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Cover photo illustration by Denver Auditor's Office staff.
AUDITOR'S LETTER

The objective of our audit of the Denver Public Library's financial processes was to determine the quality of internal controls over financial processes at the library. I am pleased to present the results of this audit.

The audit revealed the Denver Public Library needs to improve its internal controls over its financial accounting processes, its payroll approvals, and its accounting for digital assets. In addition, we found the library took appropriate steps to begin eliminating the high-risk use of store credit cards by replacing them with city-issued purchase cards.

Through stronger policies, the Denver Public Library will have a stronger internal control environment, ensuring public funds are well spent. 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 that 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 Library and city Controller’s Office 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

[Signature]

Timothy M. O’Brien, CPA
Auditor
Objective
The objective of the audit was to evaluate the effectiveness and efficiency of internal controls over the Denver Public Library's accounting processes.

Background
The Denver Public Library is an independent agency of the city that serves as a valuable resource for Denver residents, offering a variety of services, programs, and activities. The city budgeted the library for over $55.8 million to support its administration and operations in 2019.

The Denver Public Library's financial activities involve purchasing, accounting, budgeting, and contract negotiation. City rules provide the guidance needed to appropriately conduct these activities, and several software systems support the library's day-to-day operations involving purchasing and accounting for the various goods and services needed to provide this public resource.

REPORT HIGHLIGHTS

Highlights from Audit

The Denver Public Library Has Deficiencies in Its Financial Internal Controls
Auditors identified various internal control deficiencies in the Denver Public Library's financial operations, including:

• Inadequate policies and procedures
• Untimely payroll approvals
• Insufficient use of invoices

The Denver Public Library's Digital Assets Are Not Correctly Accounted for in Citywide Financial Records
We found errors in the accounting treatment for the library's electronic materials.

The Denver Public Library Is Appropriately Discontinuing Its Use of Store Credit Cards as a Purchasing Method
The library determined its store credit card program was creating an unnecessary risk, and by the time we finalized our audit testing in December 2019, the library was taking the appropriate steps to end the use of these cards — switching employees to city-issued purchase cards instead.
TABLE OF CONTENTS

BACKGROUND  1

FINDING 1  7
    The Denver Public Library Has Deficiencies in Its Financial Internal Controls

FINDING 2  19
    The Denver Public Library’s Digital Assets Are Not Correctly Accounted for in Citywide Financial Records

FINDING 3  23
    The Denver Public Library Is Appropriately Discontinuing Its Use of Store Credit Cards as a Purchasing Method

RECOMMENDATIONS  26

AGENCY RESPONSE TO AUDIT RECOMMENDATIONS  29

OBJECTIVE, SCOPE, AND METHODOLOGY  35

APPENDICES
    Appendix A – The Denver Public Library’s Process for Paying Presenters  37
    Appendix B – The Denver Public Library’s Process for Purchase Cards  38
    Appendix C – Process for the Denver Public Library’s Previous Use of Store Credit Cards  39
BACKGROUND

Denver’s first public library was established as part of a wing in Denver High School in 1889. It was moved to Civic Center Park in 1910 to what is now the McNichols Civic Center Building. As the city continued to grow, so did the library, with the construction of eight new library branches between 1913 and 1920. A new Central Library was commissioned in 1956 to provide twice as much space as the previous Central Library.

Denver’s rapid growth over the next few decades led to the expansion of library branches across the city. In 1990, city voters approved a bond program to finance the construction of the current Central Library and to expand and renovate existing library branches. In 2007, voters continued their support with an additional bond to build three new branches in underserved parts of the city, including the west side, Stapleton, and Green Valley Ranch.

The Denver Public Library maintains a collection of over 2 million books, periodicals, and other publications. Its facilities include the Central Library and 25 branch libraries, as illustrated in Figure 1 on the following page.

The Denver Public Library serves as a valuable resource for Denver residents by offering a multitude of services, programs, and activities. Each location provides Denver residents the opportunity to:

- Check out print and digital books, movies, and other media through services such as:
  - Kanopy, a streaming video platform for public libraries;
  - Flipster, a digital magazine platform; and
  - OverDrive, a multimedia platform for books, movies, and TV.
- Attend a variety of classes, ranging from academics to crafts
- Use library facilities and technology, including:
  - Publicly accessible computers;
  - Free Wi-Fi and internet access;
  - A variety of computer software programs; and
  - Copy and print capabilities for a small fee.
As an independent agency of the city, the Denver Public Library is governed by the Library Commission, consistent with the city charter. The Library Commission has eight members who have been appointed by the mayor and who have exclusive control over the Denver Public Library, including library branches and funds appropriated.¹

As illustrated in Figure 2 on the following page, the Library Commission, city librarian, and six department directors each have roles and responsibilities related to the governance and administration of the Denver Public Library.

¹ Denver Charter § 11.1.1 and 11.1.2. This section of city charter requires the Denver Public Library to create a commission with eight members appointed by the mayor.
The library’s Finance and Facilities department has oversight of the Denver Public Library’s financial activities and reporting — including purchasing, accounting, budgeting, and contract negotiation. Finance and Facilities is also responsible for safety, security, custodial, delivery, maintenance, and improvement services for the Central Library and all 25 branches.

Other departments within the library assist the city librarian and the library’s chief of staff with internal operations to support services provided by the library. These departments include:

- **Communications and Community Engagement** – The department promotes and provides educational outreach to inform the public of library programs, resources, and services, including the operation of two bookmobiles that travel to several senior centers and to Denver Public Schools on a weekly basis.

- **Collections, Technology, and Strategy** – The department is responsible for purchasing, processing, and cataloging all physical and digital collection materials and for managing the library’s online services.

- **Neighborhood Services** – The department manages and coordinates public services and programs at each of the 25 branch locations, including publicly accessible computers and classes related to reading and learning.

- **Central Library** – The Central Library branch provides the public with access to the city’s largest reference and research center, including the Western History and Genealogy Collection.
• **Human Resources** – The department supports library staff and supervisors with all employment-related matters. This includes recruitment, hiring, benefits administration, learning and development, time and attendance, leaves of absence, workers’ compensation, and employee relations. The department also leads the library’s diversity, equity, and inclusion work.

**Funding**

Over a two-year period, funding to the library increased by over $6.4 million. As shown in Table 1, the Denver Public Library received over $55.8 million in 2019 — which includes:

- Nearly $52.7 million from the city’s general fund to support department administration and operations;
- Over $730,000 for capital improvement projects;
- Over $207,000 from state, federal, and private grants; and
- Over $2.2 million in funding from the Special Trust Fund, a funding source that comprises multiple revenue streams.

