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 currently consists of six 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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Report number: **A2015-017**
February 18, 2016

AUDITOR’S REPORT

We have completed an audit of the contract between the City and County of Denver and the Open Media Foundation (OMF). The purpose of the audit was to assess Denver Media Services’ (DMS) contract administration practices and the extent to which DMS has implemented an efficient and effective process to administer the OMF contract. We reviewed governance through defined roles and contract specific elements like the Annual Work Plan and performance metrics. In addition, we determined the extent to which DMS ensured that allocated Public, Educational, and Governmental (PEG) funds are properly prioritized, spent on appropriate capital assets, and properly tracked and accounted for.

As described in the attached report, our audit revealed that DMS needs to better ensure the terms in the OMF contract are adequately met by developing a contract administration framework through which to measure and analyze OMF’s performance. We found that DMS: has not requested supporting documentation to determine whether contract terms were fulfilled, has weak internal controls surrounding inventory and vendor verification processes, conducts untimely tracking of capital budget spending, and that there is a lack of documentation regarding significant decision making for PEG fund allocation and maintenance costs.

Through the development of a contract administration framework, DMS will be able to ensure that OMF is meeting its contractual obligations to the City and County of Denver. Our report includes several recommendations to improve DMS’s contract administration 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 extend appreciation to DMS, Technology Services, and OMF personnel who assisted and cooperated with us during the audit.

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor

City and County of Denver

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720-913-5000 • Fax 720-913-5253 • www.denvergov.org/auditor
The Open Media
Foundation Contract
February 2016

Scope
The audit assessed DMS’s contract administration practices regarding the OMF contract. The audit also examined the appropriateness of Public, Educational, and Governmental (PEG) monies spent on capital assets.

Background
DMS serves the communication and media resource needs of Denver City government and is responsible for administering and enforcing the City’s contract with OMF to manage public access channels, among other activities.

Purpose
To determine the extent to which DMS has implemented an efficient and effective process to administer the OMF contract and to determine the extent to which DMS ensures that allocated PEG money is properly prioritized, spent on appropriate capital assets, and properly tracked and accounted for.

Highlights
We found that Denver Media Services (DMS) does not have an effective framework for administering and monitoring Open Media Foundation (OMF) contractually related obligations, expenditures, and performance. DMS lacks written policies and procedures detailing its monitoring activities and other responsibilities related to OMF. We also found that DMS has weak internal controls surrounding OMF asset procurement and accounting, and is not managing PEG funding properly.

Specifically, our review of quarterly performance reports and maintenance reports found that DMS does not obtain sufficient supporting documentation to validate that services are being delivered in accordance with contract terms. In addition, DMS has not defined allowable capital and maintenance costs, which limits DMS’s ability to determine the appropriateness of OMF expenditures.

Further, we found that DMS has not been reviewing capital purchases timely to determine if spending adheres to the approved budget before providing additional disbursements to OMF.

In addition, DMS has not utilized established City procedures for the procurement of OMF assets. We found that DMS has not adequately implemented controls and, as a result, has reimbursed OMF for payments to questionable vendors and has not recorded OMF assets in the City’s system of record timely.

We also found that audits of the fees received from Comcast are not being performed timely, limiting the City’s ability to ensure accurate revenues are received. Additionally, DMS is not properly reconciling the special revenue fund (SRF) related to the PEG fees, resulting in a $1.8 million incorrect accounting entry in the SRF that was not detected by DMS.

Lastly, DMS has not properly documented decisions regarding the allocation of PEG fees or the increases in the annual maintenance funding, which limits DMS’s ability to ensure funds have been allocated appropriately.

Our findings suggest that a framework is necessary to assist DMS with all contract administration duties to help ensure that OMF is being held responsible for its contractual obligations.

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

History of Denver Media Services

Denver Media Services (DMS) serves the communication and media resource needs of Denver City government and distributes information via cable television, an internet video portal accessed through Denvergov.org, and other forms of electronic media such as podcasts. DMS’s program goal is to promote local government integrity and transparency and encourage civic participation. DMS seeks to accomplish this goal by providing video production services for City agencies, including coverage of public meetings. These production services are provided through the City’s cable franchise agreements. Currently, these agreements are with Comcast and CenturyLink.

Prior to DMS’s incorporation within Technology Services (TS), the responsibilities of cable franchise administration belonged to the now-defunct Office of Telecommunications (OTC). OTC served as the liaison between Denver residents and cable operators doing business in the City. As the sole agency under the authority of the Denver City Council, OTC’s duties included monitoring the performance and adherence to the terms of the cable franchise agreement, including operational standards, services provided, maintenance, technical standards, system design, service continuity, and the provision of support and facilities for public access and community access programming. The enabling authority creating the OTC first appeared in 1982 and was later amended in 1997. Specifically, the Denver Revised Municipal Code established OTC as an agency under Denver City Council and gave City Council the power to appoint a director of OTC and other staff as the Council deemed necessary. Under this structure, OTC staff served at the pleasure of Council and were not considered Career Service Authority positions.1

In 2012, OTC merged with Denver 8 TV, a division within TS, and was renamed the Cable Franchise Administration program. The program’s roles and responsibilities were similar in terms of OTC’s previous activities completed under City Council, which included administering, regulating, and enforcing the City’s cable contracts with cable providers, auditing franchise fees and capital procurement, and monitoring contractual compliance for public access services, among other activities. Denver 8 manages, produces, and distributes to every cable television subscriber in the City video programming to serve the communication needs of the City including information about government services, elections, and initiatives. In the fourth quarter of 2012, Denver 8 rebranded itself as Denver Media Services (DMS) as the services offered by the program broadened to include internet and podcasting services in addition to television services as well as administering the City’s cable franchise agreements. Figure 1 shows DMS’s organizational structure within TS, the head of which is the City’s Chief Information Officer.

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1 According to City Charter, the Career Service comprises all employees of the City and their positions except for appointed or elected officials, including employees of the City Council.
FIGURE 1. Denver Media Services Organizational Chart

Denver Media Services’ Budget and Funding

DMS’s total budget for 2016 is expected to be almost $3 million. Table 1 shows a breakdown of DMS’s budget in 2014, 2015, and 2016.

TABLE 1. Denver Media Services Budget Appropriations 2014 through 2016

<table>
<thead>
<tr>
<th></th>
<th>2014 Actual</th>
<th>2015 Appropriated</th>
<th>2016 Recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$1,369,863</td>
<td>$1,575,300</td>
<td>$1,451,527</td>
</tr>
<tr>
<td>Special Revenue Funds</td>
<td>$3,105,077</td>
<td>$1,451,574</td>
<td>$1,503,224</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,474,940</strong></td>
<td><strong>$3,026,874</strong></td>
<td><strong>$2,954,751</strong></td>
</tr>
</tbody>
</table>

Source: 2016 Mayor’s Proposed Budget.

DMS receives funding through a variety of sources including the general fund and special revenue funds, which include the Public Access TV Support Special Revenue Fund and the Institutional Network Special Revenue Fund. Revenues from these special revenue funds come from annual funding given to the City by Comcast through the Public, Educational, and Governmental (PEG) Fee.

