FOLLOW-UP REPORT
Capital Assets: Buildings and Equipment
Citywide
March 2020

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Audit Services Division
City and County of Denver

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March 5, 2020

AUDITOR’S LETTER

In keeping with generally accepted government auditing standards and Auditor’s Office policy, as authorized by city ordinance, the Audit Services Division has a responsibility to monitor and follow up on audit recommendations to ensure audit findings are addressed through appropriate corrective action and to aid us in planning future audits.

In our follow-up effort for the citywide Capital Assets: Buildings and Equipment audit issued April 19, 2018, we determined the Controller’s Office, the Department of Public Safety, the Department of Parks and Recreation, the Department of Transportation & Infrastructure (previously Public Works), the Department of General Services, Denver Arts and Venues, and the Wastewater Management Division did not implement most of the recommendations made in the audit report. Only two of eight recommendations were fully implemented. Therefore, auditors determined the risks associated with the audit team’s initial findings have not been fully mitigated. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure appropriate corrective action is taken.

The Highlights page in this report provides background and summary information about the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation.

I would like to express our sincere appreciation to personnel from the Controller’s Office, the Department of Public Safety, the Department of Parks and Recreation, the Department of Transportation & Infrastructure (previously Public Works), the Department of General Services, Denver Arts and Venues, and the Wastewater Management Division who assisted us throughout the audit and the follow-up process. For any questions, please feel free to contact me at 720-913-5000.

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor
Follow-Up Status
The Controller’s Office; the departments of Public Safety, Parks and Recreation, Transportation & Infrastructure, and General Services; Denver Arts and Venues; and the Wastewater Management Division fully implemented only two of the eight recommendations made in the April 2018 audit report.

Objective
To determine the operating effectiveness of internal controls over capital assets, and to assess the accuracy, existence, and completeness of capital asset data in the system of record.

Background
Capital assets have an initial useful life of greater than one year. As a general rule, assets over $5,000 are capitalized and depreciated over the estimated useful life of the asset. Fiscal Accountability Rule 4.2 provides rules for capital assets that all city agencies must follow, including to recognize when an asset should be capitalized, at what amount it should be recorded, and who is responsible for managing the asset. The rule also requires agencies to annually count their asset inventory and report the results to the Controller’s Office.

Highlights from Original Audit
Our audit of the city’s capital assets revealed that there were several inaccuracies in the capital asset list. Inaccuracies could be addressed and prevented with improvements to the capital asset policies and procedures, monitoring of inventory counts, and access to capital asset training.

Errors found in our detailed testing indicated that city agencies may not have given due process and care to the annual capital asset inventory process, during which personnel are responsible for ensuring that their listed capital assets can be found and that any inaccuracies found are noted and corrected. We tested a statistical sample of 124 assets across the city, and 15 items could not be located. Other issues noted in our testing included:

- Incorrect asset locations
- Inaccurate or insufficient asset descriptions
- Blank or incorrect identification numbers
- Incorrect classification
- Incorrect historical cost
- Missing records
- Lack of timeliness in adding new assets and deleting old ones

Our audit work also identified areas where the Controller’s Office could improve its monitoring of the agencies’ capital asset inventory process and enhance the guidance given to agencies through capital asset policies and procedures. Additionally, inventory training should be updated accordingly and made available to all personnel responsible for tracking their agencies’ assets.

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RECOMMENDATION — STATUS OF IMPLEMENTATION

FINDING – Inaccuracies Found in the City’s Capital Asset List Can Be Addressed and Prevented with Improvements to Capital Asset Inventory Counts and Other Capital Asset Processes

Recommendation

1.1 Establish and Assign Locations – The departments of Public Safety, Parks and Recreation, Public Works, and General Services; Denver Arts and Venues; and the Wastewater Management Division should work with the Controller’s Office to establish new Workday locations as necessary, document a review of the agency’s asset list to identify assets that need a more precise location, and assign assets a more precise location in Workday.

Status: Implemented (Original target date for completion: Various, ranging from June 1, 2018, to Sept. 30, 2018)

Agency Action

To evaluate the changes all agencies made to their asset locations in Workday, we compared their 2018 and 2019 asset inventory lists submitted to the Controller’s Office. As a result of our analysis, we determined that, in total, the agencies had removed 98 old asset locations and added 186 more precise asset locations in Workday.