**TABLE 1. Denver Public Library Appropriations, Fiscal Years 2017-2019**

<table>
<thead>
<tr>
<th>Denver Public Library Funding Sources</th>
<th>2017 Actual</th>
<th>2018 Actual</th>
<th>2019 Appropriated</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$46,101,494</td>
<td>$48,359,896</td>
<td>$52,689,132</td>
</tr>
<tr>
<td>Grants</td>
<td>$134,823</td>
<td>$152,486</td>
<td>$207,876</td>
</tr>
<tr>
<td>Special Trust Fund</td>
<td>$2,457,780</td>
<td>$1,838,896</td>
<td>$2,210,928</td>
</tr>
<tr>
<td>Capital Improvement Projects</td>
<td>$0</td>
<td>$0</td>
<td>$730,500</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$48,694,097</strong></td>
<td><strong>$50,351,278</strong></td>
<td><strong>$55,838,436</strong></td>
</tr>
</tbody>
</table>

*Source: Mayor’s 2019 budget and mayor’s 2020 proposed budget.*

The Denver Public Library’s funding is generated through several sources of revenue, including:

- **General Fund** – The Denver Public Library receives most of its revenue from the City and County of Denver’s general fund. The general fund is the city’s primary operating fund and is funded from various taxes and fees, with about 50% coming from sales tax and the remainder generated through local property and lodger’s taxes, fees for services, materials, licenses, permits, and fines.

- **Grants** – The Denver Public Library receives state, federal, and private grants, including the most recent received in 2019:
○ **Colorado State Grants for Libraries Projects** – a state-funded grant used to purchase print and digital books and database subscriptions.

○ **Build a Pipeline of Community Connection Grant Program** – a federally funded grant used by libraries to build community relationships that foster diversity, equity, and inclusion.

○ **Read Aloud Program** – a privately funded early literacy program provided in neighborhoods with low-income, ethnically and culturally diverse populations to improve school readiness.

- **Special Trust Fund** – The Denver Public Library Special Trust Fund supports library collections and services, including maintaining donations to the Western History and Genealogy Collection and purchasing supplies and books for library programs such as the after-school and summer youth reading programs.

The Denver Public Library Special Trust Fund is financed through several sources of revenue, including but not limited to: private donations and contributions, meeting room rentals, photocopier fees, book sale events, and lost or damaged item fees to support library service activities.

**Purchasing Methods**

As of the end of our fieldwork in December 2019, the Denver Public Library relied on several purchasing methods to meet its goods and services’ needs, including but not limited to:

- **Store Credit Cards** – Cards issued to library branches by various retailers to purchase miscellaneous items, such as food and supplies for monthly community events.

- **Purchase Cards (also known as “P-cards”)** – Credit cards issued by the city to specific city employees for purchases below $2,000 per transaction. These purchases are automatically linked to the city’s financial accounting software system, Workday.

  Workday has controls for review and approval — such as cardholder expense reviews, first-level manager expense reviews, and approval by accounts payable specialists. In addition, there are other Workday system controls to prevent misuse, such as limits on spending.

- **Supplier Invoice Requests** – The library creates a supplier invoice request in Workday and attaches all appropriate supporting documentation for goods and services rendered. These requests are reviewed and approved by the appropriate party in Workday. After review, the request is routed to an accounts payable specialist who verifies whether the supporting documentation is adequate. They also match the request and payment information to determine whether it is accurate and whether it qualifies to be processed as a
supplier invoice request before the specialist approves the payment in Workday.

**Software Systems** The Denver Public Library's Finance and Facilities department relies on several systems to support the library’s day-to-day purchasing and accounting operations. These systems include:

- **Workday** – a software application that serves as the city's system of record for financial recording and reporting, procurement business processes, and human resources and payroll functions.

- **Polaris** – an integrated library system to track the circulation of physical and digital materials, including books, videos, and other publications. In addition, Polaris tracks daily cash and credit card payments received in customer accounts. The activity recorded in Polaris and actual cash and credit card receipts are reconciled daily.

- **Fresh Service** – an information technology service management tool that the library also uses as an email verification system for the library’s payment request system for its professional artists and performers.
FINDING 1
The Denver Public Library Has Deficiencies in Its Financial Internal Controls

During our audit, we identified several deficiencies in the Denver Public Library’s financial internal controls. An internal control is “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.”

We identified internal control deficiencies specific to overall written financial procedures, cash-handling processes, inadequate segregation of duties, missing time sheet approvals, missing invoices, and insufficient contract monitoring.

The core financial policies used by the library are those set by the city — the Fiscal Accountability Rules. To provide greater guidance, the library established numerous procedures to supplement the Fiscal Accountability Rules. However, auditors found the library’s written procedures are out of date, insufficient, or nonexistent for key financial processes. Furthermore, we were not provided evidence that library officials were periodically and consistently reviewing the procedures.

U.S. Government Accountability Office standards say “management should periodically review policies and procedures and related control activities for continued relevance and effectiveness in achieving the entity’s objectives or addressing related risks.” This means an entity should implement written policies and procedures that document the internal control responsibilities of the organization to ensure a strong internal control environment. This attention enables management to achieve objectives and respond to risks in the internal control system.

Key Procedures Are Outdated

Auditors reviewed 14 written financial procedures for key financial processes, including accounts payable, accounts receivable, cash handling, and deposits.


3 Ibid., para. 12.05.
We found eight of the 14 procedures are not dated, and there was no indication any of the 14 procedures was reviewed and approved. Of the six procedures with dates, two were over five years old. Finally, we found two other procedures were in draft form or incomplete. Figure 3 summarizes our findings.

**FIGURE 3. Summary of the Denver Public Library’s Financial Procedures**

<table>
<thead>
<tr>
<th>Item</th>
<th>Denver Public Library policies and procedures</th>
<th>Date on document</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Donated Assets</td>
<td>None</td>
</tr>
<tr>
<td>2</td>
<td>Accounts Receivable</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Supplemental Staffing</td>
<td>X</td>
</tr>
<tr>
<td>4</td>
<td>Purchasing*</td>
<td>X</td>
</tr>
<tr>
<td>5</td>
<td>Purchasing – Food Purchases</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Processing Gifts</td>
<td>X</td>
</tr>
<tr>
<td>7</td>
<td>Personnel Budget Projection</td>
<td>X</td>
</tr>
<tr>
<td>8</td>
<td>Grants</td>
<td>X</td>
</tr>
<tr>
<td>9</td>
<td>Grants – Indirect Cost Procedures</td>
<td>X</td>
</tr>
<tr>
<td>10</td>
<td>Fees*</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Deposits</td>
<td>X</td>
</tr>
<tr>
<td>12</td>
<td>Accounts Payable</td>
<td>X</td>
</tr>
<tr>
<td>13</td>
<td>Cash Handling</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>P-cards</td>
<td>X</td>
</tr>
</tbody>
</table>

*Draft and/or incomplete

**Source:** Auditor’s Office analysis of Denver Public Library financial procedures.

Finance and Facilities department officials do not regularly use their procedures when they do their work but said they realize the procedures need to be revised, updated, and refined.

