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March 21, 2019

AUDITOR’S LETTER

The objective of the audit was to review the Denver Public Trustee in the Clerk and Recorder’s Office—including accounting practices, compliance with laws and regulations, and governance structure—and to evaluate the efficiency and effectiveness of the Denver Public Trustee’s internal controls over financial reporting and over the foreclosure process. I am pleased to present the results of this audit.

The audit revealed the Denver Public Trustee needs to significantly improve segregation of duties and internal controls over financial reporting, cash receipts, cash disbursements, reconciliations, and information systems. In addition, the Denver Public Trustee needs to formalize written policies and procedures related to its accounting functions.

Our assessment of the Denver Public Trustee’s systems indicates there is a significant weakness in internal controls affecting the agency. Through the design and implementation of stronger policies and segregation of duties, the Denver Public Trustee will be able to better mitigate the risk of mistakes and errors, improve the accuracy of its financial reporting, and provide greater transparency for the amount of financial transactions processed on behalf of others. Our report lists several related recommendations.

This performance audit is authorized pursuant to the City and County of Denver Charter, Article V, Part 2, Section 1, “General Powers and Duties of Auditor,” and was conducted in accordance with generally accepted government auditing standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We extend our appreciation to the Denver Public Trustee personnel who assisted and cooperated with us during the audit. For any questions, please feel free to contact me at 720-913-5000.

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor
Objective
The objective of the audit was to review the Denver Public Trustee—including its accounting practices, compliance with laws and regulations, and governance structure—and to evaluate the efficiency and effectiveness of its internal controls over the foreclosure process.

Background
Colorado state law establishes the foreclosure process and delegates authority to a public trustee within each county to oversee that process in an objective and fair manner. In some counties, the public trustee function is performed by the county treasurer, while in the City and County of Denver, the elected Clerk and Recorder serves as the public trustee.

Report Highlights

Highlights
The Denver Public Trustee’s Fund Activity Is Not Clearly Stated in the City’s Comprehensive Annual Financial Report
Agency fund activity in the City’s 2017 comprehensive annual financial report was presented based on the net change in assets and liabilities, rather than based on the gross activity passing through the fund.

The Denver Public Trustee Has a Significant Weakness in Internal Controls
During the course of our audit, we found numerous control deficiencies in the Denver Public Trustee’s accounting function. These deficiencies result in a significant weakness in internal control for the Denver Public Trustee. These deficiencies relate to:

• Insufficient written policies and procedures;
• An inadequate accounting system;
• Inaccurate recording of fee revenue;
• Errors in the list of fees that can be charged;
• Checks that are improperly printed and held;
• Improper accounting for held checks;
• A lack of controls over service organizations;
• Insufficient segregation of duties; and
• Poor user permissions and access management policies.

Payroll Approvals Are Accurate and Timely
We found that the Denver Public Trustee does approve employee time sheets accurately and in a timely manner.

For a copy of this report, visit www.denverauditor.org or contact the Auditor’s Office at (720) 913-5000.
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BACKGROUND

Colorado state law establishes the foreclosure process and delegates authority to a public trustee within each county to oversee that process in an objective and fair manner. In some counties, the county treasurer performs the public trustee function, while in other counties the governor appoints the public trustee. The City and County of Denver is unique in that its public trustee functions are performed by the Clerk and Recorder.¹

Denver Public Trustee  As illustrated in Figure 1, the Denver Public Trustee is the division within the Office of the Clerk and Recorder that is charged with performing the day-to-day operations to ensure the foreclosure process is handled objectively and fairly for all parties. In 2017 and 2018, the Denver Public

FIGURE 1. Office of the Clerk and Recorder Organization Chart

Source: 2019 Mayor’s Proposed Budget information.
Note: The dark blue emphasizes the organizational hierarchy for the Denver Public Trustee.

Trustee had an annual operating budget of about $275,000 to cover the salaries and benefits of four full-time employees.²

In recent years, the Denver Public Trustee has handled about 700 new foreclosure filings per year.³ There are multiple conditions under which a foreclosure may be initiated. Typically, this occurs when a property owner fails to make the required payments to their lender, and the lender initiates the foreclosure with the intention of selling the property to recover the unpaid debt.

**Foreclosure Process**

As illustrated in Figure 2 on the following page, to initiate the foreclosure process, a lien holder—such as a bank—submits a foreclosure packet to the Denver Public Trustee. The foreclosure packet includes evidence of debt, an assertion the property owner violated the loan agreement, and the notice of election and demand.⁴

The Denver Public Trustee then takes steps to sell the foreclosed-upon property in an auction, which is run by the division using an online tool developed and maintained by a vendor, and the division remits the funds to valid lien holders in order of priority and, if any funds remain, to the former property owner.

The auction sale is followed by a “redemption” period, which is the opportunity for subordinate lien holders, such as the issuer of a line of credit, to be made whole before their liens are stripped from the property. Once the redemption period ends, the foreclosure is finalized and closed.

Prior to the foreclosure sale, property owners may be able to “cure” the condition that led to the foreclosure being initiated, typically by paying the outstanding amount in default.⁵ In order to complete a cure, funds necessary to satisfy the debt are paid directly to the Denver Public Trustee, which then remits the funds to the lien holder.

While the Denver Public Trustee never takes ownership of a foreclosed-upon property, the division is responsible for collecting and remitting funds related to foreclosures. The division collects deposits from prospective foreclosure auction bidders, payments from auction winners, payments for cures, deposits from lien holders, and other funds, such as redemptions.

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⁴ Notice of election and demand are forms required by state law.

⁵ By curing a foreclosure, the property owners prevent the property from being sold at auction.
FIGURE 2. The Standard Foreclosure Process

**FORECLOSURE INITIATED**
A lien holder submits the foreclosure packet—which includes a “notice of election and demand”—to the Denver Public Trustee.

**ALL PARTIES NOTIFIED**
The notification process includes public notice of the foreclosure in local media and two “combined notices” sent to the parties involved. After the combined notice is provided to the property owner, one of the following three outcomes occurs: a) the property owner pays the outstanding amount in default, b) the property is sold at auction, or c) the lien holder submits a withdrawal to end the foreclosure.

**OPTION A: PROPERTY OWNER PAYS OFF THE DEBT**
If the owner wants to pay the outstanding amount, they must file an “intent to cure” form, requesting how much is owed. The Denver Public Trustee facilitates this as an intermediary between the property owner and the lien holder.

The property owner then pays the public trustee the outstanding amount due, and the trustee relays that money to the lien holder, which stops the foreclosure.

**OPTION B: PROPERTY SOLD AT AUCTION**
If the property owner does not pay the outstanding amount in default, the Denver Public Trustee holds a foreclosure auction to sell the property to the highest bidder.

**REDEMPTION PERIOD BEGINS**
After the auction, the redemption period occurs, which affords any subordinate lien holder the option to buy the foreclosed property from the highest bidder at the auction sale for the sale amount. This gives the subordinate lien holder the chance to make themselves whole.

**OPTION C: LIEN HOLDER WITHDRAWS THE FORECLOSURE**
The lien holder files to withdraw the foreclosure, without the property owner paying off the debt and without auctioning the property.

For example, this can happen when there is a modification to the loan agreement.

**FORECLOSURE CONCLUDES**
The Denver Public Trustee collects the money from the auction sale and relays it to the valid lien holders in order of priority.

Source: Developed by auditors based on information provided by Denver Public Trustee.

Note: This figure contains a simplified depiction of the foreclosure process. It does not capture the many nuances of individual and unique proceedings.
The Denver Public Trustee collected $23.7 million through this process in 2017. The Denver Public Trustee is responsible for safeguarding these funds for the property owners, lien holders, and prospective auction bidders.

The Denver Public Trustee then disburses the proceeds from auction sales, cures, and/or redemptions to the relevant lien holders to satisfy the outstanding debt. If applicable, remaining funds are disbursed to the former property owner.
FINDING 1

The Denver Public Trustee’s Fund Activity Is Not Clearly Stated in the City’s Comprehensive Annual Financial Report

In the City’s comprehensive annual financial report, as prepared by the Controller’s Office, dated December 31, 2017, the City aggregated all agency funds for financial reporting purposes. Agency funds are used to account for assets the City holds on behalf of others as their agent. These funds are not the property of the City but are temporarily held by the City.

