes a select number of audits for inclusion into the annual audit plan and develops a list of potential audits for the ensuing two years.

The audits included in the horizon are based on available audit hours each year to ensure that realistic expectations are established and stated goals are met. The approach also builds ample hours into the plan for specially requested audits not originally captured on the plan, and for urgent audit issues that arise throughout the year. This approach provides the Auditor with a great deal of flexibility to address emerging issues in a timely manner and for providing high quality and responsive customer service to elected officials and operational management.

This strategy and accompanying risk assessment methodology has allowed Denver to execute a less cumbersome annual audit planning process and generate a more realistic, flexible, and transparent set of goals and work activities for the upcoming year. The audit horizon approach aligns well with the evolution of the audit profession where, in today’s increasingly complex operational environments, audit functions must stretch beyond traditional risk-assessment processes, generally focused on short-term risks, to identify and address emerging and long-term strategic risks.

Utilization of a risk-based Audit Horizon Strategy

Instead of developing an overly complex “audit universe,” the Audit Services Division utilizes a realistic audit horizon strategy and approach to identify, prioritize, and execute audits that are critical to City and County operations.

Limitations of Audit Universe:
- Cumbersome and time consuming process
- Overly complex, yet still subjective
- Lack of flexibility and responsiveness to changing conditions and external requests
- Prohibitive and restrictive process that can potentially mislead City officials and citizens regarding audits that will or will not be conducted

Advantages of Audit Horizon:
- Less cumbersome; saves time and resources
- Results in a realistic, transparent approach to identify and prioritize a select number of audits
- Provides flexibility and transparency to address emerging issues
- Structured to provide an avenue for City leaders to request timely audits

listing will be performed and, perhaps more significantly, that any departments, programs, activities, or contracts not included in the universe are not subject to audit.

As a result, instead of developing an “audit universe,” the Division utilizes a realistic audit horizon strategy and approach to identify, prioritize, and manage audits deemed to be critical to City operations. Specifically, using the described risk-based methodology the Division identifies and prioritizes a select number of audits for inclusion into the annual audit plan and develops a list of potential audits for the ensuing two years.

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This strategy and accompanying risk assessment methodology has allowed Denver to execute a less cumbersome annual audit planning process and generate a more realistic, flexible, and transparent set of goals and work activities for the upcoming year. The audit horizon approach aligns well with the evolution of the audit profession where, in today’s increasingly complex operational environments, audit functions must stretch beyond traditional risk-assessment processes, generally focused on short-term risks, to identify and address emerging and long-term strategic risks.
Examples of the audit types included in the audit plan are audits that examine:

- Organizational units within a City agency such as a division or a department;
- Individual City programs and activities;
- Transaction cycles or processes that “horizontally” cross multiple City functions or departments, such as contract procurement and purchasing, grants, human resources, information technology, etc.;
- Individual financial statement accounts and transactional areas such as capital assets, leave liability, accounts payable, and payroll;
- Enterprise fund entities such as the Denver International Airport and the Golf Enterprise Fund;
- Contracts and agreements the City has entered into with a third party; and
- Specialized audit advisory services

By evaluating potential audits from a variety of perspectives, we can ensure that there is widespread audit coverage in terms of both the types of audits performed, as defined in Generally Accepted Government Auditing Standards (GAGAS) promulgated by the Comptroller General of the United States, and in terms of the City’s vast array of departments, programs, activities, and contracts.

For a more detailed and comprehensive overview of the 2013 Annual Audit Plan please visit our website at:

Description of 2012 Audits

The following pages provide synopses of various audit projects performed by the Division during 2012. According to Government Auditing Standards promulgated by the Comptroller General of the United States, there are three types of audits: financial audits, attestation engagements, and performance audits. While the Division maintains the capability to perform financial audits and attestation engagements, we primarily conduct performance audits.