Further, the Finance and Facilities department had significant turnover in key staff in recent years. The previous finance director retired in early 2019, and in the same year, a new finance director was hired and two additional key financial positions were filled, including the finance manager and a senior accountant.

The previous finance director had not completed key administrative responsibilities — such as updating policies and procedures — before leaving the department, and a complete plan was not in place to ensure all critical knowledge and responsibilities were transferred to their successor.
Cash-Handling Procedures Are Insufficient

Auditors noted the Denver Public Library’s cash-handling procedures do not adequately ensure internal controls are in place for recording cash receipts and deposits.

The Finance and Facilities department’s written procedures on cash handling say receipt and deposit overages and shortages are handled according to the city’s Fiscal Accountability Rules. These rules require agencies to have an “over or short resolution plan” that details how cash overages and shortages are handled within agencies. However, the Finance and Facilities department does not have an “over or short resolution plan.”

Additionally, although the department’s cash-handling procedures were updated in October 2018, we determined they lacked detailed guidance on how to record cash deposits and do not indicate whether there is supervisory review or reconciliation. For example, the Finance and Facilities department uses Polaris reports submitted by the branches to summarize all the branch cash deposits in a spreadsheet. A single person manually inputs the transactions into specific accounts, using a manual spreadsheet, and records them in Workday.

We identified instances when the amounts for overages and shortages were inconsistently recorded in different Workday revenue accounts rather than to the overage and shortage revenue account, and no evidence existed to show supervisory review of the record keeping. Although the individual amounts are negligible, inconsistent treatment of over/short cash could impede trend analysis and management decision-making.

Without an “over or short resolution plan” and additional details in the procedures on how to record overages and shortages and how to conduct supervisory reviews, the Finance and Facilities department lacks the controls needed to reduce the risk of erroneous record keeping. Management cannot effectively monitor branches to identify trends with cash reporting, detect anomalies, identify potential misappropriation of library funds, and/or determine the need for corrective action or training.

U.S. Government Accountability Office standards say “management should use quality information to achieve the entity’s objectives” and that this quality information enables management to make informed decisions and evaluate the entity’s performance in achieving key objectives and addressing risks. Finance and Facilities personnel told us the department was able to determine training needs when it was tracking trends with cash reporting before 2018 because, at the time, there were many over and short...

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discrepancies at the Central Library. However, the previous finance director suspended this effort.

Written Procedures Are Nonexistent for Separation of Duties

The Denver Public Library's Finance and Facilities department lacks written procedures that ensure key internal controls for the separation of duties.

U.S. Government Accountability Office standards recommend “management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.”

The Finance and Facilities department requires a mandatory two-week rotation each calendar year for its cash-handling position at the Central Library and maintains a log to document the rotation. However, Finance and Facilities does not rotate other positions because of the small size of the department, and it has not developed a plan to ensure rotation occurs periodically.

Fiscal Accountability Rules say city agencies must develop a plan to periodically have staff members rotate jobs to ensure they can perform each other's duties to mitigate the risks that arise from a lack of segregation of duties.

Without a plan for periodic rotation of job functions, the Denver Public Library is exposed to the risk that results from having a single person with all knowledge and control over an entire process or fiscal activity. The city's rules state 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.”

U.S. Government Accountability Office standards also say management can respond to this increased risk through internal controls — such as additional levels of review for key operational processes, reviews of randomly selected transactions and supporting documentation, or checks of supervisor reconciliations.

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6 Ibid., para. 10.03.
8 Ibid.
Written Procedures Are Nonexistent for Contract Monitoring

The city’s Executive Order No. 8 requires city agencies to establish and implement policies and procedures for monitoring contracts, including the process for monitoring their expiration dates through the city’s electronic contracting system. Also, city agencies must monitor performance under the contract throughout the life of the contract.\(^{10}\)

Although there are dedicated staff to initiate the process for new contracts and renewals, the Denver Public Library’s Finance and Facilities department has not sufficiently overseen contract expiration dates.

Auditors reviewed eight contracts that covered a variety of library services. We found the Denver Public Library has been operating for some time under five expired contracts, as shown in Table 2, and the library also has been inadequately overseeing contractor performance.

<table>
<thead>
<tr>
<th>Contracts</th>
<th>Contract Expiration Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cornerstone on Demand</td>
<td>Jan. 5, 2017</td>
</tr>
<tr>
<td>Ebsco Industries</td>
<td>Sept. 28, 2017</td>
</tr>
<tr>
<td>Midwest Tape</td>
<td>March 18, 2018</td>
</tr>
<tr>
<td>Unique Management Systems</td>
<td>June 30, 2018</td>
</tr>
<tr>
<td>Ricoh USA Inc.</td>
<td>April 30, 2019</td>
</tr>
</tbody>
</table>

*Source: Auditor’s Office analysis of Denver Public Library contracts.*

As mentioned, the city’s Executive Order 8 includes a requirement for the library to “monitor performance under the contract throughout the life of the contract.”\(^{11}\) This includes ensuring contract terms are met, any insurance or bonding requirements are met, that contact monitoring work is documented, and that all close-out activities are complete. However, the Denver Public Library’s Finance and Facilities department has been relying on other library departments to report poor performance or nonperformance by contractors without any documented process for how this monitoring is performed.

Finance and Facilities officials acknowledged contract administration went through some transition. Specifically, prior to the implementation of the city’s current accounting system in 2017, Finance and Facilities staff tracked

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\(^{11}\) Ibid.
contracts using an Excel spreadsheet, and only about 75% of the contracts were moved to Workday during the transition.

After the previous finance director retired, Finance and Facilities staff members were unaware four of the contracts had expired, and they were unable to provide contract renewals for the fifth expired contract. Library officials assert they were in the process of renewing some of the contracts at the time we started our audit and that they began working on renewing the others when we found the contracts were expired.

Without written procedures on contract monitoring as required by the city’s Executive Order 8, the Denver Public Library cannot ensure adequate oversight of its contracts.¹²

**Written Procedures Are Nonexistent for Succession Planning**

According to Finance and Facilities officials, the department does not have a succession plan to ensure the transfer of knowledge and the continuity of operations for new staff who assume administrative responsibilities, and the department has relied on informal cross-training.

