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Cover photo courtesy of Denver International Airport.
November 21, 2019

AUDITOR’S LETTER

The objective of our examination of the City and County of Denver’s contract with Interstate Highway Construction Inc. at Denver International Airport was to evaluate the airport’s review of the contractor’s compliance with contract terms, internal controls associated with the review, approval of pay applications and change orders, use of subcontractors, and adherence to project progress reporting and construction project closeout processes. CliftonLarsonAllen LLP conducted this examination on behalf of the Auditor’s Office. I am pleased to present the results of this examination.

The examination revealed an ineffective tracking system for subcontractors that could impact the accuracy of meeting the “disadvantaged business entity” goal listed in the contract.

As a result, the examination provided one recommendation for the airport and Denver Economic Development & Opportunity’s Division of Small Business Opportunity to improve internal controls for tracking and monitoring payments made to subcontractors. By strengthening internal controls and implementing the recommendation provided, Denver International Airport can more effectively monitor compliance with the contract provisions for its construction projects.

This examination 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 by CliftonLarsonAllen LLP in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our examination objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our examination objectives.

We extend our appreciation to personnel at Denver International Airport and within the Division of Small Business Opportunity who assisted and cooperated with us and CliftonLarsonAllen LLP during the examination. For any questions, please feel free to contact me at 720-913-5000.

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor
INDEPENDENT ACCOUNTANTS’ REPORT

City and County of Denver, Denver Auditor’s Office
Denver, Colorado

We have examined the City and County of Denver’s Department of Aviation’s (Denver International Airport) compliance with contract #201732479 “Runway 8-26 Complex Pavement Rehabilitation” with Interstate Highway Construction Inc. (the contractor) during the period May 1, 2017 through July 31, 2018 as it relates to Denver International Airport’s review of the contractor’s compliance with contract terms, internal controls associated with review and approval of pay applications and change orders, evaluation of the Denver International Airport’s review of the use of subcontractors by the contractor, and evaluation of the Denver International Airport’s review of the contractor’s adherence to project progress reporting and the construction project closeout processes. Management of Denver International Airport is responsible for Denver International Airport’s compliance with the specified requirements. Our responsibility is to express an opinion on Denver International Airport’s compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether Denver International Airport complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether Denver International Airport complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on Denver International Airport’s compliance with specified requirements.

In our opinion, Denver International Airport complied, in all material respects, with contract #201732479 “Runway 8-26 Complex Pavement Rehabilitation” with the contractor as it relates to the contractor’s compliance with contract terms, internal controls associated with review and approval of pay applications and change orders, evaluation of the Denver International Airport’s review of the use of subcontractors by the contractor, and evaluation of the Denver International Airport’s review of the contractor’s adherence to project progress reporting and the construction project closeout processes during the period May 1, 2017 through July 31, 2018.

CliftonLarsonAllen LLP

Broomfield, Colorado
November 21, 2019
To management of Denver International Airport and the City and County of Denver’s Auditor’s Office (Denver, Colorado):

In planning and performing our examination of Denver International Airport’s compliance with contract No. 201732479 (“Runway 8-26 Complex Pavement Rehabilitation”) with Interstate Highway Construction Inc. during the period of May 1, 2017, through July 31, 2018. This included examining Denver International Airport’s review of Interstate Highway Construction Inc.’s compliance with contract terms, examining the airport’s internal controls associated with the review and approval of pay applications and change orders, evaluating the airport’s review of Interstate Highway Construction Inc.’s use of subcontractors, and evaluating the airport’s review of Interstate Highway Construction Inc.’s adherence to project progress reporting and construction project closeout processes. We performed our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and Government Auditing Standards.

We considered Denver International Airport’s internal controls over compliance as a basis for designing examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on Denver International Airport’s compliance but not for the purpose of expressing an opinion on the effectiveness of the airport’s internal controls. Accordingly, we do not express an opinion on the effectiveness of the airport’s internal controls.

