

**FOLLOW-UP REPORT**  
**Technology Services**  
*Open Media Foundation Contract Audit*  
**August 2017**

**Office of the Auditor**  
**Audit Services Division**  
**City and County of Denver**



**Timothy M. O'Brien, CPA**  
**Denver Auditor**



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Audit report year: **2016**



**Timothy M. O'Brien, CPA**  
Auditor

# City and County of Denver

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August 3, 2017

Scott Cardenas, Chief Information Officer  
Technology Services  
City and County of Denver

Re: Audit Follow-Up Report

Dear Mr. Cardenas:

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

This report is to inform you that we have completed our follow-up effort for the Technology Services Open Media Foundation Contract audit issued February 18, 2016. Our review determined that most of the recommendations have been either completely or partially implemented, with one recommendation being considered not implemented. Despite Technology Services' and Denver Media Services' efforts, auditors determined that the risks associated with the audit team's initial findings have not been fully mitigated. As a result, the Division may revisit these risk areas in future audits to ensure that appropriate corrective action is taken.

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

This concludes audit follow-up work related to this audit. I would like to express our sincere appreciation to you, Technology Services, and Denver Media Services personnel who assisted us throughout the audit and follow-up process. If you have any questions, please feel free to contact me at 720-913-5000 or Sonia Montano, Internal Audit Supervisor, at 720-913-5157.

Denver Auditor's Office

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

Timothy M. O'Brien, CPA  
Auditor



# Open Media Foundation Contract August 2017

## Status

Denver Media Services (DMS) has implemented five of the ten recommendations made in the February 2016 audit report.

## Background

DMS serves the communication and media resource needs of Denver City government and is responsible for administering and enforcing the City's contract with OMF to manage public access channels, among other activities.

## Purpose

To determine the extent to which DMS has implemented an efficient and effective process to administer the OMF contract and to determine the extent to which DMS ensures that allocated PEG money is properly prioritized, spent on appropriate capital assets, and properly tracked and accounted for.

# REPORT HIGHLIGHTS

## Highlights from Original Audit

We found that Denver Media Services (DMS) does not have an effective framework for administering and monitoring Open Media Foundation (OMF) contractually related obligations, expenditures, and performance. DMS lacks written policies and procedures detailing its monitoring activities and other responsibilities related to OMF. We also found that DMS has weak internal controls surrounding OMF asset procurement and accounting, and is not managing PEG funding properly.

Specifically, our review of quarterly performance reports and maintenance reports found that DMS does not obtain sufficient supporting documentation to validate that services are being delivered in accordance with contract terms. In addition, DMS has not defined allowable capital and maintenance costs, which limits DMS's ability to determine the appropriateness of OMF expenditures.

Further, we found that DMS has not been reviewing capital purchases timely to determine if spending adheres to the approved budget before providing additional disbursements to OMF.

In addition, DMS has not utilized established City procedures for the procurement of OMF assets. We found that DMS has not adequately implemented controls and, as a result, has reimbursed OMF for payments to questionable vendors and has not recorded OMF assets in the City's system of record timely.

We also found that audits of the fees received from Comcast are not being performed timely, limiting the City's ability to ensure accurate revenues are received. Additionally, DMS is not properly reconciling the special revenue fund (SRF) related to the PEG fees, resulting in a \$1.8 million incorrect accounting entry in the SRF that was not detected by DMS.

Lastly, DMS has not properly documented decisions regarding the allocation of PEG fees or the increases in the annual maintenance funding, which limits DMS's ability to ensure funds have been allocated appropriately.

Our findings suggest that a framework is necessary to assist DMS with all contract administration duties to help ensure that OMF is being held responsible for its contractual obligations.

## Findings at Follow-up

Of the ten recommendations made, five have been fully implemented. DMS has begun to create a contract monitoring framework by developing controls over OMF's protocols, such as using the City's Purchasing Department for all OMF procurement, and instituting some rules for allowable documentation. However, the finalization of DMS' contract monitoring framework is still necessary, including further defining allowable documentation of performance metrics and maintenance costs, documenting the reasons for variances found during reconciliations, and ensuring PEG fee audits occur on an annual basis.

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# Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<b>FINDING: Denver Media Services Should Improve Contract Administration Practices</b>		
<p><b>1.1 Documentation</b> – The Director of Denver Media Services should work with Open Media Foundation to establish a framework for allowable documentation of performance metrics and maintenance costs.</p>	<p>Allowable documentation for maintenance costs was established by Denver Media Services (DMS) and communicated to Open Media Foundation (OMF). However, allowable documentation for reporting OMF’s performance measures to the City has not been clearly defined.</p>	<p><b>Partially Implemented</b></p> <p><b>Original target date for completion: June 2016</b></p>
<p><b>1.2 Capital Costs</b> – The Director of Denver Media Services should work with Open Media Foundation to develop a specific framework of allowable spending for capital costs. The framework should focus on intent rather than accounting definitions, it should be agreed upon and signed by both parties, and it should be a written document that is reviewed and updated on an annual basis.</p>	<p>DMS has instituted controls over OMF’s purchasing by requiring that OMF’s equipment be acquired through the City’s Purchasing Department and implementing DMS’s newly-developed Purchasing Procedures Policy Manual to address allowable spending costs. However, the entire framework was not agreed to by OMF and a written document was not signed. DMS and OMF continue to participate in mediation in an attempt to settle the disputes regarding the definition of allowable spending for capital costs.</p>	<p><b>Partially Implemented</b></p> <p><b>Original target date for completion: June 2016</b></p>
<p><b>1.3 Tracking Equipment Purchases</b> – The Director of Denver Media Services should develop and implement a process to track Open Media Foundation equipment purchases back to the pre-approved budget in a timely manner to determine whether budget line items have available balances before approving disbursements to Open Media Foundation.</p>	<p>DMS has developed and implemented a timely process to track OMF equipment purchases back to the pre-approved budget.</p>	<p><b>Implemented</b></p>