With a formal succession plan, the Finance and Facilities department could have averted some of the inefficiencies that occurred after the change in administration, and it could have ensured key functions were completed in a timely manner by new staff, such as:

- Passing along critical knowledge, such as knowledge that the library’s collections department provides financial data regarding the library’s materials collection to the city Controller’s Office;
- Ensuring financial procedures are up to date before any planned turnover; and
- Ensuring contracts are renewed before their expiration.

The Government Finance Officers Association provides guidance for succession planning. One strategy involves providing a formal, written succession plan to identify risks and strategies and providing written policies and procedures to ensure knowledge transfer, including meeting with departing staff to document job responsibilities.¹³

By moving forward with a formal succession plan, Finance and Facilities can reduce the risk of future disruptions to financial operations, particularly in the event of turnover in key management personnel. Further, by supporting the development of succession planning and thoroughly documenting the

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¹² Ibid.

processes and responsibilities of each position, governments can commit to attracting and retaining competent employees.\textsuperscript{16}

RECOMMENDATION 1.1

**Update and Improve Procedures** – The Denver Public Library should develop and/or update, as appropriate, formal, documented procedures for all financial processes including: donated assets, accounts receivable, supplemental staffing, purchasing, gifts, food purchases, personnel budget projections, grants, fees, deposits, accounts payable, cash handling, and P-cards. Management should ensure all procedures align with the city's Fiscal Accountability Rules, are dated, and are appropriately approved.

*Agency Response: Agree, Implementation Date – Sept. 1, 2020*

RECOMMENDATION 1.2

**Improve Cash-Handling Procedures** – In conjunction with Recommendation 1.1, the Denver Public Library's updated procedures for cash handling should include adequate detail to require consistent and accurate recording of overages and shortages in Workday, and they should include an over or short resolution plan as required by Fiscal Accountability Rule 3.4.

*Agency Response: Agree, Implementation Date – Sept. 1, 2020*

RECOMMENDATION 1.3

**Develop Written Procedures for Rotating Positions** – In conjunction with Recommendation 1.1, the Denver Public Library should develop written procedures for rotating positions in the Finance and Facilities department. These procedures should align with city Fiscal Accountability Rules 2.4 and 3.3.

*Agency Response: Agree, Implementation Date – Sept. 1, 2020*

\textsuperscript{16} Ibid.
RECOMMENDATION 1.4

**Develop Written Procedures for Contract Monitoring** – The Denver Public Library should establish and document formal policies and procedures for contract monitoring that align with Executive Order No. 8 requirements for monitoring expiration dates and ensuring vendors’ compliance with the terms of a contract.

Agency Response: Agree, Implementation Date – Sept. 1, 2020

RECOMMENDATION 1.5

**Develop a Written Succession Plan** – The Denver Public Library should establish and document a formal succession plan that:

1. Outlines the steps to ensure the transfer of knowledge and continuity of operations if key personnel leave the organization;
2. Details the library’s recruitment and retention strategies for key positions; and
3. Identifies risks and strategies.

Agency Response: Agree, Implementation Date – Sept. 1, 2020

Payroll Approvals Are Not Always Conducted in a Timely Manner

While the Denver Public Library’s Central Library has an average time sheet approval rating of 93%, some department supervisors inconsistently approved employees’ time sheets.

According to the city’s Fiscal Accountability Rules:

- Supervisors are required to review and approve employee payroll within two business days following the end of any pay period;
- Nonexempt employees (typically hourly employees eligible for overtime compensation) are required to enter their time worked and approve their time sheets biweekly;
- Exempt employees (typically salaried employees, who are not eligible for overtime compensation) record and approve their hours worked or their exception hours by entering only changes to their regular hours as required by the city agency head;
- City employees are required to submit their time sheets by 6 p.m. Saturday at the end of each biweekly pay period; and
Supervisors are required to review and approve their employees’ time sheets by 10 a.m. the Monday following the end of the pay period.\textsuperscript{15}

Auditors obtained and verified supervisors’ time sheet approvals required from May 11, 2019, through Nov. 9, 2019, and found 7\% of employees’ time sheets were not approved in a timely manner within the required time frame.

The Finance and Facilities department was unable to provide a rationale for the lack of timely supervisor payroll approvals, but there appears to be inadequate enforcement of requirements to approve payroll in a timely manner.

Guidance from the U.S. Government Accountability Office says management should implement policies to clarify each organizational unit’s responsibility for its operational objectives and further define organization.\textsuperscript{16} Additionally, the U.S. Government Accountability Office provides applicable guidance to time sheet procedures — saying management is responsible for holding individuals accountable for their responsibilities to enforce internal controls.\textsuperscript{17}

The city still releases all paychecks, including library staff paychecks, regardless of whether time sheets are approved. Approvals are necessary to ensure employees are being paid for hours they worked and not over- or underpaid because of errors. In addition, supervisory review ensures any absences are properly accounted for.

Supervisory review also could help prevent a terminated employee from getting paid improperly after termination or help prevent a new employee from getting paid before they start. Inaccurate payroll reporting could result in the city over- or underpaying employees, which increases the risk of financial loss for the city.

**RECOMMENDATION 1.6**

**Revise Policies and Procedures for Payroll Approvals** – The Denver Public Library should review and revise procedures to ensure timely enforcement of time sheet approval requirements in accordance with city policy.

**Agency Response: Agree, Implementation Date – Sept. 1, 2020**


\textsuperscript{17} Ibid., para. 5.01.
Professional Performers Are Not Required to Submit Invoices

The Denver Public Library is not collecting invoices from presenters, which is an internal control deficiency. A “presenter” is a type of vendor the library hires to perform at library branches, such as painting faces or making balloon animals.

Before Oct. 1, 2019, library branches paid presenters with a check at the time services were rendered, and the presenters received the check without providing evidence or an invoice that their services were, in fact, rendered. In order to pay the presenters when the services were provided, the library had to request the checks in advance and hold on to them at the branch until the service was provided. The timeline of the changes to the presenter payment process is explained in Figure 4.

FIGURE 4. Denver Public Library Presenter Payment Timeline

Auditors reviewed Workday information and found that, between Jan. 1, 2017, and Sept. 30, 2019, the Denver Public Library received about $500,000 for 2,600 purchase-order line-items related to presenter goods and services — for an average cost of about $200 per presentation. Based on our testing of a sample of invoices, the library failed to collect invoices for at least 90% of the items, and over 70% had the check issued before the service was rendered. For more on how presenter payments work, reference Appendix A.

