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 for the purpose of ensuring the proper and efficient use of City resources and providing other audit services and information to City Council, the Mayor and the public to improve all aspects of Denver’s government. He also chairs the City’s Audit Committee.

The Audit Committee is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities of the integrity of the City’s finances and operations, including the integrity 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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Maurice Goodgaine
Leslie Mitchell
Rudolfo Payan

Robert Bishop
Jeffrey Hart
Timothy O’Brien, Vice-Chair

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Report Number – A2015-001
Honorables Michael Hancock, Mayor  
City and County of Denver  

Dear Mayor Hancock:  

Attached is the Auditor’s Office Audit Services Division’s report of their audit of the Innovation Fund (iFund). The purpose of the audit was to determine if the iFund has a transparent and equitable governance structure and whether the iFund’s financial tracking and reporting is accurate.

We found that the iFund continues to support ongoing projects established under the iFund’s predecessor—the Information Technology Investment Council (ITIC)—as well as system replacement projects that are characteristic of projects funded by ITIC. In addition, the iFund’s decision-making process and record-keeping need increased transparency and accountability. Specifically, iFund Committee meetings should be documented along with member voting records to ensure the iFund’s processes and decisions can be analyzed for fairness and equitability. Additional improvements in key processes are needed such as the documentation and consistent application of the iFund’s project review and scoring process. Moreover, to ensure the iFund is a good steward of taxpayer funds, it should consistently conduct post-implementation reviews on closed projects to assess the implementation and results of each project and provide detailed financial reporting to iFund Committee members and relevant agencies on a regular basis.

If you have any questions, please call Kip Memmott, Director of Audit Services, at 720-913-5000.

Sincerely,

Dennis J. Gallagher  
Auditor  

cc: Honorable Michael Hancock, Mayor  
Honorable Members of City Council  
Members of Audit Committee  
Ms. Cary Kennedy, Deputy Mayor, Chief Financial Officer  
Ms. Janice Sinden, Chief of Staff  

To promote open, accountable, efficient and effective government by performing impartial reviews and other audit services that provide objective and useful information to improve decision making by management and the people.  
We will monitor and report on recommendations and progress towards their implementation.
To promote open, accountable, efficient and effective government by performing impartial reviews and other audit services that provide objective and useful information to improve decision making by management and the people.

We will monitor and report on recommendations and progress towards their implementation.

Mr. David P. Edinger, Chief Performance Officer
Ms. Beth Machann, Controller
Mr. Scott Martinez, City Attorney
Ms. Janna Young, City Council Executive Staff Director
Mr. L. Michael Henry, Staff Director, Board of Ethics
Mr. Brendan Hanlon, Budget Director
Ms. Andrea Denis, Director of Technology Services’ Project Management Office
AUDITOR’S REPORT

We have completed an audit of the City and County of Denver’s Innovation Fund (iFund). The purpose of the audit was to evaluate the iFund’s governance structure and financial tracking and reporting practices.

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 that 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 found that the iFund could improve the transparency and accountability of its governance structure by taking a variety of steps. First, the iFund Committee should reassess the purpose of the iFund and update its Charter accordingly. Next, the iFund should consistently document its Committee meetings and member votes to increase the transparency of its decision-making process. Further, the iFund should document and consistently follow its review and selection process—including its use of scorecards to assess each project against designated criteria. The iFund can improve the consistency of its review process by creating a standard business case template for agencies to use when presenting their proposed projects to the iFund Committee prior to the final selections. Additionally, the iFund should conduct post-implementation reviews for all implemented projects to ensure that taxpayer’s funds are being used to achieve the expected benefits from each approved project. Finally, regular financial reporting that highlights any differences between each project’s expected budget and actual spending, and the reasons for these differences, should be provided to iFund Committee members and agencies associated with each approved project.

We extend our appreciation to David Edinger, Brendan Hanlon, Andrea Denis and all personnel who assisted and cooperated with us during the audit.

Kip Memmott, MA, CGAP, CRMA
Director of Audit Services

To promote open, accountable, efficient and effective government by performing impartial reviews and other audit services that provide objective and useful information to improve decision making by management and the people.

We will monitor and report on recommendations and progress towards their implementation.
Background
The Innovation Fund (iFund) was officially established in June 2012. It replaced the Information Technology Investment Council (ITIC) created by Mayor John Hickenlooper. The iFund was designed to fund improvement projects that would measurably improve operations and service delivery within the City and County of Denver (City). Although the iFund is administered by Technology Services (TS), eleven standing Committee members are responsible for reviewing and approving proposed projects. Members of the iFund include leadership from the Mayor’s Office, the Budget and Management Office, the Departments of Finance, Technology Services, Human Resources, Community Planning and Development, Human Services, Parks and Recreation, Public Works, and Safety, as well as the City Attorney’s Office. The iFund distributes approximately $10 million each year to approved projects.

Purpose
The objective of the audit was to determine if the iFund provides a transparent and equitable governance structure and whether the iFund’s financial tracking and reporting is accurate.

Highlights
The Innovation Fund’s (iFund’s) governance structure does not ensure that projects are selected and managed in a transparent and accountable manner. First, the iFund Charter does not clearly describe the types of projects the iFund intends to support. This has led to confusion among City agencies regarding the purpose of the iFund. Additionally, the iFund has continued to support ongoing projects initially funded under the iFund’s predecessor, the Information Technology Investment Council (ITIC), as well as system replacement projects that are more consistent with the projects previously funded by ITIC.

In addition, the iFund’s decision-making and record-keeping practices lack sufficient levels of transparency and accountability. We identified a variety of flaws in these processes including a lack of documentation of meeting minutes, no voting records regarding final decisions, and inconsistent post-implementation reviews. These gaps reduce the transparency of the iFund’s funding decisions. Also, without consistent post-implementation reviews, the iFund cannot readily assess whether funding objectives and outcomes were met or identify lessons learned regarding project implementation. Finally, we found that the financial reporting and accounting for iFund projects is incomplete and inconsistent. Specifically, the current reporting approach does not provide iFund Committee members with a complete view of all spending activity for the life of each project. This prevents the iFund members from fully understanding the financial performance, or lack thereof, of iFund projects.

For a complete copy of this report, visit www.denvergov.org/auditor or contact the Auditor’s Office at 720.913.5000
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INTRODUCTION & BACKGROUND

The term “innovation” can be defined in a variety of ways. Potential uses of the term include “novelty in action,” “new ideas that work,” or “new practices.” Government-related innovation is typically intended to achieve wide-reaching improvements in governance and service performance, including efficiencies, to increase its value to the public. However, according to a journal article on innovation in the government, innovative changes should be “new to the organization, large enough, general enough, and durable enough to appreciably affect the operations or character of the organization.”

Although innovation is often used synonymously with “improvement” or “process improvement,” the two concepts are not the same. For example, innovations may not be successful or lead to the intended outcome. In other cases, innovation leads to improvement—or an increase in performance along certain metrics—over the long-term even though immediate benefits may not occur.

Further, an article in the Stanford Social Innovation Review explains that innovations leading to new technologies and business models intended to drive down costs, increase accessibility, and improve services, are increasingly a focus of the public sector. Rising debt and the need for stronger economic growth have prompted local, state, and federal governments to cut costs and implement new strategies in an effort to better serve constituents. For example, a grant from the National Science Foundation helped foster the development of the bar code, which revolutionized inventory control and tracking. Also, the City of Philadelphia adopted new infrastructure for waste collection that eventually reduced the operating budget associated with these activities by almost 70 percent. In addition, it was pointed out in an article from The Economist magazine that the armed forces paved the way for the internet, GPS positioning, and voice activated “virtual assistants,” while public-funded universities and labs developed Hypertext Markup Language (HTML) and the touchscreen.

In keeping with this government trend towards innovation, the City and County of Denver’s Innovation Fund (iFund) is one such approach attempting to incorporate innovative processes and activities into the local government.

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2 Also, innovations can be associated with products (e.g., new equipment), services (e.g., new ways to provide services such as online tax forms), processes (e.g., re-organization of processes), position (e.g., new users), governance (e.g., new forms of citizen involvement), or rhetoric (e.g., new ideas or concepts).
History of the Innovation Fund

The Information Technology Investment Council (ITIC) became the iFund in 2012. ITIC was intended to formalize the City’s review and prioritization of technology investments and to increase the visibility and oversight of the City’s technology projects. Established during Mayor John Hickenlooper’s Administration, ITIC was created after the City consolidated its previously decentralized information technology (IT) functions in 2004 into the Technological Services (TS) Department that exists now.

ITIC was intended to be a recognized model for municipal IT governance because of its ability to improve government service delivery through sustainable technology investments. More specifically, ITIC enabled the City to bring a holistic, citywide perspective to its technology funding decisions instead of the previous approach in which technology decisions were made on an agency-by-agency basis. ITIC consisted of representatives appointed by the Mayor, or their delegates, and was supported by an ITIC Support Committee, a four member group made up of individuals from the Budget and Management Office (BMO) and TS. However, Mayor Hancock rebranded ITIC to the iFund with the intent that it would evolve into a fund that supports the improvement of agency operations and service delivery through investments in improvement projects instead of the technology-centric approach used by ITIC. The iFund Charter—shown in Appendix A—was approved in June of 2012 and revised in 2015. According to the City and County of Denver 2015 Mayor’s Budget (Budget), the iFund “provides funding for the implementation of projects designed to improve City operations and efficiencies through automation and business process improvements for agencies within the General Fund.”

iFund Membership and Process Overview

The Charter establishes the composition of the iFund Committee, which is made up of individuals from a variety of City agencies. Additionally, individuals from TS, BMO, the Mayor’s Office, and the City Attorney’s Office provide guidance and support to the iFund during its review of proposed projects.

iFund Committee—The iFund Committee is comprised of a “cross-departmental group of City leaders that work together to determine how best to invest in projects that will measurably improve operations and service delivery within the City.”

Mayor Hancock rebranded ITIC to the iFund with the intent to improve agency operations and service delivery by investing in improvement projects.

5 ITIC members included the following individuals: Chief Information Officer, Deputy Chief Information Officer, Chief Operating Officer, Chief Financial Officer, Budget Director, and Executive Directors from the Departments of Public Works, Human Services, Parks and Recreation, Career Services Authority, Safety, and Community Planning and Development. The Support Committee included the following individuals: the Director of TS’ Project Management Office, an Enterprise Architect, the Manager of Business Process Analysis, and a BMO Analyst.