Public, Educational, and Governmental Fees

Many local jurisdictions have required cable companies to set aside some of their channel capacity for public access, educational, or governmental use and to provide financial support for these PEG channels. At the federal level, the Community Access Preservation Act allows

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2 Generally, public access channels present video programming and other electronic information produced, directed, and engineered by community organizations and individuals; educational access channels offer programming provided by school or college employees and students; and governmental access channels provide coverage of public meetings and information from governments intended for the general public.
local jurisdictions in states that pass state franchise laws to require cable companies to provide funding, which are referred to as PEG Fees. The PEG Fee in Denver comes from a franchise agreement that the City has with Comcast, which allows the cable provider to utilize public rights of way, utility poles, and other public resources to build its communications network. In exchange for this, Comcast makes certain concessions to the City including setting aside channels for public access, educational, or governmental programming, and gives the City 5 percent of the company’s gross revenues from Denver cable subscribers to compensate taxpayers for use of this common space. These revenues result in approximately $7.4 million per year. In addition, Comcast cable subscribers in Denver contribute to the PEG fee, which is currently $1.05 per subscriber and can be found as a line item on their cable bill.

According to the City’s agreement with Comcast, the City has the responsibility for managing the channels, services, facilities, equipment, technical components, and financial support for PEG access and uses the revenues received from PEG fees to do so. The City distributes a percentage of the cable franchise revenues to each of the entities that manage the PEG access channels. The City has sole discretion to allocate for any capital costs related to PEG access. The Federal Communications Commission (FCC) has adopted rules that may limit the amount of PEG financial support for non-capital costs that the City, as the local franchise authority, can require of cable providers. Table 2 shows the PEG fee revenue received from Comcast for 2013 through 2015.

<table>
<thead>
<tr>
<th>TABLE 2. PEG Fee Revenue 2013 through 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>PEG Fees</td>
</tr>
<tr>
<td>2013</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>$1,487,025</td>
</tr>
<tr>
<td>Source: PeopleSoft Financial Reports.</td>
</tr>
</tbody>
</table>

The City’s PEG fees are utilized to support the following types of channels:

- **Public Access Channels**—Available for use by the general public and are administered by a third party designated by the City via a contract with Open Media Foundation (OMF)

- **Educational Access Channels**—Used by educational institutions for educational programming, programming on these channels is allocated among local schools, colleges and universities by the City through intergovernmental agreements with Denver Public Schools and the Auraria Higher Education Campus

- **Governmental Access Channels**—Used for programming produced by the City and County of Denver In Denver, also known as Denver 8 TV

The contract between OMF and the City to operate and manage public access channels differs from the other agreements in that the City owns the capital equipment purchased with PEG Fees used in the production of programs. In contrast, in both the Denver Public Schools and Auraria Higher Education Campus agreements, the entities receive PEG funds from the City; however unlike the OMF agreement, capital assets bought by these entities to produce programming are not owned by the City. This report focuses solely on the public access channels for which the City contracts with OMF to produce.
Public Access Channels in Denver

Public access channels are not mandated by federal law, but the Cable Communications Policy Act of 1984 has allowed franchising authorities, such as the City and County of Denver, to require cable operators to set aside some of their channel bandwidth for public, educational, and governmental use and to provide adequate facilities or financial support for those channels. The facility, also referred to as a public access station, is called Denver Open Media (DOM) and is the location where public access services are provided and managed by OMF. DOM provides public access channels to cable subscribers on channels 56, 57, and 219. Collectively, these channels offer programming in the areas of arts and film; community issues and advocacy; music and entertainment; news, business, and government; and well-being/lifestyle, to name a few.

DOM is a nonprofit corporation with which the City has contracted to manage public access programming, services, and station operations. Examples of services provided by OMF are training and certifying individuals and community organizations in the production and editing of public access programming and scheduling and promoting programming on Denver’s public access channels. OMF’s activities also include managing and maintaining equipment purchased using PEG funds.

Contract between Open Media Foundation and the City and County of Denver

The contract between OMF and the City establishes the management of all associated activities, facilities, and equipment to provide for the production of programs to be cable cast over public access channels on the cable system. According to the Comcast Franchise Agreement, PEG funds can be used for capital costs related to public, educational, and governmental access. Between 2013 and 2015, the City has allocated more than $1.1 million to OMF for capital equipment and maintenance costs.

The following bullets include language from the contract relevant to the scope of the audit.

- **Annual Work Plan**—OMF must submit an Annual Work Plan (Plan) for review and approval by the City. The Plan should establish OMF’s programming goals and specify how OMF will achieve those goals through training classes, outreach activities, measurable objectives, and an income and fundraising plan. The Plan should also include a projection for the number of hours of locally produced programming to be provided, not including programs that are re-run.

- **Public Access Equipment**—City shall provide approved public access equipment available to OMF at the City’s sole cost and expense, including equipment necessary for the production, broadcast, and training services. In addition, the
City must pay for the maintenance of the equipment through a yearly amount mutually agreed upon.

- **Performance Reports**—OMF shall submit quarterly performance reports to the City that include the number of training classes and people trained, the number of people certified, and the number of programming hours, among other requirements.

- **Monitoring and Evaluation**—City may carry out monitoring and evaluation activities to ensure adherence by OMF to the Plan and other provisions of the agreement.
SCOPE

The audit assessed Denver Media Services’ (DMS) contract administration practices regarding the Open Media Foundation (OMF) contract. Additionally, the audit examined the appropriateness of PEG monies spent on capital assets and how those assets are tracked and accounted for.

OBJECTIVE

We determined the extent to which DMS has implemented an efficient and effective process to administer the OMF contract by reviewing governance such as defined roles and contract specific elements such as the Annual Work Plan and performance metrics. In addition, we determined the extent to which DMS ensures that allocated PEG money is properly prioritized, spent on appropriate capital assets, and properly tracked and accounted for.

