

AUDIT REPORT

Department of Transportation & Infrastructure
and Denver International Airport
**Construction Contractor
Prequalification Process**

JANUARY 2024



TIMOTHY M. O'BRIEN, CPA
DENVER AUDITOR

OFFICE OF THE AUDITOR
AUDIT SERVICES DIVISION, CITY AND COUNTY OF DENVER

Audit Team

Carl Halvorson, CIA, Audit Manager
June Samadi, MPH, Lead Auditor
Katie Beverlin, MPA, Lead Auditor
Juan Gomez Jr., Senior Auditor
Josh Moutry, Audit Intern

Methodological Support

Chris Wilson, MPA, Audit Analytics Manager
Kayley Smiley, MS, Audit Analytics Intern

Other Contributors

Kristen M. Clark, Senior Communication and Reporting Specialist
Stelios Pavlou, Reporting Specialist
Jeff Neumann, Graphics and Visual Information Specialist

Audit Management

Timothy M. O'Brien, CPA, Auditor
Valerie Walling, CPA, Deputy Auditor
Dawn Wiseman, CRMA, Audit Director
Patrick Schafer, CPA, CFE, CIA, MBA, Senior Audit Manager

Audit Committee

Timothy M. O'Brien, CPA, Chairman
Jack Blumenthal, Vice Chairman
Frank Rowe
Leslie Mitchell
Florine Nath
Charles Scheibe
Ed Scholz

You can obtain
copies of this
report by
contacting us.



Office of the Auditor
201 West Colfax Ave. #705
Denver, CO 80202
(720) 913-5000

Or download and view
an electronic copy by
visiting our website at:
www.DenverAuditor.org.

Response narratives are reprinted verbatim from the agency's letter, which is available in full on our website.

Cover photo by Denver Auditor's Office staff.

City and County of Denver



TIMOTHY M. O'BRIEN, CPA
AUDITOR

201 West Colfax Ave. #705, Denver, CO 80202
(720) 913-5000 | www.DenverAuditor.org

AUDITOR'S LETTER

January 18, 2024

We audited the city's construction contractor prequalification process to evaluate how efficient the application process is, how effective the Prequalification Board is, and whether the city follows its own rules for contractor prequalification. I now present the results of this audit.

The audit found the city's process to assign and communicate construction contractors' financial limits lacks transparency. We found the Prequalification Board does not document how it makes decisions and the city's prequalification rules allow for subjective decision-making about prequalification and the financial levels contractors are assigned. We also found the board does not tell contractors why they were assigned a certain financial level or how they can improve their standing, and city rules do not allow contractors to dispute their assigned financial levels. Meanwhile, we learned the Prequalification Board is not receiving accurate and complete information about potential construction contractors.

By implementing recommendations for stronger requirements in the city's prequalification rules, a contractor dispute process, and stronger manager review processes, the Department of Transportation & Infrastructure and Denver International Airport will be better able to ensure a more fair and transparent prequalification process for potential city construction contractors.

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." We conducted this performance audit 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 appreciate the leaders and team members in the Department of Transportation & Infrastructure and Denver International Airport who shared their time and knowledge with us during the audit. Please contact me at 720-913-5000 with any questions.

Denver Auditor's Office

A handwritten signature in black ink, appearing to read "Timothy M. O'Brien".

Timothy M. O'Brien, CPA
Auditor



Construction Contractor Prequalification Process

JANUARY 2024

Objective

To evaluate:

- Whether the city's contractor prequalification process aligns with other U.S. government entities.
- Whether the city, through its Prequalification Board, follows its own rules for contractor prequalification.
- How efficient the application process is and how effective the Prequalification Board is.

Background

The Department of Transportation & Infrastructure and Denver International Airport co-manage the city's prequalification process. Contractors on multimillion-dollar city construction projects must meet the highest standards of performance and have the financial capability, integrity, and experience to complete the projects they intend to bid on.

The city has defined rules and a designated board to determine which contractors prequalify.

REPORT HIGHLIGHTS

The city's process to assign and communicate contractors' financial limits lacks transparency

- The Prequalification Board does not document how it makes decisions.
- The city's prequalification rules allow for subjective decisions about prequalification and assigned financial levels.
- The board does not tell contractors why they were assigned a certain financial level or how they can improve their standing.
- The rules do not allow contractors to dispute their assigned financial levels.

The Prequalification Board is not receiving accurate and complete information about potential city contractors

- The Department of Transportation & Infrastructure does not collect and verify some information that could disqualify contractors from prequalification.
- Supervisory reviews of summary information given to the Prequalification Board are not effective at identifying inaccuracies and calculation errors in documents manually prepared by the prequalification coordinator.

WHY THIS MATTERS

Without a more transparent prequalification process, city managers risk reducing the city's pool of potential qualified bidders because contractors may choose to abstain from doing business with Denver if they believe the prequalification process is unfair or not transparent.

A reduced pool of bidders could result in the city receiving lesser-quality work or paying more for construction than necessary. It also leaves the city vulnerable to reputational damage by not being seen as a fair and equitable business partner.

CONTENTS

| | |
|--|-----------|
| BACKGROUND | 1 |
| FINDING 1 AND RECOMMENDATIONS | 6 |
| The city’s process to assign and communicate contractors’ financial limits lacks transparency | |
| FINDING 2 AND RECOMMENDATIONS | 17 |
| The Prequalification Board is not receiving accurate and complete information about potential city contractors | |
| The Department of Transportation & Infrastructure does not collect and verify some information that could disqualify contractors from prequalification 18 | |
| Supervisory reviews of summary information given to the Prequalification Board are not effective. . . 19 | |
| OBJECTIVE, SCOPE, AND METHODOLOGY | 23 |
| APPENDIX | 25 |
| Comparing construction prequalification processes | 25 |

BACKGROUND

The Denver Charter empowers two city agencies — the Department of Transportation & Infrastructure and Denver International Airport — with the authority to manage and control all construction projects for public improvements.¹

The charter further requires that managers from the airport and Transportation & Infrastructure award construction contracts only to “responsive, qualified” bidders.² To meet this requirement, the city has formal rules and a structured process for contractors to seek “prequalification” status.³

The rules are meant to ensure contractors who bid on major construction projects in the city have the relevant experience, skills, financial resources, and integrity to perform the type and size of work needed for multimillion-dollar projects.⁴

PREQUALIFICATION

Generally, a contractor must obtain prequalification before bidding on city construction contracts estimated to be worth \$1 million or more.

This status helps ensure a contractor has the relevant experience, skills, qualifications, and financial capability to complete the work.

Contractor prequalification

Denver’s prequalification rules were first developed in 1967 and have undergone eight revisions, most recently in July 2019. Prequalification status is determined by the city’s Prequalification Board, a committee made up of 11 city employees with subject-matter expertise in construction, finance, and accounting. The board can prequalify a contractor for various categories of work and at various financial levels — which then dictates the type and value of contracts a contractor can bid on.

