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Report number: A2016-002
AUDITOR'S REPORT

We have completed an audit of the Department of Parks and Recreation’s (DPR) contract administration practices. The purpose of the audit was to determine the effectiveness of DPR’s contract administration practices, including assessing how DPR ensures that contractors are in compliance with contract terms and whether contract administration practices align with best practices and are in the best interest of the City.

As described in the attached report, our audit revealed that DPR needs to improve contract administration practices. Specifically, DPR does not have formalized and up-to-date policies and procedures and roles and responsibilities are unclear. DPR also lacks controls to ensure reliability and accuracy of information entered into the contract administration system. In addition, controls related to on-call contracts need to be enhanced and DPR is also at risk of losing institutional knowledge at the management level owing to a lack of segregation of duties and documentation surrounding contract decision making. Contract administration weaknesses identified negatively impact DPR’s ability to properly manage contracts.

Through stronger controls for contract administration and addressing concerns regarding DPR’s current management structure, DPR can ensure that contracts are effectively managed and continuity of operations is not affected as a result of executive management turnover. Our report lists several related recommendations.

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 DPR personnel who assisted and cooperated with us during the audit.

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor
Department of Parks and Recreation – Contract Administration Practices
July 2016

Scope
We assessed the effectiveness of the Department of Parks and Recreation’s (DPR) contract administration practices, including testing a sample of DPR’s contracts for compliance.

Background
DPR is one of Denver’s largest departments, providing a broad range of programs, services, facilities and park amenities to residents and visitors. The Executive Director of Parks and Recreation is a position appointed by the Mayor.

Purpose
The purpose of the audit was to determine the effectiveness of DPR’s contract administration practices, including assessing how DPR ensures that contractors are in compliance with contract terms and whether contract administration practices align with best practices and are in the best interest of the City.

Highlights
The Department of Parks and Recreation is charged with administering over 460 contracts. DPR contracts with various organizations to provide an array of services that the department could not normally provide due to lack of personnel, expertise, or other resources.

In assessing DPR’s contract administration practices we found that the Department lacks an effective contract administration control framework. Specifically, DPR does not have formalized and up-to-date contract administration policies and procedures and therefore, roles and responsibilities are unclear. We also found that DPR lacks controls needed to ensure reliability of the information entered into the contract administration system. In addition, controls related to on-call contracts need to be enhanced.

Further, DPR is at risk of losing institutional knowledge at the management level, and DPR’s current management structure may not be sufficient for future needs. DPR does not have contingency or succession plans, which hinders DPR’s ability to address current or future organizational needs. In addition, inadequate segregation of duties between the contract and finance function as well as a lack of documentation surrounding contract decision making may have an impact on DPR’s ability to ensure the validity of transactions and transparency of decisions made by management.

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

Overview and Organizational Structure of the Department of Parks and Recreation

The Department of Parks and Recreation (DPR) is one of the City’s largest departments, providing a broad range of programs, services, facilities, and park amenities within the City and County of Denver, as well as neighboring Douglas, Jefferson, and Clear Creek counties. DPR serves over one million residents and visitors each year, contributing to the health and sustainability of the City.1

DPR manages the following programs, services, facilities, and park amenities:

- Approximately 240 urban parks, parkways, and natural areas, covering nearly 6,000 acres
- 14,000 acres of mountain parks
- 8 golf courses
- 24 lakes
- More than 80 miles of trails
- 10 off-leash dog parks
- 309 athletic fields
- 27 recreation centers
- 29 pools, 16 outdoor and 13 indoor

DPR’s Mission and Objectives—DPR’s mission states: “As stewards of Denver’s legacy, the Department of Parks and Recreation is dedicated to customer satisfaction and enhancing lives by providing innovative programs and safe, beautiful, sustainable places.” Department objectives focus on the areas of sustainability, customer experience, and children and youth, which reflect the City’s objectives set forth by the Mayor in the 2016 budget book.

DPR Organizational Structure—The Executive Director of Parks and Recreation is a position appointed by the Mayor and presides over DPR’s four divisions: Administration, Recreation, and Parks and Planning and the Golf Enterprise Fund. Following are details of the four divisions and their responsibilities for various aspects of the City’s Parks and Recreation activities.2

- Administration Division—The Administration Division provides overall strategic leadership for DPR, with a focus on sustainability, equity, and strong economics. Key activities include policy development; establishment of agency goals, objectives, and guidance; public engagement; media relations; and contract administration and monitoring. DPR Administration also manages the permitting office, which issues permits to individuals and organizations for the use of picnic sites, tennis courts, buildings, and athletic fields, and for activities like

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1 2016 Mayor’s Proposed Budget.
2 Ibid.
festivals, special events, and weddings. Other administrative duties include assisting DPR staff with information technology, managing finance and accounting services, human resources, department-wide marketing, planning and development, internal trainings, and risk management services.

- **Recreation Division**—The Recreation Division staffs and operates the City’s recreation centers and swimming pools, youth and adult sports leagues, and citizen and employee fitness centers. The Recreation Division generates revenues through memberships to recreation centers and community pools, adult sports, fees, licenses, and permits.

- **Parks and Planning Division**—The Parks and Planning Division includes oversight of parks-related activities and responsibilities for the daily operation and management of the City’s parks, parkways, trails, natural areas, urban forests, greenhouses, and other land and water assets. This division obtains revenues through charges for services, fees, licenses, and permits.

- **Golf Enterprise Fund**—The Golf Enterprise Fund accounts for all city-owned golf courses and is derived from golf fees, equipment rentals, income from concession contracts operating out of the golf courses, charges for facility usage and proceeds from golf revenue bonds.

**Parks and Recreation Advisory Board**—In addition to the four main divisions of DPR, there is a Parks and Recreation Advisory Board that is tasked with advising DPR administration with respect to the policy and operation of the department and reviewing and commenting on the department’s proposed annual budget. All proposed rules or amendments go before the Parks and Recreation Advisory Board for consideration and recommendations.

The Parks and Recreation Advisory Board comprises nineteen volunteer members—thirteen are appointed by City Council, five are appointed by the Mayor, and one is a member of the Denver Public Schools’ Board of Education.

**Funding and Budget**—DPR receives the majority of its funding from the General Fund but also receives funding through capital improvements funds, enterprise funds, special revenue funds, and grants. The Golf Division receives all of its funding through an enterprise fund. DPR’s total expenditures budget for 2016 is expected to be over $93 million. Figure 1 displays the 2016 expenditures budget broken out by funding source.

**FIGURE 1. Department of Parks and Recreation – Expenditures Budget (2016)**

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Budget in Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$63.3 M</td>
</tr>
<tr>
<td>Capital Improvement Funds</td>
<td>$13.6 M</td>
</tr>
<tr>
<td>Enterprise Funds</td>
<td>$12.7 M</td>
</tr>
<tr>
<td>Special Revenue Funds</td>
<td>$2.9 M</td>
</tr>
<tr>
<td>Grants</td>
<td>$0.8 M</td>
</tr>
</tbody>
</table>

**Source:** 2016 Mayor’s Proposed Budget.
Table 1 shows total expenditures for 2014 through 2016 by division within DPR. The Administration Division, Parks and Planning Division, Recreation Division, and Golf Division represent a majority of the department’s funded expenditures.