Charter, the iFund Committee’s membership is “defined by the Mayor with representation from the major functions within the City’s departments and agencies that are most affected by operational improvement decisions.” There are eleven standing members with voting privileges on the iFund Committee:

1. Chief Performance Officer (Mayor’s Office)
2. Budget Director
3. Chief Financial Officer
4. Chief Information Officer
5. City Attorney
6. Executive Director of Human Resources
7. Executive Director of Community Planning and Development
8. Executive Director of Denver Human Services
9. Executive Director of Safety
10. Executive Director of Parks and Recreation
11. Executive Director of Public Works

**Mayor’s Office**—The Chief Performance Officer (CPO), representing the Mayor’s Office, is the Executive Sponsor for the iFund. As part of this role, the CPO is a voting member and provides the group with a perspective on innovative approaches to achieving efficiencies and process improvements for local government agencies and programs.

**Budget and Management Office**—Individuals from BMO serve on the iFund Support Committee and the iFund Committee. A Financial Management Specialist from BMO serves on the Support Committee and has other duties including providing budget information related to funded projects to iFund Committee members and monitoring iFund project spending. In addition, the City’s Budget Director serves as Co-Chair and voting member of the iFund Committee and provides a budgetary perspective to iFund deliberations such as whether a project is best suited to be funded through the annual budget process instead of the iFund.

**Technology Services**—Not only does TS administer the iFund’s budget but individuals from TS fulfill other important roles for the iFund including serving on the iFund Support Committee and managing projects. Specifically, the Chief Information Officer is a voting member of the iFund Committee; also, the Deputy Chief Information Officer, TS Enterprise Architecture Director, and Project Management Office (PMO) Director hold

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8 However, according to the iFund Charter, standing members can assign a designee to represent him or her on the iFund Committee.
9 Although no documented criteria have been established by the iFund regarding what types of projects should be sent through the annual budget process instead of the iFund, projects costing less than $20,000 to $25,000 dollars are not typically approved by the iFund. Instead, the iFund recommends that the agency request project funding for these low-cost efforts through the annual budget process.
10 The iFund Support Committee conducts the initial review of proposed iFund projects.
three of the four seats on the iFund Support Committee. In addition, each approved iFund project is assigned a project manager from TS’ PMO. The project manager is responsible for project management and implementation which includes close monitoring of the project’s scope, schedule, status, and risks. Project managers provide regular updates to the project’s agency sponsor regarding project status using the PMO Dashboard, which is a centralized tool used by TS to monitor all technology-related projects that is accessible to all TS staff.11

**City Attorney’s Office**—An Assistant City Attorney assigned to TS assists the iFund with the development of any technology-related contracts and monitoring of agencies and vendors associated with iFund projects to ensure they adhere to the technology requirements of all relevant contracts. In addition, the Assistant City Attorney is a voting member of the iFund Committee.

**iFund Project Selection Process**—To carry out its responsibility of vetting and selecting projects, the iFund utilizes its own distinct process that is separate from the annual budget process and the multiple levels of review and scrutiny that accompany it.12 After reviewing anywhere from thirty to fifty proposals each year, the iFund Committee makes funding decisions annually in conjunction with the annual budget process, as shown in Appendix B. The iFund Committee’s review and decision-making process involves several phases. First, the Support Committee reviews all proposed projects and assigns scores, using a scorecard, to each project based on several criteria.13 Next, the Support Committee provides recommendations to the iFund Committee regarding which projects should continue being reviewed and which should be rejected based on these criteria and the “knowledge and expertise” of Support Committee members. The iFund Committee members then review the Support Committee’s recommendations, as well as the other proposed projects not recommended by the Support Committee, and notify certain agencies that they can continue with the next step in the process that involves preparing

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11 The agency sponsor is typically the department’s Executive Director. The PMO Dashboard status update includes a variety of information including current activities (e.g., status of contracts, as applicable), phase of the project, the project’s scope and schedule, and possible risks to the project such as vendor performance.

12 Specifically, the annual budget process requires several levels of review for agency budget proposals including reviews by BMO, and the City’s Chief Financial Officer, Mayor, and City Council.

13 Criteria used by the Support Committee include the following: maturity of proposal/strategic alignment, well defined business need/opportunity, value, and risk assessment. Another key aspect that the Support Committee focuses on is whether the agency’s business processes related to the project are effective. In other words, adding a technology to a flawed business process is not likely to lead to improvements.
a business case for their proposed project. About three months after proposals are initially submitted and reviewed by the Support Committee, selected agencies present these business cases to the iFund Committee regarding the proposed projects. iFund Committee members then score the business cases using another scorecard developed for this final review. Next, the group discusses the projects and all assigned scores before arriving at the final decisions, around two to four weeks after business case presentations occurred. The presentations and decision-making process often take place during one to two iFund meetings. Appendix B illustrates this review process and timeframe.

For the projects not approved, the iFund Committee may award a small level of funding to enable the agency to assess its underlying business processes to ensure that the proposed project, if brought before the iFund in the future, is built upon a solid foundation and likely to achieve the intended benefits. Based on iFund records, this has occurred for three projects proposed in 2015.

Additional budget dollars can be allocated to existing projects experiencing a budget gap using iFund monies set aside in a contingency fund. See Appendix C for the amount of monies in this fund. Conversely, if an approved project is implemented without spending all of the funds provided, or if the project gets cancelled, these funds are returned to the iFund and placed into the contingency fund.

iFund Budget Information

The iFund receives its funding through a General Fund transfer to TS from BMO. TS administers the iFund budget by tracking and spending funds for approved iFund projects.

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14 The proposal prompts agencies to categorize the maturity of their proposal using several questions intended to determine whether the agency has documented business requirements and risks associated with the project. Other elements of the proposal include an area for a summary of the proposed project, what financial or societal value is expected to result from the project, and what type of metrics the agency will use to measure the value of the project. On the other hand, the business case is typically a PowerPoint slide presentation that documents additional details such as the “business challenge” that prompted the agency to propose the project, the project’s scope, resource requirements, and projected cost. In addition, agencies typically provide the expected benefits as well as any assumptions or risks associated with the project, among other details.

15 Criteria used by iFund Committee members to assign scores to business cases are the following: objectives and metrics—the degree to which improving the identified metric(s) will mitigate the problem described in the opportunity statement; scope—the degree to which the project scope is well defined, manageable, and or not likely to consume more resources than stated in the proposal; resource requirements—relative ranking of the project on the cost of total resources required to complete, implement and operate/maintain the project solution; financial and societal benefits—relative ranking of the project for the financial and societal benefits and cumulative return on investment, if applicable; and assumptions and risks—degree to which the assumptions have been identified and project risks noted and mitigated.

16 Other factors taken into consideration before approving projects, according to various iFund members, include the project’s impact on TS staff resources, the agency requesting the project, the amount of funding needed, and whether the project will affect or benefit multiple agencies. The intent of considering these additional details is to avoid over-burdening TS staff, to allow a variety of agencies to receive funding, to utilize only those funds that are available, and to take advantage of opportunities to have one system benefit multiple agencies.

17 Part of this assessment of the agency’s business processes can be achieved through a Value Stream Analysis which often includes the assistance of staff from the City’s Peak Performance group. This analysis is intended to identify the value in the agency or program’s activities, or what steps improve the product or service for the customer.

18 The “Contingency for IT” line item in Appendix C represents the contingency fund.
On average, the iFund has received about $10,500,000 every year for the last three years. Table 1 provides an overview of the iFund budget from 2013 through 2015.

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<tr>
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<th>2013</th>
<th>2014</th>
<th>2015</th>
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<tr>
<td>iFund Budget</td>
<td>$10,120,400</td>
<td>$11,000,000</td>
<td>$10,500,000</td>
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</table>

**Source:** City and County of Denver 2015 Mayor’s Budget.

**Note:** The 2013 and 2014 amounts represent actual and appropriated funds, respectively; the 2015 amount is the recommended funding for the iFund.

Figure 1 illustrates the amount of funding City agencies have received from ITIC and the iFund starting in 2008, with the inception of ITIC. Only those ITIC-approved projects that are ongoing and have continued to receive funding are included in Figure 1 with iFund approved projects.

**Figure 1:** iFund Funding Recipients From 2008 to 2015 By Agency

Recent examples of projects funded through the iFund in 2014 include the following:

- Budget System (Department of Finance-BMO)
- Customer Relations Management System replacement (TS)

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19 The green Joint Project category refers to the City’s new permitting system (Accela) proposed by the Community and Planning Department, Denver Fire Department, the Department of Excise & License, and Public Works; the blue Joint Project is an enterprise resource planning finance and human resources system to replace the City’s PeopleSoft system; the orange Joint Projects category includes two projects—Integrated Criminal Justice and Integrated Traffic Ticketing—that involve the City’s Department of Safety, Denver County Court, City Attorney’s Office, and District Attorney. The Other Agencies category includes funded projects for the City Attorney’s Office, City Council, Auditor’s Office, Department of Parks and Recreation, and General Services along with supplemental funding for business process improvements for a citywide Geographic Information Systems (GIS) project.
- New Property Tax System (Department of Finance-Assessment)
- Integrated Traffic Ticketing (Department of Safety)

A complete list of all active projects—or those that continue to receive funding from the iFund—is included in Appendix C. This list also includes the year the project was initially approved as well as the approved funding for each project and the remaining funds that have not yet been spent.
SCOPE

The audit assessed whether the Innovation Fund (iFund) uses effective controls and processes to ensure transparency and accountability when selecting and managing projects. The review focused on data collected during the iFund years 2013 through 2015. However, ongoing or active projects established under the iFund’s predecessor—the Information Technology Investment Council (ITIC)—were also reviewed.

OBJECTIVE

The audit objective was to determine if the iFund has a transparent and equitable governance structure and whether the iFund’s financial tracking and reporting is adequate and accurate.

