AUDIT REPORT

Division of Small Business Opportunity

Certifying Disadvantaged Businesses

OCTOBER 2025

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DENVER AUDITOR

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City and County of Denver

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AUDITOR'S LETTER

October 23, 2025

We audited the certification of disadvantaged businesses by the Division of Small Business Opportunity to assess whether the division consistently identified eligible procurements, the effectiveness of its oversight and compliance with requirements and program goals, and the timeliness of the certification process. I now present the results of this audit.

The audit found the Division of Small Business Opportunity is not ensuring prime contractors comply with program requirements like reporting payments and notifying the division of changes that impact program goals. Additionally, the division has not used its authority to sanction businesses for noncompliance, so businesses are not incentivized to comply with program requirements. We also found the division did not complete required site visits and the division did not review some contracts for program eligibility — limiting opportunities for small or disadvantaged businesses to participate in available city contracts.

By implementing recommendations for stronger compliance oversight and contract monitoring, the Division of Small Business Opportunity will be better able to ensure contractors comply with requirements and certified businesses receive fair and equitable opportunities to participate in city contracts.

I am disappointed the Division of Small Business Opportunity chose to disagree with two recommendations that would clearly strengthen its processes to ensure all applicable contracts are reviewed and monitored by the division. Further explanation is in the Auditor's Addendums that accompany these 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." 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 Division of Small Business Opportunity 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

Timothy M. O'Brien, CPA
Auditor

HIGHLIGHTS

Certifying Disadvantaged Businesses

OCTOBER 2025

Key facts

- The Division of Small Business Opportunity develops certification programs to connect small and disadvantaged businesses with construction, professional design, and concession contracting opportunities with the city.
- The division is responsible for certifying businesses, setting requirements on city procurements to use certified businesses, and monitoring and enforcing city contracts with business-utilization requirements.
- As of July 2025, the division is responsible for overseeing 3,149 contracts with local and federal small-business program requirements.

The city disagreed with 2 of 8 recommendations

What we found

- **SOME CONTRACTORS WENT MONTHS WITHOUT REPORTING SUBCONTRACTOR PAYMENT INFORMATION, IF AT ALL**. This reporting failure hindered the compliance team's ability to accurately calculate progress toward certified business goals.
- **PRIME CONTRACTORS REDUCED SUBCONTRACTOR WORK — OR SUBSTITUTED CERTIFIED SUBCONTRACTORS — WITHOUT NOTIFICATION AND APPROVAL FROM THE DIVISION, DESPITE CITY ORDINANCE REQUIREMENTS**.
- **NO SANCTIONS WERE ISSUED FOR NONCOMPLIANCE**. Without incentives to follow the terms of contract agreements and legal requirements, prime contractors took advantage of businesses through reduced work, late payments, or unfair termination.
- **SOME CONTRACTS WERE NOT REVIEWED FOR PROGRAM REQUIREMENTS — LIMITING OPPORTUNITIES FOR SMALL OR DISADVANTAGED BUSINESSES TO PARTICIPATE IN AVAILABLE CITY CONTRACTS**.
- **DESPITE EXISTING PROCEDURES, A LACK OF SUPERVISORY REVIEW OF THE CONTRACT-IMPORT PROCESS LED TO ERRORS IN THE DIVISION'S CONTRACT MONITORING SYSTEM'S DATA**. This inadequate review process resulted in some contracts being overlooked.
- **SITE VISITS WERE NOT COMPLETED WHEN REQUIRED**. Without conducting site visits to validate a contractor's involvement on a project, resulting compliance issues cannot be identified and promptly addressed. And policies and procedures for site visits do not align with practices.

Why we did this audit

An earlier audit and follow-up report found insufficient procedures existed to ensure contractors followed city ordinance. There were no enforced or established consequences for contractors not meeting program goals. Procedures lacked important provisions and staffing levels were likely too low to effectively monitor contracts.

Why it matters

If the Division of Small Business Opportunity is not adequately overseeing city contracts with small-business requirements, it cannot ensure certified businesses receive fair and equitable opportunities to participate in city contracts. It also cannot guarantee the city's contractors follow small-business ordinances or contract terms.

CONTENTS

BACKGROUND 1

FINDING 1 AND RECOMMENDATIONS 5

The Division of Small Business Opportunity cannot ensure contractors follow small-business program requirements

The division does not have the information it needs to effectively monitor compliance with program requirements. 5

The division is not effectively validating the performance of program and contract requirements for certified small-business contracts 12

FINDING 2 AND RECOMMENDATIONS 16

The Division of Small Business Opportunity is not aware when small or disadvantaged businesses should be involved in city projects

OBJECTIVE, SCOPE, AND METHODOLOGY 24

BACKGROUND

The Division of Small Business Opportunity is part of Denver Economic Development & Opportunity. The division develops and enforces certification programs to connect small, minority, and women-owned businesses with construction, professional design, and concession contracting opportunities with the city.