A contractor’s experience, qualifications, and financial capability all come into play. Prequalification is among the requirements contractors must meet to bid on projects estimated to be worth \$1 million or more. It is just one factor the city considers when awarding construction contracts.⁵

¹ Denver Charter, § 2.3.3 and 2.11.3.

² Denver Charter, § 2.3.3 and 2.11.3.

³ City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), accessed March 28, 2023, https://www.denvergov.org/files/assets/public/v/1/doti/documents/regulations/pwrr-012.3-prequalification_of_construction_contractors.pdf, § 2.01.

⁴ City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), § 1.02.

⁵ City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), § 2.01.

Any contractor wanting to bid on a major construction contract in Denver must be prequalified.

In 2012, the Department of Transportation & Infrastructure and Denver International Airport formalized an agreement that designates the airport's deputy manager and the city engineer within Transportation & Infrastructure as the city officials responsible for administering the Prequalification Board and prequalification process.

That agreement assigned the day-to-day management duties to Transportation & Infrastructure, and it established the current framework for the city's prequalification rules.

Contractors can apply for prequalification through one of three methods:

- **CONTRACTOR PREQUALIFICATION** – A contractor uses this standard application for new and annual renewal prequalification.
- **JOINT VENTURE PARTNERSHIP** – When two or more contractors form a joint partnership to bid on a city construction contract, they apply for prequalification using this application.
- **PROJECT-SPECIFIC PERMISSION** – When a contractor is prequalified in a work category less than the minimum required for a project, the contractor can request “project-specific permission” to bid on the contract. This can only be granted for work categories a contractor has been prequalified for. For example: A contractor who has been prequalified to bid on contracts for paving work up to \$6 million may want to bid on a \$12 million paving contract. To bid on that higher-value contract, the contractor can request “project-specific permission” for that particular job.

Prequalification eligibility and categories

In general, contractors — including those who form joint venture partnerships — must be prequalified before they can bid on city construction contracts estimated to be worth \$1 million or more. Certain contracts might even specify that contractors must obtain prequalification.⁶ Any construction contract estimated to be valued at less than \$1 million generally does not require prequalification.⁷

A contractor's prequalification status lasts either for 12 months from the date the prequalification was awarded or for 18 months after the closing date of the financial statement the contractor submitted with the application, whichever comes first.⁸ Contractors must renew their prequalification every year.⁹

Contractors are not eligible for — or may be denied — prequalification if:

- They have been “debarred” by the city, which means they are prohibited from entering into contracts with the City and County of Denver.

⁶ City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), § 2.02(a)(b) and 7.01.

⁷ City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), § 2.06.

⁸ City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), § 8.01(a).

⁹ City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), § 8.02.

- They have a current financial statement with “negative working capital,” which means the company’s current liabilities are greater than its current assets.
- They have an average safety score from the National Council on Compensation Insurance Inc. of 1.5 or more over the past five years.¹⁰

Denver’s prequalification rules allow contractors to apply for prequalification in 30 work categories, which include:

- **CIVIL WORK** – such as excavation and grading, landscaping, utilities, sewer, paving, and bridges.
- **BUILDINGS** – such as demolition, construction, renovation, electrical, mechanical, roofing, and parking.
- **AIRPORT** – such as equipment and machinery related to jet bridges, baggage handling systems, concrete runways and taxiways, and lighting.¹¹

The Prequalification Board can also create a “specialty” category for specific contracts when the desired work is not covered by the other categories.¹²

Contractors that are granted prequalification are assigned a financial level for each work category they apply for. This financial level limits the maximum project value a prequalified contractor can bid on. A prequalified contractor can bid only on advertised contracts with values at or less than their assigned financial level in the work category the contractor was approved for.¹³

When prequalified contractors want to bid on contracts valued at more than their assigned financial level, they can apply for project-specific permission. If the Prequalification Board approves, the contractor can then bid on that specific project.

In addition to other criteria the Prequalification Board reviews as part of the application process, the type of financial statement a contractor submits can have a large impact on what financial level they receive.

As shown in Figure 1 on the next page, financial levels from \$1.5 million up to \$3 million require contractors to provide either a reviewed financial statement or a certified audited financial statement. Anything higher requires a certified audited financial statement, which is a more thorough assessment of the contractor’s financial status.¹⁴

¹⁰ City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), § 5.06(b) and 9.04(a)-(b). The rules specify an experience modification, or “EMRF,” rating, which we refer to in this report as an “average safety score.”

¹¹ City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), § 3.01.

¹² City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), § 3.02.

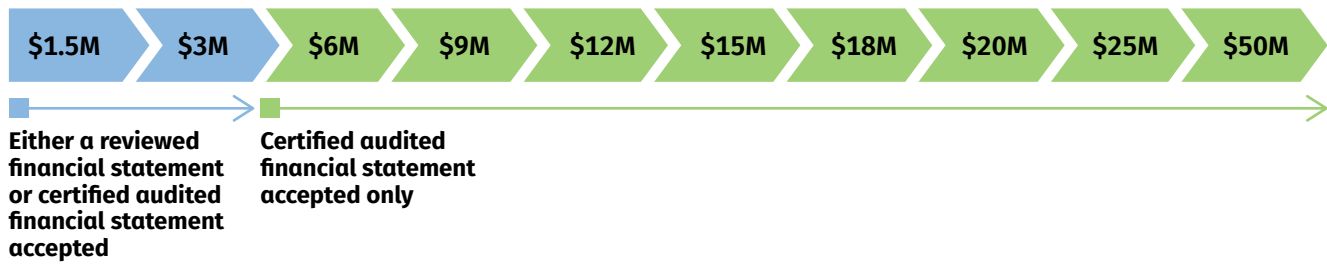
¹³ City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), § 4.01.

¹⁴ City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), § 4.01.

FIGURE 1. FINANCIAL LEVELS FOR CONTRACTOR PREQUALIFICATION

A prequalified construction contractor can bid only on advertised contracts valued at or less than their assigned financial level in the work category the contractor was approved for.

FINANCIAL LEVELS



REVIEWED FINANCIAL STATEMENT

A certified public accountant provides limited assurance that the contractor’s financial statements are free of significant errors and consistent with accounting standards.

CERTIFIED AUDITED FINANCIAL STATEMENT

A certified public accountant ensures the contractor’s financial statements are consistent with accounting standards — but with a much more thorough level of scrutiny.

Source: Graphic designed by Auditor’s Office staff using information from the city’s prequalification rules.

Denver’s Prequalification Board

After a contractor submits a prequalification application, the Prequalification Board reviews it and has the authority to recommend whether the request is granted or denied.¹⁵ Board members are appointed jointly by the managers of the Department of Transportation & Infrastructure and Denver International Airport.