METHODOLOGY

We utilized several methodologies during the audit to gather and analyze information related to the audit objective. The evidence gathering methodologies included, but were not limited to:

- Interviewing iFund Committee members, Support Committee personnel, and other individuals associated with the iFund regarding iFund activities
- Reviewing and analyzing the current governance structure of the iFund
- Selecting a sample of iFund projects, submitted in 2013 and 2014, that included approved and not approved projects; analyzing supporting documentation for these projects and interviewing agency personnel related to the sample; reviewing and analyzing the distribution of iFund monies awarded to each project
- Surveying agency personnel who proposed projects to the iFund to gauge their customer experience with the iFund process
- Surveying agency personnel who had never proposed projects to the iFund to determine their knowledge of the iFund
- Analyzing the current financial reporting structure
- Analyzing financial data related to all active iFund projects
- Researching leading practices related to the administration and management of other innovation funds
- Researching leading practices regarding meeting management and documentation, and voting and decision-making
- Researching leading practices on financial reporting
• Attending an iFund Committee meeting to observe the structure and content of the meeting
• Reviewing and analyzing iFund Committee meeting minutes to better understand the iFund Committee’s deliberation and decision-making process, and to analyze member attendance
• Analyzing the original and revised iFund Charters and the final ITIC Charter for similarities
• Reviewing Support Committee and iFund Committee scorecards used to assess proposed projects in 2013 and 2014
• Reviewing and comparing the City’s annual budget process with the iFund’s project review and approval process
FINDING

The Utility and Equity of the City’s iFund Cannot Be Fully Assessed Due to Insufficient Levels of Transparency and Accountability

The Innovation Fund’s (iFund’s) current governance process does not ensure the transparent and accountable selection, administration and assessment of funded projects, which impedes a full assessment of the value and equity of the iFund. First, the iFund is generally used to support ongoing Information Technology Investment Council (ITIC) projects and system replacements. Second, the iFund’s decision-making process and record-keeping practices lack transparency and hinder accountability. Lastly, the iFund fails to ensure that beginning-to-end financial reporting is done in a transparent and complete fashion.

Goals and Purpose of the iFund Are Unclear

Although termed the “Innovation Fund,” the iFund Charter does not provide clear guidance and definitions regarding the types of projects the iFund was established to support. The iFund’s name suggests an emphasis on innovative projects, while the Charter language references only projects leading to operational improvements. Moreover, neither the Charter nor any other guiding document specifies the cost or size of projects the iFund is intended to support, or what is meant by “innovation” or “operational improvement.” We also found that the iFund continues to support many active ITIC projects as well as system replacement projects like those funded by ITIC, despite the name change in 2012. In addition, the Department of Technology Services’ (TS) role in iFund activities and the static nature of the iFund Committee’s member roster only reinforce its similarities with ITIC. As a result, City agencies report confusion regarding the purpose of the iFund and a perception that it is intended to fund only technology-centric projects.

Only Semantic Differences Separate the iFund and ITIC Charters

According to the last ITIC Charter, the organization was designed to review agencies’ requests for technology or system improvements and to select the “best investments.” The Charter also lists ITIC’s mission, values, members, process, and role along with the City’s information technology (IT) governance structure and a definition of IT governance. Similarly, the iFund Charter includes basic information such as the group’s mission, guiding principles, membership roster, and process, among other details, as shown in Appendix A. However, a direct comparison of the last ITIC Charter with the most recent iFund Charter showed that the vision, mission, and values of ITIC and the iFund are

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20 Examples of system replacement projects funded by the iFund include the following: Property Tax System replacement, Budget System replacement, and the Jail Management System replacement.

21 The ITIC Charter references the following definition of IT governance: “a framework for the leadership, organizational structures and business processes, standards and compliance to these standards, which ensure that the organization’s IT supports and enables the achievement of its strategies and objectives.” The City’s IT governance structure—according to the ITIC Charter—includes TS, ITIC, the ITIC Support Committee, IT Advisory Committees, BMO, and project sponsors.
almost identical; references to technology in the ITIC Charter were simply replaced with language pertaining to operational improvements in the iFund Charter. See Table 2 for this comparison.

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<th>Table 2: Comparison of Vision, Mission, and Values in ITIC and iFund Charters</th>
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<td><strong>ITIC Charter</strong></td>
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<td><strong>Vision</strong></td>
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<tr>
<td><strong>Mission</strong></td>
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<td><strong>Values/Guiding Principles</strong></td>
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**Source:** Audit team’s analysis of ITIC and iFund Charters.  
**Note:** The final ITIC Charter referenced here was established in February 2012, four months before the group became the iFund. The iFund Charter was first developed in June of 2012 and revised in January 2015.

Further, the TS sections of the 2012 and 2013 City and County of Denver Mayor’s Budget referenced performance evaluation responsibilities for TS projects. This information clearly shows that the iFund carried on this technology-focused role previously held by ITIC. See Table 3 for the specific budget language.

<table>
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<th>Table 3: Comparison of 2012 and 2013 Budget Language Regarding Performance Evaluation of Technology Projects</th>
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<tr>
<td><strong>Budget: Technology Services Applications Development Section</strong></td>
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**Source:** City and County of Denver 2012 and 2013 Mayor’s Budget.

According to iFund Committee members, the transition from ITIC to the iFund was intended to align the organization with the newly elected Mayor Hancock’s focus on innovation and process improvement, not just technology improvements. Moreover, despite the vague language of the iFund Charter, it still emphasizes the intent for the group to shift its emphasis away from technology, towards innovation. Additionally, our review of benchmark jurisdictions found that costly, technology projects are typically funded by city technology services departments, not by innovation initiatives as is the case with the iFund. Other differences between the iFund and these other innovation programs include the following: collaboration, funding type, and project selection.
• **Collaboration**—The iFund does not collaborate with subject matter experts from the private sector, academia or non-profits. Other innovation funds we researched, such as the Mayor’s Office of New Urban Mechanics in Philadelphia, utilize the help of subject matter experts and experienced entrepreneurs to provide coaching and mentoring to civic start-ups.²² The Mayor’s Office of New Urban Mechanics of Boston also collaborates with constituents, academics, entrepreneurs, non-profits and other city staff members on innovative projects. In addition, the City of Portland’s innovation fund accepted a proposal focused on improving the municipality’s collaboration with the private sector. Specifically, the proposal should help the city become an early adopter of innovative technologies developed by Portland’s start-up community.

• **Funding Type**—In contrast to the iFund’s emphasis on funding ongoing ITIC projects and system replacements, several innovation funds we researched provide seed money—or one-time payments—for innovative projects. One example is the City of Baltimore, which operates its innovation fund as a self-sustaining fund. Once a project receives funding, savings from the implemented project are returned to the fund which allows for other projects to be financed. Another example is the City of Portland, which provides one-time investments to city agencies to fund creative projects that would not typically receive funding through the city’s budget process. Additionally, the City of Boston, the City of Los Angeles and the City of Philadelphia offer small project funding to support innovative projects. Finally, the City of Chicago uses a different approach by providing loans to projects with the intent of helping city agencies improve their operations, particularly as it relates to customer service.

• **Project Selection**—Three of the cities we researched—Baltimore, Chicago and Portland—use a panel consisting of private and public sector individuals to select and review project proposals for innovation fund monies.²³ In contrast, Denver’s iFund relies on two committees—the Support Committee and iFund Committee—consisting purely of city staff to make funding decisions.

See Appendix D for further information about these other innovation funds. Additional similarities between ITIC and the iFund include the role of TS in the iFund’s activities and the iFund Committee member roster.

### iFund Members Remain Largely Unchanged

During ITIC’s tenure, TS staff made up half of the ITIC Support Committee, filled two positions on the ITIC Committee, in addition to providing planning, customer support, and advisory services. For the iFund, TS staff continue to fill important roles on the iFund Support Committee, the iFund Committee, and act as project managers responsible for each project’s schedule, scope, and budget. In addition, a comparison of the iFund Committee member roster with the members of ITIC shows only one substantive difference. The Deputy Chief Information Officer (CIO)—who was a member of the ITIC

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²² A start-up is a new or developing business enterprise.

²³ In these cases, the panel provides recommendations regarding which projects to approve but city leadership, such as the Mayor or City Council, makes the final decision.
Committee—now serves as a member of the iFund Support Committee, not a voting member of the iFund Committee, as shown in Table 4.

<table>
<thead>
<tr>
<th>Table 4: ITIC and iFund Committee Membership Comparison</th>
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<tbody>
<tr>
<td><strong>2012 ITIC Charter</strong></td>
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<tr>
<td>Budget Director</td>
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<tr>
<td>Chief Financial Officer</td>
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<tr>
<td>Chief Information Officer</td>
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<td>Chief Performance Officer</td>
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<td>Agency Leader from:</td>
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<td>• Community Planning and Development</td>
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<td>• Human Resources</td>
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<td>• Human Services</td>
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<tr>
<td>• Parks and Recreation</td>
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<tr>
<td>• Public Works</td>
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<tr>
<td>• Safety</td>
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</tbody>
</table>

Source: Audit team’s analysis of ITIC and iFund Charters.

Note: The only difference between the two rosters is marked with a bold “x.”

Although the iFund Charter suggests the group’s activities focus on identifying and funding projects leading to innovations and process improvement, the iFund continues to rely heavily on TS staff to carry out its activities, as was the case during ITIC’s tenure. This calls into question whether there is a clear difference between the activities and expertise needed for the individuals associated with ITIC and the iFund.

Additionally, as was the case with ITIC, the iFund Charter does not allow for a rotation in iFund Committee members which prevents it from representing all City agencies that are impacted by innovation, process improvements, or new technologies. Specifically, the iFund’s membership approach differs from the City’s governance approach for boards and commissions as described in the Denver Revised Municipal Code (D.R.M.C.). Typically, these groups rotate members, through staggered term limits of two to four years. The only committee with static members, similar to the iFund Committee, is the Internet Policy Committee.

While the information provided in the D.R.M.C pertains to boards and commissions, we believe that it could provide guidance to the iFund regarding management of the group’s membership. Furthermore, rotating a small number of iFund Committee members on a regular basis, would allow the iFund to maintain institutional knowledge important for the implementation of projects that span multiple years. It would also help the iFund avoid the perception of exclusivity, bring new ideas to the group, and begin to address

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24 By “staggered term limits,” we mean that only a subset of the group’s members is replaced at a time, which ensures the group retains continuity of its processes and institutional knowledge.

25 D.R.M.C. § Article VIII.
the issue identified in our survey that agencies without representation on the iFund report more negative experiences and less understanding of the criteria used to select projects.

A High Percentage of iFund Monies Is Used for IT Projects Initiated under ITIC

Due to these unclear distinctions between ITIC and the iFund, the City has continued to support ongoing ITIC projects as well as system replacements through the iFund. For example, Table 5 shows that 80 percent of the iFund’s spending between 2013 and 2015 has gone towards projects that are characteristic of ITIC. Although the iFund’s spending in 2015 shows a slight decrease in monies provided to these projects, the iFund continues to support—with 73 percent of its available funding—these ITIC-related projects.

