



## **Independent Audit Committee**

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

Meeting Minutes

Thursday, October 15, 2015

#### **Opening**

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

#### **Members Present**

Vice-chair Rudy Payan, Jeff Hart, Leslie Mitchell, and Edward Scholz were present. Jack Blumenthal and Robert Bishop were excused.

#### **Also Present**

Deputy Auditor Valerie G. Walling, Director of Contracts and Accountability Jeffrey A. Garcia, Director of Audit Services Kip Memmott, and Committee staff Mollie Horne were also in attendance.

#### **Approval of September 29, 2015 Minutes**

The minutes were approved as written.

#### **Presentation of 2016 Audit Plan**

Auditor O'Brien presented the 2016 Audit Plan. He made special note of upcoming work on compliance audits. The Auditor is required to approve every one of the City's vendor contracts, and compliance audits of these contracts will help the agency develop a risk profile and identify potentially risky contracts moving forward. Auditor O'Brien also spoke on the increased utilization of data analytics and regression analysis. The Office will compare certain databases with one another (i.e. the vendor file and the payroll file) to ensure there is no overlap. Additionally, the Office will look into cyber security and information technology as it impacts the daily work of the City and its citizens. Particular attention will also be given to audits involving sales tax revenues, which comprise nearly 50% of the City and County of Denver's total revenues. The plan also provides for a closer look at issues like the implementation of the Disability Parking Enforcement Program (DPEP). The plan includes audits with a substantial impact on Denver residents as well as audits on department-to-department services within the City. Auditor O'Brien intends to use the full range of audit tools to provide the most accurate evaluation possible of Denver's expenditures and programs.

## **Discussion of Audit Services Peer Review Assessment**

Director of Audit Services Kip Memmott shared the results of the Peer Review Assessment of the Audit Services Division conducted in September 2015 for the period from May 2012 to April 2015. The assessment, an external quality assurance review required by the City Charter, was conducted by representatives from Association of Local Government Auditors (ALGA). The Audit Services Division was found to be in full compliance with national auditing standards. The assessment noted the Division's informative and citizen-centric audit reports, its well-educated and highly certified staff, and its track record of award-winning audits.

The main recommendation of the assessment was that the Auditor's Office clarify the relationship between auditing staff and the Auditor's appointees. Given the make-up of the previous auditor's office, with neither the auditor nor the appointees being auditing professionals, the peer reviewers recommended steps to ensure that audits were free of political influence. Auditor O'Brien emphasized that the make-up of the Auditor's Office leadership has changed, noting that both he and Deputy Auditor Valerie Walling are CPAs with significant hands-on auditing experience and a legal obligation to subscribe to strict auditing standards.

## **Briefing: Peak Academy Performance Audit**

Audit Supervisor Robyn Lamb, Lead Auditor Nancy Howe, Senior Auditor Ronald Keller, and Senior Auditor Jared Miller, along with Kip Memmott, presented the audit findings and recommendations. Budget and Management Office Director Brendan Hanlon, Chief Performance Officer David Edinger, Process Improvement Specialist Melissa Field, and Associate Process Improvement Analyst Gregory Reger were present on behalf of Peak Academy to respond to the audit.

The Audit Report was discussed, and the Peak Academy staff were in agreement with the Audit Team's findings and recommendations. In the discussion, the following concerns were raised by Audit Committee members:

- Are the hard and soft savings identified by Peak Performance externally validated by auditors or someone else outside the agency?

Agency response: No, these savings are not externally validated. There is no third-party review. The numbers are checked twice. The savings are estimated when the innovation is initially identified. Once the innovation is implemented, the agency then goes back and double-checks those estimated savings against the actual savings.

- Do the funds identified as hard savings get reallocated to another department, or do they stay within the same agency?

Agency response: Those funds are reinvested in the same department. The rationale is that if Peak Performance were to essentially penalize innovation by taking away the return that the department has generated, that department would be far less likely to choose to innovate. Peak Reporting (a division of Peak Performance) plans to make this process more transparent through a quarterly reporting process.

- Does Peak Academy look for a return on that reinvestment of hard savings?