According to Government Auditing Standards, “performance audit objectives may vary widely and include assessments of program effectiveness, economy and efficiency, internal control, compliance and prospective analysis.” Historically, the Auditor’s Office has conducted numerous performance audits focused on internal control and compliance objectives. However, performance audits with program effectiveness, economy, and efficiency objectives are a new type of audit being executed by the Division. According to Government Auditing Standards, performance audits focusing on program effectiveness and economy and efficiency components can include, but are not limited to, the following types of audit objectives:

- Assessing the extent to which legislative, regulatory, or organizational goals and objectives are being achieved;
- Assessing the relative ability of alternative approaches to yield better program performance or eliminate factors that inhibit program effectiveness;
- Analyzing the relative cost-effectiveness of a program or activity;
- Determining whether a program produced intended results or produced results that were not consistent with the program’s objectives;
- Determining whether a program provides equitable access to or distribution of public resources within the context of statutory parameters;
- Assessing the extent to which programs duplicate, overlap, or conflict with other related programs;
- Evaluating whether the audited entity is following sound procurement practices;
- Assessing the reliability, validity, or relevance of performance measures concerning program effectiveness and results, or economy and efficiency;
- Assessing the reliability, validity, or relevance of financial information related to the performance of a program;
• Determining whether government resources (inputs) are obtained at reasonable costs while meeting timeliness and quality considerations;

• Determining whether appropriate value was obtained based on the cost or amount paid or based on the amount of revenue received;

• Determining whether government services and benefits are accessible to those individuals who have a right to access those services and benefits;

• Determining whether fees assessed cover costs;

• Determining whether and how the program’s unit costs can be decreased or its productivity increased; and

• Assessing the reliability, validity, or relevance of budget proposals or budget requests to assist legislatures in the budget process.
Program Effectiveness, Economy, and Efficiency Audits

Department of Aviation South Terminal Redevelopment Program Audit – January 2012

The South Terminal Redevelopment Program (STRP) comprises three primary projects: a public transit center, a Denver International Airport (DIA) Westin airport hotel, and an open-air plaza. The purpose of the audit was to understand and report on STRP’s organizational structure, financing, and task schedule, as well as to identify any significant risks. The audit report also included a section with information on the concept and challenges of developing an aerotropolis, a relatively new urban development model.

Significant Findings

- As of October 2011, the Department of Aviation is not projected to meet STRP budget and schedule.
- The projected July 2015 completion date of the DIA Westin hotel could cause potential loss of up to $6.7 million in net operating income.
- Department of Aviation has taken steps to address the current risks to the STRP schedule and budget, the method and effectiveness of invoice review, and the need to incorporate maintenance officials into the STRP development process.
- Further efforts to involve local businesses in the project could improve STRP’s local economic development impact.
- Challenges to developing DIA as an aerotropolis include the need for significant regional planning and cooperation, and a major investment of resources.

Department of Aviation Environmental Programs Audit – January 2012

The purpose of this audit was to evaluate the DIA environmental program and its regulatory compliance, and to ensure that proper internal controls are in place to address DIA’s environmental initiatives, goals, and objectives.
**Significant Findings**

- DIA environmental program has an effective management strategy and practices focused on sustainability and practical environmental stewardship.

- The foundations of DIA’s environmental program are controls designed to achieve compliance with environmental laws and regulations, timely reactions to environmental emergencies, and high training standards.

- DIA’s environmental program is recognized by peer airports as a leader in environmental sustainability and has received several environmental awards and certifications.

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**Workers’ Compensation Program Audit – February 2012**

The City and County of Denver's Workers' Compensation Program (Program) appears to be effectively managed and focused on continuous improvements. The audit included a review and analysis of management processes, laws, policies and procedures, and systems in place as well as safety controls to diminish workers’ compensation injuries.

Further enhancements to address elements of the decentralized structure of the Program would result in increased efficiency.

**Significant Findings**

- Required claim documentation is not always submitted, efficient, or retained.

- Effective communication is lacking between the two units within the Risk Management Office. This issue is exacerbated by a confused reporting structure.

- The Denver Police Department employs a uniformed officer, rather than a civilian, to perform workers’ compensation duties.

- Two of the contractors used by the Risk Management Office may not be cost effective.

- Certain fraud- and risk-prevention steps are not included in the organization’s policies and procedures manual.
Department of Aviation Facility Management Audit – February 2012

Opening in 1995, DIA spans nearly 34,000 acres and includes one main terminal, three separate concourses, and six runways. DIA’s Maintenance Division (Division) is tasked with maintaining the DIA facility, including both indoor and outdoor areas.

The purpose of this performance audit was to assess facility management plans utilized by the Division to ensure an effective maintenance approach is utilized and to identify possible inefficiencies and opportunities for improvement.