METHODOLOGY

We applied various methodologies during the audit process to gather and analyze information pertinent to the audit scope and to assist with developing and testing the audit objectives. The methodologies included the following:

- Reviewing the OMF contract for key terms
- Interviewing the DMS Director to obtain an understanding of contract administration of the OMF contract
- Interviewing the DMS staff to obtain an understanding of the capital assets purchasing process
- Conducting a walk-through of the inventory process with a DMS staff member and an OMF representative
- Interviewing OMF personnel to discuss the administration process of the contract and the working relationship with DMS staff
- Interviewing the Financial Management Analyst in Technology Services that conducts audits of the Comcast Franchise Agreement and determining the timeliness of the audits
- Interviewing staff from the Controller's Office responsible for entering assets into the City's system of record and communicates with DMS personnel
- Interviewing staff from the City Attorney’s Office and other subject matter experts to inquire about the proper use of PEG fees
• Reviewing legal requirements related to PEG and franchise fees
• Reviewing prior audit reports that are relevant to telecommunications, contract administration, and capital assets
• Reviewing the budget book data related to DMS and the Special Revenue Fund for PEG fees
• Reviewing legal requirements related to contract administration
• Reviewing Fiscal Accountability Rules
• Reviewing historical purchases of equipment for appropriate spending
• Reviewing historical maintenance costs payments for appropriate spending
• Reviewing the methodology distribution process of PEG funds to various entities
• Reviewing PEG funded equipment purchasing, tracking and accounting practices
• Conducting testing of a sample of OMF’s capital purchase invoices and the associated vendors
FINDING

Denver Media Services Should Improve Contract Administration Practices

In assessing Denver Media Services' (DMS) oversight of the terms in the Open Media Foundation (OMF) contract, we found that DMS does not have a clear framework for monitoring OMF’s contractually related obligations, expenditures, and performance. The City has a policy for the preparation and administration of contracts, and requires DMS to implement policies and monitoring procedures throughout the life of the contract. However, a lack of any contract administration framework describing both the specific tasks needed, and the DMS employees responsible for those tasks, means that DMS cannot fully ensure that it has held OMF responsible for its contractual obligations.

We identified the following issues with DMS’s current contract administration practices: DMS lacks written policies and procedures detailing its monitoring activities and other requirements of OMF, such as how DMS should review specific elements of the Annual Work Plan or Maintenance Reports. We also found that DMS has weak internal controls surrounding asset procurement and accounting, and is not managing PEG funding properly. Our findings suggest that a framework is necessary to assist DMS with all contract administration duties.

**Denver Media Services Does Not Request Sufficient Supporting Documentation To Verify that Contract Terms Are Fulfilled**

Although OMF is submitting information to DMS regarding its performance, the information is not detailed enough to allow DMS to validate that services are being delivered in accordance with the terms of the contract. This was apparent in our review of the Annual Work Plans, quarterly performance reports, and maintenance reports.

Performance metrics are defined within OMF’s approved Annual Work Plan (Plan) and are used to determine whether OMF is meeting goals set forth in the Plan. The Plan also includes a description of the steps OMF plans to take in order to achieve those goals. Some goals in the Plan include increasing outreach and funding sources, meeting training objectives, and specific programming goals. OMF submits quarterly reporting to DMS to demonstrate its progress toward reaching Plan performance goals. However, after our review of the quarterly reports, the data in these reports do not provide DMS with enough supporting evidence to validate what has been reported. For example, according to the second quarter report in 2015 submitted to DMS, OMF received $13,220 from renting out 440 hours of studio time. DMS could have requested a breakdown of rental hours and rates paid by each producer to further validate the reported information. Without requesting supporting documentation to verify OMF’s performance, DMS may not be able to determine whether OMF quarterly reports are accurate and in compliance with contract terms.

The agreement requires OMF to gather information and data relative to all programmatic and specified reporting, including the number of training classes offered, the number of people trained and certified, and the number of programming hours broken down by first run original
programming, first run non-original programming, and hours of non-local programming, among others. In addition, the contract states:

At such times and in such form as the City may reasonably require, the Contractor shall furnish such statements, records, reports, data and information, as the City may reasonably request and deem pertinent to matters covered by this Agreement.

Not only does the contract allow the City to request supporting documentation, one of the City’s Fiscal Accountability Rules (FARs) requires that supporting documentation be reviewed when a financial transaction occurs. According to FAR 2.5, supporting documentation provides a clear picture of the transaction and may include reports, spreadsheets, or original invoices or receipts from the vendor.

We found that maintenance reports provided by OMF do not always provide sufficient information for DMS to determine whether City funds were spent appropriately. OMF’s maintenance reports only show a broad overview on how maintenance funds were actually spent. The maintenance reports include summary line items for maintenance performed by OMF employees as well as by sub-contractors. However, the reports leave out crucial details and source documentation of the financial transactions, such as invoices from sub-contractors and hourly rates, amount of hours worked, and details of the specific items that were serviced. Historically, DMS has not requested that OMF provide further supporting documentation to show sufficient evidence to corroborate maintenance expenditures. Without obtaining such documentation, DMS is limited in its ability to verify that maintenance funds are spent appropriately.

We recommend that the Director of Denver Media Services work with OMF to establish a framework for allowable documentation of performance metrics and maintenance costs. The framework should address what types of documentation are required by contract, and what types of supporting documentation are sufficient. The framework for performance metrics should address the specific performance metrics to be reported and sufficient corroborating documentation. The framework for maintenance costs should include sufficient documentation of the expenditures such as a breakdown of the sub-contractors’ hours worked and projects worked on.

Denver Media Services Has Not Defined Criteria for Some Costs

Although the contract is specific with regard to performance reporting, it lacks specificity with regard to certain allowable costs. As a result, DMS cannot determine whether certain maintenance charges and capital costs are appropriate under the contract.

Questionable Maintenance Costs

Each month, OMF submits an invoice to DMS outlining maintenance costs that were incurred during the month. The contract specifies that the City shall pay for maintenance costs incurred for maintaining public access equipment and that the annual amount budgeted for maintenance costs will be mutually agreed upon. However, neither the contract nor DMS have specified activities allowable as maintenance costs.
While reviewing the supporting documentation OMF had provided to DMS for their maintenance costs, our audit found that OMF has been charging the City for maintenance that was completed by OMF employees who receive a salary from OMF for duties, which could include maintenance activities. For example, OMF currently charges the City for website maintenance activities conducted by OMF staff at a rate of $75 per hour. When we inquired about the rate, current DMS management could not provide any documentation to support that the rate was agreed-upon. Further, when we compared the hourly salaries of the OMF employees who complete maintenance activities to the $75 per hour rate charged to the City for maintenance activities, we found that a large disparity exists. According to the 2013 OMF budget included in the contract, we found that the salaries for these OMF staff members averaged $20 per hour. Without clear guidance on allowable costs, DMS did not have any guidance on the acceptability of this practice.

Additionally, the OMF Station Director was charging the City through the annual maintenance dollars for her time performing “DOM equipment procurement and maintenance,” but the contract does not address the practice of reimbursement for time spent procuring equipment.

Further, we noted significant increases in the amount of maintenance OMF was charging the City for the OMF Station Director. For example, from January 2013 to October 2013, the Station Director received $537 each month for “DOM equipment procurement and maintenance.” Starting in November 2013 and continuing through the end of 2015, the Station Director’s payments increased by 500 percent to $3,220 per month for the same description on the invoice. Neither OMF nor DMS were able to provide documentation of the decision to increase the amount, but stated it was a decision of the previous Director of DMS. It also appears questionable that the Station Director was charging the same amount for maintenance from month to month. Based on the Station Director’s 2014 salary, charges for the Station Director’s maintenance activities at the current amount are equal to almost 84 percent of her annual salary.

The OMF contract does not specify nor have DMS and OMF agreed upon what types of maintenance costs are allowable, if OMF employees can charge the City for maintenance, or how to bill for maintenance. This has resulted in questionable maintenance charges paid by the City. Without defining rules surrounding maintenance costs, DMS cannot ensure maintenance monies are spent appropriately.

