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AUDITOR’S LETTER

In keeping with generally accepted government auditing standards and Auditor’s Office policy, as authorized by city ordinance, the Audit Services Division has a responsibility to monitor and follow up on audit recommendations to ensure audit findings are addressed through appropriate corrective action and to aid us in planning future audits.

In our follow-up effort for the Contract Controls in Alfresco audit issued Dec. 14, 2017, we determined the Mayor’s Office has not implemented any of the recommendations made in the audit report. Auditors determined the risks associated with the audit team’s initial findings have not been mitigated and, in fact, have been carried forward to the new system, Jaggaer. It is disappointing the city has not addressed these important risks in the contracting process. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure appropriate corrective action is taken.

The Highlights page in this report provides background and summary information about the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation.

I would like to express our sincere appreciation to the personnel in the City Attorney’s Office and the Mayor’s Office who assisted us throughout the audit and the follow-up process. For any questions, please feel free to contact me at 720-913-5000.

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor
Follow-Up Status
The city has not implemented any of the recommendations made in the December 2017 audit report.

Objective
The audit had three objectives:
1. To determine if the city records contract data in Alfresco in a complete, consistent, and accurate manner; 2. To determine if the city has controls in place to prevent expenditure contracts from being split to avoid City Council oversight; and 3. To determine if the city has controls in place to monitor contract expenses specific to expenditure contracts that are submitted under the thresholds outlined in City Charter, Section 3.2.6.

Background
The City and County of Denver considers contracts one of the highest administrative priorities within the city. To meet the administrative needs of each city department or agency, the city utilizes a records system software called Alfresco to both store and move agreements with vendors through the contracting process.

Highlights from Original Audit
Our review of the Alfresco contract management system, and subsequent testing of a sample of contracts within Alfresco, indicated issues regarding data reliability, contract splitting, and issues regarding contracting practices within the City and County of Denver that would have required further examination.

Finding 1: Unreliable Contract Data in Alfresco Hinders the Accessibility of Contracts
We found that data recorded in Alfresco was not reliable because it was inconsistently recorded in the system by means of manual data entry without uniform guidance or mandatory training. We offered two recommendations for this finding to improve data reliability within Alfresco.

Finding 2: Some Contracts Give the Appearance of Being Split to Avoid City Council Approval
Some contracts may have been split into multiple agreements with the same vendor to avoid additional City Council approval necessitated by a dollar threshold. When evaluating contracts within Alfresco, we found that city rules did not clearly define “split contracts,” nor was there a City and County agency responsible for reviewing or addressing known or potentially split contracts. We offered one recommendation for this finding to enhance transparency around the definition of contract splitting and reduce the appearances of risk.

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RECOMMENDATION — STATUS OF IMPLEMENTATION

FINDING 1 – Unreliable Contract Data Entered in Alfresco Hinders the Accessibility of Contracts

Recommendation

1.1 **Alfresco Training** – The Mayor’s Office should administer or designate a subject matter expert to administer mandatory training and disseminate user materials on how contract data are to be entered into Alfresco to ensure accurate, consistent, and complete data.

Status: Not Implemented (Original agency response stated the agency had implemented this recommendation as of the issuance of the original audit report.)

Agency Action

The city replaced the workflow aspect of Alfresco in spring 2019 with a new contract administration data system called Jaggaer. City agencies continue to use Alfresco as a document repository for contracts, although contract administrators use Jaggaer to approve contracts. According to city officials, data entry and business processes remain the same in Jaggaer as they were in Alfresco.

In the December 2017 audit report, the city stated it had already completed Recommendation 1.1. However, our review of practices and supporting documentation indicates this recommendation has not been implemented. In its response, the city identified Technology Services and the City Attorney’s Office as the primary support agencies providing training for contract administration processes. Individual agencies and departments continue to provide decentralized training on contract workflow and data entry with support from subject matter experts in Technology Services and the City Attorney’s Office as requested. Agencies and departments are supposed to use the Jaggaer user guides created by Technology Services to conduct training, but agencies and departments also include specific guidance on internal processes. However, system training is not mandatory for agency and department users, as called for in the recommendation, although it is recommended by city officials.

The December 2017 audit report identified a decentralized contract administration process and training program that relied solely on user guides and optional assistance from other city personnel. The training process described in the city’s response remains consistent with the audit team’s initial assessment in the audit report. In addition, the city does not review any agency- or department-specific training to ensure it aligns with recommended city processes nor does the city maintain attendance records to ensure all employees who need training have completed it.

Because the city has not made training mandatory and continues to rely on a decentralized process without tracking completion of training, the city has not implemented this recommendation.
Recommendation

1.2 Application Controls – The Mayor’s Office should work with Technology Services to implement application controls over key contract summary data fields including but not limited to amount, vendor and description fields. This will help ensure accurate, consistent, and complete data.

Status: Not Implemented (Original target date for completion: Feb. 28, 2018)

Agency Action

The city created and disseminated new user guides for the Jaggaer system that include data dictionaries and guidance on data entry for key fields. In addition, the City Attorney’s Office has instructed attorneys to review contracts to ensure data entry is sufficient to allow the system to work properly for some fields. However, this review is manual and conducted by multiple City Attorney’s Office staff members. Finally, the city has not developed input controls to ensure only valid data may be entered in key fields. However, for some contracts initiated in Workday, informal controls may exist, as some fields are automatically populated from the Workday entry. City officials estimated these informal controls may apply to about 50% of contracts.

