FOLLOW-UP REPORT
Special Revenue Funds
Citywide
March 2020

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Audit Services Division
City and County of Denver

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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.

For the Special Revenue Funds audit originally issued Oct. 19, 2017, our follow-up efforts have determined that the Department of Safety, the Department of Transportation & Infrastructure (previously the Department of Public Works), the Budget and Management Office, the District Attorney’s Office, and the Clerk and Recorder’s Office have fully implemented the recommendations made in the audit report. We also found that the Controller’s Office has fully implemented one of the recommendations made to it, partially implemented another recommendation, and has not implemented one. Lastly, the Mayor’s Office has not implemented the two recommendations made to it.

Despite the efforts of the various agencies involved in this audit, 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 the all of the city personnel 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
Special Revenue Funds
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Follow-Up Status
The Department of Safety, the Department of Transportation & Infrastructure, the Budget and Management Office, the District Attorney’s Office, and the Clerk and Recorder’s Office have fully implemented our recommendations. The Controller’s Office has implemented one, partially implemented another, and not implemented a third recommendation. The Mayor’s Office has not implemented either of the two recommendations made to it.

Objective
The objective of the original audit was to determine whether there was a process in place to ensure that special revenue funds were being set up, reported, and removed in a consistent manner, and to determine whether revenues and expenditures of the funds were in compliance with ordinances, laws, and other requirements.

Background
A special revenue fund is used to separate and track incoming funds when the expenditure of the funds is restricted to specific purposes by the source of the funds, the law, or an administrative action.

Highlights from Original Audit
Our review of special revenue fund (SRF) processes and testing of six selected SRFs did not indicate any systemic issues regarding misuse of SRFs for reasons other than the purpose for which they were set up. However, we did identify four findings relating to SRF transparency and process improvement.

FINDING 1: Transparency of Existence and Purpose of SRFs – A complete listing of all city SRFs was not available to the public. Additionally, one of the SRFs that we tested was named incorrectly in the city’s budget book; accordingly, the purpose of the fund was unclear. We offered one recommendation for this finding that would improve the transparency of SRFs to the public.

FINDING 2: SRF Opening and Closing Process Improvement – The Budget and Management Office did not have a formal procedure for establishing and closing out SRFs. This could cause an important step to be skipped or otherwise cause inconsistency among agencies regarding what is considered an SRF. We also learned that more than 100 existing SRFs were not active. We offered two recommendations related to this finding.

FINDING 3: Reconciliation Process Improvement – We found that improvements could be made to the SRF reconciliation and annual certification processes within the Controller’s Office. We also identified three agencies that did not have procedures in place to guide their staff in the SRF reconciliation process, which is not in accordance with Fiscal Accountability Rule 2.2. We offered six recommendations related to this finding.

FINDING 4: Non-Compliance with Executive Order 134 and Gift Reporting Process Improvement – We discovered a large donation that was gifted to an agency but not reported to the Office of the Clerk and Recorder, as required by Executive Order 134. We also noted areas of the agency gift reporting process that could be improved to enhance associated monitoring controls. We offered three recommendations related to this finding.

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RECOMMENDATION — STATUS OF IMPLEMENTATION

FINDING 1 – The Existence and Purpose of Special Revenue Funds Could Be More Transparent to the Public

Recommendation

1.1 **Provide Special Revenue Fund Listing** – The Budget and Management Office should provide a way for citizens to access a master list of special revenue funds, such as through a link within the budget book to a master list, or adding a table as an appendix within the budget book.