During our examination, we became aware of deficiencies in internal controls and other compliance matters that are opportunities to strengthen Denver International Airport’s internal controls and improve the efficiency of airport operations. Our comments and suggestions regarding those matters are summarized below. This letter does not affect our report dated November 21, 2019, on the compliance of Denver International Airport.

Introduction and Background

CliftonLarsonAllen LLP (“CLA”) was engaged by the Auditor to perform an examination of Denver International Airport’s contract No. 201732479 (“Runway 8-26 Complex Pavement Rehabilitation”) with Interstate Highway Construction Inc. during the period of May 1, 2017, through July 31, 2018. This examination related to Denver International Airport’s review of Interstate Highway Construction Inc.’s compliance with contract terms, the airport’s internal controls associated with review and approval of pay applications and change orders, evaluation of the airport’s review of Interstate Highway Construction Inc.’s use of subcontractors, and evaluation of the airport’s review of Interstate Highway Construction Inc.’s adherence to project progress reporting and construction project closeout processes. As part of the deliverables, CLA presented an examination report to the Audit Committee.

The agreement we examined between Denver International Airport and Interstate Highway Construction Inc. was entered into on May 26, 2017, for an amount up to $22,204,974.25. This agreement was awarded to Interstate Highway Construction Inc. through an invitation for bids and proposal process from qualified general contractors, dated February 24, 2017.

The invitation to bid contained eight project phases within the overarching “Runway 8-26 Complex Pavement Rehabilitation” project. The eight phases are listed below:
1. Runway 8-26 Complex Improvements
2. Passive Pavement Sensor System and Stop Bar/Guard Light Procurement
3. Replace Runway 26 MALSR
4. Additional Panel Replacement
5. Refresh Runway 8-26 Pavement Markings and Taxiway Centerlines
6. Refresh Remaining Taxiway Pavement Markings
7. Spall and Joint Sealant Repair
8. Construct Taxiway DS

Objective

The objectives of the examination were to review the following:

- Denver International Airport’s review of Interstate Highway Construction Inc.’s compliance with contract terms
- The airport’s review of Interstate Highway Construction Inc.’s use of subcontractors under the contract to include an examination of associated pay applications
- Understand the change orders to determine the airport’s compliance with the construction services contract
- Understand The airport’s internal controls associated with the review and approval of pay applications and change orders
- The airport’s oversight of Interstate Highway Construction Inc.’s compliance with construction project progress reporting and adherence to project budgets
- The airport’s oversight of the construction project closeout processes and procedures for the construction services contract

Scope

The examination performed consisted of review and evaluation of:

- Denver International Airport’s oversight of Interstate Highway Construction Inc.’s compliance with contract terms, under the general form of contractor agreement to provide construction services to the City and County of Denver
- The airport’s approval of Interstate Highway Construction Inc.’s use of subcontractors under the contract to include an examination of associated pay applications
- Change orders to ensure the airport monitored compliance with the construction services contract
- The airport’s internal controls associated with the review and approval of pay applications and change orders
• The airport’s oversight of Interstate Highway Construction Inc.’s compliance with construction project progress reporting and adherence to project budgets
• The airport’s review of Interstate Highway Construction Inc.’s adherence to the airport’s construction project closeout processes and procedures

The contract and payments subject to the examination consisted of the following:

• Contract No. 201732479 between Denver International Airport and Interstate Highway Construction Inc. for an amount up to $22,204,974.25.

This contract was subject to testing as described in the Methodology section below. The total amount billed and paid by Denver International Airport to Interstate Highway Construction Inc. under this agreement was $21,996,239 for work performed from July 2017 through November 2017, with final payment of the contract paid on October 10, 2018. All applications for payment paid by Denver International Airport to Interstate Highway Construction Inc.—a total of 15 applications for payment—were selected for detailed testing as described in the Methodology section below. Additionally, eight of 21 subcontractor payments, or 38%, and approximately $5,167,000 of the $9,435,000 payments made by the contractor to its subcontractors, or 55%, were selected for detailed testing as described in the Methodology section below.