<table>
<thead>
<tr>
<th>Division</th>
<th>2014 Actual</th>
<th>2015 Appropriated</th>
<th>2016 Recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parks and Recreation Administration Division</td>
<td>$18,441,322</td>
<td>$30,925,732</td>
<td>$20,793,702</td>
</tr>
<tr>
<td>Parks and Planning Division</td>
<td>$31,020,951</td>
<td>$32,804,688</td>
<td>$37,175,654</td>
</tr>
<tr>
<td>Recreation Division</td>
<td>$18,884,620</td>
<td>$19,315,200</td>
<td>$20,952,348</td>
</tr>
<tr>
<td>Golf Division</td>
<td>$12,622,245</td>
<td>$12,550,506</td>
<td>$12,658,087</td>
</tr>
<tr>
<td>Mountain Parks</td>
<td>$763,933</td>
<td>$930,393</td>
<td>$1,185,446</td>
</tr>
<tr>
<td>Buffalo Bill Museum</td>
<td>$350,830</td>
<td>$333,389</td>
<td>$365,283</td>
</tr>
<tr>
<td>CSU Cooperative Extension</td>
<td>$159,025</td>
<td>$158,192</td>
<td>$159,400</td>
</tr>
<tr>
<td>Total</td>
<td>$82,242,926</td>
<td>$97,018,100</td>
<td>$93,289,920</td>
</tr>
</tbody>
</table>


Contract Administration in the Department of Parks and Recreation

Executive Order 8 establishes contracting guidelines for all City agencies. It outlines responsibilities for all parties involved in the contracting process, provides rules and guidance for initiating and executing contracts, explains specific processes for different types of contracts, and explains responsibilities for monitoring contracts for compliance. According to Executive Order 8, contracts are considered one of the highest administrative priorities within the City. All contracts are recommended to go through a competitive bidding process and should generally allow for no longer than three- to five-year terms, absent special circumstances that would make it impracticable to do so. Additionally, City Council must approve contracts that meet certain criteria, such as those that exceed $500,000.

Executive Order 8 assigns the responsibility of monitoring contract compliance to the initiating authority, which should include establishing policies and procedures for monitoring contracts that identify specific responsible parties, steps for addressing non-compliant vendors, procedures for monitoring contract expiration dates, and processes for ensuring that contractors are paid timely. The initiating authority is also responsible for monitoring contract performance throughout the life of the contract, which should include ensuring that contract terms and bonding and insurance requirements are met, contract close-out activities are completed, and contract monitoring activities and deliverables are documented.

Types of Department of Parks and Recreation Contracts

DPR manages a variety of contract types. Following are descriptions of some of the contract types that were focused on during this audit.

Concession Licenses—A concession license generally involves a provider of goods or services operating on City-owned or City-controlled property, such as a parking lot operator, retail establishment, or food vendor. A percentage of revenue earned by the third-party provider for most licenses, is paid to the City in exchange for the use of the facility and the right to provide goods or services there. Examples of DPR concession licenses include bike and boat rentals at
Washington Park, the Echo Lake Lodge and Lodge Restaurant on Mount Evans, and food and beverage services at various City golf courses.

**On-Call Contracts**—An on-call contract is an agreement to provide services on an as-needed basis during the contract term. Work is typically commenced by written task order or work order. The task or work order sets forth the scope of work or services, including labor and approved materials, to be provided and a price determined by rates or unit costs agreed to in the on-call contract. Examples of DPR on-call contracts are restoration ecology services, landscape and irrigation services, and other professional services like planning, design, and consulting. In some instances, DPR keeps multiple vendors on-call for the same type of service.

**Expenditure Contracts**—An expenditure contract requires the City to pay funds to a contractor for a service provided. These types of contracts cover a wide range of areas for DPR, including professional services, special marketing projects, the maintenance of parks or parkway medians, custodial services, and law enforcement services for parks located outside of the Denver Metro area.

In addition to these three types of contracts, DPR also manages many other types of contracts, including cooperative agreements, memoranda of understanding, grants, leases, and easements, among others. Figure 2 provides a breakdown of these contracts.

*Figure 2. Department of Parks and Recreation Contract Types*

Contract Administration Processes and the Contract Management System

Key contract administration processes in DPR include contract initiation and procurement, contract monitoring, and the mini-bid process. Central to carrying out these processes is DPR’s contract management system, Salesforce. Following is an overview of these key processes and the Salesforce system.

**Contract Initiation and Procurement**—The DPR contracting process is initiated when a need arises for a contractor to provide a service. Project Managers (PMs) are the employees charged with overseeing a particular project or service in which the Department has contracted with an outside vendor. PM duties are typically assigned to management personnel who are involved with the operations related to the particular contracts. There are currently over fifty employees within DPR
Other key DPR personnel who carry out contract administration duties include the Contract Administrators (CAs) who are part of DPR’s Contract Administration Team, which consists of two CAs who report to DPR’s Fiscal Administrator. CAs are responsible for working with the contractors and PMs to ensure that contractors remain in compliance with contract terms throughout the duration of the agreements. CAs assist PMs with determining the appropriate type of contract needed, developing contract elements such as the scope of work and project specifications, assisting with the request for proposal process to solicit and select contractors, and working with the City Attorney’s Office to draft and execute the contracts.

**Contract Monitoring**—After contracts are executed, CAs review the contracts and identify compliance items that need to be monitored, such as insurance, bonds, payments, and reporting requirements. CAs input each compliance item into Salesforce, a cloud-based data management system, and assign due dates to each item for tracking purposes. Throughout the life of the contract, CAs are responsible for obtaining supporting documentation from PMs and contractors for each tracked compliance item and upload the documentation into Salesforce. CAs are responsible for ensuring compliance with financial and administrative provisions, such as insurance and bond requirements. PMs are responsible for ensuring compliance with performance and programmatic requirements, such as ensuring that contractors are meeting their performance objectives and that projects are completed appropriately.

**Mini-Bid Process**—Some of the projects that DPR manages require architectural design and construction services, such as designing and constructing a new playground for a park or enhancing the City’s trail system. As part of the City’s normal on-call contracting process, DPR utilizes outside firms to perform much of this work. However, instead of executing contracts with firms for each specific project, DPR contracts with a pool of on-call contractors before a future project is identified. To select a contractor for a particular project that arises, DPR uses a “mini-bid” process to solicit project proposals from a number of the on-call firms that are already engaged in a contract with the department. The on-call contractor in the established pool that provides the best proposal is awarded the project work. The mini-bid process is not outlined in Executive Order 8, but is not prohibited by it either.

**Contract Management System**—Prior to September 2015, DPR utilized a Microsoft Access-based data management system to track contracts and their related compliance requirements. The City’s Technology Services department recently stopped supporting Microsoft Access, so DPR had to identify a new system. In September 2015, the department migrated all active contracts to Salesforce. In addition to the contract management systems, hard copy files are maintained. CAs utilize Salesforce reports to identify expiring contracts and delinquent compliance items to help ensure that contractors remain in compliance with the provisions of their agreements. Some Salesforce functionalities have not yet been fully customized to meet all of the department’s needs, so an information technology contractor is currently working to tailor the system to align with the department’s contract management specifications.
SCOPE
We assessed the effectiveness of the Department of Parks and Recreation’s (DPR’s) contract administration practices, including testing a sample of DPR contracts for compliance.

OBJECTIVE
The objectives of the audit were to determine how DPR ensures that contractors are in compliance with contract terms and whether contract administration practices align with best practices and are in the best interest of the City.

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.

- Interviewing the DPR Director of Finance and Administration to obtain an understanding of DPR’s use of contracts
- Interviewing the DPR Contract Administration Team to obtain an understanding of their contract administration processes, including observing the Contract Administrators' use of the contract administration system, Salesforce
- Interviewing Project Managers to obtain an understanding of their roles and responsibilities related to the contract administration process
- Reviewing internal guidance from DPR management regarding current contract administration operations
- Reviewing prior audit reports for risks in the area of contract administration and other risks that have been previously identified in DPR
- Reviewing the budget book data related to DPR, including the Golf Enterprise Fund
- Reviewing legal requirements related to DPR and contract administration, including City Charter, Denver Revised Municipal Code, and Executive Order 8
- Reviewing contract lists obtained from DPR, the City Attorney’s Office, and the Prevailing Wage Division within the Office of the Auditor
- Reviewing a sample of DPR contracts
- Interviewing personnel from the City Attorney’s Office to gain an understanding of their role in DPR’s contracting process
- Interviewing DPR personnel and reviewing internal documentation to obtain an understanding of the use of on-call contracts and the mini-bid process
- Reviewing utilization rates from a sample of on-call contracts
- Reviewing Salesforce and paper contract files to determine the sufficiency of documentation of contract compliance and decision-making
• Interviewing the DPR Director of Finance and Administration to obtain an understanding of the decision-making process regarding specific contract terms

• Comparing DPR’s contract administration practices to best practices employed by the Georgia Department of Audits and Accounts and the Minnesota Office of the State Auditor

• Reviewing the reliability of DPR’s data within the Salesforce system

• Interviewing a DPR concessionaire to obtain information regarding how the contract process is managed from the point of view of a third-party contractor
FINDING

The Department of Parks and Recreation Should Take Action To Strengthen Contract Administration Practices

The Department of Parks and Recreation (DPR), one of the City and County of Denver’s (City’s) largest departments, is charged with administering over 460 contracts. DPR contracts with various organizations including nonprofits, businesses, foundations, and other government agencies to provide services that the Department could not normally provide due to lack of personnel, expertise, or other resources. In assessing DPR’s contract administration practices, we found that the Department lacks an appropriate contract administration framework to effectively manage its contracts.