As illustrated in Table 1, the agency fund total asset additions were understated by $20.7 million. Likewise, deductions from total assets were understated by $20.7 million. Total liability additions were understated by $23.6 million, and total liability deductions were also understated by $23.6 million. Although additions and deductions for both assets and liabilities were understated, the ending balances were correctly reported.

TABLE 1. Understatements of Denver Public Trustee Agency Funds

<table>
<thead>
<tr>
<th></th>
<th>Balance on January 1, 2017</th>
<th>Additions</th>
<th>Deductions</th>
<th>Balance on December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets – as originally recorded</td>
<td>$2,831,000</td>
<td>$3,001,000</td>
<td>$3,615,000</td>
<td>$2,217,000</td>
</tr>
<tr>
<td>Assets – as corrected</td>
<td>$2,831,000</td>
<td>$23,720,000</td>
<td>$24,334,000</td>
<td>$2,217,000</td>
</tr>
<tr>
<td>DIFFERENCE</td>
<td>—</td>
<td>($20,719,000)</td>
<td>($20,719,000)</td>
<td>—</td>
</tr>
<tr>
<td>Liabilities – as originally recorded</td>
<td>$2,831,000</td>
<td>$170,000</td>
<td>$784,000</td>
<td>$2,217,000</td>
</tr>
<tr>
<td>Liabilities – as corrected</td>
<td>$2,831,000</td>
<td>$23,720,000</td>
<td>$24,334,000</td>
<td>$2,217,000</td>
</tr>
<tr>
<td>DIFFERENCE</td>
<td>—</td>
<td>($23,550,000)</td>
<td>($23,550,000)</td>
<td>—</td>
</tr>
</tbody>
</table>

Source: Auditor’s Office analysis based on information provided by the Denver Public Trustee.

Note: a “As originally recorded” means how additions and deductions for the Denver Public Trustee’s agency funds were recorded in the City’s 2017 comprehensive annual financial report—which was done using net amounts. This calculation understates the true volume of money handled by the Denver Public Trustee in 2017.

b “As corrected” is based on auditors’ analysis of how the additions and deductions ought to have been recorded—which best practices state should be done using gross amounts. This calculation more transparently reports to the public how much money the Denver Public Trustee handles annually on behalf of others.

By understating assets and liabilities additions and deductions, the Denver Public Trustee’s reporting does not accurately reflect the actual amount of money flowing through the division. This minimizes the significance of the agency fund.

These understatements were because the closing journal entry recorded for the Denver Public Trustee agency fund was recorded as the net amount of activity for the year that ended December 31, 2017, rather than recorded as the gross activity amounts of additions and deductions.

The City’s Fiscal Accountability Rules require each City agency to complete a financial disclosure certification, confirming compliance with financial reporting requirements and confirming that any activity that could impact the City’s financial statements has been reported to the Controller’s Office.7

The accounting standards pertaining to agency funds, as set by the Governmental Accounting Standards Board, or GASB, state it is necessary for the financial statements to disclose the changes in the government’s custodial responsibilities.8

These standards, which are nonauthoritative guidance but help to determine GASB’s intent, go on to indicate that not only should cash receipts and disbursements be reported, but all activity should be measured and reported on the accrual basis. The GASB codification also provides an example showing individual agency fund totals instead of simply showing an aggregate total of all agencies’ funds, the practice the City uses.9 This presentation is more transparent as it provides greater detail of the changes in the government’s custodial responsibilities.

There is some ambiguity in the authoritative section of GASB codification on accounting for custodial agency funds. As a result, the Controller’s Office appears to have misapplied the relevant accounting standards in compiling financial data for the Denver Public Trustee agency fund by reporting the net activity rather than the gross activity.

The Controller’s Office has historically aggregated all agency funds for the purposes of disclosure in the City’s comprehensive annual financial report, as this is still permissible under GASB principles.

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However, aggregating the agency funds for disclosure purposes does not provide transparency for the operations of the City’s agency funds, which is particularly important as agency funds belong to entities outside the City. We noted that the activity reported in the agency fund schedule in the comprehensive annual financial report aggregates multiple agency funds used for a variety of purposes. As a result, the amounts relating to individual agency funds of the City, such as the Denver Public Trustee, are not transparently disclosed.

**RECOMMENDATION 1.1**

**Report All Denver Public Trustee Activity** – The Controller’s Office should work with the Denver Public Trustee to develop a process to ensure the full amount of additions and deductions are reported to the Controller’s Office and that those amounts are fully accounted for in the City’s comprehensive annual financial report, beginning with the December 31, 2018 report.

*Agency Response: Agree, Implementation Date – May 31, 2019*

**RECOMMENDATION 1.2**

**Disaggregate Agency Fund Reporting** – In the interest of promoting greater transparency, the Controller’s Office should consider disaggregating its reporting of the City’s agency funds in the comprehensive annual financial report going forward. This will allow the public to see the balances of assets and liabilities that relate to each fund at the beginning of the year, all additions and deductions relating to each fund, and the ending balances by fund at year-end.

*Agency Response: Agree, Implementation Date – May 31, 2020*
FINDING 2

The Denver Public Trustee Has a Significant Weakness in Internal Controls

“Standards for Internal Control in the Federal Government,” also known as the federal “Green Book,” defines internal control as “a process effected by an entity’s oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.”\textsuperscript{10} In essence, this means that an entity has implemented written policies and procedures that ensure operations are effective, efficient, reliable, and in compliance with applicable laws and regulations.

During the course of our audit, we identified several deficiencies in the Denver Public Trustee’s internal controls over accounting. We believe the impact of these combined deficiencies results in a “significant weakness” in the overall internal control structure of the Denver Public Trustee.\textsuperscript{11} We identified deficiencies related to the accounting system, the bank reconciliation process, cash receipts, cash disbursements, overall policies and procedures, and information technology general controls.

We noted that written policies and procedures do not exist for certain key functions, such as the review of foreclosure filings for completeness and accuracy. Because information is manually entered into the foreclosure case management system, there is an increased likelihood of error.

Although the Denver Public Trustee recognizes the need for a review process and has assigned this responsibility to a clerk, we found that policies and procedures to direct the foreclosure review process are not formalized in writing. Additionally, no evidence exists to show that review procedures were, in fact, performed. As a result, there is an increased risk foreclosure case files could contain erroneous information. This also could lead to inefficiencies and potential disruption to operations in the event there is turnover in key personnel.


\textsuperscript{11} A “significant weakness” is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a significant misstatement of the entity’s financial statements or processes will not be prevented, or detected and corrected, on a timely basis.
Not establishing formal written policies and procedures for all aspects of the Denver Public Trustee’s operations is the result of not providing adequate attention to internal controls. The federal Green Book defines standards for internal control in the federal government through a hierarchical structure of five components and 17 principles. These principles are used by organizations, including state and local governments, to develop an effective system of internal control.12 Figure 3 details these components and principles.


<table>
<thead>
<tr>
<th>Control Environment</th>
<th>Control Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The oversight body and management should demonstrate a commitment to integrity and ethical values.</td>
<td>10. Management should design control activities to achieve objectives and respond to risks.</td>
</tr>
<tr>
<td>2. The oversight body should oversee the entity’s internal control system.</td>
<td>11. Management should design the entity’s information system and related control activities to achieve objectives and respond to risks.</td>
</tr>
<tr>
<td>3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity’s objectives.</td>
<td>12. Management should implement control activities through policies.</td>
</tr>
<tr>
<td>4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.</td>
<td></td>
</tr>
<tr>
<td>5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk Assessment</th>
<th>Information and Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.</td>
<td>13. Management should use quality information to achieve the entity’s objectives.</td>
</tr>
<tr>
<td>7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.</td>
<td>14. Management should internally communicate the necessary quality information to achieve the entity’s objectives.</td>
</tr>
<tr>
<td>8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.</td>
<td>15. Management should externally communicate the necessary quality information to achieve the entity’s objectives.</td>
</tr>
<tr>
<td>9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Monitoring</th>
</tr>
</thead>
<tbody>
<tr>
<td>16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.</td>
</tr>
<tr>
<td>17. Management should remediate identified internal control deficiencies on a timely basis.</td>
</tr>
</tbody>
</table>


RECOMMENDATION 2.1

Update Key Policies and Procedures – The Denver Public Trustee should establish and document formal policies and procedures for key processes, such as the foreclosure review process, by the end of 2019. Policies and procedures should be designed to incorporate the five components and 17 principles of the internal control framework issued by the U.S. Government Accountability Office.