Significant Finding

- DIA does not have the fundamental elements of a facility management program in place. Specifically, the Division does not have an adequate facility management strategy, is not fully maximizing its asset management software, and must sufficiently plan for succession within its workforce. These issues all hinder the Division from utilizing cutting-edge and cost effective maintenance strategies identified as best practices.

Network Security Management Performance Audit – Phase 1 – March 2012

The City and County of Denver operates a large and complex data network that supports the interconnection of computers and other electronic devices used to conduct City business and to provide services to the citizenry. This audit focused on the portions of the network that were under the control of the Technology Services Department, one of several agencies that manage segments of the Metropolitan Area Network.

In the first phase of this audit we conducted site visits of locations distributed throughout the city where network equipment was housed. We also examined the physical security of those sites, tested for unauthorized wireless access points, and evaluated the accuracy of equipment inventory records.

Significant Findings

This audit highlights that a lack of information security awareness has resulted in equipment being deployed or network segments being implemented without adequate protections. The report contained the following findings:
• Information resources are at risk due to a lack of information security governance;
• Network equipment inventory records are inaccurate due to missing controls; and
• Network equipment maintenance funding allocation procedures are not documented.

Citywide American Recovery and Reinvestment Act Funding Performance Audit – May 2012

The purpose of this audit was to follow up on recommendations from a previous audit of the American Recovery and Reinvestment Act (ARRA), and to assess its program effectiveness and identify opportunities to improve grant management practices within the City and County of Denver. The audit revealed that the City’s use of ARRA funds appears to have had a tangible impact, accomplished partly by minimal administrative costs and increased transparency. However, grant management could benefit from future improvements.

Significant Findings

• Spending deadlines were not always met.
• Grant sub-awards recipients were not chosen through a competitive bid process.
• Fiscal Accountability Rules related to the grant closeout process should be expanded.
• Increased oversight is needed.

Assessor’s Office Performance Audit – June 2012

The purpose of the audit was to evaluate the Denver Assessor’s Office’s information management practices and its customer relations approach, specifically with regard to whether tax-exempt properties within the City and County of Denver are properly categorized. Our review affirmed that exempt properties are being properly categorized by the Assessor’s Office.

Significant Finding

• Audit work tested the controls in the automated and manual systems to verify accuracy and timeliness of updates. Although our testing did not reveal any major concerns or exceptions, we offered two recommendations that will allow
the Assessor’s Office to work more efficiently and reduce the risk of errors with regard to exempt properties.

**Public Works Oversight of External Architectural Engineering Design Work Audit – July 2012**

The purpose of this audit was to assess the City and County of Denver’s policies and procedures related to staffing architectural and engineering (A/E) design work and the impact of these practices.

**Significant Findings**

- Although our audit of the City’s policies and processes related to outsourcing of A/E design work did not observe any process control failures, we determined that the inherent risk in this area warranted attention.
- Public Works has some informal and draft procedures but there are no formal criteria guiding the selection process for the A/E consultant selection committee (SC).
- Once the SC is formed, Public Works does not have detailed procedures or formal criteria to guide SC decisions, such as weighting criteria for ranking firms.
- Public Works does not maintain adequate documentation of SC activities or communications.
- All recommendations made by the SC are subject to approval by Public Works management; however, the recommendations are not communicated directly from the SC to management.
- In the event that Public Works management disagrees with SC recommendations, any resulting override is not documented.
- Public Works has few performance measures to evaluate the quality of work performed on capital construction projects. Specifically, the only performance measures used are whether a project was completed on time and within budget, but those measures do not address individual phases of a project.
- Public Works does not formally evaluate consultants at the conclusion of each construction project.
Animal Care and Control Performance Audit — July 2012

The audit was requested by the Manager of the Department of Environmental Health in January 2012. The purpose of the audit was to assess possible changes to Animal Care and Control’s (ACC) fees, fines, and other revenues, as well as identify possible opportunities to reduce the gap between revenues and expenditures. We also assessed the efficacy and effectiveness of dog and cat licensure policy and practices.