In line with city rules, the Prequalification Board must consist of an odd number of members — no fewer than five — and they must all be full-time city employees.¹⁶ The current board comprises 11 members, including the director of the city’s Division of Small Business Opportunity and employees from both Transportation & Infrastructure and the airport. Board members can also come from other city agencies, but all board members must have subject-matter expertise relevant to the board’s duties — such as expertise in construction, finance, and accounting.¹⁷

Board members serve two-year terms and can be reappointed to serve longer. Alternates are also appointed for each board member. Alternates must have subject-matter expertise, and they attend meetings when a regular board member cannot.¹⁸

¹⁵ City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), § 10.02(a).

¹⁶ City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), § 10.03(a).

¹⁷ City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), § 10.03(a)(d).

¹⁸ City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), § 10.03(b)(d).

The Prequalification Board meets every week to review prequalification applications. The board's busiest time is from late May through September, when 95% of all contractors' prequalification expires.

Prequalification process

Contractors apply for prequalification through the city's Small Business Certification and Contract Management System, called "B2Gnow." The application prompts contractors to provide various information such as:

- Details on the business and its staff.
- Current and past projects relevant to the work categories the contractor is applying for.
- Past and ongoing litigation.
- The contractor's most recent financial statement.
- Any registered agent the contractor has.
- A letter of surety.
- Details on any debarments, suspensions, or revocations.
- Criminal convictions.
- Safety scores for each of the past five years.

Prequalification staff, all of whom work in the Department of Transportation & Infrastructure, work with contractors to ensure their application forms are complete and that all required documentation is submitted. The prequalification coordinator then creates summary documents for the Prequalification Board. The department supervisor reviews and approves the application packages — made up of the summary documents and the application itself — and then gives the packages to the board members.

At its weekly meetings, the Prequalification Board reviews, discusses, and decides whether to approve or deny applications for prequalification. The board members also set the financial limits for each work category a contractor has applied for.

Regardless of the outcome, a letter from the managers of the Department of Transportation & Infrastructure and Denver International Airport formally documents the approval or denial. The applying contractor receives a copy of the letter.

Contractors that are denied prequalification or contractors that have had their prequalification suspended or revoked can appeal the Prequalification Board's decision under the city's prequalification rules. But the appeals process does not allow contractors seeking project-specific permission to appeal a denial.¹⁹ There is also no dispute process for prequalified contractors that want to challenge their assigned financial level.

¹⁹ City and County of Denver, "Rules for Prequalification of Construction Contractors" (2019), § 4.06(e).

FINDING 1 AND RECOMMENDATIONS

The city's process to assign and communicate contractors' financial limits lacks transparency

Transparency in local government promotes accountability and integrity and builds public trust — particularly when dealing with multimillion-dollar construction projects. When decision-makers know their actions and decisions can be viewed by the public, they are more likely to hold themselves accountable and make objective decisions. Even if people disagree with a decision, having transparency can enable greater trust that decisions are made legitimately.

We found the city's process for prequalifying construction contractors is not transparent and the city does not clearly explain its decisions to ensure fairness — particularly when setting financial levels that restrict the type and value of construction contracts prospective contractors might bid on. Specifically:

- The city's Prequalification Board keeps no records to explain how board members decide the financial levels assigned to contractors. Meeting minutes are sparse; they include the board's recommendation but no detail of any conversations that led to it.
- The city's rules enable board members to base their decisions on unnamed "optional" factors, allowing for potential subjectivity.
- Once a decision is made, managers from the Department of Transportation & Infrastructure and the airport inform contractors only of the outcome — not the rationale used for that conclusion or what contractors might need to do to improve for next time.
- The city's rules do not allow contractors to dispute certain decisions related to prequalification such as the financial levels assigned.

The Prequalification Board — made up of city employees with subject-matter expertise in construction, finance, and accounting — is responsible for assessing contractors' qualifications and making recommendations to approve or deny prequalification applications and to assign

FINANCIAL LEVELS FOR PREQUALIFICATION

A prequalified contractor can bid only on advertised contracts valued at or less than their assigned financial level in the work category they were approved for.

Financial levels are set at various increments — from \$1.5 million to \$50 million, as shown in [Figure 1 on page 4](#). Therefore, being assigned at a lower financial level than a contractor might otherwise qualify for could potentially prevent a contractor from bidding on millions of dollars in city contracts.

The Department of Transportation & Infrastructure and the airport lack documentation to show their process is fair and that board members make sound, objective decisions.

contractors' financial levels. Managers of the Department of Transportation & Infrastructure and Denver International Airport make the final call on whether a contractor is prequalified and at what financial level based on the board's recommendations.

The Prequalification Board considers many factors that can influence what financial level is assigned to a prequalified contractor. But because the board does not document its justification, neither we nor city officials nor interested contractors can understand the specific criteria the board members used — especially when information in a contractor's application suggests the contractor might have prequalified at a higher financial level.

Because the board keeps no such documentation, we cannot identify the specific factors board members might have used to set contractors' financial levels, nor can we determine whether a contractor should have been prequalified at a different financial level.

The absence of this documentation to support the board's decision-making process reduces transparency and the appearance of fairness. The Department of Transportation & Infrastructure and the airport cannot show their process is fair or that board members made sound, objective decisions.

Communicating the reasons why decisions are made can promote greater trust and participation in the city's competitive bidding process for construction contracts.

Without a more transparent prequalification process, Transportation & Infrastructure and the airport risk reducing the city's pool of potential qualified bidders because contractors may choose to abstain from doing business with Denver if they believe the prequalification process is unfair or not transparent. A reduced pool could result in the city receiving lesser-quality work or paying more for construction than necessary. It also leaves the city vulnerable to reputational damage because the city might not be seen as a fair and equitable business partner.

The Prequalification Board does not document how it makes decisions

Denver's Prequalification Board keeps no records to support the rationale board members may have used in determining a particular contractor qualifies for a certain financial level.

Although minutes are kept from the board's weekly meetings, these include only the board's recommendations. The minutes offer no insight into the board's decision-making or what criteria the board members relied on to support their recommendations.

As discussed on [page 5](#), for contractors to become prequalified in Denver, they must submit detailed information about their operations. This information includes:

- Staff and resource capabilities.
- Previous and current projects and project values.
- Safety scores.
- Bonding and financial capabilities.
- Any history of being prohibited from contracting with the city or being behind on either payments or other contract obligations with the city.²⁰

The Prequalification Board can consider all of this information to determine a contractor’s recommended financial level.

As part of the application materials given to the board, the city’s prequalification coordinator reviews contractors’ past projects as listed in their applications and calculates a proposed financial level for each work category a contractor seeks prequalification for. Generally, this is an average of values from the contractor’s past projects, but the calculation may rely on various figures — such as the final contract value or the value of any work a contractor subcontracted to itself.

In our efforts to validate the Prequalification Board’s recommendations using available supporting documentation, we randomly selected 10 contractors out of 180 that sought prequalification from January 2020 through April 2023. We then analyzed all 32 applications from these 10 contractors during that time frame to assess whether assigned financial levels were calculated correctly. Specifically, we:

- Reviewed the final determination letters signed by managers of the Department of Transportation & Infrastructure and Denver International Airport.
- Used information from past projects to recalculate the average completed project value.
- Compared our results with the financial levels the Prequalification Board had recommended for each contractor’s work categories.