**No Definition of Capital Costs**

We performed research to determine the appropriate uses of PEG funds and noted that there does not appear to be a settled definition of “capital costs” as it relates to PEG funds usage. Federal Communications Commission rules allow the City to require the cable franchise to provide “adequate assurance that the cable operator will provide adequate public, educational, and governmental access channel capacity, facilities, or financial support.” The Comcast Franchise Agreement states that PEG funds are to “be used for capital costs related to
Public, Educational, and Governmental Access (PEG)." The contract with OMF defines "Public Access Equipment" as "equipment purchased from capital cost funds." However, none of these rules or agreements explicitly define capital costs, and DMS has not developed a policy with OMF defining allowable capital costs.

DMS staff expressed to the auditors that they were unsure which costs were allowable and which were prohibited. We reviewed historical purchases and noted instances of inconsistent treatment of allowable capital purchases. For example, in the past, DMS approved cell phones as allowable purchases but have denied cell phone purchases as of 2015. Without a specific definition of allowable capital costs, DMS is limited in its ability to review OMF capital spending for appropriateness, which can result in inconsistent treatment of PEG spending and inappropriate uses of City funds.

We spoke with a telecommunications industry expert who confirmed that there is no agreed-upon definition in the industry for capital costs as they relate to allowable PEG fund usage. Further, he suggested that standard accounting definitions of capital assets should not be applied to PEG costs. The expert recommended developing a specific agreed-upon framework by all parties, focusing on intent of use rather than accounting definitions.

As such, we recommend that the Director of DMS work with OMF to develop a specific framework of allowable capital spending. The framework should focus on intent rather than accounting definitions, it should be agreed upon and signed by both parties, and it should be a written document that is reviewed and updated on an annual basis.

Denver Media Services Is Not Tracking Open Media Foundation’s Capital Budget Expenditures in a Timely Manner To Determine Available Funds Prior to Providing the Next Quarterly Payment

OMF creates an annual capital budget based on equipment needs for the upcoming year and submits it to DMS for approval. The contract states that "any funds spent without adherence to the preapproved budget will be deducted from the subsequent quarterly equipment payment." The contract also specifies that OMF should submit invoices to the City on a quarterly basis, based on the approved capital equipment list from their requested capital budget. In addition, Section 16.0 of the contract prescribes that the City shall conduct an audit of equipment monies paid to OMF, including all equipment purchased in the previous quarter. OMF is to provide invoices, packing slips, and any other documentation to prove that their purchases were installed and placed on inventory lists.

We found that prior to 2015, DMS had not tracked capital spending back to the pre-approved budget. Only in 2015 has DMS started tracking capital budget spending. However, we found that the budget is not being updated to reflect purchases in a timely manner to determine whether purchases were spent in adherence to the budget before providing subsequent disbursements to OMF. For example, we reviewed the 2015 Capital Budget and compared it to purchases made in 2015. We found six purchases occurring between April 2015 and July 2015 that had not been updated on the OMF capital budget prior to DMS disbursing more than $200,000 to OMF for additional capital equipment purchases in August 2015. Without updating the budget with purchases to date, DMS cannot determine which budget line items have
remaining fund balances or whether funds have been spent in adherence to the preapproved budget. This can result in DMS overpaying or reimbursing OMF for unapproved purchases.

We recommend the Director of DMS implement a process to track OMF equipment purchases back to the pre-approved budget in a timely manner to determine whether budget line items have available balances before approving disbursements to OMF. Unspent funds or funds spent without adherence to the pre-approved budget should be deducted from the subsequent quarterly equipment payment.

Weak Internal Controls Surrounding Open Media Foundation Asset Procurement and Accounting Practices

The City has established rules and procedures to assist employees in conducting financial activities. However, DMS has not been utilizing established City procedures for the procurement of OMF assets. Circumventing the City’s established procedures creates the necessity for DMS to implement its own controls surrounding asset procurement and accounting. It does not appear that DMS has adequately implemented such controls. As a result, DMS is reimbursing OMF for payments to suspicious vendors and has not recorded OMF assets in the City’s system of record timely. Utilizing the City’s established procurement processes can reduce these risks.

DMS Is Not Using the City’s Established Procurement Process

Internal control is a process that provides reasonable assurance that an entity will achieve effective and efficient operations, reliable internal and external reporting, and compliance with laws and regulations. The City has developed Fiscal Accountability Rules (FARs) to assist officers and employees in conducting financial activities and in making fiscal decisions. For example, FAR 8.1 dictates that the “Purchasing Division has exclusive authority for the purchase of all goods, equipment, personal property, and services related to goods for the City and County of Denver.” FAR 4.2 procedures dictate that “[e]ach agency/department is responsible for ensuring that all capital and controlled assets are properly accounted for during the entire asset lifecycle.”

The City has also established standardized procurement and accounting practices that contain embedded internal controls. The Purchasing Division’s requisition to purchase order process includes roles for requesting, approving, buying, receiving, and paying for purchased items. This process standardizes and centralizes duties related to selecting vendors, making purchases, and recording transactions for agency purchases. When the Purchasing Division utilizes a new vendor, the City vets vendor by obtaining the vendor’s W-9 and also by ensuring that the vendor is in good standing with the Colorado Secretary of State. Furthermore, when the Purchasing Division’s requisition to purchase order process is utilized, an initial record is created in the system and the Controller’s Office has an interfacing process that is used to create asset records from the purchase order receipts and
vouchers. This interface is an embedded control that helps mitigate the risk of failing to account for acquired assets.

DMS is currently not following these established processes and does not utilize the Purchasing Division for the procurement of OMF equipment. Instead, DMS’s current process has been to prefund OMF with quarterly disbursements, which OMF has been spending through its own procurement processes. The original contract with OMF did not include language describing specific procurement procedures or invoice review and was amended in 2013 to include additional language regarding these areas. While the new contract does not specify a prefunded procurement model, DMS has interpreted it to allow for such. However, the contract does not specify whether a prefunding model is allowed. The contract includes new language that prescribes that “Invoices shall be submitted to the City on a quarterly basis,” “the City shall also conduct a quarterly review with Contractor to confirm status of approved equipment Purchases,” and the “Contractor shall utilize its internal processes to procure approved equipment.” Not utilizing the Purchasing Division’s established processes creates the need for DMS to perform its own controls for vetting vendors, reviewing invoices, and accounting for assets.

Between 2013 and 2015, DMS has provided OMF with over $865,000 to be spent on capital purchases. DMS obtains purchase receipts from OMF after the purchases are made and is responsible for reviewing the documentation for appropriateness. DMS must also notify the Controller’s Office of any purchases that need to be recorded as assets in the City’s system of record.

Open Media Foundation Has Made Payments to Questionable Vendors

We found that DMS has not developed adequate controls to ensure that appropriate vendors are utilized or that assets are accounted for timely. The current prefunding process takes vendor selection out of the City’s control. OMF has been selecting vendors to procure equipment at its own discretion and DMS has not been reviewing the vendors utilized by OMF for fraud indicators or to ensure vendors and vendor invoices are legitimate.