Methodology

In performing the examination of Interstate Highway Construction Inc.’s compliance with contract terms and of Denver International Airport’s internal controls associated with the review and approval of pay applications and change orders, the methodologies included the following:

• Inquire of key personnel from Denver International Airport, the Denver Auditor’s Office, and Interstate Highway Construction Inc. to obtain an understanding of the contract, the projects occurring under the contract, and Interstate Highway Construction Inc.’s subcontractor process in relation to the contract.

• Review of the contract for the list of subcontractors included in signed agreement. Based on review of the contract, it was noted that this contract contained a goal for 15% of all subcontractor payments to be made to businesses that are certified as “disadvantaged business entities” with Denver Economic Development & Opportunity’s Division of Small Business Opportunity.

• Selection for testing of all 15 applications for payment relating to the contract under examination. Denver International Airport used the Textura payment management software to manage this project. The detail from Textura showing the amount charged for all tasks completed to date was obtained for each application for payment. The approval history — showing submission by the
contractor and approval from five individuals throughout Denver International Airport — was also obtained for each application for payment.

- Selection for testing of all nine change orders and change directives relating to the contract under examination. We obtained the approval history of the change orders, noting that change orders were approved by four individuals from Denver International Airport and change directives were approved by three individuals from Denver International Airport. The approval history also showed approval by the Federal Aviation Administration for each change order and change directive. The detail of changes in tasks and prices in Textura was reviewed along with the change order narrative for each change order. Of the nine change orders and change directives, six were increases to the overall cost of the project totaling $678,717.25 (or 3.1% of the original contract value). The remaining three change orders and change directives were decreases to the overall cost of the project, totaling $927,180.24 — for an overall reduction of $248,462.99 (or 1.12%) in the value of the contract relating to change orders and change directives.

- Obtain the daily progress reports from Denver International Airport, Interstate Highway Construction Inc., and Sturgeon Electric Company Inc. were obtained, totaling 346 progress reports. Forty progress reports were selected for testing.

- Review Section 017720 “Contract Closeout” of contract No. 201732479 (“Runway 8-26 Complex Pavement Rehabilitation”) regarding contract closeout and obtain Division of Small Business Opportunity’s standard operating procedures for closeout processes. Obtain documentation of performance of the procedures listed in the contract and standard operating procedures.

**Finding**

**Ineffective Tracking System for Subcontractors**

We examined Denver International Airport’s tracking of Interstate Highway Construction Inc.’s use of and related payments to subcontractors.

In examining the use of subcontractors, we obtained detail of payments to subcontractors relating to contract No. 201732479 (“Runway 8-26 Complex Pavement Rehabilitation”) from the B2G Contract Management System. In response to questions during our process of reconciling the list of subcontractor payments from the B2G Contract Management System with the applications for payment and with the subcontractors outlined in the contract, Denver International Airport provided a second list of subcontractor payments exported from the B2G Contract Management System with differences from the first list provided. In response to questions in reconciling the first and second lists of subcontractor payments, a third list was provided with differences from the first and second lists. In response to questions regarding compliance with the “disadvantaged business entity” goal listed in the contract, a fourth list of subcontractor payments was provided that contained differences from the other three lists. Based on inquiry with the Division of Small Business Opportunity, it was noted that the differences related to import
errors relating to the conversion from PeopleSoft to Workday that were not fully corrected with manual adjustments performed to the B2G Contract Management System and difficulties in exporting data from the B2G Contract Management System.

It was noted during Denver International Airport’s preparation of the third list of subcontractor payments as part of the examination, that a payment of $118,066 had been incorrectly recorded in the B2G Contract Management System to one subcontractor instead of a different subcontractor. The subcontractor that had the payment incorrectly recorded was not considered a disadvantaged business entity, but the subcontractor that received payment was a certified disadvantaged business entity.