All agencies implemented Recommendation 1.1 by working with the Controller’s Office to create more precise asset locations in Workday. Specifically, during the annual inventory count process, the agencies reviewed the location assigned to each asset and updated it as needed.

Establish and Assign Locations

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Recommendation

1.2 Correct Errors Found During Testing – The departments of Public Safety, Parks and Recreation, Public Works, and General Services; Denver Arts and Venues; and the Wastewater Management Division should correct the errors and data inconsistencies identified in the audit’s detailed testing, as found in Appendix B of the [original audit] report.

Status: Partially Implemented (Original target date for completion: Various, ranging from June 15, 2018, to Sept. 30, 2018)

Agency Action

To evaluate whether the agencies corrected the errors found in the original audit, we compared each error reported in the original audit to what is currently reflected in Workday. Based on our analysis, we found that, while the Department of Parks and Recreation, the Department of Transportation & Infrastructure (previously the Department of Public Works), and the Wastewater Management Division corrected 100% of the errors identified in the original audit, the remaining three agencies did not make all suggested changes.

The audit team found the Department of General Services did not implement Recommendation 1.2 because of significant turnover at the executive and management levels. The individuals originally assigned the responsibility to implement this recommendation vacated their positions without making the suggested corrections. Therefore, the responsibility to implement this recommendation was inherited by the new management without their knowledge. Once management became aware of the errors that needed correcting, they began forming a corrective action plan. However, as of this follow-up audit, the Department of General Services’ corrective action plan remains in its infancy.

Both the Department of Public Safety and Denver Arts and Venues partially implemented Recommendation 1.2. Specifically, out of 32 corrections assigned to the Department of Public Safety, one suggestion to update an incorrect asset location was determined to be no longer applicable due to the highly mobile nature of the asset. But out of the remaining 31 corrections, the department addressed only 18, or 58%.

Correct Errors Found During Testing

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Meanwhile, out of seven corrections that Denver Arts and Venues needed to address, the agency determined that one suggestion to fix inconsistent dates was no longer applicable due to its small-dollar impact. Of the remaining six suggested corrections, Denver Arts and Venues addressed five, or 83%. The only item the agency was unable to correct by the end of our follow-up was the historical cost of a piece of artwork originally assigned to the Department of Parks and Recreation, which was later transferred to Denver Arts and Venues. The agency is working with the Controller’s Office to resolve this.

In all, three of the six agencies fully implemented Recommendation 1.2, two partially implemented it, and one did not implement it. Therefore, because only half of the city agencies fully implemented the recommendation, we consider Recommendation 1.2 to be, overall, only partially implemented.

Recommendation

1.3 Clean Up Old Data Issues – The departments of Public Safety, Parks and Recreation, Public Works, and General Services; Denver Arts and Venues; and the Wastewater Management Division should develop and document a plan of action for the 2018 asset inventory count that will instruct personnel to detect and correct the types of errors identified in [the original] audit, including blank identification numbers, wrong locations, and inaccurate or insufficient asset descriptions.

Status: Not Implemented (Original target date for completion: Various implementation dates ranging from June 30, 2018, to Sept. 30, 2018)

Agency Action

Out of the six city agencies, two — the Department of Parks and Recreation and Denver Arts and Venues — partially implemented Recommendation 1.3. The remaining four agencies did not implement this recommendation.

Clean Up Old Data Issues

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Specifically, Parks and Recreation was successful in developing and executing a plan to visit seven recreation centers and spot-check a random sample of assets at each location. Similarly, Denver Arts and Venues was successful in developing a naming convention to use when recording new capital and controlled assets in Workday. However, Denver Arts and Venues’ plan addressed only the addition of new assets and not the names of the agency’s preexisting assets.

However, neither the Department of Parks and Recreation nor Denver Arts and Venues were able to provide evidence of specific instructions communicated to personnel involved in the annual inventory count on how to detect and correct all types of errors identified by the original audit. Accordingly, we consider Recommendation 1.3 to be only partially implemented by both agencies.

Meanwhile, the departments of Public Safety, Transportation & Infrastructure (previously Public Works), and General Services and the Wastewater Management Division could not provide documentation evidencing instructions were provided to agency personnel on how to detect and correct the types of errors identified by the original audit. Therefore, we conclude these four agencies did not implement Recommendation 1.3.

Because more than half the city agencies we audited did not implement Recommendation 1.3, we consider this recommendation to be, overall, not implemented.