<table>
<thead>
<tr>
<th>Table 5: iFund Project Spending</th>
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<tr>
<td><strong>Type of Projects</strong></td>
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<tr>
<td>Ongoing ITIC Projects</td>
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<tr>
<td>System Replacement Projects</td>
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<tr>
<td><strong>Subtotal</strong></td>
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<tr>
<td>Other Projects</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Source: Audit team’s analysis of PeopleSoft query. 
Note: The total spending between 2013 and 2015 listed here does not match the total amount in Table 6 because the figures in Table 5 do not include ITIC-spending between 2008 and 2012. Only spending on active projects continuing to receive monies from the iFund is included here to provide a more accurate view of the iFund’s spending.

Further, these system replacement projects, such as the Property Tax System and Budget System replacements, required a significant amount of funding as can be seen in Appendix C. In fact, the only project without a technology focus that has been funded through the iFund was the Process Improvement project that later became the City’s Peak Academy.26 See Table 6 for this comparison of iFund spending on technology-related projects and projects that do not have technological aspects.

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26 Denver’s Peak Academy provides training to City staff on the principles of “Lean,” which provides guidance on eliminating waste and improving the efficiency of government processes.
Some agencies have more flexibility in their budgets as a result of the iFund’s funding decisions.

In addition, iFund Committee members offered their own descriptions of the typical projects supported by the iFund which mirror the information in Tables 5 and 6. Specifically, they offered the following characterizations of typical iFund projects:

- Larger projects, which are usually technology-related
- System replacements
- Larger, multi-agency, high-cost, or more complicated projects
- Updates of outdated systems
- Software maintenance and upgrades

We were also informed that agencies proposing small projects that cost between $20,000 and $25,000 are guided to pursue project funding through the annual budget process instead of through the iFund, in light of its current focus on ongoing ITIC and system replacement projects.

Another effect of the iFund’s support of ongoing ITIC and system replacement projects is that the agencies requesting the projects not only benefit from receiving the new system or upgrade but also from having funds available in their own budget for other activities, which would have not been available had they been required to fund the upgrade or new implementation through their own operating budget. Although this could be perceived as a benefit to all City agencies, the fact that iFund monies are primarily going to a small handful of agencies, as shown in Figure 1, means that some agencies have more flexibility in their budgets than others, as a result of the iFund’s funding decisions. Similarly,
TS benefits from the iFund’s current technology focus because this increases its financial resources that might otherwise have been needed to support some of these technology projects. Lastly, we found that there is a misconception among some City agencies regarding the iFund’s purpose. Agency staff who responded to our survey explained that some agencies do not propose projects to the iFund because they erroneously believe that their project proposal does not fit the iFund’s selection criteria based on their perception of which projects have been approved.27

The iFund Lacked a Transition Strategy from ITIC

The iFund’s continued focus on ongoing ITIC and system replacement projects is due to the lack of a strategic and planned transition from ITIC. Despite broad understanding on the part of iFund Committee members of the original intent of the iFund—to focus on innovation or process improvement—no framework or plan was developed that specified parameters around which types of projects would be considered and whether the iFund was the optimal method for funding ITIC and system replacement projects. As such, we recommend that the iFund Committee reconsider what its purpose should be and update the Charter accordingly to provide clear guidance to City agencies interested in proposing projects to the iFund. Also, to the extent that innovative or process improvement-related projects continue to be the focus of the iFund, the iFund Committee should designate a specific amount of iFund dollars each year to these types of projects.

The iFund’s Decision-Making Process and Record-Keeping Practices Lack Transparency and Hinder Accountability

The iFund’s decisions are separate from the City’s general budget process; although City Council approves the funding for the iFund on an annual basis, it is not involved in the specific funding decisions or active oversight of projects approved by the iFund which makes it important for the iFund to be transparent and accountable in its project selection and record-keeping practices. However, during the audit, we found a notable lack of documentation of iFund Committee meetings, which is non-compliant with the iFund Charter. Further, the iFund lacks controls and transparency over certain key processes such as scoring of proposed projects and reviews of implemented projects. As a result, the iFund’s decisions lack visibility, both within the City government and to the public. Considering this independence of the iFund’s project selection decisions from the City’s general budget process and the review and scrutiny that accompanies it, these deficiencies in the iFund’s processes should be remedied to provide assurance that taxpayer funds are being used responsibly and transparently.

iFund Meeting Records Are Inadequate

Both the original and revised iFund Charters clearly state that all meetings and decisions will be documented in meeting minutes.28 However, 62 percent of iFund Committee

27 To obtain feedback from agencies that have submitted project proposals to the iFund, we distributed surveys to relevant personnel within City agencies that have attempted to obtain iFund monies.
28 The original iFund Charter was approved in June 2012; the revised version was finalized in January 2015.
meetings were not documented. Over the thirty-four months the iFund Committee has been meeting and operating—using the date on the first Charter as a starting point—meetings were not documented for twenty-one of those months.\textsuperscript{29} As a result, any decisions made during those meetings were not officially documented, as required by the iFund Charter. Several iFund representatives explained that the reason for this gap in meeting documentation was that the iFund was without an administrative staff person during that time. This lack of meeting documentation prevents any external assessments of the iFund’s project review process, project monitoring, as well as decisions regarding the administration of the iFund.

Further, the vote of each iFund Committee member is not recorded for final project selection decisions or for decisions to award contingency funds to projects in need of additional funding. Compounding this lack of transparency is the fact that meeting minutes provided to us did not include any narrative to support or explain the iFund’s project selection or funding decisions. Moreover, the iFund Committee’s decisions are not made public. Although iFund Committee members contribute votes \textit{viva voce}, or “by the voice,” these votes should still be recorded. Robert’s Rules of Order, a resource for parliamentary procedure commonly used by assemblies and government bodies, states that an entry must be made in the minutes of the names of all members voting in the affirmative, in the negative, and those that abstained.\textsuperscript{30} In addition, Denver’s City Council, which is responsible for passing ordinances, investigating City agencies, and approving the City’s budget, keeps a public record of its proceedings and the vote of each member. Finally, in a review of the Department of Energy’s Loan Guarantee Program, the Government Accountability Office (GAO) stated that incomplete records can have several negative impacts.\textsuperscript{31} First, it can impede the program’s ability to ensure consistency in the program’s administration and decisions as well as to provide the necessary information to oversight organizations. Second, poor documentation of decisions impacts the program’s ability to demonstrate that it treated applicants equitably and could lead to criticism that it exposed taxpayers to financial risks.

Respondents to our survey indicated that greater transparency is needed regarding how the Support Committee and iFund Committee assign scores to each project based on their review of proposals and business cases. Figure 2 illustrates this perceived lack of transparency. Of note is the fact that both groups—agencies that had projects

\begin{quote}
Incomplete records can impede a program’s ability to demonstrate that all applicants were treated equitably.
\end{quote}

\textsuperscript{29} The iFund typically meets twice a month.

\textsuperscript{30} Parliamentary procedure is designed to allow a group of any size to consider all members’ opinions and arrive at decisions in a timely manner. Other elements of parliamentary procedure include duties of the particular assembly members, such as the Chairman and Secretary, content of meeting minutes, and rules around voting. For more information, see the following website: http://www.rulesonline.com/.

approved by the iFund and those that have not yet received project funding from the iFund—reported the need for more transparency from the iFund.

**Figure 2: City and County of Denver Agency Responses Regarding iFund Transparency**

![Survey Responses Graph]

**Source:** Audit team’s analysis of survey data collected by auditors.

To address this lack of meeting documentation and voting records, we recommend that the iFund Committee develop a method to ensure all meetings are documented, such as appointing one or more individuals with responsibility to document meetings if needed. In addition, the iFund should document the following in its meeting minutes: the vote of each iFund Committee member regarding official iFund business and any discussion supporting the iFund’s decisions.

**The iFund Lacks Control and Transparency Over Certain Key Processes**

We identified several gaps in the iFund’s key processes of reviewing proposed projects, approving selected projects, and monitoring implemented projects. Specifically, we found incomplete and missing scorecards, inconsistent information in business case submissions used to make final selection decisions, a lack of controls over the voting process, and inadequate post-implementation reviews.

**Project Review Inconsistencies and Gaps**—We identified several issues concerning the iFund scoring approach for proposed projects. To assess the iFund’s process for reviewing and scoring proposed projects, we requested both Support Committee and iFund Committee scorecards for 2013 through 2015 as well as business case presentations (as applicable) associated with nine selected projects.32

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32 Of these nine projects we reviewed, six were later approved by the iFund whereas three projects were rejected based on the proposal. To select approved projects to review, we divided all iFund approved projects approved in 2013 and 2014 into the following three categories related to project cost: Medium ($100,001-$250,000), Large ($250,001-$750,000), and Extra Large ($750,000 and above). Within these three groups, projects were randomly selected using a random number generator. To select projects that were not approved, a random number generator was used on a list of all projects reviewed and rejected in 2013 and 2014.
Inconsistent and Incomplete Use of Project Scorecards

A review of the iFund scorecards found the following issues:

- For the 2013 scorecards, the iFund Support Committee opted to use two different methods to assign scores to proposed projects. For three criteria, each iFund member assigned an individual score; for the other two criteria—resource requirements and return on investment (ROI)—iFund members came to a consensus and the members assigned the same score for a given project based on information provided by the agencies proposing the project.33

- In regard to 2014 scorecards, iFund representatives could not locate the 2014 scorecard completed by the iFund Committee Co-Chair. In addition, some iFund Committee members’ scorecards were incomplete. Half of the members did not assign scores for two important criteria—resource requirements and financial and societal benefits.

- In 2015, iFund Committee members did not follow their typical review process of assigning scores to proposed projects following the Support Committee’s review. Instead, the iFund Committee members relied on scores assigned by the four-member Support Committee and the fact that there was sufficient funding between the iFund and agency budgets to allow most of the proposals to be funded or added to an existing project.

By deferring to the agency as subject matter experts, the iFund Support Committee potentially missed an opportunity to assess the project’s merit along two criteria. Also, the iFund Committee did not follow two important guiding principles referenced in the iFund’s Charter—transparency and accountability—during the iFund’s 2015 decision-making process that neglected to use scorecards as a tool to review and score proposed projects. Not only are these inconsistencies in the iFund scoring approach not clearly documented in the scorecard or other documents but iFund representatives had difficulty explaining why two different scoring approaches were used in 2013. Additionally, the missing scorecard and various incomplete scorecards from 2014 are not in keeping with the Green Book, or Standards for Internal Controls, which maintains that all transactions should be completely and accurately recorded.34 Furthermore, this incomplete documentation of the iFund’s scoring and review process is not in keeping with

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33 iFund representatives stated that the iFund felt the agencies were the most knowledgeable parties for scoring the return on investment of their proposed project. However, they explained that they do not plan to allow agencies to assign scores going forward.

additional Green Book guidance that recommends the use of quality information that is complete, accurate, and accessible to achieve an entity’s objectives.