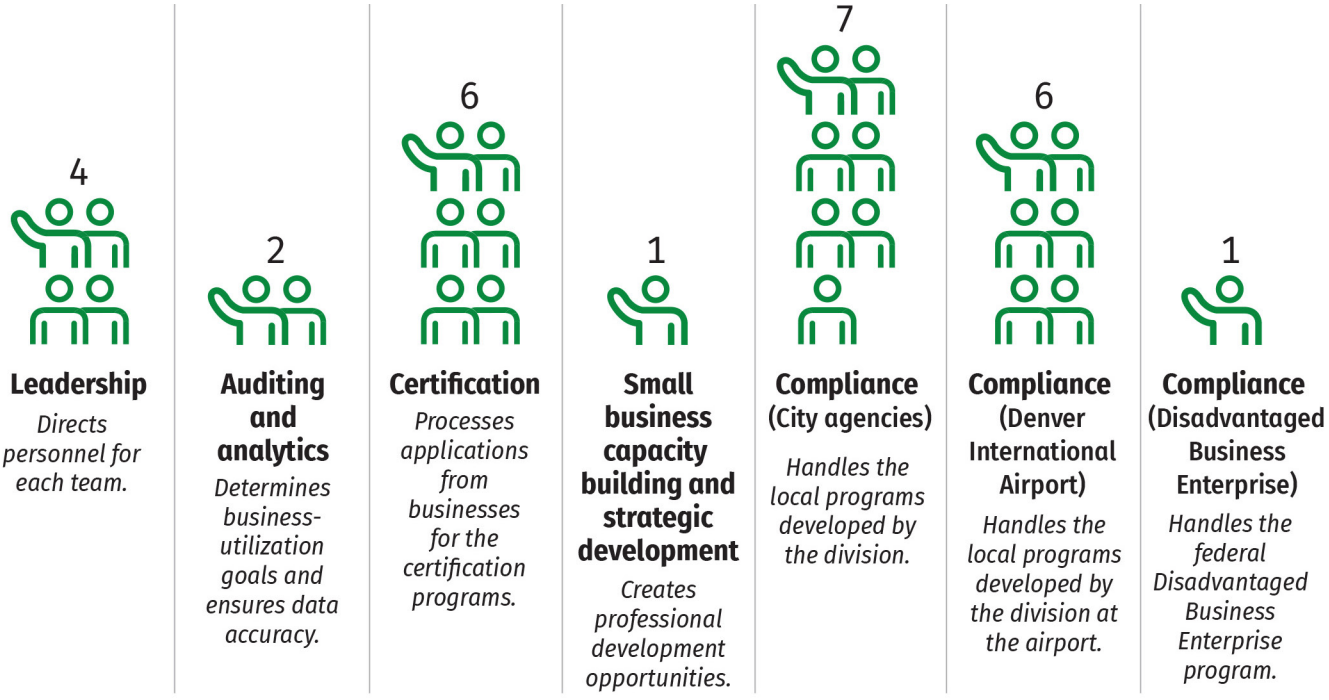
The division works to remove systemic barriers for certified disadvantaged businesses to create a more equitable economy in Denver.

The division has four primary responsibilities:

1. Setting annual and project-specific goals for how much city work must be available to certified disadvantaged businesses. "Business utilization" is the federal term that Denver uses for these goals.
2. Processing new and renewal certification applications and conducting annual reviews.
3. Enforcing compliance with project goals and contract requirements.
4. Creating professional networking and training opportunities for businesses.

As shown in Figure 1, the division has seven teams working toward these responsibilities.

FIGURE 1. Division of Small Business Opportunity teams and team size



Source: *Created by Auditor's Office staff using information from the Division of Small Business Opportunity.*

As of September 2025, the division's contract compliance transferred to the Department of General Services. Denver Economic Development & Opportunity will continue to oversee the certification programs.

Certification types

Authorized by city ordinance, the division certifies businesses in six different certification programs. Four of the certifications are local programs the division developed:

1. **MINORITY/WOMEN BUSINESS ENTERPRISE** – A race- and gender-conscious program for small businesses to compete for contracts.
2. **SMALL BUSINESS ENTERPRISE** – A race- and gender-neutral program for small businesses to compete for construction-related and goods and services contracts with the city.
3. **SMALL BUSINESS ENTERPRISE CONCESSIONAIRE** – A race- and gender-neutral program for small businesses to compete as a concessionaire.
4. **EMERGING BUSINESS ENTERPRISE** – A race- and gender-neutral program for emerging businesses to compete with other emerging businesses on construction and professional service projects.

Two of the six certifications are federal programs:

5. **DISADVANTAGED BUSINESS ENTERPRISE** – A race- and gender-conscious program for small businesses to compete for contracts with federal funding.
6. **AIRPORT CONCESSION DISADVANTAGED BUSINESS ENTERPRISE** – A race- and gender-conscious program for small businesses to compete for concessions contracts at the Denver International Airport.

Businesses may have multiple certifications, if they meet eligibility requirements for each certification.

The division certifies and enforces the federal Disadvantaged Business Enterprise program. The division also accepts applications for the Airport Concession Disadvantaged Business Enterprise federal program, but a team at the Denver International Airport administers the program. This audit does not evaluate the Airport Concession Disadvantaged Business Enterprise program.

Businesses may have multiple certifications, if they meet eligibility requirements for each certification.

Application process

To hold one or more certifications, business owners must first apply. The certification team processes new applications and annual reviews of businesses to determine whether the applicant meets the eligibility requirements. Businesses provide information about their ownership status, business size, personal net worth, time in business, and industry type. Some certifications also require an application processing fee.

Each certification program has slightly different eligibility requirements.

POSITIVE EFFORTS

The certification team has 90 days to process each application. We looked at more than 2,000 applications from July 2023 through December 2024 and found 101 applications exceeded the 90-day processing time frame. Furthermore, in September 2024, the division developed a policy and procedure to help manage applications that require more time to process. This helped streamline the application process.

These requirements ensure businesses meet a "disadvantaged" status, either socially, economically, in size, or through a combination of each.

Once businesses are certified, they are able to participate in specific opportunities on city contracts with program requirements.

BUSINESS-UTILIZATION GOALS

Business utilization is a federal term the city has adopted to explain how available resources are divided and used according to set business standards. A business-utilization goal is a minimum percentage of the contract value that must be subcontracted to a certified business.

Monitoring and compliance oversight

The division monitors and enforces city and federal contracts with certified business-utilization requirements. Three teams of compliance project managers oversee the six programs, as explained in Figure 1 on page 1. Because the requirements for local programs are based on federal programs, many requirements are similar but not identical.

