



Independent Audit Committee

City & County of Denver

Meeting Minutes

Thursday, September 22, 2016

Opening

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

Members Present

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

Also Present

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

Approval of August 18, 2016 Minutes

The minutes were approved as written.

Introduction of Heidi M. O'Neil, CPA

Auditor O'Brien introduced his most recent appointee, Heidi M. O'Neil, CPA. She will be serving the Auditor's Office as Director of Financial Audits.

Audit Report Briefing: Citywide Cash Handling Practices

Audit Supervisor Yvonne Harris-Lott, Lead Auditor Nancy Howe, and Senior Auditor Drew Jeffries presented the audit findings and recommendations. City Controller Beth Machann, Cash and Investment Manager Caroline Hendrickson, and Cash Administrator Alyssa Garrity were present on behalf of the Department of Finance to respond to the audit report.

The audit report was discussed. The Department of Finance agreed with 12 out of 13 of the Audit Team's findings and recommendations, summarized below. The Department "partially agreed" with *Recommendation 2.1*. For the full text of the Department of Finance response to the recommendations, please see the report itself by visiting www.denvergov.org/auditor. Click on

the Audit Services tab, then Audit Reports. This report is published under the 2016 Audit Reports header and is titled “[Cash Handling Practices](#).”

Recommendation 1.1

The Department of Finance should develop a methodology for identifying all cash receipting agencies and locations throughout the City. In addition, CRCF (Cash, Risk & Capital Funding) should include all receipting locations, including those without change funds, in its oversight practices such as its site visit reviews.

Auditee Response: Agree, Implementation Date: January 31, 2017

Recommendation 1.2

The Department of Finance should pursue opportunities to obtain receipting information directly from the systems used by agencies that do not utilize ECS (electronic cash systems). More complete and accurate receipting information would assist in tracking and implementing CRCF’s goals.

Auditee Response: Agree, Implementation Date: December 31, 2016

Recommendation 1.3

The Department of Finance should develop training for change fund custodians that, at a minimum, encompasses internal control requirements included in the Fiscal Accountability Rules. The Department could consider providing this training through CityU, the City’s online training resource. Furthermore, the Fiscal Accountability Rules should be updated to include the training requirement.

Auditee Response: Agree, Implementation Date: March 31, 2017

Recommendation 1.4

The Department of Finance should reassess its CRCF Cash Handling Review checklist and develop more detailed review steps to document and evaluate agency change fund procedures.

Auditee Response: Agree, Implementation Date: February 28, 2017

Recommendation 1.5

The Department of Finance should direct site visit reports to the appropriate level of management.

Auditee Response: Agree, Implementation Date: February 28, 2017

Recommendation 1.6

The Department of Finance should develop and document follow-up procedures with time deadlines for completion. In addition, follow-up measures should include an implementation schedule for agency management rather than deferring until the next change fund site visit.

Auditee Response: Agree, Implementation Date: December 31, 2016

Recommendation 1.7

The Department of Finance should review its objectives for site visits and finalize the draft site visit plan incorporating methodology that takes into account available Department resources.

Auditee Response: Agree, Implementation Date: November 30, 2016

Recommendation 1.8

The Department of Finance should review Fiscal Accountability Rules (FARs) 2 and 3 and related procedures and forms for consistency, clarity, and alignment, including the removal of obsolete, inconsistent, or incorrect references to the FARs. In addition, subsequent reviews should be conducted annually with updates occurring no less frequently than every three years.

Auditee Response: Agree, Implementation Date: February 28, 2017

Recommendation 1.9

The Department of Finance should review its quarterly change fund reporting and annual certification processes, align FAR 3.3 with Change Fund Procedures, develop a mechanism to facilitate timely reporting by agencies, and maintain documentation of agency compliance with FAR 3.3.

Auditee Response: Agree, Implementation Date: February 28, 2017

Recommendation 2.1

The Department of Finance should retain the Petty Cash Authorization Forms that initially establish a petty cash fund, and subsequent forms that support the current fund amount and custodian. If needed, Department staff should follow up with agency personnel to ensure accurate petty cash records.

Auditee Response: Partially Agree, Implementation Date: December 31, 2016

Partial agreement was due to the fact that the recommendation violates the City's document retention policy.