Recommendation

1.4 Develop Internal Capital Asset Policies and Procedures – In consultation with the Controller’s Office, the departments of Public Safety, Parks and Recreation, Public Works, and General Services; Denver Arts and Venues; and the Wastewater Management Division should develop internal capital asset policies and procedures. Policies and procedures should specify a strategy for conducting an efficient and effective inventory of their capital assets, such as selecting an inventory count approach, utilizing subsidiary inventory systems, utilizing secondary reviews or spot-checks, verifying the accuracy of information in the capital asset list, developing internal training, and using performance metrics and goals for individuals involved in the annual inventory process.

Status: Partially Implemented (Original target date for completion: Various, ranging from June 30, 2018, to Sept. 30, 2018)

Agency Action

To determine whether the six agencies developed internal capital asset policies and procedures that incorporated all recommended strategies for conducting an efficient and effective inventory, we obtained and reviewed the policies and procedures each agency developed and compared them to best practices of the U.S. Government Accountability Office.

Our follow-up work found that of the six agencies, the Department of Public Safety implemented this recommendation, while three other agencies partially implemented it and two agencies did not implement it. Because the majority of city agencies at least partially implemented Recommendation 1.4, we consider this recommendation to be, overall, partially implemented.
The Department of Transportation & Infrastructure, Denver Arts and Venues, and the Wastewater Management Division attempted to address this recommendation by developing internal capital asset policies and procedures. However, their policies and procedures lack further detail and guidance than what is already included in city Fiscal Accountability Rule 4.2. GAO best practices advise adding training requirements, performing secondary reviews or spot-checks, or adding performance metrics and goals for individuals involved in the annual inventory process.¹

The Department of Parks and Recreation and the Department of General Services are still developing capital asset policies and procedures. Both agencies experienced significant turnover in the positions responsible for implementing this recommendation.

### Recommendation

1.5 **Develop Plan to Monitor Internal Controls** – The Controller’s Office should develop a plan to monitor internal controls to ensure that agencies are giving due process to the asset inventory counts, such as:

- Having a Controller’s Office representative sign the annual asset certification form to indicate internal review; and
- Performing spot-checks of assets, potentially using GPS-tagged photos for existence verification.

**Status:** Partially Implemented (Original target date for completion: July 31, 2018)

**Agency Action**

To evaluate whether the Controller’s Office developed a plan to monitor the effectiveness of the

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inventory count process, we examined the updated 2019 asset certification form to see whether it had a designated place for the Controller’s Office to document its internal review, such as the performance of spot-checks. The form did not.

In response to our recommendation, the Controller’s Office determined that rather than signing each agency’s asset certification form, the office could better monitor its review by performing spot-checks of a random sample of assets and tracking the submission of each agency’s asset certification form in an internal tracking spreadsheet. While the Controller’s Office chose not to include their reviewer’s signature on the form, we did note that they added instruction for the agencies to perform spot-checks of their own. See Recommendation 1.8 for the action the Controller’s Office took to update the asset certification form.

While the Controller’s Office did perform spot-checks on a random sample of 50 capital assets in 2018, we identified nine instances when the photograph of the asset did not include enough information to evidence that the asset in the photograph was, in fact, the same asset as the one in Workday. While the Controller’s Office developed a tracking spreadsheet for the 2019 inventory process, one was not available in 2018.

Accordingly, we determine Recommendation 1.5 to be only partially implemented. The incomplete information obtained during the Controller’s Office’s spot-checks indicates the need for the Controller’s Office to strengthen its review of the asset certification forms submitted by agencies, thereby holding each agency accountable for the completeness and accuracy of its inventory count.

Recommendation

1.6 **Update Fiscal Accountability Rules and Procedures** – The Controller’s Office should continue to update relevant Fiscal Accountability Rules and associated procedures to address the following:

- Making changes due to the Workday conversion, including updating procedures and step-by-step guidance;
- Requiring agencies, in consultation with the Controller’s Office, to determine whether they need supplemental asset procedures, which could include a step-by-step guide for conducting efficient and effective capital inventory counts. Policies and procedures should incorporate GAO’s best practices of inventory, such as selecting an approach, strategy, and frequency for different types of assets; utilizing subsidiary inventory systems and photos to verify existence during the annual count; performing spot-checks of asset data in Workday; incorporating “floor-to-book” and “book-to-floor” tests; utilizing performance metrics; and developing agency-specific training; and
- Mandating training requirements for all agency personnel involved in annual capital asset inventory counts.