We reviewed forty-five invoices from twenty-five unique vendors utilized by OMF for 2015 purchases. Of this sample, our audit identified payments to two suspicious vendors. OMF made more than $14,000 in payments in 2014 and 2015 to a vendor that has had delinquent status with the Colorado Secretary of State since 2013. Further research revealed that the owner of the company and the OMF Station Director who authorized the payments own the property address listed as the company’s place of business. Inquiries with the OMF Station Director found that she has been married to the owner of the company for two years. The OMF Station Director indicated that the relationship was originally communicated to the former DMS Director in previous years before the two were married. The DMS Director at the time is no longer with the City and the current DMS administration was unaware of the relationship, nor were they aware of the delinquent filing status. OMF was unable to provide documentation to corroborate the reporting of the relationship. Section 23.0 of the City’s contract with OMF has the following nepotism clause:

Contractor shall not employ in any paid capacity any person who is a member of the immediate family of any person who is currently employed by Contractor or is
a member of Contractor’s Board of Directors. The term “member of the immediate family” includes: wife, husband, son, daughter, mother, father, brother, sister, brother-in-law, sister-in-law, son-in-law, daughter-in-law, mother-in-law, father-in-law, aunt, uncle, nephew, niece, cousin, step-parent, stepchild, half-brother, and half-sister.

As such, OMF is in violation of the nepotism clause of the contract. Providing payments to a vendor that has a direct relationship with the OMF employee who authorized the transaction can result in fraud and misappropriation of City funds. DMS did not review or scrutinize this vendor. The City’s established procurement process would have flagged this vendor for further research and scrutiny due to its delinquent status with the Colorado Secretary of State.

Our audit also identified a suspicious invoice for more than $17,000 from another vendor that did not include pertinent transaction details such as an invoice number, invoice date, or a description explaining the start date of the three-year term for the service. We attempted to research the vendor but could not find the vendor in the Colorado Secretary of State database, nor could we find information about the vendor as the result of online searches. DMS staff indicated that they had not vetted this vendor either. Inquiries with OMF indicated that the vendor was a start-up company and they were unaware of their filing status with the State but advised that they were receiving the service. We reviewed the agreement between OMF and the vendor and found that the agreement lacked key details such as the total cost of the service. In addition, the agreement lacked terms that might reduce the risk and liability to OMF and the City in the event that the vendor is unable to provide the service during the course of the three-year term. Our audit work revealed that this does not appear to be a fraudulent vendor. However, this highlights the lack of internal control in DMS’s review of vendors which could result in increased risk.

The fact that DMS did not identify and vet these suspicious vendor invoices highlights DMS’s lack of sound review processes. DMS’s lack of scrutiny over vendors utilized by OMF have resulted in DMS reimbursing OMF for payments to questionable vendors. Without vendor and vendor invoice review controls, there is an increased risk of fraudulent transactions and misappropriation of City funds.

**OMF Assets Are Not Reported Timely**

The prefunding process bypasses the Purchasing Division’s established process that creates an initial record in the City’s systems to be interfaced with the Controller’s Office for asset reporting once items are acquired. As such, the Controller’s Office must rely on DMS to report acquired assets that need to be accounted for in the City’s system of record. As of July 2015, there were over $558,000 of OMF assets recorded in the City’s system of record.

DMS does not have adequate controls in place to report acquired assets to the Controller’s Office in a timely manner. According to DMS, assets purchased in 2012, 2013, and 2014 were not reported to the Controller’s Office during the annual inventory in conjunction with the required...
annual physical inventory count established by the City’s FARs. At the end of 2014 DMS staff recognized that assets had not been reported for the previous years so they attempted to report assets for 2012 through 2014. Assets purchased in 2015 were reported to the Controller’s Office for the annual inventory but were submitted late.

We performed testing on a selection of twenty-five purchases between 2013 and 2015 to determine if and when those assets were reported. Our testing found the following:

- Four purchases from 2014 totaling over $38,000 were never reported to the Controller’s Office. These assets were never recorded in the City’s system of record.
- Three purchases from 2013 totaling over $28,000 were reported more than one year after the purchases were made.
- Fourteen purchases between 2014 and 2015 totaling over $141,000 were reported between three and nine months after the purchase.

In some cases DMS has not recorded assets at all and in other cases DMS has recorded assets significantly after the assets were acquired. As such, DMS is not in compliance with the City’s FARs, which specify that assets should be recorded when acquired. Not recording assets in a timely manner results in inaccurate financial statements, which are used by decision makers throughout the City. It also limits DMS’s ability to properly track and safeguard assets, increasing the risk of lost or stolen City property.

In addition, through our discussions with DMS staff and our observation of DMS’s annual physical inventory count of OMF assets for 2015, we found that OMF has unused equipment that has not been handled through the City’s disposal processes. FAR 4.2 procedures instruct asset custodians in managing the City’s assets to ensure that assets are acquired, recorded, maintained, transferred, and disposed of properly. The City has developed a step-by-step guide for asset transfers and disposals, which provide detailed instructions on how to transfer and dispose assets in accordance with the City’s established procedures.

Complicating this issue is the fact that older assets may not have been recorded to the City’s system of record in the first place due to DMS’s asset reporting issues. This may make it difficult to formally dispose of those assets if there is not a matching record to remove from the system. We asked the Purchasing Director and Deputy Director what steps DMS should take regarding the unused equipment. They suggested that DMS should contact Technology Services (TS) for any computer assets that require disposal. For other equipment such as cameras and sound equipment, DMS should contact the Surplus Administrator to determine which assets can be sold online, at surplus auction, or that need to be recycled and disposed of. DMS should work with TS and the Surplus Administrator to determine the best method of disposal and should implement a

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3 FAR 4.2 procedures dictate that “The agency/department is responsible for recording a capital/controlled asset in the City’s system of record when it is acquired.” FAR 4.2 also prescribes that “By September 30th of each year, a physical inventory of all capital assets, controlled assets, and high-risk controlled assets shall be performed and documented.”
regular and timely process to dispose of unused OMF inventory in accordance with the City’s established processes.

**Utilizing the City’s Established Procurement Processes Can Reduce Risk**

DMS has not implemented controls around asset procurement and accounting in lieu of utilizing the City’s established procurement processes. As a result, it appears that DMS is reimbursing OMF for payments to questionable vendors, which can result in fraudulent transactions and misappropriation of City funds. Additionally, DMS has not recorded assets timely, which results in inaccurate financial statements and also limits DMS’s ability to properly track and safeguard assets, increasing the risk of lost or stolen City property.

These risks would be significantly reduced if DMS utilized the Purchasing Division’s established procurement processes, which have embedded controls for ensuring that appropriate vendors are utilized and assets are accounted for timely. We spoke with the Director and Deputy Director of Purchasing and they did not see any reason why DMS could not be utilizing the Purchasing Division for OMF asset procurement. They felt confident that they had the capacity and expertise to handle their procurement needs. We recommend that DMS use the Purchasing Department for OMF equipment procurement in order to mitigate the risks identified with the current OMF equipment procurement process.