These three teams monitor contractor performance and compliance — reviewing contract terms from procurement to closeout on each contract. However, since each certification program has varying compliance requirements, the teams specialize in specific certification programs for active contracts. For example, the compliance team for the Disadvantaged Business Enterprise program must complete site visits to confirm the certified business is the one doing the work to fulfill regulatory requirements.

A prime contractor has the direct contractual agreement with the city. Compliance teams are responsible for confirming payments from prime contractors to subcontractors are on time and correct.

The division must verify data from compliance monitoring is accurate and complete. This data is reported to agencies and stakeholders about the progress of achieving business-utilization goals and the division's mission of creating an equitable Denver economy.

GRADUATING FROM CERTIFICATIONS

Businesses graduate from certifications when they exceed size standards set by the U.S. Small Business Administration for their industry. If businesses are certified when projects begin and graduate from the program before project completion, all funds paid to that business are still counted toward the business-utilization goal, even after they are no longer certified.

Graduation from certification programs

Businesses that obtain certification through the Division of Small Business Opportunity have access to contracting opportunities. The certifications provide businesses with tools to outgrow the division's programs and sustain themselves without certifications.

The division offers additional resources for growth. One resource is the Mentor-Protégé Program where agencies sponsor matched pairs of experienced contractors with disadvantaged businesses.

Another resource is the Division of Small Business Opportunity Equity & Empowerment Council, which is an engagement forum between the division and community stakeholders.

Many businesses in Denver rely on the support and tools from the Division of Small Business Opportunity for their growth and sustainability. In 2024, the Division of Small Business Opportunity reported it was monitoring 342 new contracts and 2,620 ongoing contracts.

FINDING 1 AND RECOMMENDATIONS

The Division of Small Business Opportunity cannot ensure contractors follow small-business program requirements

According to the "Division of Small Business Opportunity Semi-annual Report October 1, 2023 – March 31, 2024," compliance teams are dedicated to monitoring city contracts with small-business program requirements to prevent discrimination, track progress toward meeting participation goals, and ensure fair treatment and prompt payment to certified contractors.

Division leaders said the team ensures all provisions of the program are applied from the beginning of the contract through the project closeout — ensuring certified businesses are getting the agreed-upon work. These continuity efforts are important to promote and improve participation of certified businesses, and allows disadvantaged businesses the opportunity to more fully compete for government contracts.

The division does not have the information it needs to effectively monitor compliance with program requirements

Three project manager teams are responsible for compliance oversight of city projects:

- Two teams are responsible for monitoring compliance contracts with the four local programs for Minority, Women Business Enterprise; Emerging Business Enterprise; Small Business Enterprise; and Small Business Enterprise Concessionaire.
  - One team oversees contracts at the airport.
  - The second team oversees contracts with downtown city agencies, like Denver Parks & Recreation.
- The third team oversees both the Department of Transportation & Infrastructure and airport contracts with the federal Disadvantaged Business Enterprise program requirements.

At the start of the procurement process, the teams ensure the correct small-business program related information is included when the procurement is made public. The publication of procurements is prioritized to avoid delaying the contracting process.

The division's compliance managers hold meetings before contractors bid on projects and after contracts are awarded, they let contractors know about documentation and reporting requirements and explain how to use the B2Gnow system.

Contract imports from Workday into B2Gnow occasionally fail and prime contractors or compliance teams must manually enter payments.

City projects compliance oversight

The division uses B2Gnow to document contracts and monitoring activities. Division staff said signed contracts should be imported into the system automatically but sometimes imports fail and compliance teams must manually enter the contracts.

B2GNOW

The certification team and all compliance teams use B2Gnow, a software system to process applications, monitor active contracts, and close out finished contracts.

Once the contract is in B2Gnow, city payments to the prime contractor should automatically import from Workday into B2Gnow. However, division staff and leaders said these imports also occasionally fail and prime contractors or compliance teams must manually enter payments.

The division's rules and regulations require prime contractors to enter the amounts the prime contractors were paid into B2Gnow and the amounts the prime contractors paid to subcontractors. According to the division's rules and regulations, subcontractors should confirm payment receipt in B2Gnow. If there is a discrepancy between what the prime contractor and subcontractors report, then further review is needed from compliance teams.

Payments are monitored in B2Gnow. The software allows monitoring teams to prepare subcontractor payment reports for prime contractors. These reports document whether prime contractors have or have not recorded that month's payment to subcontractors.

Division staff said best practice would be to review payment reporting on all contracts every month, but they currently focus on priority contracts with high community visibility and mayoral directives. For the other contracts, compliance managers rely on subcontractors to report issues like concerns about delayed payments. The limited staffing available to monitor compliance has resulted in a large number of unreported payments by prime contractors. Priorities can vary month to month, depending on the compliance teams' workloads.

In addition to an overall high number of overdue payment reports, some prime contractors may go many months without reporting payment information, if at all. Other contractors may try to submit a batch of monthly payment reports at one time.

PREVIOUS SMALL BUSINESS OPPORTUNITY AUDIT

Our 2020 audit of the Division of Small Business Opportunity found prime contractors violated city ordinance by substituting certified subcontractors without the division's approval. The division also did not withhold payments or enforce sanctions for prime contractors and subcontractors not reporting payments.

Our 2021 follow-up report found the division developed some controls designed to promote accountability but the risks remained.

Failure by prime contractors to report payments to subcontractors hinders the compliance team's ability to accurately calculate the progress toward meeting certified business use goals. Reduced staff availability limits the team's capacity to follow up with prime contractors for more information. Despite this risk and its impact, prime contractors are not held accountable for failing to comply with reporting requirements.

ACTIVE COMPLIANCE EFFORTS – Compliance teams encounter different challenges in their scope of work. Some contracts at Denver International Airport are between an airline and a contractor. Division leaders said they were not notified of changes to these contracts despite city ordinance notification requirements for contracts with small-business utilization goals.

After undertaking an effort to close older contracts that were not actively being monitored, the compliance team overseeing contracts at the airport said they can now actively monitor all contracts with local program requirements.