Source: Auditor's Office analysis.
The library failed to collect invoices for at least 90% of the items.

The checks were sent to the branch to be held until the service was provided.

The city's Fiscal Accountability Rules require supporting documentation for voucher payments. The rules say this documentation must consist of original invoices or receipts — or faxed copies of invoices or receipts — from the vendor who itemized the goods or services purchased.18

After Oct. 1, 2019, the Denver Public Library began using an internal communications tool for branches to communicate directly with the Finance and Facilities department. Through the tool, the Denver Public Library can document the payment request for presenters and determine whether services were rendered before approving payment. Although library management implemented the new process to ensure communication between the branches and Finance and Facilities regarding the completion of presenter services, Finance and Facilities was still not requiring invoices from the presenters.

The lack of documentation on invoices and the lack of evidence of goods and services increases the risk of fraud, because the city could pay for goods or services that have not been rendered.

An additional fraud risk occurred in mid-October when the city abruptly stopped approving payments without invoices, and Finance and Facilities created an invoice template as a temporary measure to ensure payment for several performers waiting to be paid. U.S. Government Accountability Office standards say there is a risk of fraud when controls are absent or ineffective or when management can override controls, providing an opportunity to commit fraud.19

**RECOMMENDATION 1.7**

**Develop Process for Requesting Invoices** – The Denver Public Library should implement a process to require performers to submit invoices before the library issues payments.

**Agency Response: Agree, Implementation Date – June 1, 2020**

---


RECOMMENDATION 1.8

Use Workday to Manage Presenter Process – The Denver Public Library should work with the Controller’s Office to determine whether it would be feasible to develop a Workday-based solution to fully manage the presenter payments.

Agency Response: Agree, Implementation Date – Sept. 1, 2020
FINDING 2

The Denver Public Library’s Digital Assets Are Not Correctly Accounted for in Citywide Financial Records

Though not significant to the City and County of Denver’s overall financial reporting, the accounting and reporting for certain digital library materials is incorrect.

The Denver Public Library purchases a wide range of materials for use by its patrons. In 2018, the library spent about $5.7 million on purchasing digital and physical materials, as shown in Table 3.

<table>
<thead>
<tr>
<th>Material Type</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical materials</td>
<td>$4,362,305</td>
</tr>
<tr>
<td>Digital – perpetual license</td>
<td>$944,633</td>
</tr>
<tr>
<td>Digital – metered by checkout license</td>
<td>$76,975</td>
</tr>
<tr>
<td>Digital – metered by time license</td>
<td>$167,402</td>
</tr>
<tr>
<td>Digital – metered by earlier of time or checkout</td>
<td>$198,295</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$5,749,610</strong></td>
</tr>
</tbody>
</table>

Source: The Denver Public Library.

The city’s practice is to group all such purchases together and record them as a single aggregated item in the Comprehensive Annual Financial Report. The city assigns a useful life of four years to such assets, depreciating the assets over a four-year period.²⁰

We also noted the library’s collections department, not Finance and Facilities, reported critical information regarding the collection to the city Controller’s Office. This data included quantity of materials added, disposed of, and loaned out to library members during the calendar year. This data was reported as an aggregated lump sum and did not separately itemize the amounts for both digital and physical materials. Reporting this data in the aggregate resulted in the city Controller’s Office incorrectly valuing

²⁰ Depending on whether a capital asset is tangible (e.g., an automobile) or intangible (e.g., software), different terms can apply to how the value is written down over time. Specifically, tangible assets are depreciated, and intangible assets are amortized. To avoid overcomplication, this report will just use the term “depreciation” regardless of whether the asset is tangible or intangible.
the library’s assets when it recorded them in the city’s annual financial statements.

The library’s material purchases include physical items, such as books, and various digital materials, such as e-books. These digital purchases are based on licenses that allow library patrons to check out the item in accordance with the terms of a license. Typically, an individual license allows a single copy of the item to be checked out by one library patron at a time. With limited exception, the library can purchase multiple licenses for a given item to allow for multiple checkouts at once, but the library is constrained by the total number of licenses the library holds for that item.

Digital materials involve the following types of licenses:

- **Perpetual** – The library owns a permanent license for the item. This is similar to the purchase of a physical item, except a digital good does not wear out because of use.
- **Metered by time** – The library owns a time-limited license for the item. These licenses generally expire after 24 months. During that time, the item can be checked out an unlimited number of times.
- **Metered by checkouts** – The library owns a use-limited license for the item. These usually allow for the item to be checked out up to 26 times but without time constraints.

In addition, there are hybrid models, such as ones limited to the lesser of time or checkouts.

Based on a review of Governmental Accounting Standards Board principles, we found none of the library’s digital assets should be treated the same as physical materials.\(^{21}\) While none of the asset categories are likely to be significant to the city’s operations, our review indicated these assets should all be recorded as intangible assets. The Governmental Accounting Standards Board defines an “intangible asset” as one that lacks physical substance, is nonfinancial in nature (i.e., not cash, a receivable, or a prepayment for goods or services), and has an initial useful life greater than one year.\(^{22}\)

The Governmental Accounting Standards Board provides further guidance related to the classes of digital assets noted above.

- **Perpetual** – These have an indefinite useful life. Because the library owns a perpetual license, these materials should not depreciate but, rather, should be maintained at their historic cost in the city’s financial records in perpetuity. The only way this would change is if there was an impairment — a permanent reduction in the value of

\(^{21}\) The Governmental Accounting Standards Board is an independent, private organization that sets accounting and financial reporting standards for state and local governments that follow generally accepted accounting principles.

the asset because of external factors, such as technological changes rendering a file format unusable. The Governmental Accounting Standards Board says “intangible assets with indefinite useful lives should not be amortized.” Therefore, these items should not be depreciated at all.\(^{23}\)

- **Metered by time** – Digital materials that are metered by time generally have a two-year license. The Governmental Accounting Standards Board says the useful life of an intangible asset should not exceed the period of the contractual or legal provisions. However, the city depreciates these over a four-year useful life, far in excess of the time the city is allowed to use the asset. Instead, these assets should be depreciated over their two-year useful life.\(^{24}\)

- **Metered by checkouts** – The useful life of these materials is not based on time. As such, an analysis should be performed to determine the average useful life of such materials, and the useful life should be assigned accordingly. Or, if the useful life does not typically exceed one year, the item should not be counted as a capital asset.\(^{25}\)

As a result of the library not recording assets with their correct useful lives, the city’s Comprehensive Annual Financial Report misstates the value of the library’s material capital assets. This may result in management relying on erroneous financial information as it relates to the library’s investment in capital assets and as it relates to the depreciation expense attributable to the library’s circulating collection materials.