Significant Findings

- The dog and cat licensure requirement is redundant to other public health regulations and is an ineffective policy.
- Rabies vaccination requirement exists to protect public health and better enforcement of the rabies vaccination requirement is needed.
- Spay and neuter requirement and at large prohibition protect the public from stray dogs and cats.
- Compliance with the licensure requirement is poor and other methods of reunification appear to be more effective than licensure.
- ACC revenue accounting structure can be enhanced.
- ACC captures the monies collected under broad accounting categories but the agency does not separate the monies by individual activities.
- Licenses, vaccinations, rabies, and citation earnings are accounted for in the city’s General Fund; donations are recorded into a Special Revenue Fund account dedicated to activities related to the well being of the animals at the animal shelter.


As the second and final phase, this audit concluded our security review of the portions of the City’s data network that were under the control of the Technology Services Department, one of several agencies that manage segments of this large and complex Metropolitan Area Network.

In this second phase we concentrated on the defense in depth and basic controls used to protect the network. This included reviews of information security policies and practices, as well as physical and technical controls.
Significant Findings

The audit warned that portions of the City network are vulnerable to attack or abuse that are neither prevented nor detected. The audit recommends strengthening two information technology (IT) governance domains: risk management (policies, standards, and procedures) and resource management (staffing levels). The report highlights the following findings:

- Six of ten essential information security duties are not being performed;
- Antivirus controls are not always effective in preventing malware from entering the email system or from being saved and backed up on network storage;
- Key information security policies are missing or outdated;
- Network admission controls do not detect unauthorized devices; and
- The general public has inappropriate access to portions of the City’s internal data network.

Denver 311 Performance Audit — August 2012

The purpose of the audit was to determine the effectiveness of Denver 311 at addressing citizen and internal City agency needs. This audit included a review and analysis of current management processes, laws, revenues and expenditures, policies and procedures, and systems in place, as well as applicable financial data through June 2012. The audit team also assessed the technology used by Denver 311 and internal City agencies.

Significant Findings

- Most external users of Denver 311 are satisfied with their experience using the service.
- Internal metrics indicate customer service performance is declining, which could eventually result in an overall decrease in user satisfaction.
- Internal city agencies are generally dissatisfied with the utility of the reports produced by 311’s CRM database, which is managed by Technology Services, and an improved partnership between Denver 311 and city agencies is needed.
Community Planning and Development: Development Services Permitting and Inspection Services – August 2012

Denver’s permitting and inspection activities currently reside in the Development Services Division within the Department of Community Planning and Development (CPD). In 2002, CPD was established as a department in the Denver Revised Municipal Code. CPD is primarily responsible for planning and regulating land use, development within the City and County of Denver, and construction standards designed to enhance and protect Denver’s natural and built environments.

Significant Findings

- Permitting and plan review functions reside in multiple departments.
- Development Services organizational structure results in unclear areas of responsibility and accountability.
- Unclear authority has resulted in delays to customers and decreased customer satisfaction.
- Development Services lack sufficient data management and analysis practices to guide critical decisions and customer service management.
- Development Services has not determined the cost of delivering service.
- Development Services current finance strategy should be enhanced to promote fiscal stability and flexibility.

Denver International Airport Parking Administration Audit – September 2012

The audit examined the parking operations at DIA to determine if revenue is accurately accounted for and if proper oversight is in place to ensure parking operates efficiently and effectively. DIA manages one of the largest airport parking facilities in the nation with over 40,000 spaces and it collected $133 million in parking revenue in 2011. The audit found that DIA Management should take action to strengthen oversight and internal controls for the DIA Fleet Management program.

Significant Findings

- The two main systems utilized to collect revenue and manage parking at DIA do not interface with DIA’s Accounting Management System.
- An upgrade of the parking revenue control system caused inefficiencies.
- The employee parking system had limited functionality for proper oversight.
- Insufficient oversight of the parking operator leads to inefficiencies.
- Outdated and redundant DIA Parking policies and procedures increase risk of improper oversight of parking operations.

**City Cost Allocation Plan Performance Audit – October 2012**

The annual citywide full cost allocation plan allows the City and County of Denver to improve budget and resource management, better align user fees with the true cost of doing business, and recover costs for central services provided to the City’s four enterprise funds.

The purpose of the audit was to assess the extent to which the full cost allocation plan is reasonable and equitable, to determine whether the plan provides for full reimbursement to the City for services provided to enterprise fund agencies, and to understand how the plan process is managed and applied.