Elements of the contract administrative framework that we found to be missing include sufficient contract compliance documentation, tracking contract expenditures, capturing reliable contract data, and succession planning for the contract administration function. Without these elements in place, DPR cannot ensure that its contracts are being administered consistently, that data used in the contract management system is reliable, or that on-call contracts are being effectively utilized. Accordingly, we make several recommendations to address control deficiencies, increase transparency in contract decision making, and ensure that DPR will be able to address future organizational needs.

The Department of Parks and Recreation Lacks an Effective Contract Administration Framework

We identified several weaknesses and risks with DPR’s current contract administration practices. Specifically, many DPR contract files do not include sufficient documentation surrounding certain decisions and third-party compliance, contract expenditures are not being tracked, and information maintained in the department’s IT system (Salesforce) lacks reliability. Further, we identified weaknesses with DPR’s administration and utilization of on-call contracts and with its approach to succession planning.

Some DPR Contract Files Lack Sufficient Documentation

In assessing the contents of DPR’s contract files, we identified several areas where documentation could be enhanced. First, we identified several contracts that have significantly long terms as compared to the majority of DPR’s contracts with third parties. The City’s primary contracting guidance, Executive Order 8, specifies that agencies should limit the duration of contracts to three to five years, unless there are special circumstances that require longer terms. However, we found that DPR does not maintain documentation of the justification surrounding decisions for the contracts that have terms exceeding five years. To assess this, we selected a sample of seventeen contract files, all of which had contract terms longer than five years. Only one of the seventeen files contained a documented formal justification for exceeding the guidance specified in Executive Order 8.

We also found some compliance items to be missing from DPR’s contract files. We reviewed a sample of contract files to assess whether DPR is maintaining documentation of compliance with contract provisions. In one file, we found that a tree care company was required to provide DPR
with weekly reports, yet the contract file did not contain any such reports. A different contract we reviewed required certain information to be reported to DPR in an annual report. The annual report was included in the file; however it did not contain the information required by the contract. Additionally, we found a few examples of missing payment documentation, such as copies of rent checks or utility bills supporting documentation. Finally, we found one instance where DPR did not have documentation of a contractor having the proper insurance coverage.

**Contract Expenditures Are Not Tracked**

Tracking of contract budgets is an important part of the overall contract administration process. However, we determined that DPR’s Contract Administration Team does not have proper controls in place to ensure that expenditures are being tracked against maximum allowable amounts. DPR’s Contract Administrators (CAs) track all contract revenues in Salesforce, but they are not tasked with tracking the expenditures related to each contract. Without knowing the amount of funds that have been paid to a contractor throughout the life of a contract, DPR may not know how much funding is left to be spent before reaching the maximum contract amount. This could prevent DPR from starting the contract amendment process in an appropriate timeframe. Project Managers (PMs) track expenditures to-date by contract, but they do not have direct access to Salesforce, which has the remainder of the budget information. Currently, PMs must ask CAs for the status of contracting items, such as payments or reports.

We also found a lack of knowledge among DPR staff regarding the total value of all DPR contracts. When asked for this number during audit work, DPR personnel were unable to provide the total value of all contracts to auditors. We determined that this information was not tracked in the previous system and, at this point, only 30 percent of the contract values have been input in the Salesforce system. Without having a comprehensive system for tracking the entirety of contract budgets, including both revenues and expenditures, DPR risks a lack of awareness regarding the status of contract budgets to assist in making contract administration decisions.

When operational guidance is formalized into policy and procedure documents and stored in an accessible manner, there is less risk of internal control issues such as this. According to the Standards for Internal Control in the Federal Government (Standards), management should communicate to personnel the organization’s established policies and procedures so that personnel can implement the control activities associated with their assigned responsibilities.

**Compliance Tracking Information Entered into Salesforce Is Not Reliable**

During our audit work, we assessed the process by which DPR personnel enter contract information into the Salesforce system. We found that much of this work is being performed manually and that DPR lacks the necessary controls needed to ensure reliability of the contract information that is entered. After a contract has been executed, DPR staff enter contract data into Salesforce manually. Throughout the term of a contract, the CAs track and monitor contract compliance by manually entering compliance activities into Salesforce, including contract start and end dates. Additionally, CAs manually establish due dates for future insurance and bond requirements, which may be required to be renewed annually. The accuracy of all of this data entry is important for ensuring that CAs and PMs are notified of upcoming expiration dates.

Only 30 percent of DPR’s contract values have been identified in Salesforce.
Since errors are likely to occur during manual entry of data, controls should be in place to ensure that data entered into a system is reliable. According to the Standards, reliable data is characterized as accurate, complete, valid, and confidential. Such information can then be used for decision making and reporting. Without adequate controls in place, DPR cannot ensure that it is monitoring all contract terms for compliance.

There are four primary control techniques to ensure data reliability. Accuracy controls include techniques such as a range check, which helps ensure that data entered into a field that falls outside of a specified range is flagged. Incorporating data validation, which controls the type of data, such as set letter or number combinations or limited choices using a list, is also an example of an accuracy control. Completeness controls include techniques such as a check for blank fields. Many of these controls do not exist currently within DPR’s contract administration activities. Table 2 provides more examples of control techniques that could be incorporated to provide reasonable assurance that data entered into any system are accurate, complete, valid, and kept confidential.

**TABLE 2. Control Techniques to Ensure Reliable Data**

<table>
<thead>
<tr>
<th>Type</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accuracy Control</td>
<td>Programmed edit checks, like validations, reasonableness checks,</td>
</tr>
<tr>
<td></td>
<td>dependency checks, “existence” checks, “format” checks,</td>
</tr>
<tr>
<td></td>
<td>mathematical accuracy, range checks, etc.</td>
</tr>
<tr>
<td>Completeness Control</td>
<td>Batch totals, sequence checking, matching, duplicate checking,</td>
</tr>
<tr>
<td></td>
<td>reconciliations, control tasks and exception reporting</td>
</tr>
<tr>
<td>Validity Control</td>
<td>One-for-one checking, matching</td>
</tr>
<tr>
<td>Confidentiality Control</td>
<td>Restricted physical and logical access, adequate segregation of duties</td>
</tr>
</tbody>
</table>

Source: Table developed by Auditor’s Office based on the Federal Information System Controls Audit Manual.

We also found data reliability issues resulting from the fact that contract data entered into Salesforce is inconsistent and not complete, as in the following examples.

- **Project Manager Information**—We found that PM information was not complete for 30 out of 461 contracts. The “Project Manager” field is used to indicate the contract’s primary internal DPR contact. DPR informed auditors that the PM for a contract is the individual assigned to manage the day-to-day contract administration activities. When the “Project Manager” field in the Salesforce record is filled out, the system automatically notifies this individual of compliance items that are coming due, overdue items, and upcoming expiration dates. Although there may be instances where it could be beneficial to have a blank “Project Manager” field, we found an instance where the blank could have led to improper action not being taken. Specifically, a contract required that a final walkthrough of a park location be conducted by an assigned City Liaison to determine whether additional clean-up or repairs would be needed after an event at the park. This final walkthrough had not yet been conducted, likely because the “Project Manager” field was not populated. Without complete information in the “Project Manager” field, automatic emails may not be sent to a PM to notify them of upcoming expiration dates or past due compliance items.