Status: Implemented (Original target date for completion: April 1, 2018)

Agency Action

The Budget and Management Office provided an addendum for the “2020 Mayor’s Proposed Budget,” which included information about special revenue funds not previously included in the mayor’s proposed budget. The mayor’s budget now provides additional transparency for citizens to be able to see all special revenue funds. Therefore, we consider this recommendation implemented.
FINDING 2 — Controls Surrounding the Opening and Closing Processes of Special Revenue Funds Could Be Improved

Recommendation

2.1 Developing Policies and Procedures — The Budget and Management Office should develop formally documented policies and procedures that provide guidance regarding the opening of special revenue funds. BMO should consider creating a checklist that details all aspects of the opening process and clarifies their decision-making criteria. The checklist could include items such as:

- Documentation of decision-making criteria including why the special revenue fund is approved or denied, why the fund is appropriated or non-appropriated, and why inactive special revenue funds are left open; and

- Preliminary approvals of the ordinance by relevant agencies prior to approval by City Council to ensure that the draft ordinance contains specific allowable revenue and expenditures that are clear to the agency managing the special revenue fund, or ensure that the managing agency has internally documented policies containing specific allowable revenue and expenditures.

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

Agency Action

As recommended, the Budget and Management Office developed standard operating procedures that provide guidance for the opening of special revenue funds. The new procedures require the justification of denials of new funds, provide a timeline to let agencies know the deadlines of City Council’s ordinance process used for establishing new special revenue funds, and offer guidelines for decision-making when establishing funds. Lastly, the Budget and Management Office has also developed a form to establish a new special revenue fund, which agencies must complete to create new funds. Considering these efforts by the Budget and Management Office, we find this recommendation implemented.

Recommendation

2.2 Periodically Review Funds for Closure — The Budget and Management Office should periodically review all special revenue funds to identify which funds do not have activity and consult with the responsible agencies to determine whether they should be closed. This review should be documented in the Budget and Management Office’s policies and procedures.
**Status: Implemented (Original target date for completion: April 30, 2018)**

**Agency Action**

The Budget and Management Office has conducted a review of special revenue funds that had little or no activity to determine whether those funds should be considered for closure and was in the process of closing about 60 accounts at the time this report was published. Additionally, the Budget and Management Office has created and used the previously mentioned standard operating procedures on reviewing and closing inactive special revenue funds. The procedures include significant instructions to assist in identifying special revenue funds for closure and what to do with any leftover funds. Because of this work performed by the Budget and Management Office, we consider this recommendation implemented.
RECOMMENDATION — STATUS OF IMPLEMENTATION

FINDING 3 – Controls Surrounding the Citywide Reconciliation Process Should be Improved

Recommendation

3.1 Ensure All Reconciliation Certification Forms Are Submitted – The Controller’s Office should take additional steps to follow up with agencies that have not completed or submitted their Reconciliation Certification Forms to enhance internal controls over the reconciliation process and ensure compliance with the City’s records retention policy.

Status: Partially Implemented (Original target date for completion: Jan. 1, 2018)

Agency Action

The Controller’s Office added a column to the spreadsheet used to track the receipt of Reconciliation Certification Forms from other city agencies in order to track whether all special revenue funds were listed on the agencies’ forms. During a review of this tracking spreadsheet, we found the Controller’s Office indicated that all 2018 Reconciliation Certification Forms had been collected. When the auditors requested a sample of the forms, the Controller’s Office was able to provide each of the requested forms, all of which had the required signatures. This is an improvement since the original audit, as the Controller’s Office was not able to provide all requested forms showing all required signatures at that time.

However, during our review of the Reconciliation Certification Forms, we found instances where some special revenue funds were not listed on certification forms. Therefore, there was no documentation of these funds being reconciled throughout 2018. When we asked the Controller’s Office whether it had followed up with the agencies regarding special revenue funds not listed on the sampled certification forms, Controller’s officials said they had not because they believed it was the responsibility of the agencies to reconcile all their accounts. Still, the Controller’s Office website states it establishes, maintains, and enforces the city’s accounting policies, practices, and procedures, including Fiscal Accountability Rule 2.2, which addresses reconciliations. Without ensuring all special revenue funds have been reconciled, the Controller’s Office is not maintaining and enforcing the policy that accounts be reconciled.