Unlike the division's airport compliance team, the downtown city agencies compliance team said it is not able to proactively monitor contracts with local certification program requirements. This difference in monitoring is due to the number of contracts the city agencies team manages and its role in the contract procurement process.

Around March 2025, the city agencies compliance team narrowed its focus. The team was told to prioritize contract-review closures to specific contracts identified by division leaders in a dashboard.

Priority ranking is assigned to contracts the downtown city agencies compliance team reviews. Larger projects are reviewed first, then other contracts are reviewed. In some cases, contracts with the city may be closed without resolving discrepancies — increasing the risk that certified business-utilization goals are not met.

Closed contract review

According to compliance policies and procedures, the contract closeout process ensures all components of a contract are completed before the contract is closed in the B2Gnow system. Prompt contract closure is important to:

- Allow the regular review of certified subcontractor use.
- Hold prime contractors accountable to certified business use commitments.

With access to the B2Gnow software, we reviewed 13 of the 54 contracts that Small Business Opportunity closed during the period we looked at for our audit from July 1, 2023, through Dec. 31, 2024 — assessing the division's compliance monitoring efforts over the duration of the contracts. The level of documentation in B2Gnow varied for each contract. Delayed or missing information in contract documentation included payment records,

Incomplete information documentation prevents the division from ensuring compliance with small-business program requirements.

letters of intent, change orders, and evidence that certified subcontractors were paid in full or notified of reduced work.

Division staff said finding a single piece of contract information often requires substantial research through a contract's history. And agency leaders confirmed that using the software can be time intensive for documentation review. Some reviews require substantial research through the contract's history and events in B2Gnow. A single piece of information may take up to two hours to locate.

REQUIRED NOTIFICATIONS NOT MADE – We found that prime contractors did not notify the division and certified subcontractors when required. Prime contractors did not provide information until after the work was completed or they provided nothing at all, often waiting until compliance managers requested the information during the closeout process.

Division staff said this information should be documented in B2Gnow for the division's oversight and auditing purposes. Incomplete information documentation prevents the division from ensuring compliance with small-business program requirements.

We found issues with eight of 13 contracts we analyzed. For five contracts, we found prime contractors increased the contract value without immediately notifying Small Business Opportunity.

With one of the five contracts, two change orders increased the contract value by about $1 million. Both change orders were recorded in B2Gnow about six months after each increase. Despite increasing the contract value, one of the certified subcontractors performed less work on the project than contracted. This prime contractor failed to notify the subcontractor or Small Business Opportunity about the reduction of work.

The division closed three other contract files in B2Gnow where the prime contractor reduced the dollar amount of work performed by the certified subcontractor or the certified subcontractor was changed without notifying the division.

We found no exceptions with two of the 13 contracts that began in 2019 when city ordinance did not require the prime contractor to provide notification of changes to contract terms or work performed by certified subcontractors. A third contract that also began in 2019 met the federal Disadvantaged Business Enterprise program requirements, and Small Business Opportunity monitored this contract's compliance for the

PRIME CONTRACTOR NOTIFICATION REQUIREMENTS

City ordinance requires prime contractors to notify Small Business Opportunity of any agreed-upon increase or decrease in a contract's scope of work. Also, before ending, substituting, or reducing the work performed by a certified business, city ordinance requires prime contractors to notify the certified business of the change, copy the division on the message, and receive approval for good cause.

The division is not ensuring prime contractors submit documentation needed to provide adequate oversight for payments made to certified businesses.

Colorado Department of Transportation. Division employees requested the prime contractor complete a form needed to remove a certified subcontractor from the project. This form had to be approved before work could continue. But the division did not receive the approved form until after the project was completed a year and a half later.

City ordinance requires prime contractors to notify the division of any agreed-upon increase or decrease in the contract's scope of work. Also, city ordinance and the division's rules and regulations require prime contractors to notify the certified business of the reduction, copy the division on the message, and receive approval for having good cause — before reducing the work performed by a contracted certified business.

PAYMENTS NOT REPORTED – While the B2Gnow system includes automated notifications to alert contractors when monthly payment information must be reported, compliance managers said staff also spend a lot of time manually following up with contractors to ensure on-time payment reporting. These automated and manual reminders are still necessary despite clear contractual requirements for payment reporting.

We also found the division is not ensuring prime contractors submit documentation needed to provide adequate oversight for payments made to certified businesses. Prime contractors are not held accountable for failing to follow reporting requirements.

A lack of consistent payment data further complicates oversight. Often this inconsistent data requires compliance managers spend time requesting report payments from prime contractors or researching multiple years' worth of contract documents and filtering through messages between the division and the prime and subcontractors for information. Also, contracts regularly have multiple compliance managers over the span of several years, and staff do not consistently upload and update information in B2Gnow needed to support compliance activities and results.

The division's procedures include a partial list of noncompliant activities where corrective action must be taken:

- Certified subcontractor with documented intent to work is not listed in B2Gnow.
- Certified prime or subcontractor does not perform a commercially useful function.
- Prime contractor does not report payments to subcontractors in B2Gnow.
- Prime contractor or certified subcontractor does not respond to:
  - B2Gnow payment notifications.
  - Communications from Small Business Opportunity.
- Prime contractor changes, reduces, or ends certified subcontractors without approval from Small Business Opportunity.
- Prime contractor is not meeting commitment, based on the percentage of payments to the prime and certified subcontractor.

Division leaders said agencies are not notifying the division's compliance team when a project is complete and staffing issues with compliance teams prevented them from closing contracts on time.

- Prime contractor does not comply with:
  - Goals and plans to use certified subcontractors.
  - Prompt pay ordinance.

A lack of project status clarity complicates the closeout process.

Compliance teams are required to verify that all certified and uncertified subcontractors are documented and all payments to those subcontractors are reflected in B2Gnow.