In 12 applications, or nearly 38% of those we reviewed, we found a contractor could have potentially been prequalified at a higher financial level.

While most of the average values we recalculated aligned with what the board had recommended, some averages fell between two financial levels. For example, one construction company in our sample had an average project value of over \$4.8 million for one specific work category, but the board assigned a financial level of \$3 million, which falls between two available levels: \$3 million and \$6 million.

In 12 applications — or nearly 38% of those we reviewed — we found a contractor could have potentially been prequalified at a higher financial level based on the average value of their completed projects, yet the board assigned them to the lower of two potential levels.

Staff in the Department of Transportation & Infrastructure confirmed that when a contractor falls between two financial levels, the Prequalification

²⁰ In legal terms, this references contractors’ history of “debarment” and being “in arrears” with the city.

Board will round up or down at the board members' discretion.

The board keeps no documentation to justify and support its decision or rationale in such cases. Because of this lack of documentation, we cannot determine whether contractors were prequalified at the correct levels — such as whether a contractor should have been prequalified at a higher financial level than the Prequalification Board recommended or whether the board was justified in choosing the lower of two potential levels.

City prequalification rules allow for subjective decisions about prequalification and assigned financial levels

In addition to board members' having discretion when a contractor might fall between two potential financial levels, the city's prequalification rules allow the Prequalification Board to consider unnamed "optional" factors in its assessment.

For example: The rules say a contractor's financial capability will be evaluated "among other things," when the city determines assigned financial levels.²¹ This vagueness in the selection criteria enables board members to make potentially subjective decisions, as interpretations can vary from one board member to the next.

While we found no evidence of improper decision-making, such as a board member potentially manipulating the outcome of a recommendation, we can have no certainty that this has not occurred because the Prequalification Board does not transparently document how it arrives at its recommendations. Without greater transparency in how the board justifies its recommendations, the risk of impropriety — or the appearance of impropriety — will remain.

The board does not tell contractors why they were assigned a certain financial level or how they can improve their standing

Once managers of the Department of Transportation & Infrastructure and Denver International Airport sign off on the Prequalification Board's recommendation for a contractor's approved financial level, the city does not provide the contractor with any justification for the decision.

This lack of clarity and lack of transparency has left some contractors concerned, and it has raised questions among them about the fairness and objectivity of the city's prequalification decisions.

We interviewed staff at six construction companies that are prequalified with the city in various work categories and in financial levels ranging from \$1.5 million to \$50 million. More than half said they could not understand how financial levels are assigned based on the city's prequalification rules.

²¹ City and County of Denver, "Rules for Prequalification of Construction Contractors" (2019), accessed March 28, 2023, https://www.denvergov.org/files/assets/public/v/1/doti/documents/regulations/pwrr-012.3-prequalification_of_construction_contractors.pdf, § 5.02.

Staff at four companies said they were not given transparent and objective justification for how the city decided their financial levels, nor were they told how they could improve their status to qualify at higher financial levels in the future.

These same four companies said they were unsatisfied with their assigned financial levels and, in some instances, believed they should have been assigned higher financial levels based on their bonding capabilities.

The contractors we spoke to want the prequalification process to rely more on a company's bonding and financial capabilities rather than performance criteria. Some contractors explained that bonding companies review financial statements and projects on a quarterly basis. Based on a firm's experience and profitability, bonding companies provide an assurance letter with payment and a performance bond to back it up.

Transportation & Infrastructure personnel said they try to be as transparent as possible. If a contractor reaches out regarding their assigned financial levels, staff will find the answer and will note a verbal conversation was had with the contractor.

Leading practices support the need to proactively make public a government's selection criteria and any steps for decision-making except when information is legally protected. Furthermore, these leading practices say local governments should communicate justifications along with any decisions.²²

While the city's prequalification rules lay out the criteria and requirements the city should use to assess contractors, the rules are subjective, and justification is not communicated to contractors to explain why they were assigned a specific financial level.

Meanwhile, federal standards say sufficient documentation helps managers establish and communicate the "who, what, when, where, and why" to both preserve organizational knowledge and to decrease the risk of having that knowledge limited to only a few individuals. It also better equips the organization to provide information to outside parties — such as auditors and the public.²³

Federal standards also emphasize that managers should communicate necessary and quality information to outside parties — such as suppliers and contractors — to help the organization achieve its objectives.²⁴ Quality information is "appropriate, current, complete, accurate, accessible" and provided in a timely manner from relevant and reliable data.²⁵

²² Transparency International, "Local Governance Integrity Principles and Standards" (2015), accessed Aug. 24, 2023, https://images.transparencycdn.org/images/2015_LocalGovernanceIntegrity_PrinciplesStandards_EN.pdf.

²³ U.S. Government Accountability Office, GAO-14-704G, "Standards for Internal Control in the Federal Government" (2014), accessed May 11, 2023, <https://www.gao.gov/assets/670/665712.pdf>, para. 3.10.

²⁴ U.S. Government Accountability Office, paras. 15.01 and 15.02.

²⁵ U.S. Government Accountability Office, para. 13.05.

The prequalification rules adopted by the Department of Transportation & Infrastructure and Denver International Airport do not require the Prequalification Board to document its justifications for recommended financial levels. The rules also do not require that contractors be told about financial level determinations.

Transportation & Infrastructure staff said that because the prequalification process is based on several factors, it is not necessary for the board to provide justification for its decision-making — for example, even in instances where a contractor qualifies between two financial levels. Staff said it was a “business practice.”

But three out of six contractors we spoke with said the lack of transparency — specifically, in not receiving objective reasoning for assigned financial levels, with no means to dispute the decision — is unfair.

Contractors reported receiving lower financial levels from Denver than from other local and state government entities they have been prequalified with. For example, we asked the six contractors whether their financial levels in Denver aligned with their expectations. Three said they were approved for financial levels lower than their bonding capacity level — which represents the maximum amount of coverage a surety company will provide to a contractor.

Our audit work found evidence that Denver’s prequalification application process and the financial factors it considers are different from — and more complex than — other comparable cities and government agencies.

We surveyed 11 government entities — including the Colorado Department of Transportation — based on population, location, our professional judgment, and other considerations we discuss in the [appendix](#).

We learned that, on average, Denver considers a wider range of factors when making financial level determinations.

COMPARING DENVER’S PREQUALIFICATION PROGRAM TO OTHERS

For our analysis, we compared Denver to:

- **Grand Junction, Colorado.**
- **Fort Collins, Colorado.**
- **Aurora, Colorado.**
- **Jefferson County Public Schools in Colorado.***
- **Arapahoe County, Colorado.***
- **The Colorado Department of Transportation.**
- **Portland, Oregon.**
- **Oklahoma City, Oklahoma.**
- **Columbus, Ohio.**
- **Indianapolis, Indiana.**
- **The San Francisco Department of Water in California.***

***Denotes areas that do not have a prequalification program.**

See the [appendix](#) for more information.