Agency Response: Agree, Implementation Date – June 30, 2020

The Denver Public Trustee Lacks an Adequate System to Account for Its Financial Transactions

For accounting purposes, the Denver Public Trustee primarily relies on its foreclosure management software, Benchmark. The division uses batch processes to record revenue transactions in the City’s Enterprise Cashiering System and posts an annual summary entry for the agency fund transactions into Workday, the City’s accounting system of record. While the City allows the use of subsidiary systems of record, such as Benchmark, we found several instances when Benchmark was not producing data consistent with the requirements of City Fiscal Accountability Rules. The rules require subsidiary systems that interface with a City system of record to “create, maintain, and communicate all relevant information required in the system of record" and “ensure the integrity of data."\(^{13}\)

Specifically, we found that the financial reporting data provided to the Controller’s Office was incomplete, and revenues recorded into Workday were incorrectly allocated between Workday accounts.

Finally, rather than having transaction data transferred between systems through automated integrations, significant manual intervention is needed to process transactions. This creates delays in processing data and increases risk of errors in the data.

The Green Book says “management should use quality information to achieve the entity’s objectives.”\(^ {14}\) The Green Book further notes that the data should be timely, relevant, and gathered from reliable sources, whether internal or external. The Denver Public Trustee’s accounting practices are not in alignment with this guidance.


Accounting processes use data from Benchmark along with spreadsheets to process transactions. When Workday was brought online in 2017, the Denver Public Trustee did not have adequate resources available to develop an integration between Benchmark and Workday, limiting the ability of the office to use Workday.

Relying on Benchmark—which we observed is not designed as a true accounting system—along with spreadsheets creates inefficiencies, because office accounting staff need to build labor-intensive workarounds to help with managing transactions. With the use of spreadsheets for processing significant accounting data, there is a heightened risk of errors and inaccuracies in the data ultimately uploaded to Workday.

**RECOMMENDATION 2.2**

**Integrate Benchmark with Workday** – The Denver Public Trustee, in conjunction with the Controller’s Office and the Technology Services agency, should determine if an integration can be built to transfer financial information from Benchmark into Workday by the end of 2019.

*Agency Response: Agree, Implementation Date – December 31, 2019*

**RECOMMENDATION 2.3**

**Record All Transactions in Workday** – In addition to developing and implementing integrations between Benchmark and Workday, the Denver Public Trustee should immediately record the summary of daily transaction activity into Workday on a timely basis and use Workday as its primary system of accounting.

*Agency Response: Agree, Implementation Date – December 31, 2019*

**Revenue Is Improperly Allocated in Workday**

While observing the Denver Public Trustee’s monthly reporting of revenue, we identified inaccuracies in the allocation of revenue recorded in Workday, the City’s accounting system of record, and a lack of management review of these revenue transactions.

A single person is solely responsible for recording and reconciling these transactions. For example, the Denver Public Trustee in November 2018 reported “postage” revenue in the amount of $403, but this was improperly allocated to the “copies” category. By not properly
allocating revenue to the correct category in Workday, there is an increased likelihood of mistakes, errors, and inaccuracies in the City’s accounting records. This is indicative of a larger issue related to weak internal controls around recording transactions.

The Green Book says management should have controls so all transactions are “completely and accurately recorded.”\(^{15}\) The Green Book also recognizes that a smaller entity, such as the Public Trustee, “faces greater challenges in segregating duties because of its concentration of responsibilities and authorities in the organizational structure. Management, however, can respond to this increased risk through the design of the internal control system, such as by adding additional levels of review for key operational processes, reviewing randomly selected transactions and their supporting documentation, taking periodic asset counts, or checking supervisor reconciliations.”\(^ {16}\)

**RECOMMENDATION 2.4**

**Improve Policies and Procedures for Revenue Transactions** – The Denver Public Trustee should, by the end of 2019, develop and implement formal written policies and procedures requiring revenue transactions be reconciled and reviewed after they are recorded in the City’s Enterprise Cashiering System and in Workday, and that this be done by someone other than the person who recorded the transactions.

**Agency Response: Agree, Implementation Date – December 31, 2019**

**Automatically Assessed Fees Are NotRegularly Reviewed**

The Denver Public Trustee’s foreclosure management system, Benchmark, includes outdated fee information. Fees charged by the division are set and updated by state laws that require specific amounts for different activities. Table 2 on the following page lists some of the fees.

During our audit, we observed that many of the fees included in the Benchmark system were only applicable under outdated rules that have been replaced. As an example, the Denver Public Trustee’s office used a different software system before implementing the current Benchmark system. The previous software system charged a $65 usage fee for each file processed and that fee was still active in Benchmark.

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even though it is no longer needed. Other fees are possibly duplicates of legitimate fees, but with names that are either unclear or unusable. We also observed that the Denver Public Trustee’s office does not have a written policy to periodically review and update the fee schedule in Benchmark.

In response to this audit, the Denver Public Trustee updated its fees to prevent employees from using the outdated fees identified by the audit team. Had these outdated fees remained available in the system, employees could have selected one, which could charge the wrong amount to a lien holder or property owner. Because Benchmark is a relatively new system for the Denver Public Trustee, the division has not developed a regular review process.

**TABLE 2. Partial List of Fees Charged by Denver Public Trustee**

<table>
<thead>
<tr>
<th>Fee</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening and Administering a Foreclosure*</td>
<td>$150</td>
</tr>
<tr>
<td>Notice of Subordinate Lien Holder’s Intent to Redeem</td>
<td>$50</td>
</tr>
<tr>
<td>Fee to Restart Foreclosure after Bankruptcy</td>
<td>$75</td>
</tr>
<tr>
<td>Withdrawal Fee</td>
<td>$35</td>
</tr>
</tbody>
</table>

**Source:** Denver Public Trustee.

**Note:** *The fee is $150 if “the original principal amount or the outstanding balance (whichever is less) is equal to or under $480,000.” If the outstanding balance is greater than $480,000, then the fee is 0.00031 percent of the outstanding balance.*

**RECOMMENDATION 2.5**

**Create Policies and Procedures for Fees** – The Denver Public Trustee should, by the end of 2019, create and implement formal written procedures for regularly reviewing active fees that can be charged to an account. This procedure should ensure fees align with current state law and ensure there are no outdated or incorrect fees available to employees.

**Agency Response: Agree, Implementation Date – June 30, 2019**
The Denver Public Trustee’s practice is to print and hold checks owed to former property owners. When a foreclosed property sells at auction, or the outstanding debt is otherwise satisfied, any excess funds are paid to the former property owner. Due to the limitations of the Denver Public Trustee’s accounting system, as a matter of expediency, the division regularly prints and holds these checks for the foreclosed-upon property owner to claim when submitting the necessary documentation to file a claim to receive the excess funds.

While we did not identify any misappropriated checks, holding preprinted checks creates a risk of fraud for the Denver Public Trustee. The Green Book notes that one fraud risk factor is when “circumstances exist, such as the absence of controls, ineffective controls, or the ability of management to override controls, that provide an opportunity to commit fraud.”

The Green Book also notes that management should design control activities to, among other activities, “secure and safeguard vulnerable assets. Examples (of vulnerable assets) include … cash, securities, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use.”

Because these checks have not been issued and are still in the possession of the Denver Public Trustee, there is a risk they could be misappropriated. Transitioning responsibility for check-writing to the Controller’s Office will reduce risks of misappropriation in the check-writing process.

RECOMMENDATION 2.6

Move Check-Writing to Controller’s Office – The Denver Public Trustee, in conjunction with the Controller’s Office, should develop a plan to move the function of check-writing to the Controller’s Office by the end of 2019.

Agency Response: Agree, Implementation Date – December 31, 2019
RECOMMENDATION 2.7

Prohibit Preprinting of Checks – Until Recommendation 2.6 is implemented, the Denver Public Trustee should immediately update its written policies and procedures to prohibit the practice of printing checks in advance.

Agency Response: Agree, Implementation Date – June 30, 2020

Held Checks Are Not Properly Treated for Accounting Purposes

We observed that the Denver Public Trustee does not distinguish between held and outstanding checks in its bank reconciliation form, treating both as outstanding checks. A “held check” is one that has been written but has not yet been sent to the payee; an “outstanding check” is one that has been sent to the payee but has not cleared the bank account from which it is drawn. As of October 31, 2018, the Denver Public Trustee had incorrectly recorded 12 printed and held checks as outstanding, resulting in an understatement of $268,000 in cash and accounts payable.