- **Memoranda of Understanding Information**—DPR uses Salesforce to track a variety of contract-administration activities related to memoranda of understanding (MOU), such as
start dates, end dates, and other compliance items. MOUs are not required to go through the City’s formal contracting process and consequently do not have a contract number. Because a contract number does not exist on these types of documents, DPR uses a separate naming convention when entering information into the “Contract Number” field in Salesforce. For example, “City Park” might be used as the “Contract Number” for an MOU for services at City Park.

The “Contract Number” field is vital for identifying the contract. However, we found that Salesforce allows information in the “Contract Number” field to be duplicated or left blank. In one instance, a compliance item was entered without a “Contract Number.” In another instance, the contract number “PW” was used as the naming convention on two different MOUs. This makes it difficult for DPR personnel to locate an MOU in Salesforce.

- **Naming Conventions**—We also found that naming conventions of certain fields were used inconsistently. For example, we found that DPR at times used the name of the organization involved in the MOU when populating the “Contract Number” field, or they used the location or type of service specified in the MOU. In another instance, we noticed a discrepancy between data entered for two similar contracts, both of which allow the City to be loaned cultural artifacts. For one contract, the “Cooperative Agreement” contract type was used, but for the other, the field was left blank. Inconsistency in the way that data is entered into the Salesforce system diminishes the ability of DPR to run accurate reports on all of DPR’s contracts.

DPR can take additional steps to ensure that data input is reliable, such as establishing policies and procedures for data input, building data validation within the Salesforce application, and auditing or monitoring data entry. DPR cannot effectively monitor contract compliance without complete and accurate data. However, we recognize that addressing the data limitations we identified—such as requiring monitoring of data entered into the system—would likely involve additional resources. Still, with no controls over what data is entered and how, the potential for erroneous or incomplete data is increased.

After discussing these deficiencies with DPR, we learned that there are many changes planned to be made to Salesforce that will address functionality issues, such as correcting an issue with on-call expenditure tracking calculations. However, none of these changes will address the data reliability issues described above. Developing and using policies and procedures for data entry, including procedures to monitor, identify, and correct any errors that occur during the data entry process, can help to ensure that all inputs into the application are complete, accurate, and have been accounted for and that missing information can be identified and investigated. Accordingly, we recommend that DPR’s Director of Finance and Administration enhance application and quality review controls in Salesforce.

**Controls Surrounding On-Call Contracts Need To Be Enhanced**

We also found that controls surrounding DPR’s use of on-call contracts could be enhanced to better manage the number and value of on-call contracts and increase the transparency and clarity surrounding the selection process. Some on-call service categories have low actual utilization compared to the total contract values. This results in securing unnecessary amounts of City funds, which prevents the City from encumbering those funds for other purposes.

- **Some On-Call Service Categories Have Low Utilization**—We compared total contract values to actual contract utilization for twenty-one on-call contracts that expired between 2014 and 2015.
We found that the contracts in aggregate used 72 percent of their contract values. As shown in Table 3, the utilization rates were higher for design and construction services but were lower for other categories such as planning services, tree services, and flooring services.

### Table 3. On-Call Contracts by Service Category

<table>
<thead>
<tr>
<th>Service Category</th>
<th>Contracts in Category</th>
<th>Contract Value</th>
<th>Actual Usage</th>
<th>Unused Contract Value</th>
<th>Utilization Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design</td>
<td>6</td>
<td>$3,200,000</td>
<td>$2,664,956</td>
<td>$535,044</td>
<td>83.3%</td>
</tr>
<tr>
<td>Construction</td>
<td>5</td>
<td>$9,500,000</td>
<td>$7,716,609</td>
<td>$1,783,391</td>
<td>81.2%</td>
</tr>
<tr>
<td>Tree</td>
<td>5</td>
<td>$1,755,000</td>
<td>$982,279</td>
<td>$772,721</td>
<td>56.0%</td>
</tr>
<tr>
<td>Planning</td>
<td>4</td>
<td>$1,940,000</td>
<td>$684,246</td>
<td>$1,255,754</td>
<td>35.3%</td>
</tr>
<tr>
<td>Flooring</td>
<td>1</td>
<td>$420,000</td>
<td>$47,204</td>
<td>$372,796</td>
<td>11.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>21</strong></td>
<td><strong>$16,815,000</strong></td>
<td><strong>$12,095,294</strong></td>
<td><strong>$4,719,706</strong></td>
<td><strong>71.9%</strong></td>
</tr>
</tbody>
</table>

Source: Table developed by the Auditor’s Office based on PeopleSoft data.

The City's Fiscal Accountability Rule 7.10 dictates that an agency shall encumber on-call contracts only when needed. DPR personnel explained why some service categories may have lower utilization rates. For instance, planning services are typically used for smaller and less frequent projects, so those contracts rarely meet their maximum values. Tree and flooring services contain mostly emergency services, and there were fewer emergency services needed during the time period than initially anticipated. Despite these reasons, it is possible that lower contract values could have been established up front. Currently, the number and size of contract awards are determined based on past experience and professional judgment, which includes reviewing past expenditures and future budget needs, however, no documentation is maintained regarding these types of business decisions. DPR has not established policies and procedures for contract administration, which could provide guidance for these decisions and ensure documentation is maintained. In order to minimize the discrepancy between contract award values and actual utilizations, we recommend that the Executive Director of DPR should enhance the procedures related to how the number and size of contract awards are determined.

The Department of Parks and Recreation’s Mini-Bid Process Lacks Structure—For certain service categories, such as architectural design and construction services, DPR secures on-call contracts with multiple firms in advance and then solicits bids from within that pool of contractors for specific projects as they arise throughout the year. DPR characterizes this process as a “mini-bid” process. While the City’s primary contracting guidance, Executive Order 8, specifies that all contracts should be competitively bid or selected, absent special circumstances, it does not provide guidance on the mini-bid process or how contractors should be selected from within a pool of on-call contractors. Executive Order 8 also explains that it is City policy to maintain a fair, open, and competitive market for the goods and services it purchases in order to maintain quality government services, minimize costs, and to promote greater transparency. DPR management explained that this mini-bid process saves resources because issuing a formal request for proposal (RFP) through the City’s normal contracting process for every project is time consuming and costly.

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3 Examples of special circumstances include, but are not limited to, emergency situations, supplies or services obtainable only from a single source, situations where standardization of equipment or continuity of service is required, acquisitions of interests in real property, and situations where competition does not exist.
DPR management further explained that although this process does not follow the City’s normal RFP process, it still obtains competitive prices by soliciting project bids from multiple firms.

An Assistant City Attorney familiar with DPR’s on-call contracting process explained that, when on-call contracting is used instead of the normal RFP process, it is important to have a consistent process in place to ensure that competitive prices are obtained for high dollar projects. The Assistant City Attorney also indicated that another large City agency, the Department of Public Works, utilizes a similar process.

Since awarding project work to contractors through the mini-bid process is not a standard City process and is inherently less transparent than the normal RFP process, a structure should be in place to ensure that DPR is obtaining competitive prices for large dollar projects and that each of the on-call contractors are given a fair chance to secure work. DPR does not have a formalized structure in place but is currently in the process of developing Standard Operating Procedures (SOPs). These procedures will provide guidance on how to select contractors for specific projects, including project value thresholds that require multiple firms within the pool of contractors to be solicited to propose bids. We found that DPR has changed these thresholds over time and has yet to finalize them. For instance, the bid solicitation threshold for design services was established by DPR in 2015 at $100,000 but, in 2016, the amount was decreased to $75,000. In addition, our review of DPR’s project solicitations and distributions revealed a situation in which DPR did not follow solicitation threshold procedures. Specifically, a project with a value that exceeded the solicitation threshold was awarded to a contractor of the PM’s choice instead of obtaining competing bids from multiple contractors, as required by the draft SOPs.