For instance, Denver evaluates performance history when determining a contractor’s financial level, a practice not typically followed by the cities included in our survey.

Figure 2 shows how Denver’s documentation requirements compare. While Denver requires applicants to provide information across 15 topic areas, others – like the state Department of Transportation or Denver’s neighbor, the City of Aurora – require information on only four areas such as a contractor’s past performance, finances, or bonding capacity.

Fort Collins, Colorado, and Oklahoma City were somewhat comparable to Denver in requiring roughly a dozen areas of information from applicants seeking prequalification.

FIGURE 2. COMPARING DOCUMENTATION REQUIREMENTS FOR PREQUALIFICATION

The City and County of Denver and other governments require that contractors seeking prequalification disclose details about their operations to ensure they are capable of bidding on large construction projects.

| PREQUALIFICATION APPLICATION REQUIREMENTS | DENVER | GRAND JUNCTION, COLORADO | FORT COLLINS, COLORADO | AURORA, COLORADO | PORTLAND, OREGON | COLUMBUS, OHIO | OKLAHOMA CITY | CDOT* |
|---|--------|--------------------------|------------------------|------------------|------------------|----------------|---------------|-------|
| Financial statement | ◆ | | ◆ | | | | ◆ | ◆ |
| Contractor performance | ◆ | ◆ | ◆ | ◆ | ◆ | | ◆ | |
| Safety scores | ◆ | ◆ | ◆ | | | ◆ | | |
| Criminal convictions of employees | ◆ | | | | | ◆ | | |
| Bonding capacity | ◆ | | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ |
| Bank statements | ◆ | | | | | | | |
| Previously failed construction contracts | ◆ | ◆ | ◆ | ◆ | | ◆ | ◆ | |
| Qualifications of supervisory staff | ◆ | | ◆ | ◆ | ◆ | | ◆ | |
| Completed contracts | ◆ | ◆ | ◆ | | | | ◆ | |
| Previous or current debarment | ◆ | ◆ | ◆ | | ◆ | ◆ | | ◆ |
| Construction projects in progress | ◆ | | ◆ | | | | ◆ | |
| List of largest construction projects completed | ◆ | ◆ | ◆ | | ◆ | | ◆ | |
| Organizational chart | ◆ | | ◆ | | | | ◆ | |
| Parent or affiliate companies | ◆ | | | | | | ◆ | ◆ |
| Pending court, legal, or administrative cases | ◆ | | ◆ | | | ◆ | ◆ | |

*Colorado Department of Transportation

Note: This summary does not reflect all questions we asked in our survey.

Source: Auditor’s Office analysis of survey responses.

We found that some of Denver’s requirements contribute to the potential for subjectivity within the Prequalification Board’s evaluation. Three contractors we spoke with explained the requirements made the application process time-consuming and involved gathering more information than other governments they have prequalified with.

Staff from Portland, Oregon, and the Colorado Department of Transportation said their staffs use an objective approach when making prequalification decisions. They said they require the same documentation from all contractors during the review process.

Meanwhile, two contractors told us Denver’s limited process for assigning financial levels also does not provide them with constructive feedback on areas where they might improve. Contractors said if the Prequalification Board were to explain its financial level recommendations, contractors could better understand how to achieve higher financial levels in the future.

Denver’s prequalification rules do not allow contractors to dispute their assigned financial levels

The city’s appeals process for prequalification decisions is limited. Only contractors that have been denied, suspended, or revoked from contracting with the city can appeal the Prequalification Board’s recommendations. In other instances — such as being denied project-specific permission — contractors cannot appeal.²⁶

If prequalified contractors do not agree with their assigned financial levels, they have only one option: reapply. Contractors are not allowed to challenge the financial levels assigned to them.

Again, these levels are significant because they limit the value of city projects a contractor can bid on. For example, if a contractor’s assigned financial level were \$6 million, the company could not bid on advertised contracts valued above that amount. One contractor we spoke with wanted additional options to challenge prequalification decisions — which, they said, would promote transparency with the Prequalification Board’s review.

Prequalification staff in the Department of Transportation & Infrastructure could not give us detailed information about the official appeals process for denied applicants. They clarified that the appeals process is not overseen by Transportation & Infrastructure. Instead, the process is administered in compliance with city ordinance, similar to that of other appeals handled in the city.

Among the other cities and government agencies we spoke with for this audit, we found all of them had dispute processes for prequalified contractors. Specifically, when comparing Denver’s prequalification rules

²⁶ City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), accessed March 28, 2023, https://www.denvergov.org/files/assets/public/v/1/doti/documents/regulations/pwrr-012.3-prequalification_of_construction_contractors.pdf, § 4.06(e).

to the eight governments in our analysis that have a prequalification program, Denver was the only city that does not allow prequalified contractors to challenge their assigned financial levels.

Therefore, by comparison, Denver's prequalification process does not align with other major U.S. cities and local municipalities that have a dispute process and Denver contractors' inability to dispute their financial level determinations seems unfair.

Leading practices say governments' processes and procedures to settle disputes should be proactively made public, just as with selection criteria and decision-making processes.²⁷ Managers of the Department of Transportation & Infrastructure and the airport may not be aware of leading practices around dispute processes or appeals for approved applicants that disagree with their assigned financial levels.

By Denver establishing and maintaining adequate documentation to support the city's rationale for prequalification approvals and financial level decisions, the city can increase its transparency with contractors, the public, and all stakeholders involved in the city's procurement and prequalification processes.

Furthermore, when contractors are made aware of how and why a financial level was assigned — including the factors decision-makers used — it increases accountability and improves trust that the city's process is fair and credible. It can also empower contractors to improve for future prequalification applications, which can potentially increase competition and grow the pool of qualified applicants bidding for city construction contracts.

Adequate documentation can also enable the Department of Transportation & Infrastructure and the airport to show how its justification and decision-making process is fair, and it would help ensure organizational knowledge is not limited to only a few individuals.

The process to change the prequalification rules is lengthy and requires a public hearing. But if the process remains unchanged, the city risks limiting its bidding pool for costly construction projects — which could also lead to a less fair, less open, and less competitive procurement process. The overall lack of transparency — real or perceived — could also negatively impact the city's reputation and its efforts to be a fair and equitable business partner.

²⁷ Transparency International, "Local Governance Integrity Principles and Standards" (2015), accessed Aug. 24, 2023, https://images.transparencycdn.org/images/2015_LocalGovernanceIntegrity_PrinciplesStandards_EN.pdf.

1.1**RECOMMENDATION****Update the prequalification rules**

The Department of Transportation & Infrastructure and Denver International Airport should update the city's prequalification rules to require that recommendations made by the Prequalification Board are documented with detailed reasons for the financial levels assigned for contractors' work categories.