There are significant differences in how these checks should be treated for accounting purposes. Held checks are checks that have not yet been sent to a payee, so the underlying cash remains under the control of the issuer. As such, held checks should not reduce reported cash balances at year-end. Meanwhile, outstanding checks, which are no longer in the issuer’s control, should reduce year-end cash balances.

According to the Governmental Accounting Standards Board, “assets are resources with present service capacity that the government presently controls.”19 Because held checks have not been issued and are still in the possession of the public trustee, they still meet the definition of an asset. The reason the held checks were not treated properly was that the Denver Public Trustee was not aware of the accounting difference between held and outstanding checks, which resulted in an understatement of the Denver Public Trustee’s October 31, 2018 cash balance of $268,000. Moving bank reconciliation functions to the Controller’s Office, which handles bank reconciliations for most of the City, would allow the Denver Public Trustee to leverage the expertise of the Controller’s Office and reduce risks of error in the bank reconciliation process and related processes.

RECOMMENDATION 2.8

**Move Bank Reconciliation Process to Controller’s Office** – The Denver Public Trustee, in conjunction with the Controller’s Office, should develop a plan to move the function of performing bank reconciliations to the Controller’s Office by the end of 2019.

**Agency Response: Agree, Implementation Date – June 30, 2020**

RECOMMENDATION 2.9

**Update Bank Reconciliation Form** – Until Recommendation 2.8 can be implemented, the Denver Public Trustee should immediately update its bank reconciliation form to distinguish between outstanding checks and held checks and account for both held checks and outstanding checks in accordance with Governmental Accounting Standards Board guidance.

**Agency Response: Agree, Implementation Date – December 31, 2018**

A “service organization” is a third-party vendor that provides services critical to the City’s operations and internal control structure. The Denver Public Trustee relies on third-party service organizations for vital services, such as managing fees, tracking requirements to keep the foreclosure process moving, recording prices paid by and amounts owed to stakeholders, and conducting foreclosure auctions. Improper or erroneous changes made to the software system by a service organization can interfere with the Denver Public Trustee’s operations, which could create delays in the foreclosure process or create an opportunity for funds to be misappropriated.

To prevent this risk, the Denver Public Trustee should take steps to understand how its service organizations operate and to also understand the controls the service organization has in place for operating and managing changes to its system. The Green Book says “management needs to understand the controls each service organization has designed, has implemented, and operates for the assigned operational process and how the service organization’s internal control system impacts the entity’s internal control system.” Such understanding of a service organization is important because,

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even though these are external systems, the City and the Denver Public Trustee are ultimately responsible for their operations.

According to the City’s Fiscal Accountability Rules, the Denver Public Trustee must annually attest to the effectiveness of its controls, including those at its service organizations.\(^{(21)}\) The American Institute of Certified Public Accountants provides a framework for service providers to provide an independent attestation report that certifies the suitability of the design and operation of a service provider’s internal controls—referred to as a Service Organization Controls report. An independent firm formally provides this assurance.\(^{(22)}\)

However, we found that the Denver Public Trustee has not obtained Service Organization Controls reports from its third-party service providers. In the absence of these reports, the Denver Public Trustee has implemented some mitigating controls, such as a testing environment for one of the two software systems managed by service organizations. In a testing environment, changes to the system can be vetted and verified before affecting live data. However, these controls do not consider all risks related to system changes. There is still a risk changes made to the underlying code could have unintended effects on other parts of the system—resulting in incorrect reports, calculations, or other outputs. There also could be changes made to code that were not clear and, therefore, not thoroughly tested.

Auditors worked with the third-party vendors to try to obtain Service Organization Controls reports, but neither of the Denver Public Trustee’s service organizations could provide the reports.

When implementing third-party systems, the Denver Public Trustee prioritized statutory compliance and efficiency but did not give adequate attention to internal controls for achieving its goals. If internal controls are lacking, the Denver Public Trustee is at risk of not complying with the City’s Fiscal Accountability Rules, exposing the City to increased risk of transactions being incorrectly processed.


RECOMMENDATION 2.10

Obtain and Review Service Organization Controls Reports – The Denver Public Trustee should work with third-party vendors that provide critical services to obtain Service Organization Controls reports from them by the end of 2019. These reports should be carefully reviewed to determine if there are any weaknesses or gaps in the controls provided by the vendor and to identify critical “user controls” the Denver Public Trustee needs to have in place to rely on the vendor’s controls.

Agency Response: Agree, Implementation Date – December 31, 2019

RECOMMENDATION 2.11

Develop and Implement Policies and Procedures for Service Organizations – The Denver Public Trustee should develop and implement formal written policies and procedures for monitoring its third-party vendors that provide critical services but that do not have Service Organization Controls reports available by the end of 2019. These policies and procedures should address all critical requirements that would otherwise be addressed in a standard Service Organization Controls report.

Agency Response: Agree, Implementation Date – December 31, 2019

The Denver Public Trustee Has Insufficient Segregation of Duties

We found that the Denver Public Trustee has assigned incompatible job responsibilities to one employee. Specifically, we noted that a single employee has primary or secondary responsibility for performing almost all critical financial processes.

For example, the employee can create check requests, approve check requests, print checks, and create and submit the positive pay file to the bank. The employee also approves or rejects positive pay exceptions and reconciles the bank accounts. While the employee is not able to sign checks, the ability to approve “positive pay” exceptions allows for that control to be overridden. This employee has similar levels of power in the cash receipts process.

Based on our inquiries and observations, we found that the Denver Public Trustee has limited personnel and operating budget available to

23 “Positive pay” is a service provided by a bank that helps protect against fraudulent check activity. After a check is issued, the issuer provides the check information to the bank. Prior to processing the check, the bank uses this information to verify that the check is valid and approved. If discrepancies are detected, the bank stops processing the check and notifies the issuer of the discrepancy.
allocate adequate resources to develop an effective system of internal controls, specifically related to the segregation of duties. Furthermore, our inquiries and observations also indicate the office has not given adequate attention to developing a robust system of financial internal controls, and has instead focused on meeting its goals of serving the public and ensuring compliance with state law.

City Fiscal Accountability Rules say “no one person should be able to prepare a transaction, approve it, process it, and then reconcile department records to the accounting system.” Furthermore, the rules say that, “in small agencies or departments, where separation is difficult to achieve, a high level of management oversight of the financial related activities is required as a compensating control activity.” The rules also require agency heads in small agencies to develop a plan to cross-train employees by having staff members periodically rotate jobs to mitigate the risks that arise from a lack of segregation of duties.

Meanwhile, Fiscal Accountability Rules also require each agency to annually certify it has established effective internal controls.

The Green Book says segregation of duties reduces the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording transactions, reviewing transactions, and handling any related assets, so that no single individual controls all key aspects of a transaction.

As previously stated, the Green Book also says smaller entities face greater challenges in segregating duties because of the concentration of responsibilities and authorities in its organizational structure. Management can respond to this increased risk through internal controls—such as by adding additional levels of review for key operational processes, reviewing randomly selected transactions and their supporting documentation, or checking supervisor reconciliations.

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24 Compensating control activities are additional controls that are needed when the main control is not working. In this example, the main control is proper segregation of duties. Because there are not enough people to have effective segregation of duties, management needs to perform additional levels of reviews.


As a result of an inadequate segregation of duties, the Denver Public Trustee is exposed to a significant amount of fraud risk, as well as related risks of error or omissions.

**RECOMMENDATION 2.12**

**Strengthen Segregation of Duties** – The Denver Public Trustee should improve segregation of duties by conducting and documenting a thorough review of the current duties assigned to its staff, including identifying incompatible job responsibilities by the end of 2019. The Denver Public Trustee should then remove some incompatible duties from personnel with excessive responsibilities and move those responsibilities to other personnel. For example, a single employee should not have the authority to create and submit the positive pay file as well as have the responsibility to approve or reject positive pay exceptions.

**Agency Response: Agree, Implementation Date – December 31, 2019**

**User Access Policies for Critical Information Systems Are Inadequate**

Individuals with inappropriate levels of access can make unauthorized changes to Denver Public Trustee information systems. While we did not see any evidence of unauthorized changes, inadequate written policies surrounding access management and user permissions leave critical information systems at risk. For example, a user with inappropriate access could override the amount paid for a property, which could result in a lien holder being incorrectly paid.