We found through our review of on-call contractor utilization that amounts awarded for projects vary across the pool of contractors. For example, we reviewed on-call construction contracts that expired between 2014 and 2015 and summarized the distribution of amounts paid to those contractors during the life of the contracts. Figure 3 shows that two contractors received noticeably more funds for projects than the other three contractors in the pool.

**FIGURE 3. Construction Services Expenditure Distribution**

![Construction Services Expenditure Distribution](image-url)

*Source:* Figure developed by the Auditor’s Office based on PeopleSoft data.
When asked about the variations in utilization rates across the pool of contractors, DPR personnel provided explanations that generally appear reasonable. For instance, some contractors consistently provide the lowest bid and are accordingly awarded more projects. However, project distributions could also potentially be affected by a lack of structure surrounding the mini-bid process. The Standards specify that management should document and communicate internal control responsibilities in policies so that personnel can implement the control activities for their assigned responsibilities.

Without a defined structure in place, the City may not be receiving the best value if competing bids are not solicited for high value projects. DPR’s current practice could also create the appearance of unfair and inequitable treatment from the perspective of the contractors that are involved in the mini-bid process. Accordingly, we recommend that the DPR Executive Director finalize and implement a structure surrounding the mini-bid process to enhance consistency and transparency.

**Contract Administration Duties Are Highly Concentrated with No Contingency or Succession Plan**

We found that contract administration responsibilities, such as contract negotiations and contract monitoring, are concentrated within the job responsibilities of a few employees, and the department does not have a contingency plan in the event of a sudden staff departure. According to the Standards, contingency and succession plans for key roles not only help the organization continue achieving its objectives when a role may be vacated without advance notice, but also addresses the organization’s need to replace competent personnel over the long term.

Prior to 2015, the Contract Administration Team consisted of one employee, under the supervision of a Fiscal Administrator, who monitored compliance on all 450-plus DPR contracts. During audit work, DPR staff told us that, due to the large volume of contracts that required monitoring, this one-person Team had been unable to follow-up on issues noted during facility inspections and could only assist DPR with setting up a portion of its RFPs. Accordingly, the Fiscal Administrator was required to take on additional duties and assist with contracting tasks prior to execution. In 2015, a second employee was added to the Contract Administration Team to help share the workload. The Fiscal Administrator has oversight responsibilities for the Contract Administration Team, which initiates revenue and expenditure transactions, as well as the Financial Technical Team, which processes revenue and expenditure transactions. Although the expansion of the Contract Administration Team has helped, according to the Fiscal Administrator, a majority of their time remains dedicated to contract administration activities. These employees are unable to participate in other important activities, such as developing policies and procedures for the contract administration process. With a small staff and a high workload, the potential exists that the departure of one individual could compromise DPR’s ability to effectively administer all of its 461 contracts. Contingency plans address the possibility of

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4 The current DPR Contract Administration Team consists of two CAs that are managed by a Fiscal Administrator. The Fiscal Administrator reports to DPR’s Director of Finance and Administration.

5 At the time of our audit, DPR had 461 contracts for services with outside vendors. Contracts are assigned to CAs based on the letter of the alphabet that the contractor’s name starts with. Contracts starting with A through G are assigned to one CA and contracts starting with H through Z assigned to the other CA. This method of dividing DPR contracts results in one of the CAs being responsible for 241 contracts, while the other CA is responsible for the remaining 220 contracts.
sudden personnel changes that could impact the achievement of organizational objectives, such as contract administration. Without a contingency plan for the department, DPR may not be prepared to immediately accommodate for gaps in skill sets, leadership, and institutional knowledge in contract administration activities.

We also found that DPR has not established a succession plan, putting the organization at risk of losing a large amount of institutional knowledge surrounding contract negotiations and contract administration operations. The Director of Finance and Administration has been with the department for over twenty years and is involved with the negotiations of some contracts and day-to-day operations, in addition to carrying out executive responsibilities. This wide range of responsibilities represents another lack of segregation of duties. Similarly, the Fiscal Administrator, who directs day-to-day contract administration, is also heavily involved in the contract administration process. Both the Director of Finance and Administration and the Fiscal Administrator have either met or will meet retirement eligibility before 2017. In addition, there have been five different Executive Directors of DPR over the past five years. These frequent changes in management at the Executive Director level have contributed to heavy reliance on the Director of Finance and Administration’s advisement related to contract administration activities.

According to the Standards, succession plans address the organization’s need to replace competent personnel over the long term and can include implementing processes to enable knowledge sharing with a candidate who may fulfill the role in the future. To address the Department’s pending need to replace these competent and knowledgeable personnel, we recommend that DPR’s Executive Director develop a contingency plan and a succession plan to ensure transfer of institutional knowledge and enhance continuity of operations.

Several Factors Contribute to Weaknesses Identified with DPR’s Contract Administration Practices

Weaknesses identified with DPR’s contract administration practices stem from several factors, including a lack of guidance and training for CAs and PMs, a lack of proper segregation of duties between DPR’s finance and contracting functions, and the absence of effective succession planning related to contract administration. In addition, it is clear that the establishment of an effective contract administration framework has not been a priority for the department. As a result, many of the weaknesses identified point to Management not implementing the necessary controls, which diminishes the effectiveness of DPR’s contract administration practices.

**Contract Administrators and Project Managers Lack Guidance for Effectively Carrying Out Contract Administration Duties**

DPR does not have formalized and up-to-date policies and procedures surrounding its contract administration processes. Risks associated with inadequate contract administration are exacerbated by the fact that DPR’s contract administration practices involve contact with many employees within the department and throughout the City. Insufficient policies and procedures may create inefficiencies in DPR’s processes and inconsistencies in the manner DPR handles situations and how those circumstances are documented. Executive Order 8 requires that the initiating authority of a contract establish policies and procedures for monitoring those contracts. However, we found that DPR has not established sufficient guidance for key employees involved in the administration of contracts.
Additionally, DPR has not established clear roles and responsibilities for CAs and PMs who have contract administration duties either through documentation or formal training. DPR keeps a list of functions performed by CAs, but the document only lists broad areas of work responsibilities and does not include details of specific duties or describe how to perform these duties. For example, one function listed is “Contract Management,” but the document does not include what types of tasks contract management should entail. Similarly, interviews conducted with PMs during the audit indicated that there are no formalized documents directing PMs about their contract administration roles and responsibilities. Neither position has an onboarding process or any formal training on contract administration.

In the absence of formalized policies and procedures, we found that DPR has provided some informal guidance to employees in email communications. For example, in February 2016, DPR management emailed instructions to employees regarding the use of work and task orders on contracts that have expired. Although contract language may allow for in-progress work and task orders to be completed even if the term limit of the contract has expired, DPR personnel experienced numerous issues closing out on-call contracts. Since the guidance was sent in an email, as opposed to being added to a policies and procedures manual, any employees who began contract administration work in the department after this email was sent will not have a copy of these procedures available to them and therefore may be limited in their knowledge on how to handle a complex issue. In addition, DPR had a few draft versions of SOP documents that include guidance surrounding how to handle disputes with contractors or how to review financial payments, but these SOP documents were never formally adopted by the agency.

As previously mentioned, Executive Order 8 establishes that one of the responsibilities of the initiating authority, which in this case is DPR, 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 should be identified who will be accountable for the department or agency’s contract monitoring responsibilities. In addition, other organizations, including the International City/County Management Association, promote the idea 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, DPR cannot consistently enforce contract compliance and ensure that funds are spent based on contract terms.