**PEG Funding Is Not Managed Properly**

Audit work found that DMS is not properly managing the City’s PEG funds. Two key processes to ensure that the City is receiving the appropriate amount of PEG monies is through regular audits of Comcast fees that are collected from subscribers and remitted to the City, as well as regular reconciliations of the City fund into which PEG fees are recorded. In the absence of appropriate audits and reconciliations, DMS cannot ensure that the City is receiving the monies due from Comcast.

**Comcast Audits Are Not Conducted Timely**

As part of our audit work, we reviewed the process that has been established to manage the City’s PEG funds. In accordance to the City’s franchise agreement with Comcast, the company provides annual funding to the City by charging and collecting PEG fees from residential subscribers. Comcast remits these fees to the City on a quarterly basis and these fees are recorded in a special revenue fund (SRF). Audits are conducted to ensure that Comcast is submitting the correct fees to the City, which includes PEG fees. An Associate Financial Management Analyst in the Security and Compliance group of Technology Services is tasked with conducting these annual audits. However, we found that these audits are not conducted in a timely manner.

The audit of Comcast fees from 2011 was completed in 2015 and the final settlement letter was received in November 2015. The support documentation for the fees was received from Comcast but a review of this documentation did not start until approximately twenty months later. Overall, it took nearly four years to complete the 2011 audit. We were informed that part of the delay was due to slow responses from Comcast. However, the Comcast Franchise Agreement has contract terms that require Comcast to provide records within thirty days of the request. There is also a clause that stipulates Comcast to treat timelines for requested actions as
"of the essence." The Associate Financial Management Analyst was unable to provide any support indicating that the City attempted to hold Comcast to these contract terms for timely responses.

In addition to the untimeliness of the 2011 audit, the 2012 and 2013 audits have not yet been started. While the 2012 and 2013 audit requests were made in April 2015, the support has not been received to start the audit work. Again, the City has not held Comcast to the contractual terms for timely responses. It also does not appear that the City followed up with Comcast regarding the audit requests in a timely manner because there were no additional communications between July and November 2015.

The Comcast contract includes a three-year audit and records retention clause, which prevents audits past a three-year window. As such, the City is at risk of losing the ability to audit past years’ fees. In addition, not auditing Comcast fees in a timely manner results in potentially not having the correct amount of funds with which decision makers will determine fund allocations for PEG fees. Also, significant underpayments that are not identified in a timely manner may result in missed opportunities to invest and earn interest on those monies. Accordingly, the Chief Information Security Officer in Technology Services should ensure that the audits of Comcast’s payments to the City are completed on an annual basis.

The Special Revenue Fund Is Not Reconciled Properly

As part of our audit work, we reviewed the SRF in which PEG fees are recorded. DMS staff are tasked with managing the fund. DMS staff developed internal spreadsheets to track PEG fund activity for the purposes of our audit and planned to utilize the internal spreadsheets going forward. Our review of these internal tracking spreadsheets identified that some information in the spreadsheets does not agree with PeopleSoft, the City’s financial system. For example, DMS’s internal spreadsheet showed that $370,000 was disbursed to OMF in 2014. However, PeopleSoft records indicated that $627,000 was actually disbursed. We also found discrepancies between the internal spreadsheets provided by DMS. For example, the PEG fee totals recorded in the OMF disbursement spreadsheet did not agree to the overall PEG allocation internal spreadsheet.

Improper tracking of PEG fund activities limits DMS’s ability to effectively manage and monitor the allocation of funds in the SRF, which in turn limits their ability to properly manage the OMF contract. Our audit found a $1.8 million incorrect entry made to the SRF in April 2015. The entry should have been made to the City’s General Fund. Although DMS staff indicated that they perform regular reconciliations of the SRF, this significant error was not caught during their June 2015 or September 2015 reconciliations, further corroborating the insufficiency of their tracking and reconciliation processes. If funds are not reconciled properly, decision makers may be relying on inaccurate financial information.

FAR 2.2 states that reconciliations of the City’s general ledger accounts on a periodic and timely basis are instrumental in verifying that all transactions are posted correctly. We found that the DMS employee that reconciles the SRF has not received training in conducting reconciliations. Therefore, we recommend that the Director of DMS should ensure that regular and timely SRF reconciliations are performed between activity recorded in the City’s system of record and the internal records maintained by the agency. Any differences between the balance in the City’s system of record and the agency’s internal records should be researched and explained on the
reconciliation. The differences should not be cleared from the reconciliation until adjusting accounting entries are made.

**Decision Making Is Not Documented for PEG Funds and the Maintenance Budget**

DMS has made several decisions about the use of PEG monies that have not been properly documented. This has been apparent in how PEG funds are allocated and disbursed among PEG entities as well as in significant increases in annual amounts paid to OMF for equipment maintenance.

**PEG Fund Allocation Decisions and Disbursements Are Not Documented**

Overall, DMS does not maintain formal documentation for the basis of the decisions to allocate PEG funds to each of the PEG entities. For example, when we inquired about documentation on how decisions are made to distribute PEG funds to Auraria Higher Education Campus, Denver Public Schools, OMF, and Denver 8, DMS provided limited documentation on how PEG funds should be distributed. However, DMS could not provide support documentation in regards to how final PEG fund allocation decisions are made. In addition, DMS was unable to provide documentation on the tracking of actual PEG fund distributions and when we reviewed the City’s financial records, the only distributions that could be identified were to OMF. Without documenting the basis for these decisions, DMS is unable to ensure that funds have been allocated appropriately and effectively. In addition to not documenting the allocation decisions, DMS is also not properly tracking the actual disbursements of PEG funds, which further impairs the allocation decision process.

According to Standards for Internal Control in the Federal Government all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. All documentation and records should be properly managed and maintained. We recommend that the Director of DMS should ensure that all decisions made regarding PEG fund distributions are documented and an internal tracking mechanism to track all special revenue fund activity, such as receipts from Comcast and disbursements to the PEG entities, should be developed.

**No Documentation for Increased Annual Maintenance Amounts**

Section 2.2 of the OMF contract states that the City shall bear the financial burden of the capital maintenance through a mutually agreed upon annual amount. However, the contract does not specify what amount was agreed upon and DMS was not able to provide documentation regarding the yearly maintenance amount decisions. As previously mentioned, according to Standards for Internal Control in the Federal Government, significant events such as these, need to be clearly documented and available for examination.

Reviewing the annual amounts paid to OMF for maintenance determined that there have been two increases in the maintenance rate since 2009 as illustrated in Table 3. Through October 2009,
the annual maintenance amount provided to OMF was $50,000 per year. In November 2009, OMF provided a memo to DMS requesting to increase the annual maintenance amount to $85,000, a 70 percent increase, due to the growing complexity of the systems as the organization grew. The annual maintenance amount was increased to $85,000 and remained at that level until the amount was increased again in 2014 to $95,000. Aside from the memo received by DMS in 2009, DMS was not able to provide documentation that supported the determinations to increase the annual maintenance costs.

