



## **Independent Audit Committee**

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

Meeting Minutes

Thursday, May 17, 2018, 9:00 a.m.

#### **Opening**

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

#### **Members Present**

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

#### **Also Present**

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

#### **Approval of April 19, 2018 Minutes**

The minutes were approved as written.

#### **Audit Report Briefing: Departments of Finance and Public Works Debt Management**

Audit Supervisor Jeremy Creamean, Lead Auditor Vilma Balnyte, and Senior Auditor Brian Cheli presented the audit findings and recommendations.

Beth Machann, City Controller; Bob Gibson, Director of Cash, Risk and Capital Funding; Laura Perry, Capital Planning and Programming Director; and Michael Sheehan, Public Works Director of Implementation were present to respond to the audit report on behalf of the Departments of Finance and Public Works.

For the full text of the report, including the agency responses, please visit [denverauditor.org/auditservices/audit-reports](http://denverauditor.org/auditservices/audit-reports). Scroll down to "Audit Report Archives." This report is published under the "2018 Audit" tab and is titled "[Department of Finance and Public Works – Debt Management](#)." View the video recording of the report discussion by navigating to [denverauditor.org/auditservices/audit-committee](http://denverauditor.org/auditservices/audit-committee) and scrolling down to "How to Watch." The most recent video will be listed first.

The Departments of Finance and Public Works agreed with all four of the Audit Team’s recommendations. The recommendations and the agency responses from the audit report are summarized below.

**Recommendation 1.1**

**Debt Policy Should Require Documentation of Exceptions**—The Department of Finance should update the City’s debt policy to require documentation for any deviation from the policy.

**Auditee Response:** Agree

**Recommendation 2.1**

**Documentation of Internal Controls**—The Department of Finance should improve internal controls over post-issuance procedures by requiring documentation of supervisory review of the covenant compliance checklist, the arbitrage rebate liability calculation, and debt workpapers for the Comprehensive Annual Financial Report.

**Auditee Response:** Agree

**Recommendation 2.2**

**Stronger Internal Controls Over Private Use**—The Cash, Risk, and Capital Funding Division should work with the Controller’s Office to add a question to the annual financial questionnaire to City agencies. The question should be structured to ask agencies about new potential private use of tax-free, debt-funded facilities.

**Auditee Response:** Agree

**Recommendation 2.3**

**Stronger Internal Controls Over Disclosable Events**—The Department of Finance should improve oversight of event disclosure by establishing a formal process to periodically review all potential event disclosures.

**Auditee Response:** Agree

**Evaluation Report Briefing: Office of Human Resources Compensation and Benefits**

Keith Galante, CPA (Texas), Partner, BKD Enterprise Risk Solutions; Adam Rouse, CFE, CCA, CCP, Senior Manager Consultant, BKD Enterprise Risk Solutions; and Audit Manager Kevin Sear presented the evaluation findings and recommendations.

Cindy Bishop, Deputy Director, OHR; Nicole de Gioia-Keane, Director of Classification & Compensation, OHR; and Heather Britton, Director of Benefits & Wellness, OHR were present to respond to the audit report on behalf of the Office of Human Resources.

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

The Office of Human Resources agreed with all four of BKD’s recommendations. The recommendations and the agency responses from the evaluation report are summarized below.

**Compensation Recommendation**

In an effort to confirm the findings with respect to the Segal audit of survey methodologies and recommendations, BKD recommends that the Mayor’s office commission this audit every four years as required in code section 18-5 and address the specific objectives outlined: “*The Mayor shall commission an independent audit of survey methodologies, determinations regarding generally prevailing rates and prevailing practices, and recommendations regarding pay rates and benefits made by the career service board or the Office of Human Resources Executive Director in the preceding year.*” The Mayor’s office should determine and conclude on the definition of an audit and determine if that includes an independent comparison study. The Mayor’s office should select the qualified independent firm and agree to the scope work to be performed by the qualified firm. Also, BKD recommends that the firm selected utilize and describe the standards or professional frameworks used in assessing the methodologies and provide their opinions with respect to the methodologies utilized by the City.

**Auditee Response:** Agree

**Benefits Recommendation**

The Mayor’s office should indicate how often the employee benefits are to be reviewed and potentially update the code to more clearly define this. In addition, upon request, the Mayor’s office should send a formal request to OHR for benefits to be reviewed.

Upon request from the Mayor’s office, benefits packages should be reviewed to ensure they are in line with comparable markets.

**Auditee Response:** Agree

**Self-Insurance Recommendation**

BKD recommends that Lockton present the latest opportunities available to the City to the Employee Health Insurance Committee (EHIC) who has the authority to recommend changes to OHR and the Career Service Board.

Any analysis performed by OHR upon the recommendation from EHIC should include the following considerations: financial, cash flow, risk tolerance levels, comparable coverage needs, and administration and compliance (fees, HIPAA, nondiscrimination).

Should the City ultimately decide to go forward with the self-insurance option, the City should utilize EHIC, and potentially other individuals/groups from various departments within the City, to assist OHR with providing comparable benefits including plan structure and options, administration, compliance, and financial design of the program.

**Auditee Response:** Agree

**Elected Official Compensation Recommendation**

BKD recommends that the charter be reviewed and enhanced to include roles and responsibilities with respect to determining the official's compensation calculation and the process as well as potential clarification regarding the calculations used.

OHR and City Council should jointly formulate procedural documentation around the calculation of official compensation; to include where data is obtained, how data is obtained, who obtains data, who performs the calculations, who reviews the calculation, what data fields are considered, timing of the calculation, timing of the payout and any other steps that need to be considered during the process, including retention of documentation for audit purposes.

**Auditee Response:** Agree

At the conclusion of the report briefing, Deputy Auditor Valerie Walling shared with the Committee an updated organizational chart of the Auditor's Office, as well as a photo directory, complete with biographies, of all office staff. She also reminded members of the change in date to the special meeting to discuss the CAFR with internal City personnel. The date was moved from Thursday, May 24 to Monday, June 4.

The next regular Audit Committee meeting will be held on Thursday, June 21, 2018 at 9:00 a.m. in the Parr-Widener Community Room (#389) on the 3<sup>rd</sup> floor of the City & County Building at 1437 Bannock Street.

With no other business, the Committee adjourned at 9:59 a.m.

Prepared by Mollie Horne, Audit Committee staff