AGENCY RESPONSE – AGREE

DOTI/DEN will update existing contractor prequalification documents and develop new processes and procedures to provide additional transparency.

— Department of Transportation & Infrastructure

IMPLEMENTATION EXPECTED BY MARCH 31, 2024

1.2**RECOMMENDATION****Improve transparency**

The Department of Transportation & Infrastructure and Denver International Airport should improve transparency when determining contractors' prequalification statuses to ensure accountability and that institutional knowledge is retained. To that end, the agencies should:

- Document justifications and rationale for assigned financial levels in both the managers' letters to contractors as well as any meeting minutes for the Prequalification Board.
- Communicate the justification for financial level determinations to contractors.

AGENCY RESPONSE – AGREE

DOTI/DEN will update existing contractor prequalification documents and develop new processes and procedures to provide additional transparency.

— Department of Transportation & Infrastructure

IMPLEMENTATION EXPECTED BY MARCH 31, 2024

1.3**RECOMMENDATION****Establish a dispute process for prequalified contractors**

The Department of Transportation & Infrastructure and Denver International Airport should develop, document, and implement a process that allows prequalified contractors to dispute prequalification decisions. Specifically, the agencies should ensure all

contractors are given transparent reasoning and justification for decisions on assigned financial levels.

This process should be codified in the city's prequalification rules as part of implementing Recommendation 1.1.

AGENCY RESPONSE – AGREE

DOTI/DEN will update existing contractor prequalification documents and develop new processes and procedures to provide additional explanation during prequalification process. The inclusion of a contractor dispute process will be considered for incorporation into the Prequalification Rule during the next revision.

— Department of Transportation & Infrastructure

IMPLEMENTATION EXPECTED BY JUNE 1, 2024

FINDING 2 AND RECOMMENDATIONS

The Prequalification Board is not receiving accurate and complete information about potential city contractors

For Denver’s Prequalification Board to determine contractors’ prequalification eligibility, contractors must provide information about their business, their qualifications, their past work history, their financial information, and other details. A prequalification coordinator in the Department of Transportation & Infrastructure then summarizes the contractors’ information, collected through an online application form, before it is reviewed and provided it to the board.

But we found the board is not always receiving accurate information in this summary, which is meant to help the board appropriately assess applicants, make sound decisions, and operate effectively in compliance with the rules. More than half of the board packages we reviewed contained at least one error.

Because the Denver Charter requires construction contracts be awarded only to “responsive, qualified” bidders, Denver’s prequalification rules require city decision-makers to know whether contractors meet certain criteria that should otherwise prevent a contractor from being prequalified. Most, but not all, of this information is collected through a contractor’s application.

But when key information that should disqualify or remove a contractor from consideration is neither requested nor verified, the city risks prequalifying companies that are ineligible to contract with the city — and decisions may not comply with the rules or the Denver Charter. Furthermore, when the board does not receive accurate or complete information, it reduces board members’ ability to make decisions effectively.

We determined the errors we identified would not have changed the outcome of any of the applications we reviewed, meaning the contractor was still eligible to prequalify. Nonetheless, the presence of these errors means the Prequalification Board was given inaccurate information or, in some cases, the calculations provided did not follow the methodology required by the city’s rules.

The errors we identified would not have changed the outcome of any of the applications we reviewed, meaning the contractor was still eligible to prequalify.

The Department of Transportation & Infrastructure does not collect and verify some information that could disqualify contractors from prequalification

One section of the city’s prequalification rules defines the criteria the Prequalification Board should use to evaluate contractors.²⁸ As we discussed in Finding 1, some factors are requirements that contractors must meet; others are optional for the board to consider in its assessment.

We noted that the city’s application for prequalification fails to ask contractors about required disclosures that should disqualify them from consideration. For instance, the application does not ask contractors to disclose whether they are behind on payments owed to the city — known legally as being “in arrears” — or whether they have defaulted on a financial obligations or contracts with the city. According to the prequalification rules, contractors that are behind on payments to or in default with the city are not eligible for prequalification.²⁹

Because the city’s application does not ask about this, contractors may not be aware of these restrictions to prequalification and city decision-makers may not be alerted in cases where a contractor is ineligible under these requirements.

We asked prequalification staff how they verify that contractors meet eligibility requirements since contractors self-report this information through their applications. Validating self-reported information is essential for the city given that a contractor’s ability to meet minimum requirements dictates whether they should be eligible for — and therefore, should be considered for — prequalification.

We learned staff do not validate contractors’ self-reported information. We also found that managers have no policies or procedures requiring staff to formally verify whether contractors are behind on payments to or in default with the city.

Meanwhile, the application for prequalification does ask contractors to disclose whether they have been or are “debarred” — that is, prohibited from contracting with government entities. Although the prequalification rules say contractors are ineligible if they have been debarred from city contracting, we found the Department of Transportation & Infrastructure has no formal process for staff to verify an applicant’s city debarment status.³⁰ By not checking this, staff cannot know whether a contractor is ineligible to prequalify according to this requirement of the rules.

Furthermore, we reviewed the policies and procedures prequalification staff and the board use, and we found no documented process to verify and document these key factors.

Because no process exists for supervisors or their staff to validate this information during the prequalification process, the Prequalification Board

²⁸ City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), accessed March 28, 2023, https://www.denvergov.org/files/assets/public/v/1/doti/documents/regulations/pwrr-012.3-prequalification_of_construction_contractors.pdf, § 5.

²⁹ City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), § 5.05(a).

³⁰ City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), § 5.06(b).

risks approving contractors who should not be allowed to prequalify. And as a result, this risks the city violating the Denver Charter’s requirement that construction contracts be awarded only to “responsive, qualified” bidders.

2.1 | **RECOMMENDATION** | **Update applications for prequalification**

To ensure the board has the information it needs to ensure its decisions comply with the prequalification rules, the Department of Transportation & Infrastructure and Denver International Airport should:

- Update the applications for prequalification to require that applicants disclose whether they are in arrears or in default on a city obligation whether by debt or contract.
- Update the prequalification policies and procedures to include processes for staff to verify and document the review of an applicant’s potential debarment status with the city and whether they are in arrears or default.

AGENCY RESPONSE – AGREE

Bullet point 1: DOTI/DEN staff will revise the prequalification application to require an applicant to disclose whether they are in arrears or default on a City obligation by debt or contract.

Bullet point 2: DOTI/DEN staff will revise our internal process to identify, via the System for Award Management website (SAM.gov), an applicant’s potential debarment status with the City and whether they are in arrears or default.

— Department of Transportation & Infrastructure
IMPLEMENTATION EXPECTED BY MARCH 31, 2024

Supervisory reviews of summary information given to the Prequalification Board are not effective

In reviewing applications, supporting documentation, and summary information given to the board, we identified inaccuracies and calculation errors in documents manually prepared by the prequalification coordinator. This documentation is reviewed by a Transportation & Infrastructure supervisor who oversees the prequalification process; however, we found that the supervisory review was not effective at ensuring information was accurate.