To test the sufficiency of the city’s efforts, we conducted a limited data reliability analysis of key fields for contracts created and approved after our report was issued. We found that the city’s efforts have not effectively mitigated the inconsistencies in data entry identified in the December 2017 report. Our testing identified continued issues related to contract amounts, vendor name, vendor address, and contract descriptions in the system. Specifically, we reviewed 3,283 records created in 2018 and 2019 and found:

- Contract administrators continued to enter contract amounts with varying levels of detail and formats. Variations include whether the field contains dollar signs, decimals, commas to separate thousands, and text, in addition to numeric characters.
- Of the 2,121 unique entries for vendor names created since the report was issued, the audit team identified at least 208 instances when multiple variations exist for the same vendor. These instances involved anywhere between two and 23 different versions of the same vendor name.
- Contract administrators continued to enter “Same” or “Same as Above” for 327 of the records and did not include an address for 251 records. Combined, these represent 578 records of 3,283 contracts reviewed, or 17.61% of records.
- Contract administrators continued to provide inconsistent information in description fields. We reviewed a judgmental selection of 25 contract descriptions. Of the 25 descriptions reviewed, only two appeared to follow data entry guidance for this field. Twenty of the 25 were missing requested elements such as vendor, amount, year, and contract type.

Although the city has developed data entry guidance and the limited application controls described above, its response indicated significant weaknesses in these controls. These weaknesses include nonmandatory training, limited manual review of system data by multiple City Attorney’s Office staff members for validity, and the confirmed nonexistence of input controls for key fields. Further, our
reliability testing identified continued inconsistencies for key data fields. As a result, the audit team determined the city has not implemented this recommendation.
FINDING 2 – Some Contracts Give the Appearance of Being Split to Avoid City Council Approval

Recommendation

2.1 Define Contract Splits – The Mayor’s Office should better define the types of contract splitting that are prohibited and ensure controls are implemented to prevent improper contract splitting.

Status: Not Implemented (Original target date for completion: Feb. 28, 2018)

Agency Action

Although the city has proposed changes to Executive Order 8, Memorandum A to reinforce the prohibition of contract splits to avoid City Council approval, city officials have yet to receive approval for these changes from council. In addition, the language of the proposed revision may not fully address the risks identified in the December 2017 audit report.

The draft language reminds contract administrators to review contracts over $480,000 with the assigned City Attorney’s Office staff as well as contracts with anticipated amendments that will exceed the $500,000 cap for potential approval by City Council. Similar language was not included for guidance on other contract or purchase types. The revision also identifies only two risk factors related to approval amounts and amendments, although our audit report discussed scope of work and overlapping dates for contracts with the same vendor.

Finally, the draft does not provide examples of when splits may be permissible for valid business reasons. In contrast, the city offers such guidance in sections of Executive Order 8 relevant to other requirements. For example, Memorandum B outlines special circumstances that justify exceptions to contract extension requirements.

Additionally, the City Attorney’s Office has instructed attorneys to review contracts for potential splits as part of the approval process. However, this review and guidance for conducting it, such as potential indicators of fraud, are not formalized in the approval process and rely on each attorney’s personal knowledge of agency and vendor relationships. As a mitigating control, the described review process is limited in that it is manual, conducted by multiple staff without a formal, documented process to ensure consistency, and relies on individual, rather than institutional, experience. Further, neither the draft revisions nor the City Attorney’s Office review fully address all risk factors for identifying potential inappropriate splits as discussed in the initial finding. These risk factors include vendors with similar scopes of work and overlapping dates.

To test the sufficiency of the city’s efforts to prevent inappropriate splits, we conducted a data analysis of contract records created after our report was published to identify the prevalence of potential splits to avoid City Council approval. Our audit analytics team had assessed the potential for splits in July 2019 as part of our effort to continuously audit the potential for splits, and the data at that point
suggested a reduction of potential splits. However, despite declining levels of potential splits in the first few months after the audit period, our follow-up work showed that the potential for splits for the latter half of 2018 was similar to the risk identified during the original audit. When analyzing all data through April 2019, the overall risk appears to remain the same, and the control environment appears to be insufficient. Specifically, we did not see any evidence that the City Attorney’s Office created a control environment that would allow for the reduction of potential splits.

Considering the draft’s approval status, gaps in the proposed revisions, the limitations of the City Attorney’s Office review process, and no change in the prevalence of potential splits occurring, the audit team determined the city has not implemented this recommendation.
CONCLUSION

Because the city has not implemented any of the three recommendations we made in our December 2017 report, auditors determined the risks associated with the audit team’s initial findings have not been fully mitigated. These risks include the lack of a mandatory training program, gaps in controls to ensure consistent and complete data, and unclear guidance related to contract splits. These risks could result in negative consequences to the city’s ability to effectively manage the contracting process and prevent inappropriate contract splits from occurring. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure appropriate corrective action is taken.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from the City, including the Mayor’s Office, City Attorney’s Office, and Technology Services, for their cooperation during our follow-up effort and for their dedicated public service.
The **Auditor** of the City and County of Denver is independently elected by the citizens of Denver. He is responsible for examining and evaluating the operations of City agencies and contractors for the purpose of ensuring the proper and efficient use of City resources. He also provides other audit services and information to City Council, the Mayor, and the public to improve all aspects of Denver’s government.

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

**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.