**TABLE 3.** Open Media Foundation Maintenance Costs

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Maintenance Costs</th>
<th>Percent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior to 2009</td>
<td>$50,000</td>
<td>N/A</td>
</tr>
<tr>
<td>2009 to 2013</td>
<td>$85,000</td>
<td>70.0%</td>
</tr>
<tr>
<td>2014</td>
<td>$95,000</td>
<td>11.8%</td>
</tr>
</tbody>
</table>

*Source: Table developed by the Auditor’s Office based on invoices submitted to DMS by OMF.*

Without documenting decisions related to the agreed-upon annual maintenance amounts, DMS is limited in its ability to ensure the maintenance funding amounts are appropriate. As such, we recommend that DMS should document decisions of significant events such as these to explain the reasoning behind the agreed-upon amounts.

**Denver Media Services Does Not Have a Contract Administration Framework To Administer the Open Media Foundation Contract**

In seeking to understand why DMS has not provided stronger oversight of OMF services and use of PEG funds, we determined that DMS lacks a contract administration framework, which would ensure proper management of the contract, and, in turn, assurance that the City is receiving the services and assets for which it pays. A contract administration framework provides an agency a clear path toward meeting all of the performance goals and monitoring activities that come with contracting for services. Once a contract administration framework is in place, DMS will need to provide training to ensure that employees responsible for the administration of the contract are well prepared for the associated tasks.

The issues regarding insufficient contract administration relate to DMS’s lack of clarity regarding contract administration practices and undefined oversight roles and responsibilities for contract administration. DMS could not provide auditors with documented policies and procedures for monitoring contracts; we relied on interview data as well as supporting documentation to determine whether current monitoring practices are sufficient.

In addition, DMS’s ability to carry out its oversight duties is impacted by undefined roles and responsibilities for contract monitoring. Currently, the DMS Director and DMS Program Manager are primarily in charge of administering this contract. We were informed that contract monitoring is a major function of the Program Manager’s duties in practice. However, after reviewing a list of job responsibilities provided by DMS management for this position, we found that contract administration does not formally fall under the purview of the Program Manager’s responsibilities.
Executive Order 8 establishes that one of the responsibilities of the initiating authority, which in this case is DMS, is to “establish and implement policies and procedures for monitoring contracts.” Further, Executive Order 8 states that within these policies, specific person(s) or parties to be accountable for the department or agency’s contract monitoring responsibilities should be identified, among other requirements. In addition, other organizations, such as the International City/County Management Association (ICMA) have recommended that a defined governance structure and clearly defined roles and responsibilities are essential components of sound contract management. Without basic components of a contract administration framework in place that includes implementing policies and procedures for contract monitoring and then also specifying parties to be accountable for monitoring responsibilities, DMS cannot enforce contract compliance and ensure that PEG funds are spent on those goods and services for which the City has contracted.

While a contract administration framework alone may not fully eradicate the issues we identified, the establishment of such guidance can be used in the event that roles and responsibilities are transferred between staff members. As evident in the division’s history, leadership of the function has changed and the function has been housed under different agencies. Having policies and procedures in place with defined roles and responsibilities for contract monitoring would minimize the impact that future organizational changes may have on contract oversight.

With weak internal controls surrounding the oversight of the OMF contract, it is much more difficult to detect fraud or abuse, and gaps in compliance are more likely to occur. Therefore, the Director of DMS should develop a contract administration framework supported by specific policies and procedures for monitoring contract terms that at a minimum, include a review of OMF’s Annual Work Plan, Quarterly Reports, Monthly Maintenance Statements, and performance metrics. In addition, the Director of DMS should ensure specific roles and responsibilities for contract monitoring are identified for staff members.
RECOMMENDATIONS

We offer the following ten recommendations to improve Denver Media Services’ contract administration practices.

1.1 **Documentation** – The Director of Denver Media Services should work with Open Media Foundation to establish a framework for allowable documentation of performance metrics and maintenance costs.

*Auditee Response: Agree, Implementation Date - June 30, 2016*

The Director of Denver Media Services (DMS) will work with Open Media Foundation, Security & Compliance, and the Controller’s Office to establish a framework for allowable documentation of performance metrics and maintenance costs.

1.2 **Capital Costs** – The Director of Denver Media Services should work with Open Media Foundation to develop a specific framework of allowable spending for capital costs. The framework should focus on intent rather than accounting definitions, it should be agreed upon and signed by both parties, and it should be a written document that is reviewed and updated on an annual basis.

*Auditee Response: Agree, Implementation Date - June 30, 2016*

The Director of DMS will work with Open Media Foundation and the Controller’s Office to develop a Memorandum of Understanding (MOU) regarding terms such as capital costs. The Director of DMS will review the MOU in concert with the annual review of the OMF work plan.

1.3 **Track Equipment Purchases** – The Director of Denver Media Services should develop and implement a process to track Open Media Foundation equipment purchases back to the pre-approved budget in a timely manner to determine whether budget line items have available balances before approving disbursements to Open Media Foundation.

*Auditee Response: Agree, Implementation Date - June 30, 2016*

The Director of DMS will work with Open Media Foundation and the Controller’s Office to track equipment purchases and manage budget disbursements.

1.4 **Capital Assets** – The Director of Denver Media Services should develop a process to purchase capital assets for the Open Media Foundation contract through the City’s purchasing process.

*Auditee Response: Agree, Implementation Date - June 30, 2016*
The Controller’s Office will work with the Director of DMS to develop a process to purchase capital assets for the Open Media Foundation contract, following Fiscal Accountability Rules and the City’s purchasing process.

1.5 **Comcast Audits** – The Chief Information Security Officer in Technology Services should ensure the audits of Comcast’s payments to the City are completed on an annual basis.

**Auditee Response: Agree, Implementation Date – June 30, 2016**

The Chief Information Security Officer in Technology Services will ensure the audits of Comcast’s payments to the City are completed annually.

1.6 **Reconciliations** – The Director of Denver Media Services should ensure that regular and timely special revenue fund reconciliations are performed between activity recorded in the City’s system of record and the internal records maintained by the agency. Any differences between the balance in the City’s system of record and the agency’s internal records should be researched and explained on the reconciliation. The differences should not be cleared from the reconciliation until adjusting accounting entries are made.

**Auditee Response: Agree, Implementation Date – June 30, 2016**

The Controller’s Office will work with the Director of DMS to ensure regular and timely special revenue fund reconciliations between the City’s system of record and internal records maintained by DMS. Any differences will be researched and explained on the reconciliation. The Controller’s Office will create adjusting accounting entries for the differences prior to clearing them from the reconciliation.

1.7 **PEG Fund Disbursement** – The Director of Denver Media Services should ensure that all decisions made regarding PEG fund distributions are well-documented.

**Auditee Response: Agree, Implementation Date – June 30, 2016**

The Director of DMS will work with Security and Compliance to ensure that all decisions made regarding PEG fund distributions are well documented.