We identified instances when user access to Benchmark, the agency’s foreclosure case management system, had not been revoked for individuals who no longer worked for the Denver Public Trustee. Users who leave the Denver Public Trustee’s office should not be able to access or make changes in Benchmark. However, because user access is not regularly reviewed, these individuals still had the ability to access the system. This occurred because there is no written policy in the Public Trustee’s office to regularly review user permissions to determine if those permissions are still appropriate. In addition, the Denver Public Trustee does not have a written policy to review access rights for departing employees to ensure access is promptly removed.

Best practices require an organization to take proper steps to ensure user permissions are appropriate for the user’s purpose. The Federal Information Systems Control Manual recommends user permissions be well-documented and regularly reviewed. A user’s access should
match what is necessary to accomplish their job function. Further, the National Institute of Standards and Technology requires management to regularly review accounts for compliance. Some Denver Public Trustee user accounts have permissions to override controls. For instance, management can both request payments issued from the system and manage users. Hypothetically, system administrators can create users, alter key information, such as payee or the amount of a payment, request payments, and approve payment. The National Institute of Standards and Technology says information systems should separate duties by function to reduce risk. Specifically, the institute suggests “dividing mission functions and information system support functions among different individuals and/or roles.”

The Denver Public Trustee frequently needs to add users to its system, including external users. Therefore, the Denver Public Trustee has, in the past, kept user management functions internal. However, the division would improve internal controls by outsourcing this function.

RECOMMENDATION 2.13

Delegate Authority for User Permissions – To better segregate duties, the Denver Public Trustee should, by the end of 2019, assign the ability for modifying user permissions to someone who does not have other responsibilities in Benchmark.

Agency Response: Agree, Implementation Date – June 30, 2019

RECOMMENDATION 2.14

Implement Timely Removal of Access – The Denver Public Trustee should immediately create and implement formal written policies and procedures for the timely removal of access for terminated or transferred employees.

Agency Response: Agree, Implementation Date – December 31, 2019


RECOMMENDATION 2.15

Develop Review Process for User Permissions – The Denver Public Trustee should create and implement formal written policies and procedures to periodically review user permissions to ensure all users have appropriate access to Denver Public Trustee information systems and that there are no unauthorized users with access to the information systems by the end of 2019.

Agency Response: Agree, Implementation Date – June 30, 2020
FINDING 3
Payroll Approvals Are Accurate and Timely

We found that managers in the Denver Public Trustee are verifying all employee time sheets in accordance with City Fiscal Accountability Rules, which require managers to approve employee payroll within two business days following the end of any pay period.32

Auditors verified the time sheet approvals required from May 1, 2018, through November 31, 2018, and found managers have approved time sheets within the designated time frame. Even in instances when one manager was not available, another manager successfully approved the time sheets.

This shows the Denver Public Trustee has taken steps to ensure time sheets are approved in a timely manner. These approvals help ensure accountability that employees are paid for the time they worked and not overpaid due to error or misrepresentation.

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**RECOMMENDATIONS**

1.1 **Report All Denver Public Trustee Activity** – The Controller’s Office should work with the Denver Public Trustee to develop a process to ensure the full amount of additions and deductions are reported to the Controller’s Office and that those amounts are fully accounted for in the City’s comprehensive annual financial report, beginning with the December 31, 2018 report.

**Agency Response: Agree, Implementation Date – May 31, 2019**

Agency Narrative: We agree with the recommendation. Beginning with the 2018 Comprehensive Annual Financial Report (CAFR), we will report the additions and deductions of the Public Trustee fund at the gross amounts where they were previously reported at the net amount.

1.2 **Disaggregate Agency Fund Reporting** – In the interest of promoting greater transparency, the Controller’s Office should consider disaggregating its reporting of the City’s agency funds in the comprehensive annual financial report going forward. This will allow the public to see the balances of assets and liabilities that relate to each fund at the beginning of the year, all additions and deductions relating to each fund, and the ending balances by fund at year-end.

**Agency Response: Agree, Implementation Date – May 31, 2020**

Agency Narrative: We agree with the recommendation. In 2019 we will be implementing GASB 84 – Fiduciary Activities which updates guidance on the classification of fiduciary activities and how those activities are reported. As part of the implementation process we will be replacing the Statement of Changes in Assets and Liabilities – Agency Funds with a new Statement of Changes in Net Position. We will ensure the amounts reported in the Fiduciary Fund financial statements are disaggregated by source, making the data more transparent for the reader.

2.1 **Update Key Policies and Procedures** – The Denver Public Trustee should establish and document formal policies and procedures for key processes, such as the foreclosure review process, by the end of 2019. Policies and procedures should be designed to incorporate the five components and 17 principles of the internal control framework issued by the U.S. Government Accountability Office.

**Agency Response: Agree, Implementation Date – June 30, 2020**

Agency Narrative: The Public Trustee’s Office agrees with this recommendation. While the Public Trustee staff are well trained in their duties, we acknowledge that written documentation of our procedures are needed and would improve our internal controls. We are exploring the feasibility of engaging a professional writer to assist us in the task of developing a complete manual by December 31, 2019. Should this prove infeasible, the office will work on creating the documentation in house with the goal of completion by June 30, 2020.
2.2 **Integrate Benchmark with Workday** – The Denver Public Trustee, in conjunction with the Controller’s Office and the Technology Services agency, should determine if an integration can be built to transfer financial information from Benchmark into Workday by the end of 2019.

**Agency Response: Agree, Implementation Date – December 31, 2019**

Agency Narrative: The Public Trustee’s Office agrees with this recommendation based on pending discussions with the Controller’s Office, Technology Services and the vendors of the two software systems. We acknowledge that an integration between Benchmark and Workday could be useful and is a topic worth exploring. We plan to have discussions regarding the feasibility of an integration and make a determination by December 31, 2019.

2.3 **Record All Transactions in Workday** – In addition to developing and implementing integrations between Benchmark and Workday, the Denver Public Trustee should immediately record the summary of daily transaction activity into Workday on a timely basis and use Workday as its primary system of accounting.

**Agency Response: Agree, Implementation Date – December 31, 2019**

Agency Narrative: The Public Trustee’s Office agrees with this recommendation, pending the outcome of discussions with the Controller’s Office. The Public Trustee’s Office currently uploads only revenue activity into Workday on a monthly basis. The Public Trustee’s Office can see the value of increasing the frequency of the uploads to daily and adding additional transaction types. The Public Trustee’s Office is committed to working with the Controller’s Office and the vendors to modify current processes and procedures as needed. The requested discussions will be at the same time as in Recommendation 2.2. Our goal of completion is December 31, 2019.

2.4 **Improve Policies and Procedures for Revenue Transactions** – The Denver Public Trustee should, by the end of 2019, develop and implement formal written policies and procedures requiring revenue transactions be reconciled and reviewed after they are recorded in the City’s Enterprise Cashiering System and in Workday, and that this be done by someone other than the person who recorded the transactions.

**Agency Response: Agree, Implementation Date – December 31, 2019**

Agency Narrative: Regarding the revenue posting mentioned in the Audit Report, please note this item was corrected via a journal in 2018. We would like to clarify the City’s Enterprise Cashiering System’s (ECS) role in this process. Each revenue transaction that occurs within the Public Trustee’s Office is first recorded into Benchmark. Monthly, a summary of revenue earned is generated from Benchmark, reviewed, and then used to issue an ACH transaction. This ACH moves the funds from the Denver Public Trustee’s account to the City. Once the funds are moved, the agency uses ECS to create revenue postings in Workday. Our agency does have a review and reconciliation process in place for all items processed daily through the ECS. We agree improving the segregation of duties and providing written policies and procedures would improve our internal controls overall. The goal of completion for this process will be December 31, 2019.
2.5 **Create Policies and Procedures for Fees** – The Denver Public Trustee should, by the end of 2019, create and implement formal written procedures for regularly reviewing active fees that can be charged to an account. This procedure should ensure fees align with current state law and ensure there are no outdated or incorrect fees available to employees.