**Significant Findings**

- A formal policy is needed to ensure accountability and transparency in City’s application of the cost allocation plan.
- General fund lost reimbursements of $1.2 million over two years.
- Golf Enterprise Fund cost allocation discounts lacked transparency.
- Lack of a formal policy hinders BMO’s ability to hold funds accountable for cost allocation payments.

**Public Works Capital Construction Project Management – November 2012**

The purpose of the audit was to evaluate Denver’s Department of Public Works’ management of several components related to the construction phase of capital projects, including project management practices. Also, we evaluated compliance with city rules related to prequalification of contractors and examined accounting processes associated with finalizing projects. The audit
revealed systemic weaknesses in the Department’s process for procuring and managing the construction phase of capital projects.

**Significant Findings**

In looking specifically at the construction phase of the capital construction project lifecycle, our audit identified process weaknesses in the following areas:

- Public Works lacks sound project management practices for capital projects;
- Ineffective special permission rules undermine prequalification process;
- Inefficient project management processes inhibit effective administration of capital projects; and
- Public Works did not comply with Fiscal Accountability Rule 4.3 for submission of capital project close out forms.

**Citywide Payroll Performance Audit – December 2012**

The purpose of the audit was to evaluate the City’s Payroll Division. This division is housed within the Department of Finance and is responsible for wage payments and time management for employees working for the City and County of Denver. While Payroll has taken effective action to address several issues identified by our prior audit, specifically, for improving the level of service for handling separation of employees, we identified payroll-related weaknesses in the following three areas: timecard approval, information security, and telephone time entry (TTE).

**Significant Findings**

- The number of employees and supervisors who did not approve timecards has increased since our Centralized Payroll audit issued in March 2010, which may lead to inaccurate pay and leave time and increased overtime.
- Information security weaknesses may jeopardize the security of sensitive employee information.
- Some TTE agreements are missing and some employees used phone numbers to access Kronos, the City’s timekeeping system, that were not listed on their TTE agreements.
**Denver International Airport Fleet Management Audit – December 2012**

The audit examined the fleet maintenance operations at DIA to evaluate the effectiveness and efficiency of operations and to review and assess the internal controls over take-home vehicles, preventive maintenance, fuel usage, and fixed assets. The audit also evaluated whether the Fleet Maintenance department is properly considering all budget opportunities. DIA has a fleet of more than 1,800 vehicles and units of equipment necessary to provide a safe and well-maintained airport. DIA’s Fleet Maintenance department is responsible for performing repair and preventive maintenance and monitoring and tracking fleet utilization. The audit found that fleet maintenance does not have sufficient managerial involvement and control over fleet assets.

**Significant Findings**

- DIA needs to ensure compliance with rules related to take-home vehicles because 23 percent of users reside beyond the maximum twenty-five mile radius. In addition, a review of the program should be conducted to ensure a valid business or emergency purpose exists for take-home vehicle users.
- Oversight and internal controls are inadequate for fuel access.
- DIA Fleet Maintenance does not have a formal fleet utilization program.
- Fixed assets are not consistently recorded or monitored.
- Preventive maintenance for newer vehicles in the fleet are not consistently tracked and monitored.
- Budget opportunities and risks related to operating and capital costs are not optimally managed.

**Police Records Management System IT General Controls Performance Audit – December 2012**

The Denver Police Department’s Records Management System (RMS) stores general offense records including officer statements, neighborhood surveys, and lab reports. It is accessed by approximately 1,700 users, including 1,400 sworn police officers, and personnel from other agencies, such as the District Attorney, City Attorney, Denver Sheriff, and Denver County Courts.
This audit reviewed the information technology general controls supporting the RMS system to ensure that they provide a sound foundation to support the system’s proper operation and security. Audit work focused on the controls over account provisioning, logical access, activity monitoring, system and antivirus update and patching, mobile device security, backup and recovery, service level performance, data center security, and change management. These controls were reviewed to varying degrees as applicable at the RMS application, Oracle database, and Linux server levels.

**Significant Findings**

- Police, Fire, and Sheriff Department electronic records are at risk of total loss should there be a data center disaster.
- User administration controls do not ensure timely termination of access or adequate user activity monitoring.
- System software patches and antivirus updates are not monitored for successful installation and sometimes not applied at all.
- The Safety Data Center has no automated fire suppression and lacks adequate physical access controls.
- Minor project change management does not provide adequate segregation of duties.
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