1.8 **Internal Tracking** – The Director of Denver Media Services should develop an internal tracking mechanism to track all special revenue fund activity, such as receipts from Comcast and disbursements to the PEG entities.

**Auditee Response: Agree, Implementation Date – June 30, 2016**

The Director of DMS will work with the Controller’s Office to determine the best process for ensuring that all special revenue fund activity is tracked.

1.9 **Policies and Procedures** – The Director of Denver Media Services should develop a contract monitoring framework with specific policies and procedures for monitoring
contract terms, including at a minimum, review of Open Media Foundation’s Annual Work Plan, Quarterly Reports, Monthly Maintenance Statements, and performance metrics.

**Auditee Response: Agree, Implementation Date - June 30, 2016**

The Director of DMS will work with Security and Compliance to develop a contract monitoring framework with specific policies and procedures to review and monitor the Open Media Foundation contract and related documentation.

1.10 **Roles and Responsibilities** – The Director of Denver Media Services should ensure specific roles and responsibilities for contract monitoring are identified for staff members.

**Auditee Response: Agree, Implementation Date - June 30, 2016**

The Director of DMS will work with Security and Compliance to ensure that specific roles and responsibilities for contract monitoring are identified and incorporated in the role Playbooks.
February 5, 2016

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

Dear Mr. O’Brien,

The Office of the Auditor has conducted an audit of the Open Media Foundation Contract.

This memorandum provides a written response for each reportable condition noted in the Auditor’s Report final draft that was sent to us on January 14, 2016. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING
Denver Media Services Should Improve Contract Administration Practices

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Agree or Disagree with Recommendation | Target date to complete implementation activities (Generally expected within 60 to 90 days) | Name and phone number of specific point of contact for implementation |
--- | --- | --- |
Agree | June 30, 2016 | Julie Martinez 720-865-2302 |

Narrative for Recommendation 1.1
The Director of Denver Media Services (DMS) will work with Open Media Foundation, Security & Compliance, and the Controller’s Office to establish a framework for allowable documentation of performance metrics and maintenance costs.
RECOMMENDATION 1.2
Capital Costs – The Director of Denver Media Services should work with Open Media Foundation to develop a specific framework of allowable spending for capital costs. The framework should focus on intent rather than accounting definitions, it should be agreed upon and signed by both parties, and it should be a written document that is reviewed and updated on an annual basis.

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<td>Julie Martinez 720-865-2302</td>
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Narrative for Recommendation 1.2
The Director of DMS will work with Open Media Foundation and the Controller’s Office to develop a Memorandum of Understanding (MOU) regarding terms such as capital costs. The Director of DMS will review the MOU in concert with the annual review of the OMF work plan.

RECOMMENDATION 1.3
Track Equipment Purchases – The Director of Denver Media Services should develop and implement a process to track Open Media Foundation equipment purchases back to the pre-approved budget in a timely manner to determine whether budget line items have available balances before approving disbursements to Open Media Foundation.

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Narrative for Recommendation 1.3
The Director of DMS will work with Open Media Foundation and the Controller’s Office to track equipment purchases and manage budget disbursements.

RECOMMENDATION 1.4
Capital Assets – The Director of Denver Media Services should develop a process to purchase capital assets for the Open Media Foundation contract through the City’s purchasing process.

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<tr>
<td>Agree</td>
<td>June 30, 2016</td>
<td>William Riedell 720-913-4854</td>
</tr>
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Narrative for Recommendation 1.4
The Controller’s Office will work with the Director of DMS to develop a process to purchase capital assets for the Open Media Foundation contract, following Fiscal Accountability Rules and the City’s purchasing process.

**RECOMMENDATION 1.5**
Comcast Audits – The Chief Information Security Officer in Technology Services should ensure the audits of Comcast’s payments to the City are completed on an annual basis.

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<tr>
<td>Agree</td>
<td>June 30, 2016</td>
<td>Stephen E. Coury 720-913-4919</td>
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Narrative for Recommendation 1.5
The Chief Information Security Officer in Technology Services will ensure the audits of Comcast’s payments to the City are completed annually.

**RECOMMENDATION 1.6**
Reconciliations – The Director of Denver Media Services should ensure that regular and timely special revenue fund reconciliations are performed between activity recorded in the City’s system of record and the internal records maintained by the agency. Any differences between the balance in the City’s system of record and the agency’s internal records should be researched and explained on the reconciliation. The differences should not be cleared from the reconciliation until adjusting accounting entries are made.

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The Controller’s Office will work with the Director of DMS to ensure regular and timely special revenue fund reconciliations between the City’s system of record and internal records maintained by DMS. Any differences will be researched and explained on the reconciliation. The Controller’s Office will create adjusting accounting entries for the differences prior to clearing them from the reconciliation.
RECOMMENDATION 1.7
PEG Fund Disbursement – The Director of Denver Media Services should ensure that all decisions made regarding PEG fund distributions are well-documented.

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<tr>
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<td>June 30, 2016</td>
<td>Julie Martinez 720-865-2302</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 1.7
The Director of DMS will work with Security and Compliance to ensure that all decisions made regarding PEG fund distributions are well documented.

RECOMMENDATION 1.8
Internal Tracking – The Director of Denver Media Services should develop an internal tracking mechanism to track all special revenue fund activity, such as receipts from Comcast and disbursements to the PEG entities.

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Narrative for Recommendation 1.8
The Director of DMS will work with the Controller’s Office to determine the best process for ensuring that all special revenue fund activity is tracked.

RECOMMENDATION 1.9
Policies and Procedures – The Director of Denver Media Services should develop a contract monitoring framework with specific policies and procedures for monitoring contract terms, including at a minimum, review of Open Media Foundation’s Annual Work Plan, Quarterly Reports, Monthly Maintenance Statements, and performance metrics.

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Narrative for Recommendation 1.9
The Director of DMS will work with Security and Compliance to develop a contract monitoring framework with specific policies and procedures to review and monitor the Open Media Foundation contract and related documentation.

RECOMMENDATION 1.10
Roles and Responsibilities – The Director of Denver Media Services should ensure specific roles and responsibilities for contract monitoring are identified for staff members.

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Narrative for Recommendation 1.10
The Director of DMS will work with Security and Compliance to ensure that specific roles and responsibilities for contract monitoring are identified and incorporated in the role Playbooks.

Please contact Julie Martinez at 720-865-2302 with any questions.

Sincerely,

Scott Cardenas  
Chief Information Officer  

cc: Mr. Kip R. Memmott, MA, CGAP, CRMA, Director of Audit Services  
Ms. Sonia Montano, CGAP, CRMA, Audit Supervisor  
Ms. Cary Kennedy, Deputy Mayor, Chief Financial Officer  
Mr. David P. Edinger, Chief Performance Officer  
Ms. Beth Machani, Controller  
Ms. Julie Martinez, Director of Denver Media Services  
Mr. Stephen E. Coury, Chief Information Security Officer, Technology Services  
Mr. William Riedell, Director of Financial Services  

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