**Agency Response: Agree, Implementation Date – June 30, 2019**

Agency Narrative: We agree with this recommendation. The Public Trustee has reviewed their fees within the Benchmark System and has inactivated any that are no longer relevant. The Public Trustee’s Office will create a policy and schedule a regular reviewing of the fees to ensure any fees that become obsolete will be disabled in a timely manner by June 30, 2019.

2.6 **Move Check-Writing to Controller’s Office** – The Denver Public Trustee, in conjunction with the Controller’s Office, should develop a plan to move the function of check-writing to the Controller’s Office by the end of 2019.

**Agency Response: Agree, Implementation Date – December 31, 2019**

Agency Narrative: The Public Trustee’s Office recognizes the value of segregating duties. We will discuss the feasibility of this recommendation with the Controller’s Office by June 30, 2019. Should it be feasible to implement this recommendation, we will work with the Controller’s Office to develop a plan to implement this recommendation by December 31, 2019.

2.7 **Prohibit Preprinting of Checks** – Until Recommendation 2.6 is implemented, the Denver Public Trustee should immediately update its written policies and procedures to prohibit the practice of printing checks in advance.

**Agency Response: Agree, Implementation Date – June 30, 2020**

Agency Narrative: We agree with this recommendation. The Public Trustee’s Office as of December 31, 2018 is no longer printing checks in advance, and currently is not holding any pre-printed checks. This action will be noted as prohibited in all future written policies and procedures.

2.8 **Move Bank Reconciliation Process to Controller’s Office** – The Denver Public Trustee, in conjunction with the Controller’s Office, should develop a plan to move the function of performing bank reconciliations to the Controller’s Office by the end of 2019.

**Agency Response: Agree, Implementation Date – June 30, 2020**

Agency Narrative: The Public Trustee’s Office recognizes the value of segregating duties. We will discuss the feasibility of this recommendation with the Controller’s Office by June 30, 2019. Should it be feasible to implement this recommendation, we will work with the Controller’s Office to develop a plan to implement this recommendation by December 31, 2019.

2.9 **Update Bank Reconciliation Form** – Until Recommendation 2.8 can be implemented, the Denver Public Trustee should immediately update its bank reconciliation form to distinguish between outstanding checks and held checks and account for both held checks and
outstanding checks in accordance with Governmental Accounting Standards Board guidance.

**Agency Response: Agree, Implementation Date – December 31, 2018**

Agency Narrative: We agree with this recommendation. The Public Trustee’s Office as if December 31, 2018 has eliminated the need to distinguish between held and outstanding checks per our response to 2.7.

2.10 **Obtain and Review Service Organization Controls Reports** – The Denver Public Trustee should work with third-party vendors that provide critical services to obtain Service Organization Controls reports from them by the end of 2019. These reports should be carefully reviewed to determine if there are any weaknesses or gaps in the controls provided by the vendor and to identify critical “user controls” the Denver Public Trustee needs to have in place to rely on the vendor’s controls.

**Agency Response: Agree, Implementation Date – December 31, 2019**

Agency Narrative: We agree with this recommendation. The Public Trustee’s Office sees the value in ensuring that a vendor’s software performs the tasks we need it to without error, and that no errors are introduced into its processes when an update to the software is performed. The Public Trustee’s Office will continue to attempt to obtain SOC reports from existing vendors and if we obtain them, will work with Technology Services to implement a plan to review them.

2.11 **Develop and Implement Policies and Procedures for Service Organizations** – The Denver Public Trustee should develop and implement formal written policies and procedures for monitoring its third-party vendors that provide critical services but that do not have Service Organization Controls reports available by the end of 2019. These policies and procedures should address all critical requirements that would otherwise be addressed in a standard Service Organization Controls report.

**Agency Response: Agree, Implementation Date – December 31, 2019**

Agency Narrative: We agree with this recommendation. For vendors from whom SOC reports are not available, the Public Trustee’s Office will commit to having a discussion with Technology Services about the feasibility of developing a written policy/procedure document that addresses all critical requirements that would otherwise be in a standard SOC report.

2.12 **Strengthen Segregation of Duties** – The Denver Public Trustee should improve segregation of duties by conducting and documenting a thorough review of the current duties assigned to its staff, including identifying incompatible job responsibilities by the end of 2019. The Denver Public Trustee should then remove some incompatible duties from personnel with excessive responsibilities and move those responsibilities to other personnel. For example, a single employee should not have the authority to create and submit the positive pay file as well as have the responsibility to approve or reject positive pay exceptions.

**Agency Response: Agree, Implementation Date – December 31, 2019**
Agency Narrative: We agree with this recommendation. The Public Trustee’s accounting team is comprised of two people and as with any small accounting team, any changes in staff can increase the challenges we face when it comes to the separation of duties. We will re-evaluate the current processes and responsibilities for each employee and segregate responsibilities as much as possible using other Public Trustee staff where possible. For the areas where segregation is more difficult, we will implement more management oversight and create a process to document that these checks and balances are taking place. In regards to the Positive Pay example, although it appeared that there was only one employee involved in the process, there are other employees who also receive the exception emails directly from the bank. The process when such an event occurs is to respond via email to the other employees on the decision to pay or reject and why. We believe we can improve processes like this as well as other internal controls by providing them in written form by December 31, 2019.

2.13 Delegate Authority for User Permissions – To better segregate duties, the Denver Public Trustee should, by the end of 2019, assign the ability for modifying user permissions to someone who does not have other responsibilities in Benchmark.

Agency Response: Agree, Implementation Date – June 30, 2019

Agency Narrative: We agree with this recommendation. The Public Trustee’s Office acknowledges there is a deficiency within the segregation of duties regarding user permissions with its benchmark tool. However, we are concerned that to comply with this recommendation will require intervention from our vendor, Benchmark. We will commit to discussing the opportunity with our vendor by June 30, 2019 to determine the feasibility of making this change.

2.14 Implement Timely Removal of Access – The Denver Public Trustee should immediately create and implement formal written policies and procedures for the timely removal of access for terminated or transferred employees.

Agency Response: Agree, Implementation Date – December 31, 2019

Agency Narrative: We agree with this recommendation. The Public Trustee’s Office will work with the Clerk and Recorder agency’s program staff to include benchmark in their new hire/terminated employee process by December 31, 2019.

2.15 Develop Review Process for User Permissions – The Denver Public Trustee should create and implement formal written policies and procedures to periodically review user permissions to ensure all users have appropriate access to Denver Public Trustee information systems and that there are no unauthorized users with access to the information systems by the end of 2019.

Agency Response: Agree, Implementation Date – June 30, 2020

Agency Narrative: We agree with this recommendation. The Public Trustee’s Office will commit to generating a formal written policy for periodically reviewing User Permissions within benchmark and will enact the policy in accordance with recommendation 2.1.
March 11, 2019

Auditor Timothy M. O’Brien, CPA  
Office of the Auditor  
City and County of Denver  
201 West Colfax Avenue, Dept. 705  
Denver, Colorado 80202

Dear Mr. O’Brien,

The Office of the Auditor has conducted a performance audit of the Clerk and Recorder’s Office, Office of the Public Trustee.

This memorandum provides a written response for each reportable condition noted in the Auditor’s Report final draft that was sent to us on March 6, 2019. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING 1  
The Denver Public Trustee’s Fund Activity Is Not Clearly Stated in the City’s Comprehensive Annual Financial Report

| RECOMMENDATION 1.1 | Report All Denver Public Trustee Activity – The Controller’s Office should work with the Denver Public Trustee to develop a process to ensure the full amount of additions and deductions are reported to the Controller’s Office and that those amounts are fully accounted for in the City’s comprehensive annual financial report, beginning with the December 31, 2018 report. |
| Agree or Disagree with Recommendation | Target date to complete implementation activities (Generally expected within 60 to 90 days) | Name and phone number of specific point of contact for implementation |
| Agree | May 31, 2019 | Kelli Bennett  
720-913-5156 |

Narrative for Recommendation 1.1  
We agree with the recommendation. Beginning with the 2018 Comprehensive Annual Financial Report (CAFR), we will report the additions and deductions of the Public Trustee fund at the gross amounts where they were previously reported at the net amount.
RECOMMENDATION 1.2
Disaggregate Agency Fund Reporting – In the interest of promoting greater transparency, the Controller’s Office should consider disaggregating its reporting of the City’s agency funds in the comprehensive annual financial report going forward. This will allow the public to see the balances of assets and liabilities that relate to each fund at the beginning of the year, all additions and deductions relating to each fund, and the ending balances by fund at year-end.