Recommendation 2.2

The Department of Finance should develop a process for periodically conducting an analysis of petty cash information such as the turnover rate. To better focus its efforts to reduce the risks associated with the funds, this should include a process for identifying which funds or agencies will be reviewed more closely and what oversight activities will be applied.

Auditee Response: Agree, Implementation Date: December 31, 2016

Recommendation 2.3

The Department of Finance should provide training on petty cash requirements and procedures for petty cash custodians. The Department could consider providing this guidance through CityU, the City's online training resource.

Auditee Response: Agree, Implementation Date: December 31, 2016

Recommendation 2.4

The Department of Finance should recommend that the Denver City Council remove the provision from the Denver Revised Municipal Code which specifies that the independent Audit Committee annually audit petty cash imprest funds.

Auditee Response: Agree, Implementation Date: January 31, 2017

Follow-Up Audit Report Briefing: Medical Marijuana Taxation

Audit Supervisor Katja Freeman presented the follow-up audit recommendations and findings. Treasurer Steve Ellington was present to respond to the follow-up audit report. For the full text of the follow-up report, please visit www.denvergov.org/auditor. Click on the Audit Services tab, then Audit Reports. This [follow-up report is published](#) under the 2014 Audit Reports header under its corresponding original audit, dated September 2014.

The follow-up audit report was discussed. The findings, summarized below, indicate that the Treasury Division has not sufficiently addressed the unique challenges of tax collection from the Medical Marijuana (MMJ) Industry.

Recommendation 1.1—IMPLEMENTED

Strategic Planning – Treasury should take on a more active role in the City’s strategic planning for marijuana policy. Specifically, Treasury should, in collaboration with the Office of the Chief Financial Officer, ensure that the review of City tax compliance is one of the steps toward achieving the strategic goal of efficient and effective enforcement of MMJ regulation.

Auditee Action: We [the audit team] verified that Treasury has increased its attendance at scheduled Marijuana Team meetings held by the City’s Office of Marijuana Policy since the audit was published in September 2014. A review of the agendas for these meetings revealed that Treasury did not bring forward any specific initiatives to add efficient and effective tax enforcement compliance as part of a Citywide marijuana policy. However, we found that since the audit, Treasury has made improvements in reducing tax compliance risk by increasing the number of marijuana business audits. In addition, Treasury has been using reports from the state-mandated Marijuana Enforcement Tracking Reporting Compliance (METRC) System, a seed-to-sale inventory system, to independently check inventories against the taxpayers’ accounting systems when conducting these audits, which allows Treasury to verify that marijuana business owners report all sales.

Recommendation 1.2—IMPLEMENTED

Compliance Audits – Treasury should expedite the completion of its ongoing MMJ industry audits and determine whether additional action regarding Treasury’s tax compliance efforts is warranted, such as expanding the number of MMJ audits conducted.

Auditee Action: As of April 2015, Treasury had completed twenty-nine audits of both medical and recreational marijuana businesses. These audits allowed Treasury to collect an additional \$1.1 million in taxes. One audit was completed in 2011, seven in 2014, and twenty-one in 2015. According to Treasury, another thirty-nine marijuana business audits are currently assigned and are still in progress. These audits are selected in accordance with sampling methods and risk factors identified by the Audit Unit management and Audit staff members.

Recommendation 1.3—IMPLEMENTED

Educational Outreach – Treasury should develop taxpayer information and educational material specific to the MMJ industry and disperse it as needed.

Auditee Action: Treasury produced a tax guide for the marijuana industry, both medical and recreational, which was issued in October 2014 and is available on Treasury’s website. Additionally, Treasury reported that they mailed a copy of the guide to all marijuana businesses in October 2014. Treasury stated that Taxpayer Service personnel also routinely use the guide in interactions with marijuana businesses for educational purposes.

Recommendation 1.4—IMPLEMENTED

Inter-Agency Coordination – Treasury should initiate outreach to the State of Colorado and other tax jurisdictions to share information and ideas about the risks and trends associated with the MMJ industry. As part of this outreach, Treasury should explore the possibility of using the state-mandated marijuana inventory tracking system or other system for sales tax audit purposes.