Contracting best practice guidance from the Minnesota and Georgia state auditors, the Kentucky state legislature, and Tennessee’s Comptroller of the Treasury all recommend some form of contract administration training for those with contract monitoring duties, citing that training in contract monitoring increases the likelihood that contracts will be reliably monitored. Without clear guidance for CAs and PMs in the form of policies and procedures, and defined roles and responsibilities through a formal training or on-boarding process, DPR risks not being in full compliance with all contract terms.

Without an on-boarding process and formal written guidance, CAs and PMs must use their professional judgment to identify the terms within a contract that need to be monitored for compliance. Although many contracts have similar contract terms to track, such as payments or insurance coverage, others have unique terms or compliance items that vary, making contract compliance activities more complex. DPR lacks documented procedures to assist CAs in determining which contract terms need to be tracked for compliance.
Accordingly, we recommend that the DPR Director of Finance and Administration develop policies and procedures for contract administration and that they include clear definitions of roles and responsibilities for personnel and align with best practices. Once policies and procedures are developed, training should be developed for current and future CAs and PMs.

A Lack of Proper Segregation of Duties Exists Between Contract and Finance Functions

DPR’s Finance and Administration Division houses both the contract administration and finance functions. These functions include revenue processing, receiving invoices, accounts payable, and contract compliance, initiation, and management. As a result of this structure, there is a lack of segregation of duties between contract compliance activities and the financial aspects of contract administration. Figure 4 includes more details on the roles and responsibilities assigned to each division.

**Figure 4.** Department of Parks and Recreation’s Finance and Administration Division - Organizational Chart and Team Responsibilities

Contract administration activities involving revenue and expenditure transactions, including receiving payments, are manually entered into the contract management system, Salesforce, by the Contract Administration Team and processed by the Financial Technical Team. Oversight responsibilities of both of these functions are assigned to one individual, the Fiscal Administrator, who reports to the Director of Finance and Administration. This arrangement decreases the transparency of the activities they are responsible for. In addition, contracts are negotiated by the Director of Finance and Administration, who has a significant role in contract decisions.

Adequate segregation of duties has a major impact on ensuring that transactions are valid and properly recorded. Segregation of duties aids in the prevention of fraud or concealment because it requires collusion with another individual to complete a fraudulent act. As such, roles and
Responsibilities should be assigned to individuals splitting up duties in such a way that promotes checks and balances. The City’s Fiscal Accountability Rule 2.4 requires that “functions should be divided so that no one person has control over an entire process or fiscal activity.” Within other City Agencies, such as Aviation, Denver Department of Human Services, and Public Works—all of which have significant contracting functions—the contracting function is separate from the financial function. The City’s structure is also set up this way with General Services serving as the main contracting and procurement arm, and oversight of the financial activities related to those contracts assigned to the Department of Finance. Therefore, we recommend that DPR’s Executive Director consider revising the organizational structure of DPR to separate administration and finance functions.

There is No Department or Division Directed Policy for Contingency and Succession Planning

In addition to not having formal guidance for contract administration staff, we found that the department does not have a policy for contingency and succession planning. Without discussing the impact of the inevitable departures of key staff members at the highest level of the organization, DPR will not be positioned to transfer knowledge between DPR leadership and staff who carry out many of DPR’s day-to-day contract administration activities. This type of redundancy is especially important in an organization where many activities are concentrated in the hands of a few employees.

Weaknesses with DPR’s Contract Administration Practices Have Negative Effects

Our findings indicate that without formalized policies and procedures and clearly defined roles and responsibilities, DPR’s contract administration practices are inconsistent and not aligned with industry best practices. Inconsistent practices, such as how DPR uses Salesforce and varying degrees of what DPR has considered acceptable documentation, have led to areas of non-compliance with Executive Order 8 and within contract requirements. Inconsistencies in DPR’s practices have also led to increased workloads for staff. Specifically, we found that CAs create workarounds for accomplishing certain tasks in Salesforce and managing communications with PMs.

Inconsistent practices in the mini-bid process, along with DPR’s lack of documenting key contracting decisions, have resulted in a lack of transparency both for citizens and contractors working with the City, and create the potential for the appearance of unfair treatment toward certain contractors and may lead to the City not obtaining the best value. Additionally, the absence of a formal succession plan and a lack of segregation of duties collectively contribute to the risk of losing institutional knowledge and affecting future contract administration and negotiation decisions. When individuals have excessive system access that enables them to perform transactions across an entire business process without checks and balances, it can lead to the potential for fraud.
The Department of Parks and Recreation’s Decision-Making Processes Lack Transparency and Documentation

As a result of DPR not having clear documentation procedures, many of its contracts have been finalized with terms that appear unusual or out-of-the-norm when compared to other DPR contracts. Lack of formalized procedures surrounding the on-call contracting process has also contributed to insufficient documentation of decisions surrounding why certain contractors were selected. Without a written record of significant DPR decisions, transparency is limited. Further, the department is at risk of losing valuable institutional knowledge, which impairs DPR’s future contracting decisions.

Unique Contract Terms—We reviewed a sample of DPR contracts and identified a variety of contract terms that initially appeared questionable or outside of normal circumstances. For instance, we found contracts with significantly long terms, contracts with terms that are not customarily included in the majority of DPR contracts, and variations in compensation terms across similar contract types. DPR personnel familiar with the contracts provided explanations for the contract terms; however, there is no documentation of the decision-making process regarding those terms.

For example, we identified several contracts with significantly long terms, such as a concessions agreement with a vendor to provide food and beverage services at a golf course that had a contract term of thirty years with the option to extend the contract for two additional ten-year periods. The City’s primary contracting guidance, Executive Order 8, dictates that agencies should limit the duration of contracts to three to five years unless there are special circumstances that require longer terms. An agency’s manager is responsible for approving and justifying any deviation from this policy. The Director of Finance and Administration explained that, in this instance, the lengthy term was justified because the concessionaire is responsible for significant investment related to maintenance and repair costs of the facility, which is aging. However, DPR did not maintain documentation of the justification surrounding this decision.

The golf concessions agreement with the thirty-year term also has a unique contract term that allows for the exempt transfer of ownership of the concessions license without City approval. The concessionaire is able to transfer ownership to any individual or legal entity as long as a majority interest is owned by three specified owners or members of their immediate families or trusts. This could result in a situation where the license is owned by individuals that the City did not originally contract with or approve. The Director of Finance and Administration explained that this term was negotiated because the concessionaire is responsible for significant investment related to maintenance and repair costs of the facility, which is aging. However, DPR did not maintain documentation of the justification surrounding this decision.

In another golf food and beverage concessions agreement, we identified a unique term that allows employees of the concessionaire to occupy an on-site residence. The Director of Finance
and Administration explained that the contract term was included because a residence existed on the golf course and the City did not want to be responsible for maintaining it. By allowing an employee to inhabit the residence, he or she would be responsible for upkeep rather than the City. However, the basis for this decision was not documented.

After comparing compensation terms across a sample of three golf course food and beverage concessions agreements, we found significant variations in compensation terms. For example, one golf concessions agreement requires its concessionaire to pay the City annual rent payments, which were set at $50,000 for 2015. This concessionaire is not required to provide a percentage of its gross revenues. Comparatively, another golf concessions agreement requires its concessionaire to pay the City $25,000 or 8 percent of gross revenues, whichever is higher. For 2015, that concessionaire was required to pay the City over $115,000 because it had large gross revenues. However, the first concessionaire in this comparison actually had larger gross revenues in 2015 than the other concessionaire. Despite this fact, due to the differences in compensation terms, the first concessionaire was required to pay less than half the amount that the other concessionaire was required to pay.

The Director of Finance and Administration explained that the compensation terms are driven by a number of factors, including the offers received during the RFP process, contract negotiations, and other circumstances related to the specific arrangements. DPR does not maintain documentation of the contract negotiation process or the business decisions related to significant contract terms such as compensation amounts. As previously mentioned, DPR does not have policies and procedures in place for contract administration which would provide a structure for maintaining documentation of the contract decision making process. In addition, the tone at the top may not place adequate emphasis on internal control; the Director of Finance and Administration expressed that there is limited value to the organization in documenting all of its business decisions.