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<tr>
<td>Agree</td>
<td>May 31, 2020</td>
<td>Kelli Bennett 720-913-5156</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 1.2
We agree with the recommendation. In 2019 we will be implementing GASB 84 – Fiduciary Activities which updates guidance on the classification of fiduciary activities and how those activities are reported. As part of the implementation process we will be replacing the Statement of Changes in Assets and Liabilities – Agency Funds with a new Statement of Changes in Net Position. We will ensure the amounts reported in the Fiduciary Fund financial statements are disaggregated by source, making the data more transparent for the reader.

Please contact Kelli Bennett at 720-913-5156 with any questions.

Sincerely,

Beth Machann
City Controller

cc: Valerie Walling, Deputy Auditor, CPA, CMC®
Jeremy Creaman, CPA, Audit Supervisor
Kevin Sear, CPA, CIA, CISA, CFE, CGMA, Audit Manager
Debra Johnson, Clerk and Recorder
Juan Guzman, Deputy Clerk and Recorder
March 11, 2019

Auditor Timothy M. O’Brien, CPA
Office of the Auditor
City and County of Denver
201 West Colfax Avenue, Dept. 705
Denver, Colorado 80220

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AUDIT FINDING 2
The Denver Public Trustee Has a Significant Weakness in Internal Controls

<table>
<thead>
<tr>
<th>RECOMMENDATION 2.1</th>
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<tbody>
<tr>
<td>Update Key Policies and Procedures</td>
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<tr>
<td>Agree</td>
<td>June 30, 2020</td>
<td>John Davies 720-865-2677</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 2.1
The Public Trustee’s Office agrees with this recommendation. While the Public Trustee staff are well trained in their duties, we acknowledge that written documentation of our procedures are needed and would improve our internal controls. We are exploring the feasibility of engaging a professional writer to assist us in the task of developing a complete manual by December 31, 2019. Should this prove infeasible, the office will work on creating the documentation in house with the goal of completion by June 30, 2020.
RECOMMENDATION 2.2

Integrate Benchmark with Workday – The Denver Public Trustee, in conjunction with the Controller’s Office and Technology Services, should determine if an integration can be built to transfer financial information from Benchmark into Workday by the end of 2019.

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<tr>
<td>Agree</td>
<td>December 31, 2019</td>
<td>John Davies 720-865-2677 and Lisa Sandoval 720-865-8408</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 2.2

The Public Trustee’s Office agrees with this recommendation based on pending discussions with the Controller’s Office, Technology Services and the vendors of the two software systems. We acknowledge that an integration between Benchmark and Workday could be useful and is a topic worth exploring. We plan to have discussions regarding the feasibility of an integration and make a determination by December 31, 2019.

RECOMMENDATION 2.3

Record All Transactions in Workday – In addition to developing and implementing integrations between Benchmark and Workday, the Denver Public Trustee should immediately record the summary daily transaction activity into Workday on a timely basis and use Workday as its primary system of accounting.

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</table>

Narrative for Recommendation 2.3

The Public Trustee’s Office agrees with this recommendation, pending the outcome of discussions with the Controller’s Office. The Public Trustee’s Office currently uploads only revenue activity into Workday on a monthly basis. The Public Trustee’s Office can see the value of increasing the frequency of the uploads to daily and adding additional transaction types. The Public Trustee’s Office is committed to working with the Controller’s Office and the vendors to modify current processes and procedures as needed. The requested discussions will be at the same time as in Recommendation 2.2. Our goal of completion is December 31, 2019.
RECOMMENDATION 2.4

Improve Policies and Procedures for Revenue Transactions – The Denver Public Trustee should, by the end of 2019, develop and implement formal written policies and procedures requiring revenue transactions be reconciled and reviewed after they are recorded in the City’s Enterprise Cashiering System and in Workday, and that this be done by someone other than the person who recorded the transactions.

<table>
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<tr>
<td>Agree</td>
<td>December 31, 2019</td>
<td>Lisa Sandoval (720) 865-8408</td>
</tr>
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Narrative for Recommendation 2.4

Regarding the revenue posting mentioned in the Audit Report, please note this item was corrected via a journal in 2018. We would like to clarify the City’s Enterprise Cashiering System’s (ECS) role in this process. Each revenue transaction that occurs within the Public Trustee’s Office is first recorded into Benchmark. Monthly, a summary of revenue earned is generated from Benchmark, reviewed, and then used to issue an ACH transaction. This ACH moves the funds from the Denver Public Trustee’s account to the City. Once the funds are moved, the agency uses ECS to create revenue postings in Workday. Our agency does have a review and reconciliation process in place for all items processed daily through the ECS. We agree improving the segregation of duties and providing written policies and procedures would improve our internal controls overall. The goal of completion for this process will be December 31, 2019.

RECOMMENDATION 2.5

Create Policies and Procedures for Fees – The Denver Public Trustee should, by the end of 2019, create and implement formal written procedures for regularly reviewing active fees that can be charged to an account. This procedure should ensure fees align with current state law and ensure there are no outdated or incorrect fees available to employees.

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<td>Agree</td>
<td>June 30, 2019</td>
<td>John Davies 720-865-2677</td>
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Narrative for Recommendation 2.5

We agree with this recommendation. The Public Trustee has reviewed their fees within the Benchmark System and has inactivated any that are no longer relevant. The Public Trustee’s Office will create a policy and schedule a regular reviewing of the fees to ensure any fees that become obsolete will be disabled in a timely manner by June 30, 2019.
RECOMMENDATION 2.6
Move Check-Writing to Controller’s Office – The Denver Public Trustee, in conjunction with the Controller’s Office, should develop a plan to move the function of check-writing to the Controller’s Office by the end of 2019.

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Narrative for Recommendation 2.6
The Public Trustee’s Office recognizes the value of segregating duties. We will discuss the feasibility of this recommendation with the Controller’s Office by June 30, 2019. Should it be feasible to implement this recommendation, we will work with the Controller’s Office to develop a plan to implement this recommendation by December 31, 2019.

RECOMMENDATION 2.7
Prohibit Preprinting of Checks – Until Recommendation 2.6 is implemented, the Denver Public Trustee should immediately update its written policies and procedures to prohibit the practice of printing checks in advance.

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<td>John Davies 720-865-2677 and Lisa Sandoval (720) 865-8408</td>
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Narrative for Recommendation 2.7
We agree with this recommendation. The Public Trustee’s Office as of December 31, 2018 is no longer printing checks in advance, and currently is not holding any pre-printed checks. This action will be noted as prohibited in all future written policies and procedures.
RECOMMENDATION 2.8
Move Bank Reconciliation Process to Controller’s Office – The Denver Public Trustee, in conjunction with the Controller’s Office, should develop a plan to move the function of performing bank reconciliations to the Controller’s Office by the end of 2019.

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Narrative for Recommendation 2.8
The Public Trustee’s Office recognizes the value of segregating duties. We will discuss the feasibility of this recommendation with the Controller’s Office by June 30, 2019. Should it be feasible to implement this recommendation, we will work with the Controller’s Office to develop a plan to implement this recommendation by December 31, 2019.

RECOMMENDATION 2.9
Update Bank Reconciliation Form – Until Recommendation 2.8 can be implemented, the Denver Public Trustee should immediately update its bank reconciliation form to distinguish between outstanding checks and held checks and account for both held checks and outstanding checks in accordance with Governmental Accounting Standards Board guidance.

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<td>December 31, 2018</td>
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Narrative for Recommendation 2.9
We agree with this recommendation. The Public Trustee’s Office as if December 31, 2018 has eliminated the need to distinguish between held and outstanding checks per our response to 2.7.
### RECOMMENDATION 2.10

**Obtain and Review Service Organization Controls Reports** – The Denver Public Trustee should work with third-party vendors that provide critical services to obtain Service Organization Controls reports from them by the end of 2019. These reports should be carefully reviewed to determine if there are any weaknesses or gaps in the controls provided by the vendor and to identify critical “user controls” the Denver Public Trustee needs to have in place to rely on the vendor’s controls.

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<td>Agree</td>
<td>December 31, 2019</td>
<td>Sara Harmer 720-913-4820</td>
</tr>
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**Narrative for Recommendation 2.10**

We agree with this recommendation. The Public Trustee’s Office sees the value in ensuring that a vendor’s software performs the tasks we need it to without error, and that no errors are introduced into its processes when an update to the software is performed. The Public Trustee’s Office will continue to attempt to obtain SOC reports from existing vendors and if we obtain them, will work with Technology Services to implement a plan to review them.