The reason for library assets being incorrectly recorded in the city’s financial statements is because the library is not reporting to the Controller’s Office adequate details about library assets.

City Fiscal Accountability Rule 4.2 requires that each year, a physical inventory of library assets be performed and documented.\(^ {26}\) As part of this process, the Controller’s Office distributes an asset inventory report, inventory certification, and instructions to the library for items tracked in the city’s system of record. Both the information requested by the Controller’s Office as well as the information reported by the library lacks the detail necessary for the library’s assets to be properly recorded in the city’s financial statements.

Requiring the library to report the information in a disaggregated format — similar to the breakdown in Table 3 — would make it clear which library


RECOMMENDATION 2.1

Review Library Book Accounting – The Denver Public Library should work with the Controller’s Office to expand the information requested as part of the annual inventory process to ensure enough detail is captured to properly account for the assets. Further, the Controller’s Office should adjust how it accounts for the library’s capital assets in the city’s Comprehensive Annual Financial Report to align it with rules established by the Governmental Accounting Standards Board.

Agency Response: Agree, Implementation Date – Jan. 1, 2020
FINDING 3

The Denver Public Library Is Appropriately Discontinuing Its Use of Store Credit Cards as a Purchasing Method

The Denver Public Library's Finance and Facilities department began to take the appropriate steps to phase out the high-risk use of store credit cards from its branch locations in January 2020 by switching employees to city-issued purchase cards instead.

During the audit, auditors found the Denver Public Library had been using store credit cards for various major retailers — including Walmart, King Soopers, Hobby Lobby, and Sam's Club — for miscellaneous purchases such as food and supplies for monthly community events. At the conclusion of our fieldwork in December 2019, Finance and Facilities had successfully closed two of the four store credit card accounts and was in the process of closing out the remaining two accounts.

Library management assigned store credit cards to branch locations instead of assigning them to individual library staff, which created a lack of controls over preapproval and individual employee use.

Further, Workday does not automatically process store credit card transactions, which in turn caused a lack of controls for monitoring expenditure limits and resulted in a delay in reconciling credit card transactions. After the purchaser used the store credit card, receipts had to be submitted to the Finance and Facilities department for processing. After the transaction was matched to a credit card statement, Finance and Facilities staff initiated a supplier invoice request in Workday before going through two rounds of reviews and approvals for the creditor to receive a payment.

In 2019, the Denver Public Library stopped using store credit cards at all branch locations by assigning library staff city purchase cards instead.

Auditors obtained and analyzed store credit card statements from January 2018 through October 2019 to determine spending trends and identify the total number of transactions and dollar amounts spent for the 22-month time frame. As illustrated in Figure 5 on the next page, there was a significant decrease in the use of store credit cards from 2018 to 2019. In February 2019, there was a slight spike in card use, because the library provided a safe space and activities for students not in school during the Denver Public Schools teachers’ strike.
In terms of credit card use, a preferred purchasing method for city agencies is the purchase card, or “P-card.” With P-cards, the city’s Fiscal Accountability Rules require the director of purchasing to authorize credit cards for city employees for low-dollar purchases (i.e., those under $2,000 per transaction). Store credit cards do not have such oversight.27

Further, unlike store credit cards, when a purchaser uses the P-card, the transaction from the bank is automatically linked to the city’s accounting system of record, Workday. In Workday, the purchaser can upload receipts and verify the transaction before submitting it for review and approval. Reference Appendix B for more information on the P-card process.

U.S. Government Accountability Office guidance says internal controls should be in place to prevent misconduct, waste, and abuse.\textsuperscript{28} By using store credit cards, the library increased the risk of fraud and misconduct — including unauthorized purchases, misuse, or opportunities for abuse.

Officials in the Denver Public Library’s Finance and Facilities department said the decision to use store credit cards predated the city’s implementation of P-cards in PeopleSoft, the system of record before Workday. At the time, Finance and Facilities did not use PeopleSoft, so the process of setting up an employee with a purchase card required a significant amount of paperwork.

Once the city’s accounting functions transitioned from PeopleSoft to Workday in August 2017, the process of obtaining a purchase card for library personnel was simplified and led to the phasing out of the store credit cards.

**RECOMMENDATION 3.1**

**Ensure Closure of Store Credit Card Accounts** – The Denver Public Library should close all remaining store credit card accounts.

**Agency Response: Agree, Implementation Date – Jan. 1, 2020**

RECOMMENDATIONS

The agency narratives below are reprinted verbatim from the agency’s response letter, shown in the next section of this report.

1.1 **Update and Improve Procedures** – The Denver Public Library should develop and/or update, as appropriate, formal, documented procedures for all financial processes including: donated assets, accounts receivable, supplemental staffing, purchasing, gifts, food purchases, personnel budget projections, grants, fees, deposits, accounts payable, cash handling, and P-cards. Management should ensure all procedures align with the city’s Fiscal Accountability Rules, are dated, and are appropriately approved.

**Agency Response: Agree, Implementation Date – Sept. 1, 2020**

**Agency Narrative:** We agree with the recommendation. The procedures for all financial processes, including donated assets, accounts receivable, purchasing, gifts, food purchases, personnel budget projections, grants, fees, deposits, accounts payable, cash handling, and P-cards, will be updated and will include an approval date. Financial procedures will align with the city’s Fiscal Accountability Rules. A sample of procedures will be selected for review each year to ensure all procedures are reviewed and updated regularly. Management will document the date of review on the procedure.

1.2 **Improve Cash-Handling Procedures** – In conjunction with Recommendation 1.1, the Denver Public Library’s updated procedures for cash handling should include adequate detail to require consistent and accurate recording of overages and shortages in Workday, and they should include an over or short resolution plan as required by Fiscal Accountability Rule 3.4.

**Agency Response: Agree, Implementation Date – Sept. 1, 2020**

**Agency Narrative:** We agree with the recommendation. As part of procedure documentation, a consistent and accurate process will be outlined for the recording of overages and shortages in Workday. Documentation will also include an over short resolution plan as required by Fiscal Accountability Rule 3.4.

1.3 **Develop Written Procedures for Rotating Positions** – In conjunction with Recommendation 1.1, the Denver Public Library should develop written procedures for rotating positions in the Finance and Facilities department. These procedures should align with city Fiscal Accountability Rules 2.4 and 3.3.

**Agency Response: Agree, Implementation Date – Sept. 1, 2020**

**Agency Narrative:** We agree with the recommendation. As part of procedure documentation, DPL will develop written procedures for rotating positions in the Finance department, or alternatively,
an outline of compensating controls due to the small number of Finance staff at the library. These procedures will align with the city Fiscal Accountability Rules 2.4 and 3.3.