Division leaders said agencies are not notifying the division's compliance team when a project is complete and staffing issues with compliance teams prevented them from closing contracts on time. We found some projects were fully paid but still open in B2Gnow.

The delays may result in contracts closed without the information necessary to determine compliance with program and city ordinance requirements.

STAFF WORKLOAD IS UNMANAGEABLE – The Division of Small Business Opportunity developed a supervisor position to oversee the Disadvantaged Business Enterprise program because of the higher level of scrutiny and annual reporting required for federally funded contracts. The supervisor hired two additional compliance managers, so the team could conduct active compliance oversight and process improvements.

Due to long-term staffing limitations and the number of contracts, the city agencies team said it does not have the time available to allocate to similar efforts. Staff said it is "in triage mode" and is focusing on a subset of high-profile contracts or when a subcontractor reports an issue to the division, such as a delayed payment.

As of July 2025, the compliance managers overseeing contracts with the Disadvantaged Business Enterprise program requirements were each assigned an average of 20 contracts. Meanwhile, compliance managers overseeing local small-business programs at the airport each average 157 contracts. The compliance managers overseeing downtown city agency contracts average 398 contracts each.

Cumulatively, the compliance managers for the Disadvantaged Business Enterprise, city agencies, and the airport oversee 3,149 contracts.

City ordinance says businesses may be sanctioned for noncompliance, and the division has policies outlining the procedures for pursuing sanctions against noncompliant prime contractors.

SANCTIONS FOR NONCOMPLIANCE

The division's policies and procedures define consequences, known as sanctions, for failure by prime contractors to follow small-business program requirements on city contracts. These sanctions may include a plan to correct failures to meet requirements, withhold payments to prime contractors, or monetary penalties.

Despite available sanction tools, we did not find any prime contractors that were sanctioned for noncompliance.

By not requiring businesses to follow certain contract agreements, the division increases the risk that late subcontractor payments, delayed payment reporting, and unapproved contract term modification become commonplace.

This potentially risks prime contractors taking advantage of certified minority-owned, woman-owned, or otherwise disadvantaged businesses through discrimination, late or reduced payments, or unfair termination — undermining the division's strategic efforts to promote and improve participation of certified businesses to compete for government contracts.

1.1 RECOMMENDATION Evaluate number of assigned contracts

The Division of Small Business Opportunity should evaluate the number of contracts assigned to each compliance project manager and assess the appropriate number of contracts that allow proactive and effective oversight of program requirements.

AGENCY RESPONSE – AGREE

The Division of Small Business Opportunity (DSBO) routinely evaluates the number of contracts assigned to each compliance project manager via DSBO's internal Power BI Compliance Project Manager Contract Distribution dashboard and will continue to do so. Per the Auditor's recommendation, DSBO will assess the appropriate number of contracts that allow proactive and effective oversight of program requirements within the parameters set forth in the ordinance to be reauthorized in October, 2026.

— Division of Small Business Opportunity

IMPLEMENTATION EXPECTED BY OCT. 31, 2026

1.2 RECOMMENDATION Enforce compliance

The Division of Small Business Opportunity should follow established standard operating procedures and use tools, including sanctions, to enforce contractor compliance with city code and small-business program requirements.

AGENCY RESPONSE – AGREE

DSBO agrees with the recommendation. Since the audit period, DSBO's workforce has been reduced by 33%, further limiting capacity to consistently follow established Standard Operating Procedures (SOPs). DSBO agrees on the importance of adhering to SOPs and will re-establish scaled-back processes aligned with current capacity and

> *reauthorized ordinance. DSBO also concurs on the need to sanction City contractors for noncompliance, and this practice will be incorporated into revised SOPs.*
>
> **— Division of Small Business Opportunity**
>
> **IMPLEMENTATION EXPECTED BY OCT. 31, 2026**

The division is not effectively validating the performance of program and contract requirements for certified small-business contracts

Small and disadvantaged businesses are a valuable part of city contracts. The division is responsible for monitoring compliance with established participation goals.

When the division certifies a business for specific work, it expects that business to perform that work when taking on city contracts. The division must ensure businesses perform a commercially useful function. These businesses must do the work they are certified to complete. This commercially useful work is then counted toward the program's goals.

City ordinance requires the division to verify certified businesses are performing a commercially useful function on city projects with small-business goals. Both city ordinance and the division's rules and regulations require the division to analyze several factors when deciding whether a business is performing or has performed a commercially useful function:

- The amount of work subcontracted.
- The amount paid to the business in proportion to the work performed.
- Whether the business is performing functions or is responsible for materials and supplies used for the contracted work:
  - Negotiating price.
  - Determining quantity and quality.
  - Ordering materials.
  - Performing installation where applicable.
  - Paying for the materials.
  - Claiming credit toward participation goal achievement.
- Other relevant factors.

Furthermore, the division must also complete a site visit of the disadvantaged businesses participating in Disadvantaged Business Enterprise projects and contracts. This ensures the city can meet federal requirements — ensuring that work subcontracted at the time the contract is awarded is performed by the certified business to which the work was subcontracted to.

The division's monitoring documentation must include a written verification that the contracting records are reviewed and the work site is monitored. This documentation ensures the Disadvantaged Business

For every certified business working on city projects, the division should be assessing whether subcontractors are performing a commercially useful function to accurately credit and calculate program participation.

Enterprise's work fits with contract requirements. For every certified business working on city projects, the division should be assessing whether subcontractors are performing a commercially useful function to accurately credit and calculate program participation.

Internal policies and procedures require a site inspection

According to the division's policies and procedures, teams should conduct a site visit "for every certified firm performing on a city project with small-business goals to determine if their participation can be counted."

We found these policies and procedures contradict the division's own rules and regulations. While the policies and procedures require a site visit for all businesses performing work on city projects with small-business goals, the division's rules and regulations say the division may perform site visits at the division's discretion.