In the context of the iFund, these deficiencies prevent the iFund from demonstrating the underlying steps and analysis that support its funding decisions, further reducing the transparency of the iFund’s decisions. Therefore, we recommend that the iFund document and consistently follow the Support Committee and iFund project scoring and review process.

**Business Cases Do Not Include Important Information**

Although most of the six business cases we reviewed for proposed iFund projects included important elements, such as performance metrics and expected benefits or outcomes of the proposed project, other key details such as alternatives to the proposed project, risks associated with the project, change management planning, and alignment with the Mayor’s goals and the agency’s strategic plan were not consistently part of the business cases we reviewed. More specifically, only one of the business cases referenced the agency’s plan for change management. Further, only two of the business cases discussed alternatives to the proposed projects and just four of the six business cases referenced risks associated with the project. Additionally, only half of the business cases included a clear description of how the project aligns with the Mayor’s goals and only one specified how the project aligned with the agency’s strategic plan.

According to GAO, the business case is a structured method for organizing and presenting an investment proposal. Business cases typically include an assessment of business process performance and related needs or business process challenges as well as proposed alternative solutions, assumptions, limitations, and a risk-adjusted cost-benefit analysis. In addition, GAO reported that change management, or preparing users for business process changes that follow the implementation of new systems, is a best practice. Further, decision-makers compare business cases to one another to make final decisions on how to expend resources. Not only did our review find that business cases did not consistently include uniform content to allow for direct comparisons across multiple factors for each proposed project, but important elements were missing in some cases, including descriptions of alternatives to the proposed project.

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35 Information such as return on investment and expected benefits or outcomes of the project are critical data points that allow a thorough review of the project after it has been implemented.

36 Change management involves the following activities: defining and introducing new values or norms within an organization that support new ways of doing work and overcoming resistance to change; creating consensus among staff or stakeholders on changes intended to meet their needs; and planning, testing, and implementing all aspects of the transition. “Information Technology Investment Management: A Framework for Assessing and Improving Process Maturity,” United States Government Accountability Office, accessed May 22, 2015, [http://www.gao.gov/assets/80/76790.pdf](http://www.gao.gov/assets/80/76790.pdf).

37 Even though most of the business cases we reviewed included expected benefits or outcomes from the proposed projects, the iFund removed its requirement for funded projects to yield a return on investment in its recently revised Charter. This omission in the new Charter may make it more difficult to assess whether projects achieved expected outcomes once they are closed.

38 A business process is defined by GAO as a collection of related structural activities, or a chain of events, that produce a service or product for a customer or customers.


project, a detailed assessment of project risks, and change management plans. Finally, the iFund Charter references both alignment with the Mayor’s goals and the agency’s strategic plan as key metrics for success, yet, as noted, these elements were missing from multiple business cases we reviewed.

This lack of consistent and important information provided to the iFund impacts the ability of the iFund Committee members to determine the value and potential risks associated with proposed projects, as well as to compare projects against one another along important criteria. As a result, the iFund cannot show the degree to which it applied a thorough, consistent, and equitable review of all proposed projects. Therefore, we recommend that the iFund Committee should create standard guidance that describes the required information that must be provided as part of iFund business cases and communicate these requirements to all City agencies.

Inadequate Voting Controls—The iFund, along with many other decision-making bodies such as Denver’s City Council, requires that a minimum number of iFund Committee members—or a quorum—must be present for the group to engage in any official business such as voting to award funds to an agency, cancel a project, or change the iFund process.41 Specifically, iFund’s Charter requires that at least six of the eleven iFund Committee members must be in attendance for the group to conduct any official business. However, an analysis of existing iFund Committee meeting minutes found that the iFund conducted official business on one occasion without a quorum of members, which is not in keeping with the iFund’s Charter. For example, only four members were present when the iFund approved a request for proposal regarding one approved project late last year.

By conducting official business without a quorum of members, the iFund Committee’s decision was not based upon the intended diversity of perspectives required by the Charter to ensure quality decisions that benefit the entirety of the City. This in turn calls into question the integrity of the iFund’s decision-making process. As such, we recommend that the iFund Committee adhere to Charter requirements regarding the minimum number of members needed to conduct official business.

Inconsistent Review of Implemented Projects—Once a project has been fully implemented, assessing the effect of the project is critical for determining whether it achieved expected outcomes and identifying lessons learned that can be applied to future projects. However, seven of eleven iFund Committee members reported a variety

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of issues with the iFund’s post-implementation review process. For example, they referenced that the reviews are not thorough enough and do not happen consistently. In addition, agencies that received monies from the iFund for proposed projects reported a similar trend. One third of the respondents to our survey of City agencies, whose projects were completed, explained that their project had not gone through a post-implementation review. In fact, one respondent explained that the iFund’s process does not require follow-up or accountability on the part of agencies to demonstrate whether the project was on-time, on-budget, and resulted in the outcomes that were expected, as reported in the business case. In regard to the six approved projects we reviewed, only one has been fully implemented. However, neither iFund representatives nor agency staff could provide us with evidence that a post-implementation review occurred once the project was closed. Finally, we received conflicting information regarding whose responsibility it is to conduct the post-implementation review. One iFund representative stated that the Support Committee collects budget and schedule information for completed projects and presents these details to the iFund Committee while another individual explained that the agency responsible for the project provides this information and presentation to the iFund.

The GAO, the federal Office of Management and Budget (OMB), as well as the Corporation for National and Community Service (CNCS) highlight the importance of conducting post-implementation reviews. In light of the large number of iFund projects related to technology, GAO and OMB guidance is particularly relevant due to their performance reviews of federal IT projects. According to GAO, many federal IT investments fail or experience cost overruns and schedule slippage due to a lack of effective management and program oversight, among other factors. As a result, GAO added a new risk area in 2015—“Improving the management of IT acquisitions and operations”—to its biennial update of high-risk areas needing attention by Congress and the executive branch. According to OMB, the primary objectives of a post-implementation review are the following:

- To identify how accurately an investment project meets the objectives, expected benefits, and strategic goals of the agency,
- To ensure continual improvement of an agency’s investment process based on lessons learned, and

42 According to iFund Committee members, a new post-implementation review process is being developed. Re-named the post-investment review, this new process will focus on whether the approved project resulted in the expected benefits (e.g., hard and soft cost savings and societal benefit) that were reported in the agency’s business plan. Denver’s Peak Academy defines hard cost savings as the reduction in budget that results from innovation; alternately, soft cost savings are described as the value of staff time, or the efficient and effective use of staff time when redundant or unnecessary steps are removed from agency processes.

43 The development of a thorough business case prior to project implementation is an important tool in conducting these post-implementation reviews.

To minimize the risk of repeating past mistakes

Through a variety of reports aimed at strengthening the management of IT-related investments, GAO has recommended that post-implementation reviews should be conducted within six to eighteen months after a project becomes operational. In addition, agencies should document policies and procedures for conducting these reviews, including who conducts them and when, what information should be presented, and the types of quantitative or qualitative data that should be analyzed for a post-implementation review.45

OMB offers more specific guidance on factors to assess as part of the review such as customer or user satisfaction, strategic impact and effectiveness, and innovation.46 In addition, GAO asserts that the same group that selected the project should be responsible for providing oversight, as this promotes accountability for the ongoing success of the project.47 Finally, CNCS recommends evaluating the effect of a project to assess both its implementation, or how it was developed and executed, and its impact. This can be accomplished through ongoing tracking of individuals involved with, or benefitting from, the project throughout implementation to determine whether the intended outcomes or benefits were achieved.48

Without a consistent and thorough post-implementation review process, the iFund cannot apply lessons learned to improve future iFund projects or demonstrate the degree to which funded projects achieved desired outcomes. Overall, this lack of oversight means that the iFund cannot prove that taxpayer funds were used in an effective manner to spur innovation and facilitate organizational improvement. As a result, we recommend that the iFund Committee create and consistently follow policies and procedures for conducting post-implementation reviews that include, but are not limited to, guidance on the minimum frequency with which these reviews should occur.

iFund Largely Operates Outside of the City’s General Budget Process

The City’s general budget process includes multiple levels of scrutiny for agency budget proposals including reviews by City Council, the Chief Financial Officer, and the Mayor. Moreover, the City Council budget hearings are televised, providing the public with an opportunity to learn about all agencies’ budgetary requests. In regard to the iFund, City Council approves the iFund’s budget of approximately $10.5 million without a full

understanding of how projects are selected and the degree to which funded projects are closely monitored. As a result, individual projects funded by the iFund are less visible than if they had gone through the annual budget process as part of an agency’s proposed budget. The iFund’s separation from the budget process allows members to be more involved in the funding decisions and a higher degree of flexibility to make decisions more quickly and with less “red tape.” However, its role as a disburser of millions in taxpayer dollars requires a higher level of transparency and accountability. The iFund Committee can significantly improve the transparency and accountability of its processes by developing and documenting important controls around its review and decision-making process, making its final decisions available to the public, adhering to the Charter’s voting guidelines, and creating guidance and procedures for conducting post-implementation reviews on all approved projects.

The iFund Does Not Adhere to Robust and Transparent Financial Reporting Practices

Transparent and complete financial reporting helps decision makers evaluate performance related to achieving financial objectives and is described as a fundamental element of internal controls in GAO’s Green Book.49 However, we found that the iFund’s financial reporting is limited and incomplete. Specifically, the current reporting approach does not ensure iFund Committee members and agency sponsors have a complete view of all spending activity for the life of a project. The iFund Committee primarily relies upon reporting from TS’ Project Management Office (PMO) and BMO which does not provide summary-level spending information on all active projects on a regular basis.50 Ultimately, this reporting gap may hinder the iFund Committee and agency sponsors from fully understanding the financial performance, or lack thereof, of iFund projects. In turn, this may impact the iFund and the City’s ability to achieve their financial objectives related to iFund projects and to incorporate lessons learned to future funded projects.

iFund Financial Reporting is Incomplete from Both an iFund and an Agency Perspective

We observed a lack of complete and ongoing financial reporting for the entire iFund project population. More specifically, the iFund’s current financial reporting does not include analyses comparing actual spending versus expected spending and the reasons for any significant differences. Additionally, potential spending risks associated with approved iFund projects, such as cost overruns, are not highlighted. This has the effect of reducing the iFund Committee’s ability to take action, if necessary, to ensure iFund projects meet their financial objectives. The lack of these financial reporting components creates an incomplete financial picture and may cloud the iFund Committee’s understanding of actual project performance.