**On-Call Contracts Selection**—We reviewed documentation of DPR’s most recent RFP process to establish a pool of on-call design and construction contractors. DPR maintained some documentation of this process, such as contractor proposal evaluation scorecards completed by the selection committee. However, DPR did not maintain documentation of the final decisions regarding which firms were awarded contracts and thus included in the pool.

DPR issued an RFP in November 2014 to secure contracts with a number of on-call design firms. DPR received bids from twenty-six firms and awarded contracts to twelve of those firms for on-call work opportunities. Auditors’ review of the scorecard evaluations found that one of the higher-scoring firms was not awarded a contract, and one of the lower-scoring firms was awarded a contract. The Manager of Parks Planning, Design, and Construction explained that the higher-scoring firm was not awarded a contract because it was disqualified for failing to meet certain RFP requirements; the low-scoring firm was awarded a contract because it possessed a unique skill set that most of the other firms did not possess. However, DPR did not document these details that contributed to the final contracting decisions. DPR also does not maintain documentation regarding the number of contractors it decides to award contracts to or the contract values for those awards. A lack of documentation of these types of decisions and data points creates a process that lacks transparency and may cause the appearance of unfair treatment of the firms competing to secure contracts.

The Standards explain that management should clearly document internal controls and other significant events in a manner that allows the documentation to be readily available for
examination. Such documentation provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel, as well as a means to communicate that knowledge as needed to external parties. In addition, the Minnesota State Auditor released a report on contracting best practices, which explains that keeping thorough records of the contracting process is essential and will make the next round of contracting easier. Documentation should include a record of the initial decision making process, activities throughout the contract term, and a final evaluation of the project and the contractor.

Without maintaining appropriate documentation of significant contracting decisions, DPR is at risk of losing institutional knowledge possessed by a few leadership positions that are at or near retirement eligibility and loss of this knowledge could impair the quality of DPR’s future contracting decisions. In addition, when personnel are granted extensive authority to make business decisions, it is difficult for management to hold employees accountable to prior decisions. Therefore, we recommend that the Executive Director of DPR ensure that key decisions related to contract negotiations and administration are documented appropriately in contract files.
RECOMMENDATIONS

We offer the following nine recommendations to improve the Department of Parks and Recreation’s contract administration practices.

1.1 The Department of Parks and Recreation’s Director of Finance and Administration should enhance application and quality review controls in Salesforce.

Auditee Response: Agree, Implementation Date - December 31, 2016

Auditor’s Addendum: Although Executive Order 8 does not provide direct guidance regarding documentation necessary for other types of agreements that may have long terms, Executive Order 8 was utilized since it was the closest criteria to cite and its principles are sound. There is no citywide governance for this situation and the exposure is high. Therefore, the concept of documenting decisions related to long terms in order to provide transparency related to all types of agreements still applies.

1.2 The Executive Director of the Department of Parks and Recreation should enhance the procedures related to how the number and size of contract awards are determined.

Auditee Response: Disagree

1.3 The Department of Parks and Recreation’s Executive Director should finalize and implement a structure surrounding the mini-bid process to enhance consistency and transparency.

Auditee Response: Agree, Implementation Date - September 30, 2016

1.4 The Executive Director of the Department of Parks and Recreation should develop contingency and succession plans to ensure transfer of institutional knowledge and enhance continuity of operations.

Auditee Response: Agree, Implementation Date - December 31, 2016

1.5 The Department of Parks and Recreation’s Director of Finance and Administration should develop policies and procedures for contract administration.

Auditee Response: Agree, Implementation Date - December 31, 2016

1.6 The Department of Parks and Recreation’s Director of Finance and Administration should ensure that DPR’s contract administration practices include clear definitions of roles and responsibilities for personnel.

Auditee Response: Agree, Implementation Date - December 31, 2016
1.7 The Department of Parks and Recreation’s Director of Finance and Administration should ensure that training is developed for current and future Contract Administrators and Project Managers.

**Auditee Response: Agree, Implementation Date - December 31, 2016**

1.8 The Executive Director of the Department of Parks and Recreation should consider revising the organizational structure of DPR to separate DPR’s administration and finance functions.

**Auditee Response: Disagree**

1.9 The Executive Director of the Department of Parks and Recreation should ensure that key decisions related to contract negotiations and administration are documented appropriately in contract files.

**Auditee Response: Agree, Implementation Date - September 30, 2016**
July 8, 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 Department of Parks and Recreation’s contract administration practices.

This memorandum provides a written response for each reportable condition noted in the Auditor’s Report final draft that was sent to us on June 23, 2016. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING
The Department of Parks and Recreation Should Take Action To Strengthen Contract Administration Practices

RECOMMENDATION 1.1
The Department of Parks and Recreation’s Director of Finance and Administration should enhance application and quality review controls in Salesforce.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>December 31, 2016</td>
<td>Fred Weiss—720-913-0735</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 1.1
While the Department agrees with the overall recommendation, it disagrees with a number of the findings. These are:

Finding:
Only one of the seventeen sample files reviewed contained a documented formal justification for exceeding the guidance specified in Executive Order 8.

Response:
Memorandum 8B of Executive Order 8 states “It is the policy of the City and County of Denver to maintain a fair, open, and competitive market for the goods and services it purchases. It goes on to state that contracts “should be competitively bid or selected” and
that “Agencies should limit the duration of contracts to three to five years at which time a new solicitation should be initiated absent special circumstances.”

- All of the 16 agreements either complied with the bidding requirement or were not subject to the requirement since they did not involve the acquisition of a good or service.
- Of the sixteen files referenced, only 2 did not comply with the requirement of having justification on file for the term exceeding three to five years. Details are as follows:
  - 3 are not DPR agreements.
  - 2 are Cooperative Agreements which are not subject to Memorandum 8B
  - 1 is a Grant Agreement which is not subject to Memorandum 8B
  - 2 are non-financial agreements which are not subject to Memorandum 8B
  - 2 are assignment agreements which are not subject to Memorandum 8B
  - 1 is a lease agreement which is not subject to Memorandum 8B
  - 1 is an Intergovernmental Agreement which is not subject to Memorandum 8B
  - 1 had a term of 3 years which in compliance with Memorandum 8B. (Salesforce indicated a longer term because the Department needed to track the agreement’s requirement that insurance remain in place for 8 years)
  - 1 was for design services of a large project that spanned longer than 3 years. As a result, the contract’s term was “through project completion”

Finding:
“DPR’s Contract Administration Team does not have proper controls in place to ensure that expenditures are being tracked against maximum allowable amounts.”

Response:
Actual expenditures against maximum allowable amounts are tracked in PeopleSoft. Project managers have access to this system and are responsible for regularly monitoring these amounts to ensure that contract expenditures stay within budget. In addition, the Contract Administration Team tracks and monitors expenditures against on-call contracts in Salesforce. The Department does not believe that redundant tracking by the Contract Administration Team of all contracts would add value or change contract outcomes.

Finding:
“Without having a comprehensive system for tracking the entirety of contract budgets, including both revenues and expenditures, DPR risks a lack of awareness regarding the status of contract budgets to assist in making contract administration decisions.”

Response:
Because we do not have a single system to track the entirety of contract budgets does not mean that every contract is not managed with the appropriate controls. Contract budgets are tracked and monitored individually in PeopleSoft and the Department does not agree
there is a risk of not being aware of what is happening with each of these individual budgets simply because they are not tracked collectively. In addition, the Department does not agree that tracking the entirety of contract budgets would provide any benefit in making contract administration decisions due to the tremendous diversity and disparate nature of the Department’s 460 contracts. For example, we simply would not manage a design services contract the same way we would manage a contract for repairing and restoring restroom facilities throughout our parks.

Finding:
“DPR lacks the necessary controls needed to ensure reliability of the contract information that is entered” into Salesforce.