Division managers also confirmed this, saying site visits are no longer performed for all businesses. Site visits are only conducted on Disadvantage Business Enterprise businesses and are a requirement of federally funded projects.

Required site visits are not completed

We confirmed the division only completes site visits for businesses working on contracts under the federal Disadvantaged Business Enterprise requirements. And that site visits are not completed for work done under local program certification, despite the division's policies and procedures requiring them.

Even with focused effort on conducting site visits for the federal Disadvantaged Business Enterprise businesses, we found the division has not completed site visits for all the Disadvantaged Business Enterprise business contracts we reviewed. We found five closed contracts where 23 Disadvantaged Business Enterprise businesses did not have a required site visit performed, yet their participation was counted.

Division managers said site visits can be conducted at any time during the project, including at project close — explaining why some site visits had not occurred at the time of our review.

However, as contract work progresses or is completed, there are fewer opportunities for the city to correct or address issues. With the division not closing all contracts in a timely manner, this practice may not efficiently confirm that businesses are performing work or complying with contract terms as a commercially useful function.

Lack of time and resources results in incomplete or missing site visits

The downtown city agencies compliance manager said a lack of staff time and resources has contributed to the decision to not complete site reviews

on all contracts. The team does not conduct site visits to verify certified businesses are performing a commercially useful function; instead, project records are reviewed to determine whether the businesses involved in the work performed commercially useful functions.

When we asked about the missed site visits for the Disadvantaged Business Enterprise businesses, division leaders said they did not have adequate staffing to complete site visits. Previously, the division hired a contractor to complete site visits, but not all visits were completed because the site-visit contract budget was not increased.

By completing site visits, the division can verify small and disadvantaged businesses hired to fulfill jobs are genuinely involved in city contracts and add value to city projects.

By completing site visits, the division can verify small and disadvantaged businesses hired to fulfill jobs are genuinely involved in city contracts and add value to city projects. Without conducting site visits during a project, the division has little assurance that small and disadvantaged businesses are performing — or can perform — contracted work.

In addition, compliance issues related to a businesses' actual involvement and performance of a commercially useful function may go undetected. Because division compliance teams cannot effectively and promptly address concerns, the division's ability to ensure local and federal funds are used as intended is diminished. And the division cannot confirm whether contract requirements and program objectives are aligned.

The division risks facing consequences for not properly monitoring of the Disadvantaged Business Enterprise businesses, including formal enforcement action like:

- The suspension or termination of federal funds.
- The refusal to approve future city projects.
- The loss of grants or contracts due to program noncompliance.

These consequences could reduce the level of services the city can provide to residents.

1.3 RECOMMENDATION Update policies and procedures

The Division of Small Business Opportunity should update its compliance policies and procedures for conducting site reviews to align with its practices. The division should specify which businesses must have a site review completed, like the Disadvantaged Business Enterprise program.

Also the policies and procedures should specify which contracts and subcontractors will not receive a site review and how a commercially useful function will be validated.

AGENCY RESPONSE – AGREE

DSBO agrees and will ensure its compliance policies and procedures for conducting site reviews are updated to align with its practices.

— Division of Small Business Opportunity

IMPLEMENTATION EXPECTED BY APRIL 30, 2026

1.4 RECOMMENDATION Conduct required site visits

The Division of Small Business Opportunity should ensure site visits are conducted as required for the Disadvantaged Business Enterprise businesses performing work on city projects. This will reduce the risk of violating federal rules and regulations and ensure program compliance.

AGENCY RESPONSE – AGREE

DSBO agrees to perform Commercially Useful Function (CUF) site visits as required for contracts with Disadvantaged Business Enterprise (DBE) program requirements. To that end, DSBO has increased staffing for DBE compliance project managers since the audit scope period.

— Division of Small Business Opportunity

IMPLEMENTATION EXPECTED BY APRIL 30, 2026

FINDING 2 AND RECOMMENDATIONS

The Division of Small Business Opportunity is not aware when small or disadvantaged businesses should be involved in city projects

The Division of Small Business Opportunity is not always involved during the procurement process for city contracts. City procurements that meet specific requirements must be reviewed by the division to determine whether small or disadvantaged business participation is required.

Division leaders said agencies must tell them about upcoming contract opportunities. This notification helps them set program requirements for including small or disadvantaged businesses within the contracts. But inconsistent notification practices has led to missed contract reviews, resulting in small or disadvantaged businesses being excluded from city procurement efforts.

Small and disadvantaged businesses may miss out on city procurements.

Small and disadvantaged businesses may miss out on city procurements because some agencies did not notify the division of upcoming contract opportunities.

City ordinance authorizes the Division of Small Business Opportunity to develop and enforce programs that promote using disadvantaged businesses in city contracts, including minority-owned, women-owned, and small-business enterprises. The division's efforts are intended to support small-business growth and financial success.

BUSINESS-UTILIZATION RATE IS CALCULATED TO DETERMINE SMALL OR DISADVANTAGED BUSINESS PARTICIPATION – Business-utilization refers to how small or disadvantaged businesses participate in city contracts.

To determine business utilization, the division first analyzes the type of contract and the work involved. It then identifies certified businesses in the Denver area that can perform the work — calculating a utilization rate for each certified business. These certified businesses are then paid a percentage of the total contract value, based on their determined business-utilization rate as work is performed and completed.

Before soliciting bids, city agencies must consult with the division to assess the need for small or disadvantaged business involvement. Agencies send the division information about their procurement, including scopes of work and cost estimates. Where applicable, the division then uses that information to determine the most appropriate program for that procurement.

When justified, procuring agencies can also work with the division to adjust utilization rates to one that is achievable. Contractors must follow these participation goals because they are part of the contract terms.

Figure 2 shows the process the division expects and communicates to agencies to ensure contracts are reviewed for a determination.