50 In this context, active projects are those that can have expenses charged to them.
PMO as well as representatives from the Budget and Management Office (BMO) provide the iFund Committee with project status reporting throughout the year. PMO creates a project-by-project status report for iFund Committee members on an ongoing basis. This report includes, among other things, information on schedule, scope, budget, and issues for each project listed in the report. Additionally, a PMO iFund “Dashboard” exists online which allows users to view summary information related to a project’s budget, schedule, and scope. PMO project managers also create a weekly project status report for the respective agency business sponsors regarding their specific iFund projects. This report includes, among other things, information on status, and current and future key activities.51 In the report, budget status is categorized as “green,” “yellow,” or “red” based on the level of risk related to the project’s actual spending versus budget but the spending and budget amounts are not included in the report.

These various PMO reports do not provide a complete view of all active iFund projects from an accounting life-cycle perspective, or the span of time when actual spending can occur for an iFund project. For example, the PMO Dashboard and the PMO weekly status reports include information on projects currently being implemented by project managers. However, projects may be created in the City’s accounting system (PeopleSoft) before a project manager begins actively working on the project. Also, projects generally remain open in PeopleSoft after a project has closed since final invoices related to a project may arrive well after project completion. Lastly, if an iFund project does not have a technological component, this project would not be included in any of the PMO reporting. As a result, the PMO reporting approach may result in an incomplete view of project spending for both iFund Committee members and agency sponsors.

On the other hand, BMO reporting provides current spending totals by iFund project, which is not part of PMO’s reporting. However, it lacks clear tracking capabilities that show when projects go over their original expected budget and the reasons why; also, this spending information is not provided on a regular basis. Specifically, BMO provides financial reporting—generated from PeopleSoft—during iFund Committee meetings on those occasions when members will be making decisions regarding whether to provide additional funding, or contingency funds, to approved projects as needed. The information provided by BMO summarizes how much money has been spent to date for active projects back to 2008, the amounts committed but not yet spent, and the remaining budget balance for all active iFund projects. However, this type of reporting lacks details regarding which projects have exceeded their original budget and the reasons for the budget overrun. Also, the budget numbers reflected in the reporting show cumulative funding, which does not allow iFund Committee members to see annual spending trends for multi-year projects.

The Green Book provides guidance for developing and implementing internal controls that can be adopted by state, local, and quasi-governmental entities, as well as not-for-

51 Key activities include accomplishments as well as challenges in relation to project implementation milestones.
profit organizations. The Green Book defines internal control as a process used by management to help an entity achieve its objectives. According to the Green Book, the reason for internal controls is as follows: "Policymakers and program managers are continually seeking ways to improve accountability in achieving an entity's mission. A key factor in improving accountability in achieving an entity's mission is to implement an effective internal control system. An effective internal control system helps an entity adapt to shifting environments, evolving demands, changing risks, and new priorities." Overall, internal controls help an entity:

- Run its operations efficiently and effectively
- Report reliable information about its operations
- Comply with applicable laws and regulations

The Green Book also discusses expectations related to the reviews by management. Specifically, “management compares actual performance to planned or expected results throughout the organization and analyzes significant differences.” A key factor in these management reviews is the use of “quality information.” The GAO states “management should use quality information to achieve the entity's objectives. Quality information is appropriate, current, complete, accurate, accessible, and provided on a timely basis.” In other words, quality information enables management to provide oversight and evaluate results. In the context of the iFund, financial reporting is an important internal control that allows iFund Committee members to maintain an ongoing and comprehensive understanding of project spending and performance.

The current financial reporting structure related to the iFund can be improved to better meet the GAO’s definition of quality information and thus strengthen the internal control framework of the iFund. This would enable the iFund to fully track project spending and identify issues early so action can be taken. Additionally, this would allow the iFund Committee to incorporate these lessons learned going forward. Specifically, BMO’s financial reporting should be strengthened to provide iFund Committee members, as well as agency sponsors, with a complete financial overview of active iFund projects on a regular basis. This will allow iFund Committee members and agency sponsors to make more informed decisions and evaluate the iFund’s performance in achieving key objectives and assessing risk. This reporting should follow the Green Book standards to enable iFund Committee members to receive complete, regular, and ongoing financial reporting on a timely basis.

One could argue that to be innovative, government needs new ways to foster innovative projects, using less structure, faster processes and more collaboration. Denver’s iFund is attempting to do just that by reducing red tape, having a more flexible decision-making body, and making faster decisions compared to the budget process.
However, when internal controls such as vetting major budget decisions through multiple levels of review are removed, it is important to ensure that decisions and project performance are transparent and accountable to the citizens. To do this, the iFund Committee can take steps to improve its governance structure by clarifying its purpose and developing controls around a variety of procedures including voting and financial reporting, among others.
RECOMMENDATIONS

To improve its governance structure and financial reporting, we recommend that the iFund Committee should:

1.1 **Purpose**—Reassess the purpose of the iFund and update the iFund Charter accordingly to better explain the goals and purpose of the iFund and document the types of projects it will fund including, but not limited to, guidance on the minimum or maximum project cost that will be considered. To the extent that innovation or process improvement-related projects continue to be the focus of the iFund, include definitions of these terms in the Charter and designate a specific amount of iFund dollars each year to these types of projects and communicate that information to City agencies on an annual basis.

1.2 **Visibility**—Make iFund project selection decisions publicly available through a new iFund website or other public-facing method.

1.3 **Controls**—Develop and document controls for the iFund review and decision-making process that include, at a minimum: devise a method to ensure all meetings are documented, such as appointing one or more individuals with responsibility to document meetings if needed; document in meeting minutes the vote of each iFund member in regard to official iFund business, and any discussion supporting iFund decisions; document and consistently follow the Support Committee and iFund Committee project scoring and review process; and document the required information that must be provided as part of iFund business cases.

1.4 **Voting**—Adhere to Charter requirements regarding the minimum number of members needed to conduct official business.

1.5 **Procedures**—Create and consistently follow standard guidance for the iFund and all City agencies that describes the iFund’s procedures for conducting post-implementation reviews and the minimum frequency with which these reviews should occur. The iFund should make this information available to all City agencies.

1.6 **Reporting**—Work with BMO to ensure monthly financial reporting is provided to iFund members as well as business sponsors within the agency that shows spending for all active iFund projects. This reporting should also provide a summary level narrative highlighting budget variances as well as any risks or opportunities at the project level.
APPENDICES

Appendix A: iFund Charter

Innovation Fund Charter

Vision
To be the recognized model for making investments that improve the operations of municipal government.

Mission
To measurably improve operations and service delivery within the City and County of Denver by investing in improvement projects.

Guiding Principles
- Transparency
- Collaboration
- Accessibility
- Efficiency
- Responsiveness
- Accountability
- Respect
- Sustainability
- Continuous Improvement

Membership
The Innovation Fund shall be comprised of a cross-departmental group of city business leaders that work together to determine how best to invest in projects that will measurably improve operations and service delivery within the City. The Innovation Fund committee structure is defined by the Mayor with representation from the major functions within the City’s departments and agencies that are most affected by operational improvement decisions. Each identified department/agency head may choose to participate directly or assign a designee to represent his/her department/agency. There are 11 standing members. They are:

1. Mayor’s Office, Chief Performance Officer. Executive sponsor for the Innovation Fund.
2. Budget Director – Chairperson for the Innovation Fund.
3. Citywide business leaders appointed by the Mayor.
   a. Chief Financial Officer
   b. Chief Information Officer
   c. City Attorney
   d. Executive Director of Human Resources
   e. Executive Director of Community Planning and Development
   f. Executive Director of Denver Human Services
   g. Executive Director of Safety
   h. Executive Director of Parks and Recreation
   i. Executive Director of Public Works

A quorum of six members shall be required for the conduct of any official business.
Innovation Fund Charter

The Innovation Fund shall have the power to adopt rules for the conduct of its business with respect to matters related to investment decisions. Decisions will be reached by consensus. All meetings and decisions will be documented in meeting minutes.

Process/Scope

- Annual Process (Large Project Requests Submitted via the Innovation Fund Process): Deliver project and funding decisions, with funding awards made in conjunction with the annual budget development process.
- On-going Process (Medium Project Requests Submitted via the Technology Services Project Request Intake Process):
  - Recommendations regarding medium efforts are presented to the Innovation Fund, at the discretion of Technology Services, with approvals made by the Membership subject to portfolio availability.
  - Recommendations regarding requested technology Request for Proposal (RFP) efforts are presented to the Innovation Fund for approval to move forward.

Roles and Responsibilities

1. Formalize the way innovation funding decisions are made, regardless of funding source.
2. Prioritize and make project and funding decisions that align with the Mayor’s goals and initiatives.
3. Track the City’s Innovation Fund investment portfolio to ensure delivery of operational improvements in a sustainable manner.
4. Increase visibility of the status of investments.
5. Require sponsors to conduct post implementation reviews to determine project successes and challenges and facilitate continuous improvement of City operations.
6. Promote sustainability by increasing the adoption of enterprise-level solutions.
7. Provide executive support and oversight to ensure the success of operational improvement projects.
8. With recommendation from the Project Sponsors, authorize the initiation, hold, or cancellation of an approved Innovation Fund project.