Auditee Action: Treasury met with the Colorado Department of Revenue on January 12, 2015, to learn about the usage of specific reports from the state-mandated Marijuana Enforcement Tracking Reporting Compliance (METRC) System that would be useful to Treasury’s Tax Compliance Audit Unit when conducting marijuana business audits. All marijuana businesses in the State of Colorado are required to use the METRC System. The Colorado Department of Revenue directed Treasury’s tax auditors to request that marijuana businesses run these reports for each of Treasury’s audits. Treasury’s tax auditors have been using this methodology for all audits since the meeting in 2015. Additionally, Treasury reports that they confer with other jurisdictions regarding best practices in the marijuana industry. Treasury stated that most often these meetings are informal and advisory in nature with jurisdictions that have fewer and less experience with marijuana businesses than the City and County of Denver.

Follow-Up Audit Report Briefing: Business Improvement Districts

Senior Auditor Ron Keller presented the follow-up audit recommendations and findings. Financial Specialist John Karner and Senior Financial Analyst for Special Districts Michael Kerrigan were present to respond to the follow-up audit report. For the full text of the follow-up report, please visit www.denvergov.org/auditor. Click on the Audit Services tab, then Audit Reports. This [follow-up report is published](#) under the 2014 Audit Reports header under its corresponding original audit, dated July 2014.

The follow-up audit report was discussed. The findings, summarized below, indicate that City Council can enhance oversight of Business Improvement Districts (BIDs).

Recommendation 1.1—IMPLEMENTED

Model BID Creation Ordinance – City Council should work with the Department of Finance, the Department of Public Works, and the City Attorney’s Office to identify the elements to be included in future Business Improvement District Creation Ordinances to ensure completeness. These elements should include core requirements, specific annual reporting, and other requirements such as conflict of interest reporting that are important to the City Council. This should be completed prior to future Business Improvement District formation.

Auditee Action: The Denver City Council continues to work with the Department of Finance to ensure that consistent creation ordinances are adopted. Since the 2014 audit, three new BIDs—Fax-Mayfair, RiNo, and Santa Fe—were formed. The ordinances reflect a consistent execution, recognizing the unique attributes of the businesses desiring formation and the establishment of City expectations. The Fax-Mayfair BID and Santa Fe BID were approved by City Council on August 20, 2014. Both BIDs were assigned to the Business Development Committee for a briefing on the creation and operating plans on August 5, 2014. On May 12, 2015, a briefing was scheduled for the Business Development Committee to discuss the creation of the RiNo BID (CB15- 0304). City Council approved the RiNo BID on June 1, 2015.

Recommendation 1.2—IMPLEMENTED

Review of Operating Plan and Budget – City Council should thoroughly review the Business Improvement District Operating Plans and Budgets presented by the Department of Finance each year. The City Council should also consider whether the current review process is effective for capturing the benefits that Business Improvement Districts provide to the City.

Auditee Action: The Department of Finance continues to receive annually the BID Operating Plans and Budgets. They are reviewed and shared with the council member in whose district the BID is located. On October 28, 2014, a comprehensive briefing was scheduled for the Business Development Committee to discuss all BIDs and information regarding their 2015 Operating Plans and Budgets in addition to information being placed on the Council Consent Agenda dated October 30, 2014.

Recommendation 1.3—IMPLEMENTED

Business Improvement District Fees – City Council should request that the Department of Finance reassess the fees charged to Business Improvement Districts, including the Letter of Intent fee and the annual fee. This should include evaluating the City’s goals regarding how much cost fees are intended to offset and the burden on the BID. Fees should then be uniformly applied. If a fee is adjusted or waived, the reasons should be documented. This should occur in advance of the next annual fee cycle.

Auditee Action: The Department of Finance amended the Rules and Regulations pertaining to BID fees in December 2014. The new fee structure reduced the creation fee by eliminating the \$5,000 Letter of Intent fee and implementing a \$500 application fee. In addition, the new fee structure eliminated the variable annual fee. The purpose is to enable the BIDs to maximize their budgets for economic development activities, thus increasing retail activities and job creation, which lead to a more vibrant business climate in Denver.

The next Audit Committee meeting will be held on Thursday, October 20, 2016 at 9:00 a.m. in the Parr-Widener Community Room (#389) on the 3rd floor of the City and County Building at 1437 Bannock Street.

With no other business the Committee adjourned at 10:58 a.m.

Prepared by Mollie Horne, Audit Committee staff