While we recognize improvements in the Controller’s Office’s efforts to obtain all Reconciliation Certification Forms with signatures, we consider forms with missing special revenue funds to indicate that those funds were never reviewed or reconciled, and the Controller’s Office was not able to provide evidence it had followed up with those agencies. Therefore, we consider this recommendation partially implemented, as there is still the risk not all special revenue funds are being reviewed or reconciled by

1 Agencies that omitted special revenue funds from their reconciliation certification forms include the Mayor’s Office for Events Administration, the Budget and Management Office, the Clerk and Recorder’s Office, the City Attorney’s Office, the Department of Finance’s Real Estate Division, the Department of Safety (Police, Fire, and Administration), the Department of Transportation & Infrastructure, and the Technology Services agency.
Recommendation

3.2 **Review Supporting Documentation** – The Controller’s Office should institute a process for reviewing a sample of the supporting documentation of agency reconciliations over special revenue funds, to ensure completeness and the accuracy of the reconciliation and any necessary, correcting journal entries.

**Status: Not Implemented (Original target date for completion: April 1, 2018)**

**Agency Action**

While the Controller’s Office agreed at the time of the audit to implement this recommendation, Controller’s officials’ response to the original audit recommendation did not say they would implement a process for reviewing supporting documentation of agency reconciliations. Instead, they said they would create a revised Reconciliation Certification Form that would capture additional information, which was almost identical to their response to Recommendation 3.3 (see the agency action for Recommendation 3.3 below).

At the time of follow-up, Controller’s officials had not implemented a process, saying it was not always possible to review supporting documentation for reconciliations. Specifically, in some cases, agencies are not formally documenting reconciliations for special revenue funds. Instead, the agency may just run a subledger of transactions for the fund and perform a review to look for any unknown or incorrect activity.

The original audit noted that U.S. Government Accountability Office standards recommend reviewing randomly selected transactions of supporting documentation and supervisory reviews of reconciliations.² As discussed in the Agency Action for Recommendation 3.1 above, Controller’s officials believe it is the responsibility of the agencies to ensure they are reconciling all of their accounts, which drove the Controller’s Office’s decision to not implement a process for reviewing supporting documentation. Therefore, we consider this recommendation not implemented because the risk of inaccurate reconciliations being performed by agencies remains high without reviewing a sample of the supporting documentation of agency reconciliations.

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Status: Implemented (Original target date for completion: Oct. 1, 2018)

Agency Action

The Controller’s Office developed a new Reconciliation Certification Form to be used going forward, beginning with the 2019 certification process. Now that the new form is being used, agencies are required to describe the specific reconciliation activities performed and to note whether and how agencies resolved and/or corrected any discrepancies found during reconciliations. Considering that the special revenue fund Reconciliation Certification Form has been bolstered, we find this recommendation to be implemented.

Recommendation

3.4 Create Missing Policies and Procedures for Reconciliation – The District Attorney’s Office should create formal, documented reconciliation procedures for the financial management of the special revenue funds for which it is responsible.

Status: Implemented (Original target date for completion: Dec. 31, 2017)

Agency Action

The District Attorney’s Office developed a procedure for special revenue fund reconciliations to address this recommendation. While the procedure is high level and has room for improvement, such as the need for details about the differences between the three special revenue funds which the District Attorney’s Office is responsible for, the procedure was developed. Therefore, we consider this recommendation implemented.

Recommendation

3.5 Create Missing Policies and Procedures for Reconciliation – The Department of Safety should create formal, documented reconciliation procedures for the financial management of the special revenue funds for which it is responsible.

Status: Implemented (Original target date for completion: Dec. 31, 2017)

Agency Action

A formal, documented reconciliation procedure for the financial management of special revenue funds has been created and put into place. The procedure developed now provides employees a basis for performing reconciliations of special revenue funds. Therefore, we consider this recommendation implemented.
Recommendation

3.6 Create Missing Policies and Procedures for Reconciliation – The Department of Public Works should create formal, documented reconciliation procedures for the financial management of the special revenue funds for which it is responsible.