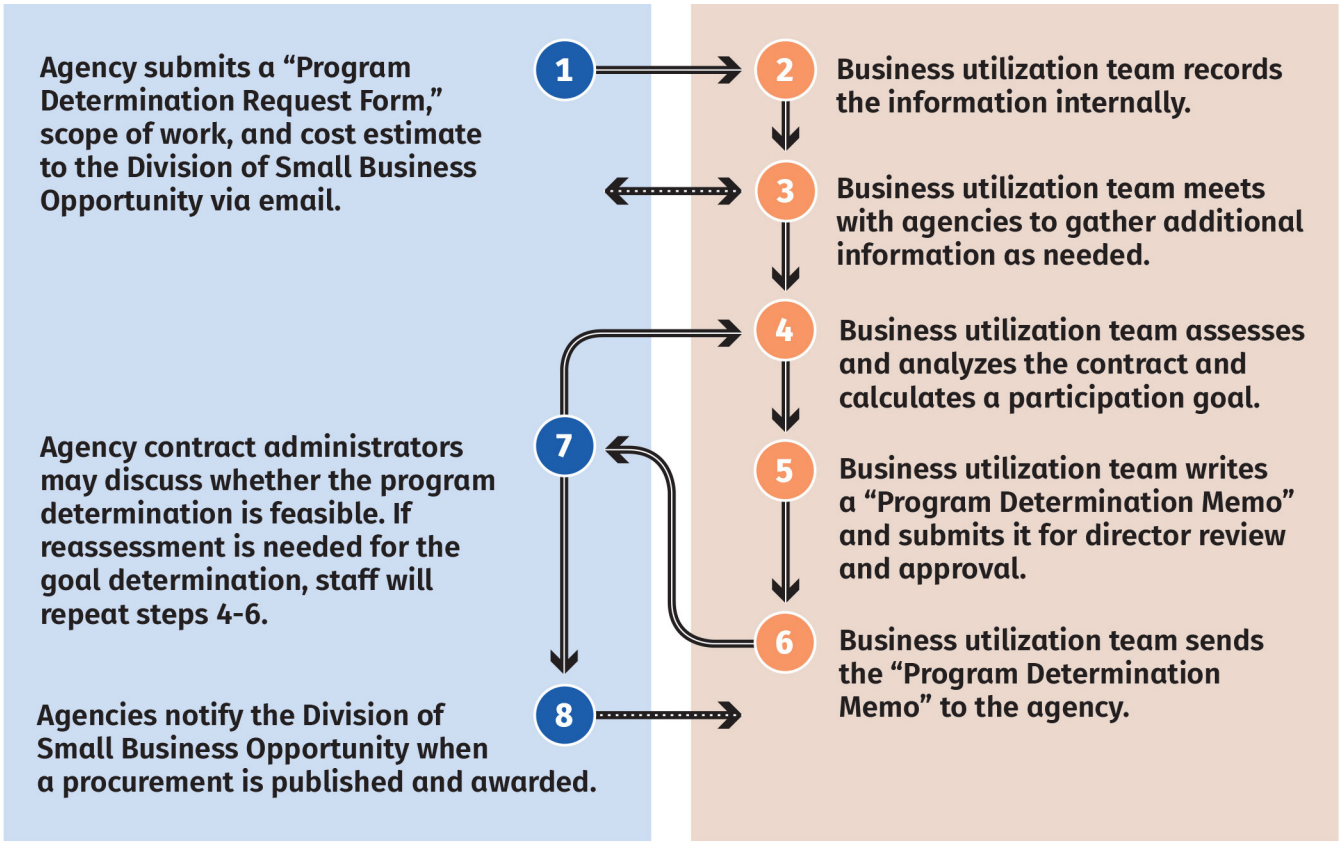
LACK OF REVIEWS RESULT IN MISSED OPPORTUNITIES FOR SMALL AND DISADVANTAGED BUSINESSES – Jaggaer is the city's main contract database that holds information about all contracts the city has with different organizations. We found contracts in Jaggaer that should have been reviewed by the Division of Small Business Opportunity that were not. Unreviewed contracts result in missed opportunities for small and disadvantaged businesses as these contracts are not assigned a program goal and lack a division review.

CONTRACT-REVIEW NOTIFICATION

Division of Small Business Opportunity staff rely on contract administrators from procuring agencies to come to them for a review of a potential contract before they are put out for bid, otherwise division staff do not know a contract is being procured.

We identified 430 contracts out of 7,000, or 6%, that were not found in B2Gnow system but were in the city's contracting system.

FIGURE 2. Business-utilization process



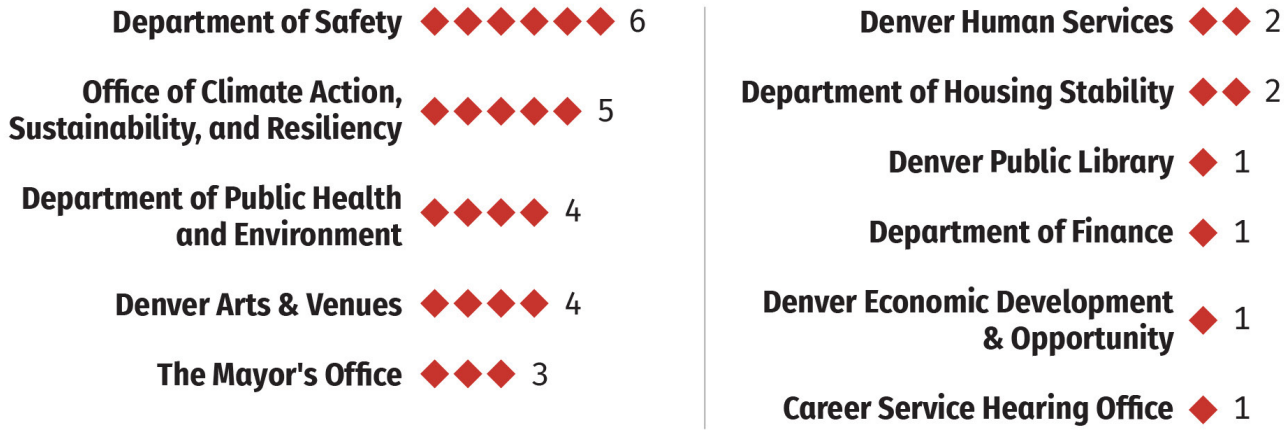
Note: *This is a condensed version of the division's business-utilization process.*