To help the Prequalification Board’s decision-making, staff in the Department of Transportation & Infrastructure prepare a summary of key information on the contractors applying for prequalification. This includes:

- **A DATA SHEET** – which is a summary of the contractor’s application, the work categories being applied for and a preliminary financial level recommendation based on the results from the summary sheet, a calculation of the contractor’s average safety score over the past 5 years, and financial details used to assess the contractor’s financial capability – including bonding and surety information, information from financial statements, and financial ratio calculations.
- **A SUMMARY SHEET** – which provides an overview of the contractor’s past projects and is used primarily to recommend a financial level by averaging the three highest project values for each work category a contractor is applying for.

Department staff said they create these documents manually using information from a contractor’s application including line items from financial statements, which are copied over where possible.

To determine whether prequalification staff were complying with the rules and their own policies and procedures to prepare data sheets and summary sheets, we reviewed 29 applications and their accompanying supporting documentation that the department reviewed between January 2020 and April 2023. Our review included recalculating fields that could significantly impact the outcome of an applicant’s status such as a contractor’s average safety score and prequalification staff’s financial level recommendations.

Sixteen of the 29 data sheets we reviewed contained at least one error.

More than half – 16 of the 29 data sheets we reviewed – contained at least one error.

For example, we found average safety scores on nine data sheets did not match our recalculation. Most of these were because of data-entry errors, including typos and transposed numbers, which resulted in averages being overstated or understated. But we also found instances where the rules were not followed, such as using safety scores older than five years in the calculation or where staff used fewer than five scores to calculate the average even though sufficient data was provided by the applicant.

The prequalification rules say the city will use an average of safety scores from the past five years when considering a contractor’s prequalification. This calculation must be accurate because the rules say contractors are ineligible for prequalification if their average safety score is greater than 1.5. Additionally, a contractor can still be denied prequalification if their average safety score falls between 1.2 and 1.49.³¹

Meanwhile, we found other errors. These included data-entry errors where information did not match source documentation such as dollar amounts from bonding letters and financial statements. We found that staff’s mistyping of or use of incorrect values from financial statements resulted in inaccurate financial ratio calculations, which the board used when considering a contractor’s financial capability. In addition, some data

³¹ City and County of Denver, “Rules for Prequalification of Construction Contractors” (2019), § 5.04(j).

sheets were incomplete; they did not include all fields even though the information was provided in a contractor's application.

Similarly, our review of the summary sheets found prequalification staff had inaccurately calculated some average amounts for contractors' past projects. Calculations were also not used consistently and in accordance with policy. As discussed, these amounts are preliminary financial level recommendations, which the board uses when considering the financial level contractors should be approved for.

In all, we reviewed 24 summary sheets containing recommended financial levels for 52 work categories calculated by prequalification staff. Twenty-nine of the 52 calculations – 56% – were inaccurate based on our recalculation.

Typically, staff calculate the recommended financial for each work category a contractor has applied for by averaging the three highest project values for each work category. But we found cases where the work categories staff used to calculate that average were not the same work categories the contractor was applying for.

We also found instances where the methodology staff used to calculate work category averages did not follow procedure. In some cases, the values and work categories staff used were different from the values a contractor provided in its application or staff used only one or two amounts to calculate the average.

The Transportation & Infrastructure supervisor who oversees the processing of prequalification applications reviews the application packages given to the Prequalification Board. These packages include the contractor's application, their supporting documentation, and the data sheet and summary sheet created by prequalification staff. The supervisor's approval is documented on the data sheet.

But based on the inaccuracies identified, we found this review process is not effective at ensuring the board receives accurate information to make its decisions. When we asked about the review process, the supervisor told us they do not review the data used in staff's calculations; they check only that staff's assessment of eligibility, bonding capacity, and recommended financial amounts are accurate.

While this review process is referenced in the department's policies and procedures, it lacks detail describing the purpose of the review and the checks the review ought to entail.

Federal standards say managers should design processes to detect, prevent, or reduce risks that interfere with achieving the organization's objectives.³² Managers should also implement control activities through policies to mitigate risk.³³ Furthermore, managers should use quality

³² U.S. Government Accountability Office, GAO-14-704G, "Standards for Internal Control in the Federal Government" (2014), accessed May 11, 2023, <https://www.gao.gov/assets/670/665712.pdf>, para. 10.01.

³³ U.S. Government Accountability Office, para. 12.01.

information to achieve the organization’s objectives.³⁴

Transportation & Infrastructure’s review process for prequalification applications is flawed and does not ensure the Prequalification Board is receiving accurate, complete information to base decisions on.

Without accurate information, the board members may make decisions that violate the city’s prequalification rules, such as prequalifying contractors who should be deemed ineligible. Furthermore, if the board is making decisions based on inaccurate information, it can affect financial level determinations for contractors – potentially resulting in otherwise-eligible contractors being denied prequalification or in contractors being prequalified for projects valued at higher or lower levels than the contractor’s true capacity.

2.2

RECOMMENDATION

Document supervisory reviews

The Department of Transportation & Infrastructure and Denver International Airport should formally document how supervisors review and approve application packages for contractors seeking prequalification. This should be done through formalized policies and procedures to ensure information prepared by the prequalification coordinator is consistent with city rules and that the Prequalification Board receives accurate information.

At a minimum, the procedures should detail who is to perform the review, the steps involved in the review, and the steps involved when errors are identified.

AGENCY RESPONSE – AGREE

DOTI/DEN staff will develop and implement a procedure to review the information collected from an application is accurately consolidated into the Board’s weekly agenda package.

**— Department of Transportation & Infrastructure
IMPLEMENTATION EXPECTED BY MARCH 31, 2024**

³⁴ U.S. Government Accountability Office, para. 13.01.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

To evaluate the city's prequalification process by:

- Determining whether the city's process aligns with other U.S. government entities.
- Assessing whether the City and County of Denver, through its Prequalification Board, follows its prescribed rules for contractor prequalification.
- Assessing how efficient the application process is and how effective the Prequalification Board is.

Scope

We reviewed Denver's prequalification process for construction contractors using information from January 2020 through April 2023.

We focused on the city's compliance with its prequalification rules and the effectiveness of the Prequalification Board in meeting the requirements, responsibilities, and objectives of the rules. We also used our professional judgment to survey and analyze other comparable U.S. government entities that have a contractor prequalification process.