Goals and Metrics for Success

- >90% of projects are considered to be healthy (green status)
- % of Project Sponsors conducting post-implementation reviews
- Create a 2015 baseline Innovation Fund Requestor Survey against which to compare future surveys
- All proposals presented to the Innovation Fund are clearly tied to the requesting agency’s strategic plan and/or mission-level metrics
Appendix B: Comparison of the iFund Process Against the City’s Annual Budget Process

**Budget Process**

- **April:** Budget Kick-Off Sessions; Distribute Budget Manual and Forms
- **May:** First Round of Strategic Budget Proposals Due
- **June:** Second Round of Strategic Budget Proposals Due; Capital Improvement Project Budget Submittals Due
- **June-July:** Budget Proposals Reviewed; Budget Proposals Submitted to City Council; Budget Meetings with Chief Financial Officer
- **August:** Agencies Present Budget Proposals to Mayor’s Office; Financial Statements Due
- **September:** Mayor Submits Draft Budget to City Council; Council Holds Budget Hearings
- **October:** Mayor Submits Proposed Budget to City Council; Council Holds Public Hearings on Budget
- **November:** Mayor & City Council Finalize Budget

**iFund**

- **April:** iFund Kick-Off Sessions; Distribute Budget Manual and Forms
- **May:** iFund Project Proposals Due
- **June:** Support Committee Categorizes, Scores and Ranks Project Proposals
- **June-July:** Project Proposal Scores and Rankings Presented to iFund
- **August:** Business Cases Presented to iFund
- **September:** iFund Makes Final Funding Decisions

**Source:** City and County of Denver 2016 Budget Manual.
## Appendix C: List of Active iFund Projects

<table>
<thead>
<tr>
<th>Year</th>
<th>Project Name</th>
<th>Approved Funding</th>
<th>Remaining Balance*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>Auditor's Data Mining</td>
<td>$196,171</td>
<td>$149,420</td>
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<td>2008</td>
<td>Tax Collection System Lease Payment</td>
<td>$4,822,989</td>
<td>$373</td>
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<tr>
<td>2009</td>
<td>Clerk &amp; Recorder Records Conversion</td>
<td>$1,874,000</td>
<td>$283,424</td>
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<td>2009</td>
<td>Contingency for IT**</td>
<td>$604,303</td>
<td>$604,303</td>
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<tr>
<td>2009</td>
<td>Development Services (Accela)</td>
<td>$6,651,438</td>
<td>$5,373</td>
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<tr>
<td>2009</td>
<td>Foundation Technology</td>
<td>$5,318,446</td>
<td>$345,600</td>
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<td>2009</td>
<td>Integrated Criminal Justice System</td>
<td>$1,603,400</td>
<td>$121,050</td>
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<tr>
<td>2009</td>
<td>Payment Card Remediation</td>
<td>$790,000</td>
<td>$11,836</td>
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<td>2009</td>
<td>Property Tax System Replacement</td>
<td>$2,725,401</td>
<td>$496,037</td>
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<td>2010</td>
<td>City Attorney's Office Automation</td>
<td>$318,000</td>
<td>$26,127</td>
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<tr>
<td>2010</td>
<td>Consolidated Document Management</td>
<td>$3,370,535</td>
<td>$63,246</td>
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<tr>
<td>2010</td>
<td>Customer Experience</td>
<td>$2,072,900</td>
<td>$235,207</td>
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<tr>
<td>2011</td>
<td>Enterprise Cashiering</td>
<td>$2,264,904</td>
<td>$92,627</td>
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<tr>
<td>2012</td>
<td>Business Case Development</td>
<td>$109,359</td>
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<td>2012</td>
<td>Parks &amp; Recreation Point of Sale System</td>
<td>$460,700</td>
<td>$21,198</td>
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<td>2012</td>
<td>PeopleSoft Financials Upgrade</td>
<td>$1,402,500</td>
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<td>2012</td>
<td>Safety Case Management System</td>
<td>$120,000</td>
<td>$64,397</td>
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<td>2013</td>
<td>Clerk &amp; Recorder Recording Software</td>
<td>$219,922</td>
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<tr>
<td>2013</td>
<td>Mobile Devices (Accela)</td>
<td>$150,000</td>
<td>$118,080</td>
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<tr>
<td>2013</td>
<td>Predictive Analysis</td>
<td>$126,000</td>
<td>$6,239</td>
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<tr>
<td>2013</td>
<td>Process Improvements</td>
<td>$1,276,000</td>
<td>$137</td>
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<td>2013</td>
<td>Sheriff Scheduling System</td>
<td>$386,500</td>
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<td>2013</td>
<td>Web Content Management System</td>
<td>$453,550</td>
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<tr>
<td>2013</td>
<td>Wireless to Patrol Cars</td>
<td>$200,000</td>
<td>$103,588</td>
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<td>2014</td>
<td>Budget System</td>
<td>$1,400,000</td>
<td>$130,705</td>
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<td>2014</td>
<td>Citywide Records Management Module</td>
<td>$352,800</td>
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<td>Year</td>
<td>Project Description</td>
<td>Amount</td>
<td>Remaining</td>
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<tr>
<td>------</td>
<td>----------------------------------------------------------</td>
<td>----------</td>
<td>-----------</td>
</tr>
<tr>
<td>2014</td>
<td>Customer Relationship Management System Replacement</td>
<td>$1,364,500</td>
<td>$150</td>
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<td>2014</td>
<td>Digital Evidence Management</td>
<td>$22,500</td>
<td>$3,222</td>
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<td>2014</td>
<td>Integrated Traffic Ticketing</td>
<td>$1,070,991</td>
<td>$932,940</td>
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<td>2014</td>
<td>Legislative Information System</td>
<td>$706,509</td>
<td>$513,309</td>
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<td>2014</td>
<td>Litigation eDiscovery System</td>
<td>$985,500</td>
<td>$711,495</td>
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<tr>
<td>2014</td>
<td>New Property Tax System</td>
<td>$3,000,000</td>
<td>$1,175,824</td>
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<td>2014</td>
<td>Special Event and Permitting</td>
<td>$184,500</td>
<td>$15,900</td>
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<tr>
<td>2015</td>
<td>Citywide Dashboard</td>
<td>$150,000</td>
<td>$133,500</td>
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<tr>
<td>2015</td>
<td>Citywide HR Replacement</td>
<td>$2,500,000</td>
<td>$2,321,200</td>
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<tr>
<td>2015</td>
<td>Development Services Contingency**</td>
<td>$420,000</td>
<td>$58,331</td>
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<td>2015</td>
<td>Foreclosure &amp; Online Auctions</td>
<td>$300,000</td>
<td>$300,000</td>
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<tr>
<td>2015</td>
<td>GIS Investment Specialist (VSA)</td>
<td>$25,000</td>
<td>$25,000</td>
</tr>
<tr>
<td>2015</td>
<td>Jail Management System (JMS)</td>
<td>$500,000</td>
<td>$500,000</td>
</tr>
<tr>
<td>2015</td>
<td>Jail Management System Replacement (VSA)</td>
<td>$25,000</td>
<td>$25,000</td>
</tr>
<tr>
<td>2015</td>
<td>SharePoint Collaboration</td>
<td>$500,000</td>
<td>$193,345</td>
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<tr>
<td>2015</td>
<td>Situational Awareness (VSA)</td>
<td>$25,000</td>
<td>$25,000</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>$51,049,319</strong></td>
<td><strong>$10,062,895</strong></td>
</tr>
</tbody>
</table>

**Source:** Audit team’s analysis of PeopleSoft query.

**Note:** VSA stands for Value Stream Analysis, a process utilized by the City’s Peak Performance group to help agency staff identify key activities that provide value to the citizen.

*Remaining balance is a subset of the project’s approved funding and represents the funds that have not yet been spent as of June 4, 2015.

**The “Contingency for IT” is not a project but a line item representing the iFund’s contingency fund. The “Development Services ‘Contingency’” is a contingency fund specific to the Development Services-Accela project.
Appendix D: Innovative Funds Used by Other Government Entities

Many cities across the country have adopted innovation funds, including Baltimore, Boston, Chicago, Los Angeles, Philadelphia, and Portland. The U.S. Office of Personnel Management has also begun an innovation fund modeled after Denmark’s MindLab. Below is a description of these other innovation funds.

**City of Baltimore**—Baltimore’s Innovation Fund (Fund) was started in 2012 with an appropriation of $2 million. The Fund provides seed money for one-time investments with the goal of improving program results, increasing revenue, and reducing ongoing operating costs for city agencies. The idea of the Fund is to be self-sustaining, meaning savings from the implemented investments are returned to the Fund allowing other projects to be funded. Once a loan is repaid, the savings achieved are transferred to the city’s general budget. The committee evaluating project ideas consists of citizens who have experience in technology, entrepreneurship, or loan applications as well as city staff.  

Agencies submit project proposals every year, which the Fund evaluates. The Fund may ask for further explanation on key points or require a proposal presentation. The Fund then decides which projects to select and submits its recommendations to the Mayor of Baltimore for approval.

**City of Boston**—The Mayor’s Office of New Urban Mechanics (MONUM) is a Boston city agency, established in 2010, that operates a civic innovation group. MONUM mainly works on four issue areas: education, engagement, the streetscape, and economic development. To create successful projects in these areas, MONUM collaborates with constituents, academics, entrepreneurs, non-profits and city staff. Boston’s MONUM addresses challenges that a smaller innovation team could face such as shortage of staff, or financial resources, in part by engaging staff within partner agencies early on in the project design and planning phase. This creates cooperation between the relevant agencies and builds buy-in early in the process.

The focus of Boston’s innovation fund is on quality of life improvements to the city and to promote innovation within the local government. The annual budget for the fund is $1 million; most funded projects are relatively low-cost, at around $10,000, which allows greater flexibility in the number of projects that can funded. An example of a funded project is the “City Hall To Go” truck, which resembles a food truck that delivers select city services to Boston’s residents. The truck visits different neighborhoods throughout the year and provides seasonal services ranging from dog licensing to tax payments.

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project allows Boston’s citizens to access city services without having to travel downtown and still enjoy the benefit of personal interaction with city personnel.\textsuperscript{56}

The Mayor’s Office also launched a “Neighborhood Innovation District Committee” in 2014. Its purpose is to expand entrepreneurship and innovation in Boston by identifying necessary policies, practices, and infrastructure improvements. The Committee consists of local leaders and experts in business, community-based organizations, elected offices and department heads.

\textbf{City of Chicago}—In 2012, the Mayor of Chicago implemented Chicago’s Innovation Loan Fund (Loan Fund). The Loan Fund has $20 million available for loans on investments to foster innovation, accountability, and entrepreneurship. The idea is to challenge city departments and employees to submit proposals that will help keep Chicago “ahead of the curve.”\textsuperscript{57} The emphasis of the Loan Fund is to provide loans on projects that help improve customer service such as enabling citizens to make property tax or traffic citation payments at multiple walk-in locations or online.

Chicago’s Office of Budget Management (OBM) manages the Loan Fund. Savings and revenues resulting from the funded projects are used to repay the loan capital. Savings above the loan capital will be reallocated to the department that initiated the project so that the funds can be re-invested in additional innovations. Applications for innovation loans are reviewed by the OBM to ensure compliance with requirements and are then voted on by an Oversight Committee. This committee consists of the following individuals, among others: the City’s Chief Financial Officer, the Chief of Policy and Planning, the Chief Operating Officer, the Director of the Mayor’s Office of Innovation Delivery, and the Comptroller. The Oversight Committee is also charged with reviewing progress reports provided by the OBM. When project proposals are submitted to the OBM, it posts complete and qualified proposals online.