Status: Partially Implemented (Original target date for completion: July 31, 2018)
Agency Action

The Controller’s Office updated Fiscal Accountability Rule 1.2 regarding the system of record in April 2018 and updated Rule 4.2 on capital and controlled assets in August 2019, although they had agreed to implement the update as early as July 31, 2018.

Fiscal Accountability Rule 4.2 is the city’s policy on how agencies should conduct an accurate and complete inventory. At the time of the original audit, the rule did not include sufficient guidance to allow a successful inventory process. As a result, our audit found several issues related to the city inventory process. Recommendation 1.6 intended for the Controller’s Office to add critical and step-by-step guidance — based on the U.S. Government Accountability Office’s best practices — which would allow the city to improve its inventory process. For example, GAO’s leading practices include helpful steps such as performing spot-checks of asset data, incorporating “floor-to-book” and “book-to-floor” tests, using performance metrics, and developing agency-specific training to better the inventory process.2

The Controller’s Office incorporated the use of spot-checks in the updated fiscal accountability procedures. However, the Fiscal Accountability Rule and procedures do not formalize other critical requirements that would help the city improve the inventory process.

For example, the rule and associated procedures do not include critical guidance such as uploading digital photographs into the system of record, nor do they include conducting “floor-to-book” and “book-to-floor” tests to explain the meaning of such practices. Finally, the rule does not include the requirement for inventory custodians to attend regular trainings, and it does not address assigning specific performance metrics and goals to individuals involved in the inventory process. Specifying what requirements are necessary to have an accurate inventory process allows city agencies to have clear guidance and expectations, while increasing overall accountability in the process.

The Controller’s Office should continue to update Fiscal Accountability Rule 4.2 to ensure more comprehensive guidance for the inventory process. Accordingly, we determined Recommendation 1.6 was only partially implemented.

Recommendation

1.7 Develop Training Regarding Capital Assets – Once [Fiscal Accountability Rule 4.2] is updated, the Controller’s Office should develop asset training and make it available to all city personnel on City U. Topics for training should include, but are not limited to, allowable costs for capitalization, how to book partially donated assets, manual entry of assets (outside of the Workday procure-to-pay process), assigning costs of improvements to preexisting assets, and how to split costs over multiple capital projects/assets.

Status: Implemented (Original target date for completion: July 31, 2018)

Agency Action

The Controller’s Office developed capital asset training and made it available to all city personnel. The training does not specifically address how to book partially donated assets, how to assign costs of improvements to preexisting assets, or how to split costs over multiple capital projects and assets. However, policies, procedures, and Workday job aids provide additional guidance to agency personnel. Additionally, agency personnel are directed to contact the Controller’s Office if they have any questions or need additional assistance. Therefore, we determined Recommendation 1.7 is fully implemented.

Recommendation

1.8 Update Agency-Specific Asset List and Asset Certification Form – The Controller’s Office should update the asset certification form to require that agencies indicate which assets they spot-checked.

Status: Partially Implemented (Original target date for completion: July 31, 2018)

Agency Action

The Controller’s Office updated the asset certification form to direct agencies to perform spot-checks. However, the office did not require agencies to indicate which assets they spot-checked.

By not requiring agencies to document on the certification form that they reviewed specific assets, the Controller’s Office does not hold agencies accountable for the accuracy of their inventory. Further, the Controller’s Office may not be able to ensure the capital asset balances are accurately disclosed in the city’s statement of net position in the Comprehensive Annual Financial Report.

Therefore, we determined the Controller’s Office only partially implemented Recommendation 1.8.
CONCLUSION

While the Controller’s Office, the Department of Public Safety, the Department of Parks and Recreation, the Department of Transportation & Infrastructure (previously Public Works), the Department of General Services, Denver Arts and Venues, and the Wastewater Management Division have implemented some recommendations made in the Capital Assets: Buildings and Equipment Audit Report, others have yet to be acted upon or fully implemented. Despite the agency’s efforts, auditors determined the risk associated with the audit team’s initial findings has not been fully mitigated. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure appropriate corrective action is taken.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from the Controller’s Office, the Department of Public Safety, the Department of Parks and Recreation, the Department of Transportation & Infrastructure (previously Public Works), the Department of General Services, Denver Arts and Venues, and the Wastewater Management Division for their cooperation during our follow-up effort and for their dedicated public service.
Office of the Auditor

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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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