Methodology

We used several methodologies to gather and analyze information related to the audit objectives. The methodologies included but were not limited to:

- Interviewing staff members and representatives from:
 - The Department of Transportation & Infrastructure.
 - Denver's Prequalification Board.
 - The Colorado Contractors Association.
 - Six current and past construction firms that have prequalified in Denver.
- Reviewing and analyzing:
 - The City and County of Denver's "Rules for Prequalification of Construction Contractors."
 - The 2012 memorandum of understanding between the Department of Transportation & Infrastructure and Denver International Airport, which outlined the administration of and rules for prequalification of construction contractors.
 - Legal requirements for prequalification described in the Denver Charter and city ordinance.
 - Denver's executive orders No. 8 and No. 101.
 - The city's 2019, 2020, and 2021 annual financial reports.
 - The city's budgets for 2019 through 2023.

- The City and County of Denver’s Code of Ethics and ethics handbook.
- Transportation & Infrastructure’s policies, procedures, practices, and management oversight for the contractor prequalification process and the Prequalification Board, including:
 - Prequalification Board training and procedures.
 - Prequalification checklists for applications, as well as data sheets and summary sheets compiled by staff.
 - Prequalification process flowcharts and governance model.
- Memos appointing Prequalification Board members and their alternates.
- Board members’ career profiles and past work history.
- Meeting minutes for the Prequalification Board.
- The prequalified contractor registry in the B2GNow system.
- Leading practices on transparency published by:
 - Transparency International.
 - The Journal of Management Policy and Practice.
- The Colorado Department of Transportation’s rules for construction bidding prequalification.
- The U.S. Government Accountability Office’s “Standards for Internal Control in the Federal Government.”
- Surveying and analyzing other comparable U.S. government entities that have a contractor prequalification process, as discussed in the [appendix](#).
- Reviewing documentation for a selected sample of contractors’ prequalification applications for renewals, joint ventures, and project-specific prequalification — such as information including:
 - The applicants’ bonding capability, financial statements, safety scores, completed construction projects and project values, and staff and equipment resources.
 - Transportation & Infrastructure’s prequalification data sheets and summary sheets.
 - Transportation & Infrastructure’s financial level determination letters.

APPENDIX

Comparing construction prequalification processes

Sampling methodology

To analyze the city's process for prequalifying construction contractors, we looked for relevant comparisons in two places:

- Other major U.S. cities that have a prequalification program.
- Other local municipalities throughout Colorado that have a prequalification program.

Using data from the Colorado Department of Local Affairs, we evaluated populations by county for 2010, 2020, and 2021.³⁵ We looked at the following Colorado's counties, which have the largest populations after Denver County:

- El Paso County.
- Arapahoe County.
- Jefferson County.
- Adams County.

We then looked at populations by Colorado municipality for those same years, resulting in the following list of cities that are largest by population after Denver:³⁶

- Colorado Springs.
- Aurora.
- Fort Collins.
- Lakewood.

We used our professional judgment to also add Boulder, Grand Junction, and Jefferson County Public Schools to our sample.

To ensure more reliable results in our survey, we then looked to cities outside Colorado that are similar in population to Denver.³⁷ We chose to survey these city governments:

- Portland, Oregon.
- Oklahoma City.
- Columbus, Ohio.
- Indianapolis.
- Seattle.

³⁵ Colorado Department of Local Affairs, "State Demography Office" (2023), accessed June 13, 2023, <https://demography.dola.colorado.gov/assets/html/county.html>.

³⁶ Colorado Department of Local Affairs.

³⁷ U.S. Census Bureau, "City and Town Population Totals: 2020-2022" (2022), accessed July 2023, <https://www.census.gov/data/tables/time-series/demo/pepst/2020s-total-cities-and-towns.html>.

- Fort Worth, Texas.
- Nashville, Tennessee.
- San Francisco.

We also surveyed the Colorado Department of Transportation and relevant state agencies for Indiana, Texas, and Tennessee.

Testing results

We contacted prequalification staff for the cities, state agencies, and other government agencies in our chosen sample. We received responses from:

- Grand Junction, Colorado.
- Fort Collins, Colorado.
- Aurora, Colorado.
- Jefferson County Public Schools in Colorado.
- Arapahoe County, Colorado.
- The Colorado Department of Transportation.
- Portland, Oregon.
- Oklahoma City.
- Columbus, Ohio.
- Indianapolis.
- The San Francisco Department of Water.

Among those, three do not have a prequalification process: Jefferson County Public Schools, Arapahoe County, and San Francisco's water department.

As we discuss in Finding 1 beginning on [page 11](#), we learned Denver's prequalification application and financial determination processes considers more factors than all other governments that responded to our survey.

Meanwhile, we found that 63% of the governments that responded to our survey use financial capability — specifically, the bonding capacity of prequalified contractors — as their primary factor for determining financial levels. Denver has more requirements to determine financial levels than all of the governments we surveyed. Denver requires:

- Financial statements that include working capital, quick assets, and a ratio of debts to net worth.
- Types and sizes of contracts completed within the past five years.
- Bonding capacity.
- A certified public accountant's opinion of the applicants' financial statements.
- Past performance history on city projects.
- A demonstration of adequate, safe, and reliable contract performance.

Figure 3 lays out the survey responses we received, comparing Denver’s construction prequalification process to the other governments. We specifically highlight each respondent’s processes for financial level determinations and disputes.

FIGURE 3. Summary of survey responses about prequalification processes

| SURVEY RESULTS | DENVER | GRAND JUNCTION, COLORADO | FORT COLLINS, COLORADO | AURORA, COLORADO | PORTLAND, OREGON | COLUMBUS, OHIO | OKLAHOMA CITY | INDIANAPOLIS | CDOT* |
|---|--------|--------------------------|------------------------|------------------|------------------|----------------|---------------|--------------|-------|
| <i>Prequalification program</i> | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ |
| <i>Dispute process for prequalified contractors who do not agree with their assigned financial levels</i> | | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ |
| FACTORS USED TO DETERMINE FINANCIAL LEVELS | | | | | | | | | |
| <i>Financial statements</i> | ◆ | | | No Response | | | | No Response | |
| <i>Types and sizes of contracts completed within the past five years</i> | ◆ | | | | | | | | |
| <i>Bonding capacity</i> | ◆ | ◆ | ◆ | | ◆ | ◆ | ◆ | | |
| <i>CPA opinion on the applicant’s financial statement</i> | ◆ | | | | | | | | |
| <i>Past performance history on city projects</i> | ◆ | | | | ◆ | | | | |
| <i>Demonstration of adequate, safe, and reliable contract performance</i> | ◆ | | | | | | | | |
| <i>Financial capability</i> | | | ◆ | | ◆ | ◆ | | | |

*Colorado Department of Transportation

Note: This summary does not reflect all questions we asked in the survey.

Source: Auditor’s Office analysis of survey responses.

Office of the Auditor

The **Auditor** of the City and County of Denver is independently elected by the residents of Denver. He is responsible for examining and evaluating the operations of city agencies and contractors for the purpose of ensuring the proper and efficient use of city resources. He also provides other audit services and information to City Council, the mayor, and the public to improve all aspects of Denver's government.

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



201 West Colfax Avenue, #705

Denver, CO 80202

(720) 913-5000

www.DenverAuditor.org

Our Mission

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