\textbf{City of Los Angeles}—In 2014, Los Angeles (L.A.) started its $1 million Innovation Fund to fund ideas from city employees with the goal of making the city government run more effectively and efficiently. The underlying philosophy of the Innovation Fund is that city government workers often have insights that deserve a platform. For example, an L.A. city sanitation team received the Civic Innovation Award for replacing a system based on Thomas Guides and paper maps with a system that uses apps and tablets.\textsuperscript{58}

\textbf{City of Philadelphia}—Mayor Michael Nutter created the Mayor’s Office of New Urban Mechanics (MONUM) in late 2012. The purpose of MONUM is to be a “civic innovation and idea incubator to promote more innovative approaches to urban transformation.”\textsuperscript{59} More specifically, Philadelphia’s MONUM pilots experiments that may significantly improve the quality of the city’s services. One project initiated by MONUM, and funded by the Bloomberg Philanthropies, is FastFWD. This project creates “a new pathway for civic entrepreneurs to propose, refine and test ideas that can improve local

\textsuperscript{56} City of Boston, “About the truck,” accessed June 16, 2015, \url{http://www.cityofboston.gov/cityhalltogo/truck.asp}.
\textsuperscript{58} A Thomas Guide is the title of a set of street maps for a variety of different metropolitan areas in the US.
This project has supported a dozen civic start-ups in areas such as public safety or civic engagement. Subject matter experts and experienced entrepreneurs provide coaching and mentoring to the start-ups.

In addition, Philadelphia started an Innovation Fund to promote innovation and problem solving within the city government. The Innovation Fund (Fund) is not supported by taxpayer funds. Instead, it makes use of proceeds from the Philadelphia Marathon which provided the Fund with a budget of $100,000 during its first year. The funding is used to provide seed money to launch pilot programs that will use novel ideas to benefit the city or its citizens. If the project is successful, individual agencies are required to assume responsibility for funding the project going forward. Overall, the intent is to fund a wide variety of projects including those that have technological aspects as well as those that do not.

Philadelphia also established an Innovation Lab, which is a 1,600-square-foot space dedicated to cultivating collaboration between city employees from different agencies toward the end goal of improving the city government.

City of Portland—Portland’s Innovation Fund has been awarding seed money for one-time investments to city agencies since 2012 in an attempt to fund creative, high-risk projects with long-term benefits. It primarily supports projects that would not typically receive funding through the city’s budget. To do this, a task force made up of private-sector professionals review proposals submitted by agency leadership to determine the degree to which they fulfill the target of saving the city money or ensure that city operations run more effortlessly. After the task force makes recommendations to the mayor on what proposals to fund, the mayor presents the winning proposals to city council for funding consideration.

During the first year, six projects were approved for a net total of almost $900,000. Examples of the projects that were awarded funding include the following: a data sharing program, and a smart phone “app” that helps cardiac arrest victims receive immediate help. Another proposal aimed to improve the city government’s collaboration with the private sector. The proposal would help the city become an early adopter of new technologies developed by companies from Portland’s start-up community. The idea is to collaborate and implement solutions that would meet the city’s maintenance and operational needs. However, not all the projects are innovative grass-roots projects; some of the projects approved have the intention of saving the city money or providing the city with necessary technology improvement updates.

For the second year, the city changed its approach regarding how city agencies request funding in an effort to increase the quality and quantity of ideas. Instead of only asking for project ideas from agency leadership, organizers solicited project ideas from all levels of the city government. Also, organizers simplified the submission form and added a

second round of review for larger projects. A project selected during the second year is a
“Water Quality Map Widget” submitted by the Water Bureau to develop a map-based
tool displaying current city projects such as water system issues, sewer work, road
construction, development, or park projects.

In addition to cities, other entities are emerging such as a network of innovation
programs and innovation labs that promote innovation and provide citizens and
government employees with guidance and tools to promote innovation within the
government.

**New Urban Mechanics**—A network of civic innovation offices, New Urban Mechanics
currently has three affiliated offices. The Mayor’s Offices of New Urban Mechanics in
Boston and Philadelphia function as in-house research and development groups for their
respective Mayor’s Office. The New Urban Mechanics Office within the Utah Valley
University fosters innovation efforts for several municipalities within the greater Provo-
Orem metropolitan area. The goal of these offices is to build partnerships between
internal agencies and external entrepreneurs to create citizen-centric projects. The
network structure is supposed to facilitate the exchange of ideas and establish good
practices. The network addresses a variety of topics ranging from city street
improvement, to increasing civic participation and boosting educational outcomes.

**MindLab, Denmark**—Established in 2002, MindLab is a cross-governmental innovation unit
in Denmark that brings together citizens and businesses to work together on new solutions
to benefit the citizens. Some of the areas addressed in these collaborations are
entrepreneurship, digital self-service, education, and employment. MindLab also
houses a learning lab to connect knowledge on public sector innovations and the latest
research to its current projects.

**Office of Personnel Management Innovation Lab**—In 2012, the Office of Personnel
Management (OPM) started its Innovation Lab. Modeled in part after the Danish
MindLab, it is a distinct physical space with a set of policies for engaging people and
using technology in problem solving. The goal of OPM’s Innovation Lab is to provide
federal workers with 21st century skills in design-led innovation, such as risk-taking, to
develop new services, products, and processes.

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63 Digital self-service refers to the ability of customers to visit an organization’s website and receive guidance that enables them
to find the answers or information they need.
64 For more information, see the following website: http://mind-lab.dk/en/.
July 7, 2015

Mr. Kip R. Memmott, MA, CGAP, CRMA
Director of Audit Services
Office of the Auditor
City and County of Denver
201 West Colfax Avenue, Dept. 705
Denver, Colorado 80202

Dear Mr. Memmott:

The Office of the Auditor has conducted a performance audit of the Innovation Fund.

This memorandum provides a written response for each reportable condition noted in the Auditor’s final draft of the report that was sent to us on June 17, 2015. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING 1

The utility and equity of the City’s iFund cannot be fully assessed due to insufficient levels of transparency and accountability.

RECOMMENDATION 1.1

Reassess the purpose of the iFund and update the iFund Charter accordingly to better explain the goals and purpose of the iFund and document the types of projects it will fund including, but not limited to, guidance on the minimum or maximum project cost that will be considered. To the extent that innovation or process improvement-related projects continue to be the focus of the iFund, include definitions of these terms in the Charter and designate a specific amount of iFund dollars each year to these types of projects and communicate that information to City agencies on an annual basis.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
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<tr>
<td>Agree</td>
<td>9/7/2015</td>
<td>David Edinger</td>
</tr>
</tbody>
</table>
Narrative for Recommendation 1.1
The iFund Charter will be updated to reflect this recommendation, including guidance on minimum investment considerations. Since a project may span multiple years, no maximum project cost will be defined. The definition of innovation will also be updated to "strategic change resulting in performance improvement," with narrative explaining this definition. iFund projects tend to include elements of process improvement, data integrity improvement, and technology (whereas its predecessor, the Information Technology Investment Council (ITIC), tended to focus solely on technology), although it is possible for a project to contain only one or two of these elements. Of these, technology tends to be the most costly. The Budget Management Office (BMO) will continue to provide annual meetings in which the iFund process is explained to city agencies.

RECOMMENDATION 1.2
Make iFund project selection decisions publicly available through a new iFund website or other public-facing method.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>10/31/2015 (Charter deadline to post budget)</td>
<td>Brendan Hanlon</td>
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</table>

Narrative for Recommendation 1.2
Beginning this year, annual iFund project selections, or those still under consideration depending on timing, will be presented to City Council during annual budget hearings and included in the City’s annual budget document. The City Council budget hearing document and the City’s annual budget document is accessible to the public through the denvergov.org website.

RECOMMENDATION 1.3
Develop and document controls for the iFund review and decision-making process that include, at a minimum: devise a method to ensure all meetings are documented, such as appointing one or more individuals with responsibility to document meetings if needed; document in meeting minutes the vote of each iFund member in regard to official iFund business, and any discussion supporting iFund decisions; document and consistently follow the Support Committee and iFund Committee project scoring and review process; and document the required information that must be provided as part of iFund business cases.

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<tr>
<td>Agree</td>
<td>Immediate</td>
<td>Andrea Denis</td>
</tr>
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</table>
Narrative for Recommendation 1.3
An administrative assistant in Technology Services (TS) will continue to record iFund meeting minutes, providing additional detail and documentation. The Project Management Office (PMO) Director or designee (if the Director is absent) will review, modify, and approve the minutes within two weeks of the meeting. Meeting minutes will be supplemented by a voting matrix used to track each iFund member’s vote. The scoring and review process will be further defined in the iFund charter document per recommendation 1.1. Business cases will use an existing template with defined criteria.

RECOMMENDATION 1.4
Adhere to Charter requirements regarding the minimum number of members needed to conduct official business.

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Narrative for Recommendation 1.4
If a quorum is not reached, voting will not occur. Decisions by quorum may take place via in-person vote, in-person consensus, or email vote. These results will be reviewed at the next available meeting and documented in the meeting minutes.

RECOMMENDATION 1.5
Create and consistently follow standard guidance for the iFund and all City agencies that describes the iFund’s procedures for conducting post-implementation reviews and the minimum frequency with which these reviews should occur. The iFund should make this information available to all City agencies.

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<tr>
<td>Agree</td>
<td>9/7/2015</td>
<td>Andrea Denis</td>
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Narrative for Recommendation 1.5
iFund will develop and implement the following policy regarding post-implementation reviews:

1. One-time projects will be reviewed within 90 days of deployment.
2. Major project phases, if applicable, will be reviewed within 90 days of deployment.
3. On-going programs will be reviewed twice per year.

This information will be made available to all City agencies.
### RECOMMENDATION 1.6

Work with BMO to ensure monthly financial reporting is provided to iFund members as well as business sponsors within the agency that shows spending for all active iFund projects. This reporting should also provide a summary level narrative highlighting budget variances as well as any risks or opportunities at the project level.

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<td>10/31/2015</td>
<td>Brendan Hanlon</td>
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### Narrative for Recommendation 1.6

On a monthly basis, BMO staff will provide members with a budget report to supplement the existing TS PMO status report. For active projects, the BMO report will include: total budgets, encumbrances, and balances. The report will also identify if/when a project exceeds its original budget and narrative explaining why the project requested additional funding.

Please contact David Edinger at 720-865-9033 with any questions.

Sincerely,

[Signature]

David Edinger  
Chief Performance Officer  
Mayor’s Office

cc: Brendan Hanlon, Budget Director, Department of Finance  
    Andrea Denis, Project Management Office (PMO) Director, Technology Services