Agency response: Peak Academy asks the agencies to justify the reinvestment of hard savings as “part of their overall strategy for delivering services.” However, a separate study of the return on investment (ROI) is not conducted.

- Agency comment in response to *Recommendation 1.7*: Peak Academy has begun working with the Controller’s Office to update its policies and procedures surrounding billing and tracking. Those updates should be completed and fully implemented within two weeks.
- Are the Black Belt and Green Belt trainings a one-time event? Does Peak Academy offer ongoing training over time to incorporate evolving business concepts?

Agency response: Peak Academy offers two-hour long quarterly continued education programs in which an old tool is reviewed and a new tool is introduced. It also offers an Innovation Lab where employees can meet with Peak Academy staff to discuss the progress their innovations. There is also a mentorship program wherein a successful Black Belt innovator is paired with an individual going through the training program.

- What were the results of the October 12, 2015 meeting mentioned in *Recommendation 1.2*, *Recommendation 1.3*, and *Recommendation 1.6*?

Agency response: During the October 12 meeting, the Peak Academy team met to discuss the standard processes for the entry, verification, and follow-up of the innovations identified during the Green Belt and Black Belt trainings.

- In response to *Recommendation 1.10*, as of September 22, Peak Academy began providing Black Belt-trained employees and their supervisors suggested Performance Enhancement Plan language as a tool for recognition in the annual performance review process. Does Peak Academy plan to retroactively provide that information to earlier Peak Academy classes?

Agency response: Earlier classes and their supervisors were not provided with this information, but Peak Academy agreed to do so to ensure both current and past classes receive the same information.

- What does Peak Academy’s progress look like with regard to transferring its database from Microsoft Access to Salesforce.com?

Agency response: This transition occurred in July. Salesforce.com is now fully implemented.

Audit team comment: The implementation of Salesforce.com will be evaluated and reported upon in a follow-up audit report at a later date.

## **Briefing: Community and Planning Development Zoning Administration Performance Audit**

Audit Supervisor Chris Wedor, Lead Auditor LaKeshia Allen Horner, and Senior Auditor Rob Farol, along with Kip Memmott, presented the audit findings and recommendations. Executive Director of Community Planning and Development Brad Buchanan and Deputy Director of Community Planning and Development Evelyn Baker were present on behalf of Community and Planning Development (CPD) to respond to the audit.

The Audit Report was discussed, and CPD staff were in agreement with the Audit Team's findings and recommendations. In the discussion, the following concerns were raised by Audit Committee members:

- Has CPD compared its zoning codes to those of similar cities like Kansas City or Dallas?

Agency response: Nationwide, virtually all cities comparable to Denver are under a single zoning code. Denver's system of two codes is atypical.

- What are property owners and stakeholders concerned about losing in the event of the implementation of a citywide single zoning code? And how does CPD plan to address the issue of public notice, given that the new code does not provide for the public notice process which is in place under the old code.

Agency response: The customized zone districts (approximately 20% of the City and County of Denver) were given the option to move into the new code, and many of them chose to do just that without losing anything. They gained predictability, clarity, and opportunity unavailable under the old code. Notification requirements have not been removed in the new code; rather, there have been additions to the notification requirements and improvements in the timing thereof.

Audit team response: Under the old code, a resident may have to go through a public process which takes 30 to 45 days to complete whereas under the new code, a resident can obtain a same-day permit allowing things like the sale of cottage foods. Therein lies the potential inequity. Depending on which zoning code they fall under, residents may be subject to vastly different requirements and wait times for permits. In the case of rezoning neighborhoods, the new code provides for a lengthy notification and appeals process which allows for ample vetting before any changes are made.

- The target date to complete a benefit cost analysis and a risk assessment is December 31, 2017. Why so distant a date?

Agency response: The cost of conducting these analyses is very significant. It will require a huge outreach process and a near-unprecedented citywide effort to complete. At this time, CPD does not currently have the budget resources necessary to undertake the process, but it will address these resource needs during the next CPD budget request.

With no other business the Committee adjourned at 9:15 a.m.

Prepared by Mollie Horne, Audit Committee staff