Response:
Salesforce is a brand new system and the Department was in the process of migrating to Salesforce from its former Contract Compliance software system during the audit. As a result, a number of the findings are the result of the system being evaluated while it was still being tested and “debugged.” This includes findings such as having “30 out of 461” contracts that did not have project manager information assigned in the system, which is now no longer the case. Some of the audit’s suggested techniques (i.e. range checking, data validation and completeness controls) are already in place but the Department will continue to seek improvements to the system by exploring the cost and feasibility of expanding these controls. Additionally, the Department will develop policies and procedures for data input into the new system including naming conventions.

Finding:
A walkthrough of a park location after an event was not conducted per the terms of the contract.

Response:
The walkthrough was conducted and was documented in Salesforce.

<table>
<thead>
<tr>
<th>RECOMMENDATION 1.2</th>
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<tbody>
<tr>
<td>The Executive Director of the Department of Parks and Recreation should enhance the procedures related to how the number and size of contract awards are determined.</td>
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Narrative for Recommendation 1.2
The Department does not agree that procedures need to be changed on how the number and size of on-call contracts are determined. The finding states that “it is possible that lower contract values could have been established up front” and that the “discrepancy between contract award values and actual
utilizations” should be minimized. By their very nature, on-call contracts are constructed on a multi-year basis to address smaller, future needs that are based upon emergencies, future funding allocations, and other unanticipated needs that may arise. Annual repairs to small playgrounds and restroom facilities or removing and replacing street trees are good examples of how on-call contracts are used. The needs can vary dramatically from year to year, so the number and size of these contracts is determined by looking at historical utilization, estimates of future funding allocations, specialized skill sets that may be required, etc. The Department believes that professional judgement, not a formulaic calculation, is the appropriate method to make these determinations. Additionally, the Request for Proposals for on-call contracts clearly state that the City is not making a specific commitment to the quantity of work that will be assigned to these contracts, regardless of the contract’s maximum allowable amount. The work is assigned to contractors as equitably as possible based on availability, capacity and skills needed. These are the types of decisions that must be made at the point in time when the work is needed and not months or years in advance.

RECOMMENDATION 1.3
The Department of Parks and Recreation’s Executive Director should finalize and implement a structure surrounding the mini-bid process to enhance consistency and transparency.

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<td>September 30, 2016</td>
<td>Fred Weiss-720-913-0735</td>
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Narrative for Recommendation 1.3
The Department agrees that there is a need to document the mini-bid process.

RECOMMENDATION 1.4
The Executive Director of the Department of Parks and Recreation should develop contingency and succession plans to ensure transfer of institutional knowledge and enhance continuity of operations.

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<td>December 31, 2016</td>
<td>Allegra “Happy” Haynes 720-913-0750</td>
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Narrative for Recommendation 1.4
Developing succession plans is a current Departmental priority, and while the Department agrees with the overall recommendation, it disagrees with two of the findings. They are:
Finding:
The Director of Finance and Administration’s wide range of responsibilities, including negotiations of some contracts, day-to-day operations, and executive responsibilities, represents a lack of segregation of duties.

Response:
The high level of this position requires a wide span of control and an involvement in a broad range of the Department’s activities. Overseeing the development, execution and monitoring of contracts does not mean that this individual or any individual in the department has sole responsibility for a contract at every level of the process. In fact, many hands touch and manage some part of every contract from the Executive Director to the Director to the project managers and accounting staff, providing adequate checks and balances. For many contracts, additional checks and balances are provided via oversight by the Executive Director, the City Attorney’s Office, the Finance Office, the Mayor’s Office, and City Council.

Finding:
The establishment of an effective contract administration framework has not been a priority for the Department.

Response:
The Department disagrees with this judgment. A contract administration framework is in place and is always a high priority for the Department. While improvements can and will be made, the relatively few specific findings of actual errors or omissions in the audit is evidence that an effective framework is in place. This is especially true given that the Department manages over 460 contracts that are extremely diverse in nature. As acknowledged in the response to recommendations 1.5 and 1.6, the Department does recognize the need for more clearly documented policies and procedures, but disagrees strongly with the notion that the lack of comprehensive documentation means that good practices and procedures do not exist.

**RECOMMENDATION 1.5**
The Department of Parks and Recreation’s Director of Finance and Administration should develop policies and procedures for contract administration.

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**Narrative for Recommendation 1.5**
The Department agrees that there is a need to develop policies and procedures for contract administration.

**RECOMMENDATION 1.6**

- 5 -
The Department of Parks and Recreation's Director of Finance and Administration should ensure that DPR's contract administration practices include clear definitions of roles and responsibilities for personnel.

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**Narrative for Recommendation 1.6**
The Department agrees that there is a need to clearly define roles and responsibilities for personnel in relation to contract administration. This will be included in the contract administration policies and procedures.

**RECOMMENDATION 1.7**
The Department of Parks and Recreation's Director of Finance and Administration should ensure that training is developed for current and future Contract Administrators and Project Managers.

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**Narrative for Recommendation 1.7**
The Department agrees that there is a need to develop more formal training for contract administrators and project managers.

**RECOMMENDATION 1.8**
The Executive Director of the Department of Parks and Recreation should consider revising the organizational structure of DPR to separate DPR's administration and finance functions.

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**Narrative for Recommendation 1.8**
The Department does not agree that there is a need for separating DPR’s administration and finance functions. As previously stated, specific responsibility for various aspects of finance and administration are shared among different levels of staff and additional oversight is provided by the Executive Director, the City Attorney’s Office, the Finance Office, the Mayor’s Office, and City Council. The Executive
Director must have the flexibility to organize the work of the department to the best advantage of its staffing and resources. More specifically, the Department does not agree with two of the findings. These are:

Finding:
The current structure “decreases the transparency of the activities.”

Response:
Given the oversight stated above, all of these activities are reviewed in one capacity or the other by multiple DPR staff members as well as other City Agencies and are fully available to anyone via the Clerk and Recorder’s Office or the through Colorado Open Records Act.

Finding:
Transparency and/or a lack of segregation of duties is somehow negatively impacted by the Director of Finance and Administration negotiation contracts and having a significant role in contract decisions.

Response:
Other DPR staff, often a member of senior management, always participate with the Director of Finance and Administration during contract negotiations. In addition, the Executive Director always reviews and approves contracts, the City Attorney’s Office drafts and reviews all contracts, and many contracts are reviewed and approved by City Council. All of these factors ensure transparency and adequate oversight.

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<th>RECOMMENDATION 1.9</th>
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<td>The Executive Director of the Department of Parks and Recreation should ensure that key decisions related to contract negotiations and administration are documented appropriately in contract files.</td>
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Narrative for Recommendation 1.9
The Department agrees that significant matters related to contract negotiations and administration should be documented. However, the Department does not agree with all of the circumstances and the level of decisions where some of the findings indicate that documentation is needed. These are:

Finding:
A golf food and beverage concession agreement with a term that allows employees of the concessionaire to occupy an on-site residence.

-7-
Response:
This is the only concession site that includes a residence. The request for proposals and the Concession License both specify that the residence is a part of the Concession site along with other facilities, that employees of the concessionaire can occupy the residence, and that it is the responsibility of the Concessionaire to maintain the structure. The Department does not agree that further documentation is needed to explain why the residence is a component of this Concession License.

Finding:
There were significant variations in compensation terms across a sample of three golf course food and beverage concession agreements.

Response:
In most cases, proposals that are submitted in response to a request for proposals dictate the compensation for any particular concession opportunity. Each of our golf courses is different and presents different business models (i.e. revenue streams, operating expenses, capital investments, etc.) for potential operators. These are all documented either in the request for proposal, the proposals submitted, or both. The Department does not agree that further documentation is needed to explain variations in compensation terms.

Please contact Fred Weiss at 720-913-0735 with any questions.

Sincerely,

Allegra “Happy” Haynes
Executive Director

cc: Kip R. Memmott, MA, CGAP, CRMA, Director of Audit Services
    Sonia Montano, CGAP, CRMA, Audit Supervisor