1.4 **Develop Written Procedures for Contract Monitoring** – The Denver Public Library should establish and document formal policies and procedures for contract monitoring that align with Executive Order No. 8 requirements for monitoring expiration dates and ensuring vendors’ compliance with the terms of a contract.

**Agency Response: Agree, Implementation Date – Sept. 1, 2020**

Agency Narrative: We agree with the recommendation. The procedures for contract monitoring will be established and will align with Executive Order No. 8. This will include monitoring for expiration dates and ensuring vendor compliance with the terms of their contract.

1.5 **Develop a Written Succession Plan** – The Denver Public Library should establish and document a formal succession plan that:

1. Outlines the steps to ensure the transfer of knowledge and continuity of operations if key personnel leave the organization;
2. Details the library’s recruitment and retention strategies for key positions; and
3. Identifies risks and strategies.

**Agency Response: Agree, Implementation Date – Sept. 1, 2020**

Agency Narrative: We agree with the recommendation. While Fiscal Accountability Rules do not mandate written procedures for succession planning, we do believe succession planning is a good practice. By September 1, 2020, DPL Finance and Facilities will coordinate with DPL Human Resources to define appropriate steps in this process.

1.6 **Revise Policies and Procedures for Payroll Approvals** – The Denver Public Library should review and revise procedures to ensure timely enforcement of time sheet approval requirements in accordance with city policy.

**Agency Response: Agree, Implementation Date – Sept. 1, 2020**

Agency Narrative: In accordance with Fiscal Accountability Rule 10.13 Time and Attendance, DPL Finance and Facilities will coordinate with DPL Human Resources to document time and attendance procedures and responsibilities. The FAR states “every employee, who has the access to do so, shall approve his or her timecard by the Saturday of the end of the pay period”. Because DPL has employees that work after 6 pm on Saturdays, and the FAR does not establish this time as mandated for employees to submit their timesheets, we will not dictate 6 pm as a requirement for staff to submit timesheets, but will ensure our communication and procedures comply with the FAR.
1.7 **Develop Process for Requesting Invoices** – The Denver Public Library should implement a process to require performers to submit invoices before the library issues payments.

*Agency Response: Agree, Implementation Date – June 1, 2020*

*Agency Narrative: We agree with this recommendation. Beginning April 1, 2020, DPL started requesting performers submit an invoice prior to any payments being processed and due to closures full compliance began June 1, 2020.*

1.8 **Use Workday to Manage Presenter Process** – The Denver Public Library should work with the Controller’s Office to determine whether it would be feasible to develop a Workday-based solution to fully manage the presenter payments.

*Agency Response: Agree, Implementation Date – Sept. 1, 2020*

*Agency Narrative: We agree with this recommendation. DPL will work with the Controller’s Office to determine the feasibility of a Workday-based solution to managing presenter payments.*

2.1 **Review Library Book Accounting** – The Denver Public Library should work with the Controller’s Office to expand the information requested as part of the annual inventory process to ensure enough detail is captured to properly account for the assets. Further, the Controller’s Office should adjust how it accounts for the library’s capital assets in the city’s Comprehensive Annual Financial Report to align it with rules established by the Governmental Accounting Standards Board.

*Agency Response: Agree, Implementation Date – Jan. 1, 2020*

*Agency Narrative: We agree with this recommendation. DPL has ensured reporting of 2019 capital assets for the Comprehensive Annual Financial Report comply with Government Accounting Standards Board rules. Updated library procedures will document the details sufficient to ensure future compliance in reporting.*

3.1 **Ensure Closure of Store Credit Card Accounts** – The Denver Public Library should close all remaining store credit card accounts.

*Agency Response: Agree, Implementation Date – Jan. 1, 2020*

*Agency Narrative: We agree with this recommendation. DPL has discontinued all use of store credit cards as a purchasing method.*
June 8, 2020

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 Denver Public Library Financial Processes.

This memorandum provides a written response for each reportable condition noted in the Auditor’s Report final draft that was sent to us on May 12, 2020. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING 1
The Denver Public Library Has Deficiencies in Its Financial Internal Controls

RECOMMENDATION 1.1
Update and Improve Procedures - The Denver Public Library should develop and/or update, as appropriate, formal, documented procedures for all financial processes including; donated assets, accounts receivable, supplemental staffing, purchasing, gifts, food purchases, personnel budget projections, grants, fees, deposits, accounts payable, cash handling, and P-cards. Management should ensure all procedures align with the city’s Fiscal Accountability Rules, are dated, and are appropriately approved.

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<tbody>
<tr>
<td>Agree</td>
<td>09/01/2020</td>
<td>Jina Dunn, 720-865-3456</td>
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Narrative for Recommendation 1.1
We agree with the recommendation. The procedures for all financial processes, including donated assets, accounts receivable, purchasing, gifts, food purchases, personnel budget projections, grants, fees, deposits, accounts payable, cash handling, and P-cards, will be updated and will include an approval date. Financial procedures will align with the city’s Fiscal Accountability Rules.
Fiscal Accountability Rules. A sample of procedures will be selected for review each year to ensure all procedures are reviewed and updated regularly. Management will document the date of review on the procedure.

**RECOMMENDATION 1.2**

**Improve Cash-Handling Procedures** – In conjunction with Recommendation 1.1, the Denver Public Library’s updated procedures for cash handling should include adequate detail to ensure consistent and accurate recording of overages and shortages in Workday, and they should include an over or short resolution plan as required by Fiscal Accountability Rule 3.4.

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**Narrative for Recommendation 1.2**

We agree with the recommendation. As part of procedure documentation, a consistent and accurate process will be outlined for the recording of overages and shortages in Workday. Documentation will also include an over or short resolution plan as required by Fiscal Accountability Rule 3.4.

**RECOMMENDATION 1.3**

**Develop Written Procedures for Rotating Positions** – In conjunction with Recommendation 1.1, the Denver Public Library should develop written procedures for rotating positions in the Finance and Facilities department. These procedures should align with city Fiscal Accountability Rules 2.4 and 3.3.

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**Narrative for Recommendation 1.3**

We agree with the recommendation. As part of procedure documentation, DPL will develop written procedures for rotating positions in the Finance department, or alternatively, an outline of compensating controls due to the small number of Finance staff at the library. These procedures will align with the city Fiscal Accountability Rules 2.4 and 3.3.

**RECOMMENDATION 1.4**

**Develop Written Procedures for Contract Monitoring** – The Denver Public Library should establish and document formal policies and procedures for contract monitoring.
that align with Executive Order No. 8 requirements for monitoring expiration dates and ensuring vendors’ compliance with the terms of a contract.

