The **Auditor** of the City and County of Denver is independently elected by the citizens of Denver. He is responsible for examining and evaluating the operations of City agencies for the purpose of ensuring the proper and efficient use of City resources and providing other audit services and information to City Council, the Mayor and the public to improve all aspects of Denver’s government. He also chairs the City’s Audit Committee.

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

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Chris Wedor, Internal Audit Supervisor, MBA
Katja Freeman, Lead Internal Auditor, MA, MELP

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[www.denvergov.org/auditor](http://www.denvergov.org/auditor)
Jose Cornejo, Executive Director  
Department of Public Works  
City and County of Denver  
Re: Audit Follow-Up Report

Dear Mr. Cornejo:

In keeping with professional auditing standards and the Audit Services Division’s policy, as authorized by D.R.M.C. § 20-276, our Division has a responsibility to monitor and follow-up on audit recommendations to ensure audit findings are being addressed and to aid us in planning future audits.

This report is to inform you that we have completed our follow-up effort for the Public Works Capital Construction Project Management audit issued November 15, 2012. Our review determined that the Department of Public Works has adequately implemented three of the four recommendations made in the audit report.

For your reference, this report includes a Highlights page that provides background and summary information on the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation.

This concludes audit follow-up work related to this audit. I would like to express our sincere appreciation to you and to Department of Public Works personnel who assisted us throughout the audit and follow-up process. If you have any questions, please feel free to contact me at 720-913-5029 or Chris Wedor, Internal Audit Supervisor, at 720-913-5021.

Sincerely,

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

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

To promote open, accountable, efficient and effective government by performing impartial reviews and other audit services that provide objective and useful information to improve decision making by management and the people.  
We will monitor and report on recommendations and progress towards their implementation.
Mr. David P. Edinger, Chief Performance Officer
Ms. Beth Machann, Controller
Mr. Scott Martinez, City Attorney
Ms. Janna Young, City Council Executive Staff Director
Mr. L. Michael Henry, Staff Director, Board of Ethics
Ms. Lesley Thomas, City Engineer
Mr. George Delaney, Chief Operating Officer, Department of Public Works

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

We will monitor and report on recommendations and progress towards their implementation.
Public Works Capital Construction Project Management
Follow-up Report: December 2014

The Department of Public Works has implemented three of the four recommendations made in the November 2012 audit report.

Background
The Department of Public Works is responsible for the management and delivery of millions of dollars worth of project construction work for the City and County of Denver every year. This work includes the construction of City streets, bridges, sewers, and public buildings. The Capital Projects Management Division provides planning, programming, design and construction, and project management services for these capital construction projects.

Purpose
The purpose of the audit was to:
- Assess Public Works’ project management policies and practices
- Determine Public Works’ compliance with City rules related to prequalification of potential contractors and capital construction project close out requirements

Highlights from Original Audit
The life cycle of a capital construction project comprises several phases: construction contract procurement, project construction, and project close out. Our review of these steps identified several process weaknesses in each of the following three areas:

1. Special Permission Rules – There is a lack of clarity, consistency, and transparency in the prequalification process due to ambiguity in the special permissions rules, which may lead to impropriety in the process.
2. Project Management – There are weaknesses in the project management process for capital construction projects.
3. Compliance with Fiscal Rule 4.3 – Public Works has not complied with Fiscal Accountability Rule 4.3 regarding the submission of Capital Project Close Out Forms to the City Controller’s Office.

Findings at Follow-up
Public Works has completed three of the four recommendations made in the audit. Specifically, the Department has worked toward managing the risk associated with special permission, continued the development and implementation of a comprehensive project management data system, and worked to be in compliance with Fiscal Rule 4.3. However, one of the four elements within recommendation 1.2, which involves conducting a post-project evaluation of contractors’ performance, has not been completely implemented.

For a complete copy of this report, visit www.denvergov.org/auditor
Audit Contact Person: Chris Wedor | 720.913.5021 | chris.wedor@denvergov.org
Recommendations: Status of Implementation

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<tr>
<td>1.1 Revisions to Special Permission Rules – As part of the ongoing effort to update the Prequalification Rules initiated in response to a previous audit, the Manager of Public Works, in coordination with the Department of Aviation and the City Attorney's Office, should revise special permission rules to:</td>
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<td>Public Works has developed requirements for special permissions that can be viewed online. Further, Public Works now tracks all special permissions, including the dollar amount and the rationale as to why the special permission was granted.</td>
<td>Implemented</td>
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<td></td>
<td>a) Clarify requirements for granting special permission</td>
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<td>b) Track special permissions granted</td>
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<td>c) Document special permission activity, to include dollar amount and rationale</td>
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# Recommendations: Status of Implementation

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<td><strong>1.2</strong> Project Management Processes – The Manager of Public Works should consolidate the project management manual, version 2000, and the BDBP project management manual, version 2008, update the information as appropriate, and train Project Managers on the new material. The new process should include:</td>
<td>Three elements of this recommendation have been completed. Specifically, Public Works is performing a root cause analysis for change orders, conducting risk assessments before bidding occurs, and documenting final walkthroughs. However, the Department is not completing post-project evaluations to review contractor performance.</td>
<td>Agree/ Not Implemented</td>
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<tr>
<td>a) Performing a root cause analysis to determine the underlying issue for the change orders</td>
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<td>b) Conducting a risk assessment before bidding occurs to mitigate the risk of potential project errors</td>
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<td>c) Documenting final walk-through inspections</td>
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<td>d) Completing post-project evaluation on each construction contractor to analyze a contractor’s performance</td>
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<td><strong>1.3</strong> Comprehensive Project Management Data System Implementation – Public Works executive management should evaluate the comprehensive project management data system for a detailed implementation plan to include:</td>
<td>Public Works has successfully completed implementation plans with details for completion and has created reports and management tools.</td>
<td>Implemented</td>
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<td>a) A detailed timeline for system completion</td>
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<td>b) Quarterly updates to show progress of implementation</td>
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## Recommendations: Status of Implementation

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<td><strong>1.4 Fiscal Rule 4.3 Compliance</strong> – The Manger of Public Works should put controls in place to ensure timely submission of Capital Project Close Out Forms in accordance with Fiscal Accountability Rule 4.3.</td>
<td>Public Works complied with all Capital Improvement Program reporting requests from the Controller’s Office during 2013. Additionally, at the beginning of 2014, the Controller’s Office revised the fiscal rule to extend the timeframe by which close-out forms must be submitted.</td>
<td>Implemented</td>
</tr>
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Conclusion

While the Department of Public Works has implemented three of the four recommendations made in the Public Works Capital Construction Project Management audit report, one has yet to be fully implemented. Despite the Department’s efforts, auditors determined that the risk associated with the audit team’s initial findings has not been fully mitigated. Specifically, the Department has not been conducting post-project evaluations of contractors as outlined in recommendation 1.2. As a result, the Audit Services Division may revisit this risk area in future audits to ensure that appropriate corrective action is taken.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from the Department of Public Works and the Capital Projects Management Division for their cooperation during our follow-up effort and for their dedicated public service.