Status: Implemented (Original target date for completion: Dec. 31, 2017)

Agency Action

The Department of Transportation & Infrastructure (formerly the Department of Public Works) created and implemented a formal, documented reconciliation procedure for the financial management of special revenue funds. The procedures include significant guidance regarding each of the Department of Transportation & Infrastructure’s special revenue funds and a requirement that any anomalies be investigated and reported during analytical comparisons. Therefore, we consider this recommendation implemented.
RECOMMENDATION — STATUS OF IMPLEMENTATION

FINDING 4 – Improvements Needed to Public Reporting of Donations Made to City Agencies

Recommendation

4.1 **Improvements to Executive Order 134** – The Mayor’s Office should work to improve the agency gift reporting process by:

- Clarifying whether a series of gifts from the same source should be summed before applying the $2,500 threshold;
- Granting an agency, such as the Clerk and Recorder’s Office, the authority to follow up with agencies that have not reported gifts as required; and
- Creating and implementing an official, standardized form for agency gift reporting.

Status: Not Implemented (Original target date for completion: Jan. 31, 2018)

Agency Action

There have been no changes to the agency gift reporting process since the original audit’s recommendations, and Executive Order 134 has not been updated or replaced. At the time of follow-up, the Mayor’s Office explained it anticipates the implementation of a new online donation reporting portal, along with the issuance of a Fiscal Accountability Rule from the Controller’s Office in 2020. Therefore, at the time this report was drafted, we find this recommendation to be not implemented, and we encourage the Mayor’s Office to finalize and implement improvements to the agency gift reporting process to clarify the rules, grant an agency authority to follow up on missing forms, and implement an official form, as recommended in our original audit.

Recommendation

4.2 **Add Agency Gift Reporting to Denver Revised Municipal Code** – The Mayor’s Office should increase the applicability of the agency gift reporting process so that all City agencies are required to report gifts over $2,500. This could be accomplished by updating the Denver Revised Municipal Code, Fiscal Accountability Rules, Executive Order 134, or another suitable method to ensure compliance.

Status: Not Implemented (Original target date for completion: Jan. 31, 2018)

Agency Action

Again, there have been no changes to the applicability of the agency gift reporting process since
the original audit’s recommendations, and Executive Order 134 has not been updated or replaced. Identical to its response to Recommendation 4.1, the Mayor’s Office anticipates the implementation of a new online donation reporting portal, along with the expected issuance of a Fiscal Accountability Rule from the Controller’s Office in 2020. We find this recommendation to be not implemented, and we encourage the Mayor’s Office to increase the applicability of the agency gift reporting process so all agencies are required to report gifts over $2,500, as recommended in our original audit.

Recommendation

4.3 Gift Disclosures Posted to Website – The Office of the Clerk and Recorder should ensure that all gift disclosures are available on the City’s website as required by Executive Order 134.

Status: Implemented (Original target date for completion: Nov. 30, 2017)

Agency Action

The Office of the Clerk and Recorder has uploaded to its website all the agency gift reports it has received. This improves the transparency of the agency gift reporting process. Therefore, we consider this recommendation to be implemented.
CONCLUSION

While the Department of Safety, Department of Transportation & Infrastructure, Budget and Management Office, District Attorney’s Office, and Clerk and Recorder’s Office have implemented recommendations we made in our original report, other recommendations made to the Controller’s and Mayor’s offices have yet to be acted upon or fully implemented. Despite the involved agencies’ efforts, auditors determined that while some of the risks associated with the audit team’s initial findings have been fully mitigated, others have not.

For example, since the Mayor’s Office has not improved the agency gift reporting process, risks remain related to the transparency of donations to agencies. Also, without reviews of supporting documentation for special revenue fund reconciliations, the Controller’s Office misses the opportunity to ensure agencies perform accurate reviews of special revenue fund transactions. Fiscal Accountability Rule 2.2 requires agencies to submit their reconciliation forms to the Controller’s Office for review. The purpose of the rule is to make sure that decision makers have accurate and reliable financial information. Without final review from the Controller’s Office, relevant information may not be included in city financial information. Missing financial information could negatively impact the ability to make the best financial decisions for the city.

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 involved agencies for their cooperation during our follow-up effort and for their dedicated public service.
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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