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<tr>
<td>Agree</td>
<td>09/01/20</td>
<td>Amber Lindberg, 720-865-2030</td>
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Narrative for Recommendation 1.4
We agree with the recommendation. The procedures for contract monitoring will be established and will align with Executive Order No. 8. This will include monitoring for expiration dates and ensuring vendor compliance with the terms of their contract.

RECOMMENDATION 1.5
Develop a Written Succession Plan – The Denver Public Library should establish and document a formal succession plan that:

1. Outlines the steps to ensure the transfer of knowledge and continuity of operations if key personnel leave the organization;
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Narrative for Recommendation 1.5
We agree with the recommendation. While Fiscal Accountability Rules do not mandate written procedures for succession planning, we do believe succession planning is a good practice. By September 1, 2020, DPL Finance and Facilities will coordinate with DPL Human Resources to define appropriate steps in this process.

RECOMMENDATION 1.6
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<td>Agree</td>
<td>06/01/2020</td>
<td>Jina Dunn, 720-865-3456</td>
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Narrative for Recommendation 1.7
We agree with this recommendation. Beginning April 1, 2020, DPL started requesting performers submit an invoice prior to any payments being processed and due to closures full compliance began June 1, 2020.

RECOMMENDATION 1.8
Use Workday to Manage Presenter Process – The Denver Public Library should work with the Controller’s Office to determine whether it would be feasible to develop a Workday-based solution to fully manage the presenter payments.

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Narrative for Recommendation 1.8
We agree with this recommendation. DPL will work with the Controller’s Office to determine the feasibility of a Workday-based solution to managing presenter payments.

AUDIT FINDING 2
The Denver Public Library’s Digital Assets Are Not Correctly Accounted for in Citywide Financial Records

RECOMMENDATION 2.1
Review Library Book Accounting – The Denver Public Library should work with the Controller’s Office to expand the information requested as part of the annual inventory process to ensure enough detail is captured to properly account for the assets. Further, the Controller’s Office should adjust how it accounts for the library’s capital assets in the city’s Comprehensive Annual Financial Report to align it with rules established by the Government Accounting Standards Board.

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Narrative for Recommendation 2.1
We agree with this recommendation. DPL has ensured reporting of 2019 capital assets for the Comprehensive Annual Financial Report comply with Government Accounting Standards Board rules. Updated library procedures will document the details sufficient to ensure future compliance in reporting.

AUDIT FINDING 3
The Denver Public Library Is Appropriately Discontinuing Its Use of Store Credit Cards as a Purchasing Method

RECOMMENDATION 3.1
Ensure Closure of Store Credit Card Accounts – The Denver Public Library should close all remaining store credit card accounts.

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<tr>
<td>Agree</td>
<td>01/01/20</td>
<td>Melissa Bordwine, 720-865-2027</td>
</tr>
</tbody>
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Narrative for Recommendation 3.1
We agree with this recommendation. DPL has discontinued all use of store credit cards as a purchasing method.

Please contact me at 720-865-2030 or Jina Dunn, Finance Manager, at 720-865-3456 with any questions.

Sincerely,
Amber Lindberg  
Director of Finance and Facilities

cc: Valerie Walling, CPA, Deputy Auditor  
Katja E. V. Freeman, MA, MELP, Audit Director  
Beth Machann, City Controller  
Amber Lindberg, CPA, Director of Finance & Facilities  
Jina Dunn, Finance Manager  
Patrick Schafer, CPA, CFE, CIA, Audit Supervisor
OBJECTIVE

The objective of the audit was to evaluate the effectiveness and efficiency of internal controls over the Denver Public Library's accounting processes.

SCOPE

We audited the Denver Public Library's financial processes from Jan. 1, 2017, through Nov. 30, 2019. These financial processes included how the library manages its policies and procedures, cash-handling practices, procurement practices, payroll processing, and capitalization of the library’s capital assets. However, certain audit procedures, such as those related to the use of store credit cards, extended beyond the January 2017–November 2019 date range.

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 Library Finance and Facilities department
  ○ Key staff of the Denver Public Library’s Central Library and other branch locations
  ○ Personnel from the city Controller’s Office

• Reviewing the following criteria:
  ○ City ordinances and state laws
  ○ The Denver Public Library's internal policies and procedures
  ○ City and County of Denver Fiscal Accountability Rules
  ○ The Governmental Accounting Standards Board’s Codification Section 1400, “Reporting Capital Assets”

• Conducting observations of key processes for:
  ○ Cash handling and deposits
  ○ Procurement, purchase cards, and accounts payable and receivable
  ○ Capital and donated assets
  ○ Grants procedures
○ Financial reporting, including manual journal entries, account reconciliations, and the generation of quarterly and year-end financial statements

• Analyzing the following:
  ○ The mayor’s budgets for 2017-2019 and the 2020 proposed budget
  ○ Invoices for professional artists and performers from Oct. 1, 2019, through Nov. 30, 2019
  ○ Store credit card account activity and balances from January 2018 through October 2019
  ○ Data underlying 2018 library material purchases

• Testing the following:
  ○ Payroll approvals from May 11, 2019, through Nov. 9, 2019
  ○ Payments to outside performers from Oct. 1, 2019, through Nov. 13, 2019
  ○ Denver Public Library contracts
APPENDICES

Appendix A – The Denver Public Library’s Process for Paying Presenters

FIGURE 6. Denver Public Library Process for Paying Presenters

Source: Auditor’s Office analysis as of December 2019.
Appendix B – The Denver Public Library’s Process for Purchase Cards

FIGURE 7. Denver Public Library Process for Purchase Cards (P-cards)

SOURCE: Auditor’s Office analysis.
Appendix C – Process for the Denver Public Library’s Previous Use of Store Credit Cards

**FIGURE 8.** Process for Denver Public Library’s Previous Use of Store Credit Cards

<table>
<thead>
<tr>
<th>PURCHASER - LIBRARY BRANCH</th>
<th>ACCOUNTS PAYABLE (FINANCE AND FACILITIES)</th>
<th>FINANCE AND FACILITIES</th>
<th>CONTROLLER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Makes a purchase with a store credit card</td>
<td>Initiates Supplier Invoice Request in Workday</td>
<td>Approves purchase in Workday</td>
<td>Creates Supplier Invoice in Workday</td>
</tr>
<tr>
<td>Saves receipt (proof of purchase)</td>
<td>Matches receipt to credit card statement</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Submits receipt to Accounts Payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Auditor’s Office analysis.
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.

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.