Eight subcontractors were selected for additional testing through review of documentation from Interstate Highway Construction Inc. to support the total payment made to the subcontractor relating to the contract under examination. In six out of the eight subcontractors selected, the documentation provided by Interstate Highway Construction Inc. supported a different payment amount than any of the three subcontractor payment lists from the B2G Contract Management System. Of the six instances when the supporting documentation from Interstate Highway Construction Inc. was different than the amount from the B2G Contract Management System, four instances related to subcontractors classified as disadvantaged business entities.

Based on our inquiry with the Division of Small Business Opportunity, we learned the subcontractor payments are imported into the B2G Contract Management System from Textura and the Workday enterprise resource planning system. During the construction phase of the project, the City and County of Denver converted from PeopleSoft to Workday, which caused issues importing into the B2G Contract Management System due to crosswalk differences in contract numbers and purchase order numbers associated with the projects in each system. Manual adjustments were performed to attempt to correct the subcontractor payments, but not all errors were identified and corrected.

Under the structure of the contract with Interstate Highway Construction Inc., each task within the contract contains a fixed cost to Denver International Airport. The quantity of tasks performed is managed by Denver International Airport through daily progress reporting, which was reviewed as part of the examination. Any changes in the quantities of tasks performed or new tasks added were reviewed and approved by Denver International Airport through the change order process. All seven change orders and two change directives were reviewed as part of this examination with no exceptions or findings noted relating to the review and approval process for change orders. All payments made to Interstate Highway Construction Inc. were based on the contract amounts and change orders, with no adjustments to payments based on the subcontractor payments recorded in the B2G Contract Management System. Therefore, we consider it unlikely that the inaccuracies of the B2G Contract Management System resulted in Denver International Airport overpaying Interstate Highway Construction Inc. or its subcontractors. But the inaccuracies indicate that the B2G Contract Management System was ineffective at tracking subcontractor payments relating to this contract.

In addition, we examined Article 18 of the contract between Denver International Airport and Interstate Highway Construction Inc., which states:
In accordance with the requirements of the [disadvantaged business entity regulation], the Contractor is committed to, at a minimum, meet the participation goal of fifteen percent (15%) established for this Project utilizing properly certified [disadvantaged business entity] subcontractors and suppliers.

Based on our inquiry with the Division of Small Business Opportunity, it was noted that this project was listed in the B2G Contract Management System as having exceeded the 15% disadvantaged business entity goal by 0.04%. However, with the potential inaccuracies of the information included in the B2G Contract Management System, the calculation of the disadvantaged business entity goal being achieved may be inaccurate.

**Recommendation:** We recommend that Denver International Airport coordinate with the Division of Small Business Opportunity to enhance the internal controls surrounding the process for tracking and monitoring payments made to subcontractors within the B2G Contract Management System to ensure the amounts listed in the system accurately reflect the amount paid to each subcontractor.

**Conclusion**

During this examination, we observed internal controls appearing to operate effectively throughout many of Denver International Airport’s processes. By strengthening internal controls and implementing the recommendation provided, Denver International Airport can more effectively monitor compliance with the contract provisions for its construction projects.

This communication is intended solely for the information and use of management of Denver International Airport, the Denver Auditor’s Office, and others within the City and County of Denver. It is not intended to be — and should not be — used by anyone other than these specified parties.

**CliftonLarsonAllen LLP**

Broomfield, Colorado
October 16, 2019

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 tasked CliftonLarsonAllen LLP (CLA) to perform an examination of the Interstate Highway Construction Inc. Contract with Denver International Airport.