### RECOMMENDATION 2.11

**Develop and Implement Policies and Procedures for Service Organizations** – The Denver Public Trustee should develop and implement formal written policies and procedures for monitoring its third-party vendors that provide critical services but that do not have Service Organization Controls reports available by the end of 2019. These policies and procedures should address all critical requirements that would otherwise be addressed in a standard Service Organization Controls report.

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**Narrative for Recommendation 2.11**

We agree with this recommendation. For vendors from whom SOC reports are not available, the Public Trustee’s Office will commit to having a discussion with Technology Services about the feasibility of developing a written policy/procedure document that addresses all critical requirements that would otherwise be in a standard SOC report.
RECOMMENDATION 2.12

**Strengthen Segregation of Duties** – The Denver Public Trustee should improve segregation of duties by conducting and documenting a thorough review of the current duties assigned to its staff, including identifying incompatible job responsibilities by the end of 2019. The Denver Public Trustee should then remove some incompatible duties from personnel with excessive responsibilities and move those responsibilities to other personnel. For example, a single employee should not have the authority to create and submit the positive pay file as well as have the responsibility to approve or reject positive pay exceptions.

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**Narrative for Recommendation 2.12**

We agree with this recommendation. The Public Trustee’s accounting team is comprised of two people and as with any small accounting team, any changes in staff can increase the challenges we face when it comes to the separation of duties. We will re-evaluate the current processes and responsibilities for each employee and segregate responsibilities as much as possible using other Public Trustee staff where possible. For the areas where segregation is more difficult, we will implement more management oversight and create a process to document that these checks and balances are taking place. In regards to the Positive Pay example, although it appeared that there was only one employee involved in the process, there are other employees who also receive the exception emails directly from the bank. The process when such an event occurs is to respond via email to the other employees on the decision to pay or reject and why. We believe we can improve processes like this as well as other internal controls by providing them in written form by December 31, 2019.
RECOMMENDATION 2.13
Delegate Authority for User Permissions – To better segregate duties, the Denver Public Trustee should, by the end of 2019, assign the ability for modifying user permissions to someone who does not have other responsibilities in Benchmark.

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Narrative for Recommendation 2.13
We agree with this recommendation. The Public Trustee’s Office acknowledges there is a deficiency within the segregation of duties regarding user permissions with its benchmark tool. However, we are concerned that to comply with this recommendation will require intervention from our vendor, Benchmark. We will commit to discussing the opportunity with our vendor by June 30, 2019 to determine the feasibility of making this change.

RECOMMENDATION 2.14
Implement Timely Removal of Access – The Denver Public Trustee should immediately create and implement formal written policies and procedures for the timely removal of access for terminated or transferred employees.

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Narrative for Recommendation 2.14
We agree with this recommendation. The Public Trustee’s Office will work with the Clerk and Recorder agency’s program staff to include benchmark in their new hire/terminated employee process by December 31, 2019.
### RECOMMENDATION 2.15

**Develop Review Process for User Permissions** – The Denver Public Trustee should create and implement formal written policies and procedures to periodically review user permissions to ensure all users have appropriate access to Denver Public Trustee information systems and that there are no unauthorized users with access to the information systems by the end of 2019.

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### Narrative for Recommendation 2.15

We agree with this recommendation. The Public Trustee’s Office will commit to generating a formal written policy for periodically reviewing User Permissions within benchmark and will enact the policy in accordance with recommendation 2.1.

Please contact John Davies at 720-865-2677 with any questions.

Sincerely,

[Signature]

John Davies  
Chief Deputy Public Trustee

cc:  Valerie Walling, Deputy Auditor, CPA, CMC®  
Jeremy Creamean, CPA, Audit Supervisor  
Kevin Sear, CPA, CIA, CISA, CFÉ, CGMA, Audit Manager  
Debra Johnson, Clerk and Recorder  
Juan Guzman, Deputy Clerk and Recorder  
Beth Machann, Controller
OBJECTIVE

The objective of the audit was to review the Denver Public Trustee—including its accounting practices, compliance with laws and regulations, and governance structure—and to evaluate the efficiency and effectiveness of its internal controls over the financial reporting and foreclosure process.

SCOPE

The scope of the audit included all Denver Public Trustee financial transactions between January 1, 2017, and December 31, 2018, including, but not limited to foreclosure filings, outside auction sales, cures, and redemptions. The scope of the audit did not include the transfer of titles.

METHODOLOGY

We used several methodologies to gather and analyze information related to the audit objective, including but not limited to:

• Interviewing the following individuals:
  ○ Leadership and management of the Denver Public Trustee and
  ○ Key members of the Denver Public Trustee staff.

• Reviewing the following criteria:
  ○ City ordinances and state laws, including Colorado Revised Statutes, the Denver Charter, and the Denver Revised Municipal Code;
  ○ The Denver Public Trustee’s internal policies and procedures; and
  ○ City and County of Denver Fiscal Accountability Rules.

• Conducting observations of key processes, including the creation of foreclosure case files, cash receipts, cash-handling, cash disbursements, and reconciliations.

• Analyzing the following:
  ○ The Mayor’s budget books for 2017-2019;
  ○ Bank account activity and balances;
  ○ Data obtained from the Denver Public Trustee’s foreclosure case management system, Benchmark, and its online auction system, RealAuction; and
  ○ Financial information obtained from the City’s system of record, Workday.

• Testing the following:
  ○ Third-party confirmation of a statistical sample of unclaimed property remitted to the state’s Great Colorado Payback Program;
○ Payroll approvals;
○ Third-party confirmation of the Denver Public Trustee’s bank balances; and
○ The Denver Public Trustee’s information technology general controls, including Service Organization Controls reports.
APPENDICES

Appendix A – Glossary

Agency fund – Agency funds are a type of fiduciary fund and are generally used to account for assets the City holds on behalf of others as their agent.33

Benchmark – The information system used by the Denver Public Trustee for tracking the foreclosure process, tracking payments to and from stakeholders, and maintaining the record of events in a foreclosure.

Control deficiency – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.34

Cure – Absent a renegotiation of the loan between the lender and borrower, the borrower may stop the foreclosure process by “curing” the default. This means the borrower may bring the loan up to date by paying the outstanding loan default.35

Fiduciary fund – Fiduciary funds are trust and agency funds that account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. These include expendable trust funds, nonexpendable trust funds, pension trust funds, and agency funds.36

Lien holder – A creditor or party who holds a mortgage or a legally enforceable right (lien) on a specific asset, good, or property of another as security for a debt.37 An example would be a bank that holds the mortgage on a house.

Significant weakness – A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a significant misstatement of the entity’s financial statements or processes will not be prevented, or detected and corrected, on a timely basis.

Positive pay – A service provided by a bank that helps protect against fraudulent check activity. After a check is issued, the issuer provides the check information to the bank. Prior to processing the check, the bank uses this information to verify that the check is valid and approved. If discrepancies are detected, the bank stops processing the check and notifies the issuer of the discrepancy.

Redemption – After a foreclosed property has been sold at auction, the junior lien holders have an opportunity to purchase the foreclosed property at the auction sale price before their liens are stripped from the property.38

Workday – The City’s authorized data system of document storage. Among other purposes, Workday is used to record and manage financial data, as well as to store supporting documentation for financial transactions.

Office of the Auditor

The **Auditor** of the City and County of Denver is independently elected by the citizens of Denver. He is responsible for examining and evaluating the operations of City agencies and contractors for the purpose of ensuring the proper and efficient use of City resources. He also provides other audit services and information to City Council, the Mayor, and the public to improve all aspects of Denver’s government.

The **Audit Committee** is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities regarding the integrity of the City’s finances and operations, including the reliability of the City’s financial statements. The Audit Committee is structured in a manner that ensures the independent oversight of City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.

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201 West Colfax Avenue, #705
Denver CO, 80202
(720) 913-5000 ♦ Fax (720) 913-5253
www.denverauditor.org

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**Our Mission**

We deliver independent, transparent, and professional oversight in order to safeguard and improve the public’s investment in the City of Denver. Our work is performed on behalf of everyone who cares about the City, including its residents, workers, and decision-makers.