# Recommendations: Status of Implementation

	Recommendation	Auditee Action	Status
1.4	<p><b>Capital Assets</b> – The Director of Denver Media Services should develop a process to purchase capital assets for the Open Media Foundation contract through the City’s purchasing process.</p>	<p>Denver Media Services now has a process to purchase capital assets on behalf of OMF using the City’s established purchasing process.</p>	<p><b>Implemented</b></p>
1.5	<p><b>Comcast Audits</b> – The Chief Information Security Officer in Technology Services should ensure the audits of Comcast’s payments to the City are completed on an annual basis.</p>	<p>The 2012-2013 findings from audits of Comcast’s PEG fee remittance were forwarded to Comcast for response, but Comcast has yet to make outstanding payments in the amount of \$155,381 from that timeframe. Further, while DMS has sent Comcast a letter to kick off the 2014 audit, audit work has not yet begun.</p>	<p><b>Not Implemented</b></p> <p><b>Original target date for completion: June 2016</b></p>
1.6	<p><b>Reconciliations</b> – The Director of Denver Media Services should ensure that regular and timely special revenue fund reconciliations are performed between activity recorded in the City’s system of record and the internal records maintained by the agency. Any differences between the balance in the City’s system of record and the agency’s internal records should be researched and explained on the reconciliation. The differences should not be cleared from the reconciliation until adjusting accounting entries are made.</p>	<p>While DMS has improved its reconciliation processes, including formally documenting the process to reconcile special revenue funds, the reconciliation documentation reviewed by the audit team did not explain the differences between the City’s system of record and DMS’s internal records.</p>	<p><b>Partially Implemented</b></p> <p><b>Original target date for completion: June 2016</b></p>

# Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<p><b>1.7 PEG Fund Disbursement</b> – The Director of Denver Media Services should ensure that all decisions made regarding PEG fund distributions are well-documented.</p>	<p>DMS has implemented Recommendation 1.4; therefore, the City no longer distributes PEG funds to OMF outside of the normal City purchasing process. Since all PEG spending is required to have a PEG PO Request Form completed, PEG fund distribution decisions are now well-documented.</p>	<p><b>Implemented</b></p>
<p><b>1.8 Internal Tracking</b> – The Director of Denver Media Services should develop an internal tracking mechanism to track all special revenue fund activity, such as receipts from Comcast and disbursements to the PEG entities.</p>	<p>DMS has implemented a tracking mechanism by which to track all special revenue fund activity, including receipts from Comcast and disbursement of PEG funds to OMF and the other PEG entities.</p>	<p><b>Implemented</b></p>
<p><b>1.9 Policies and Procedures</b> – The Director of Denver Media Services should develop a contract monitoring framework with specific policies and procedures for monitoring contract terms, including at a minimum, review of Open Media Foundation’s Annual Work Plan, Quarterly Reports, Monthly Maintenance Statements, and performance metrics.</p>	<p>A contract monitoring framework has been initiated through the Purchasing Procedures Policy Manual and supplemental clarity regarding acceptable documentation for Monthly Maintenance Statements. However, DMS has not formalized their process for monitoring all of the contract terms that were recommended to be incorporated into their framework for contract monitoring.</p>	<p><b>Partially Implemented</b></p> <p><b>Original target date for completion: June 2016</b></p>
<p><b>1.10 Roles and Responsibilities</b> – The Director of Denver Media Services should ensure specific roles and responsibilities for contract monitoring are identified for staff members.</p>	<p>Roles and responsibilities surrounding contract monitoring duties have been documented in Technology Services’ Playbook Task Lists.</p>	<p><b>Implemented</b></p>

# Conclusion

While Denver Media Services (DMS) has implemented some of the recommendations made in the Technology Services Open Media Foundation (OMF) Contract audit report, others have yet to be fully implemented. DMS now requires all of OMF's equipment to be purchased through the City's Purchasing Department instead of prefunding OMF with quarterly disbursements. Additionally, DMS has instituted the Purchasing Procedures Policy Manual to guide both parties through the changes to the procurement process. Despite DMS's efforts, auditors determined that the risks associated with the audit team's initial findings have not been fully mitigated. For example, the contract monitoring framework we recommended has only been partially implemented and both parties have yet to formally agree on the allowable capital costs. We also believe that special revenue fund reconciliations may still be a lingering risk, due to the lack of documented explanations for differences found during the reconciliation process. Lastly, findings from the 2012-2013 Comcast PEG fee remittance audit had not been fully resolved at the time of the production of this report. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure that appropriate corrective action is taken.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from Denver Media Services for their cooperation during our follow-up effort and their dedicated public service.