This memorandum provides a written response for each reportable condition noted in the Auditor’s Report final draft that was sent to us on September 26, 2019. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING
Ineffective Tracking System for Subcontractors

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<tr>
<th>RECOMMENDATION</th>
<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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| We recommend that Denver International Airport coordinate with the Division of Small Business Opportunity to enhance the internal controls surrounding the process for tracking and monitoring payments made to subcontractors within the B2G Contract Management System to ensure the amounts listed in the system accurately reflect the amount paid to each subcontractor. | Agree | 1/31/2020 | Adriina Gibson  
720-913-1701  
Adrina.gibson@denvergov.org |

Narrative for Recommendation

After careful review of the audit and recommendation provided by the City and County of Denver Office of the Auditor and their contractor CliftonLarsonAllen LLP (CLA), Denver International Airport (DEN) and the Division of Small Business Opportunity (DSBO) has prepared the following response.

DEN and DSBO take the accurate and appropriate payment of certified firms, in this case subcontractors to Interstate Highway Construction Inc. (IHC), extremely seriously. The results from this audit are concerning and are primarily the result of a complex system of multiple versions of software used throughout the City and County of Denver to manage the certification and compliance aspects of the DSBO program. While this response will focus on how DSBO intends to rectify the points of failure within the complex technology ecosystem, it is important to note that there are effective processes in
place for both subcontractors and prime contractors to notify DSBO of grievances regarding improper payments (i.e. timing, amounts, etc.). In this context, it is important to note here that while the systems tracking the payment amounts may not match, review of the contract shows that there are no outstanding grievances of improper payments submitted by the parties involved, which means all parties were properly paid.

In a coordinated effort, DSBO and DEN, prior to this audit, hired Dynamic Information Solutions, LLC (DIS) consultant to examine the various technologies and business processes around the DSBO program to identify potential points of failure, processes for improvement, and recommendations for technology integration or replacement. This effort will result in a report and proposed road map for how best to move forward and address any points of failure in the system. While DIS has made excellent process so far and DSBO and DEN have confidence in their expertise to provide a clear assessment and plan for the future, the process is still ongoing and will not be completed until the end of 2019. As a result, DSBO and DEN feel that it would be premature to lay out explicit actions required to address the technical and process-oriented issues that led to the audit’s findings and recommendation. DSBO and DEN committed to coordinating in a more concerted effort and advancing temporary controls that can support accuracy of tracking and monitoring subcontractor payments but intend to develop a comprehensive and strategic plan for addressing this issue in 2020 that will include a realistic timeline based on resource availability and agency coordination. In summary, DEN and DSBO intend to report back to the City and County of Denver Office of the Auditor with a more detailed plan January 31, 2020.

Please contact Mica Maniece, Assistant Director, DSBO via email: mica.maniece@denvergov.org with any questions.

Sincerely,

Adrina Gibson
Director, Division of Small Business Opportunity

cc: Eric Hiraga, Executive Director, DEDO
    Kim Day, Chief Executive Officer, DEN
    Amy Edinger, Chief Operating Officer, DEDO
    Mica Maniece, Assistant Director, DSBO
    Jonathon Steiner, Administrator, DEDO
    Cynthia, Estes, Compliance Officer, DSBO
    Valerie Walling, Deputy Auditor, CPA, CMC*
    Dawn Wiseman, CRMA, Audit Manager
    Sonia Montano, Internal Audit Supervisor
The Auditor of the City and County of Denver is independently elected by the citizens of Denver. He is responsible for examining and evaluating the operations of City agencies and contractors for the purpose of ensuring the proper and efficient use of City resources. He also provides other audit services and information to City Council, the Mayor, and the public to improve all aspects of Denver’s government.

The Audit Committee is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities regarding the integrity of the City’s finances and operations, including the reliability of the City’s financial statements. The Audit Committee is structured in a manner that ensures the independent oversight of City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.

Our Mission

We deliver independent, transparent, and professional oversight in order to safeguard and improve the public’s investment in the City of Denver. Our work is performed on behalf of everyone who cares about the City, including its residents, workers, and decision-makers.