Source: *Created by the Auditor's Office using information from the Division of Small Business Opportunity.*

The division should have reviewed these 430 contracts. We then randomly selected 50 of the 430 to check whether the division had reviewed them to establish a business participation goal. Of the sample, division leaders said 20 of these contracts were reviewed and determined to not have a goal. They said unless a contract was excluded by ordinance, the other 30 contracts likely should have been reviewed but were not. Division leaders said these contracts were not reviewed because agencies and department staff did not notify the division during procurement efforts.

Figure 3 shows the breakdown of each contract that did not receive a review and its corresponding agency.

FIGURE 3. Number of agency contracts without a Division of Small Business Opportunity review from our sample



Source: *Created by the Auditor's Office using information from the Division of Small Business Opportunity.*

SERVICE-LEVEL AGREEMENTS APPEAR TO BE EFFECTIVE WITH THE GOAL DETERMINATION PROCESS – City ordinance and the "Division of Small Business Opportunity Rules and Regulations" require the division to work with agencies to determine whether small or disadvantaged business participation is needed for upcoming or potential contracts for work.

The division formalized the goal-setting process with some agencies through service-level agreements. Service-level agreements outline the responsibilities of the agency and the Division of Small Business Opportunity, including procurement notification, goal determination, and agency notification of set goals.

However, most city agencies do not have a service-level agreement in place with the division or a formalized procedure for participating in the determination process. We found the division's process to review contracts works best in cases where more formalized agreements have been established with agencies.

We found cases where agencies did not involve the division. As a result, contracts that should have been reviewed and possibly assigned a goal were not.

Agencies violate city ordinance when they exclude the division in city contracts.

Denver's city ordinance requires city agencies to have contracts reviewed by the division. Failure to do this results in violating the city ordinance.

We found this occurred most with agencies that did not have agreements with the division.

We recognize that because these city agencies may not procure contracts as often as other agencies, like the Department of Transportation & Infrastructure or Denver International Airport, it may not be reasonable to recommend the division have a service-level agreement with each agency.

The division should prioritize training and communicating with agencies to ensure an effective and efficient process to review potential contracts. The Government Accountability Office's "Standards for Internal Control in the Federal Government" emphasizes the importance of training. Division leaders said that some agencies — like the Department of Safety; Office of Climate Action, Sustainability, and Resiliency; and the Department of Public Health and Environment — may be unaware of the process. By providing thorough training to the staff in these agencies, the division can ensure they understand the process and follow the correct steps.

Also, because the contracts the division is required to review are not always referred to it, other businesses may be awarded this work. Work that would otherwise have been awarded to certified small or disadvantaged businesses.

Excluding certified small or disadvantaged businesses from these opportunities reduces the city's ability to achieve its social equity plan for "enhancing diversity and inclusiveness to promote economic development in the city and to encourage more businesses to compete for contracts and procurements awarded by the city."

Some contracts with assigned participation goals were not monitored

Excluding certified small or disadvantaged businesses from these opportunities reduces the city's ability to achieve its social equity plan.

We found the division was not monitoring all contracts that include requirements for small or disadvantaged businesses participation. Although these contracts existed in the city's main contracting system, Jaggaer, they were missing from the division's own contract management system, B2Gnow.

As a contract requirement, contracted businesses must meet the participation goal for small or disadvantaged businesses and follow the final "Equity, Diversity, and Inclusion Plan" approved by the division. Prime contractors and their subcontractors are both responsible for following these terms and completing the work as specified in the contract.

STAFF ENTERS CONTRACT INFORMATION IN B2GNOW AFTER BEING NOTIFIED IT HAS BEEN PUBLISHED OR AWARDED – As part of its oversight responsibilities, the division must ensure that prime contractors report on-time payments to subcontractors and comply with contract terms and meet established participation goals.

To do this, division staff enter new contract details into the B2Gnow system after receiving a published or awarded notification via email from an agency. This data is imported from the city's system of record, Workday, and allows the division's compliance team to monitor prime contractors and subcontractors. This import, along with notification from the procuring agency, is a central point for the division to become aware of contracts.

The division's compliance team then monitors the contract performance of these businesses and ensures they follow contract terms by:

- Meeting their participation goals.
- Performing the scope of work as expected.
- Ensuring payments made to subcontractors from prime contractors are reported promptly.

To confirm this is happening, we requested a list of on-call contracts from the division that require the participation of small or disadvantaged businesses. But when we compared the division's contract records with the city's Jaggaer database, we found six on-call contracts out of 250 were not in the division's B2Gnow system. This shows the division has incomplete and inaccurate data regarding these contracts.

NOT ALL CONTRACTS IMPORT FROM WORKDAY – According to division managers, contracts missing from B2Gnow are because of problems with importing information from Workday, the city's official system of record, into the B2Gnow system.

While the divisions' procedures require staff to verify that all contracts are imported weekly and to manually enter any missing contracts, some contracts are still being overlooked.

Although compliance teams are required to verify that all contracts are imported or manually entered, this process is inadequate. It lacks supervisory review to ensure all contracts are copied from Workday.

We also found a contract missing in B2Gnow that had incomplete information. The division's procedures clearly define the role of staff and responsibilities regarding importing and entering data into B2Gnow. However, the software relies on staff to accurately capture all relevant information and complete files for contracts that were entered. The procedure does not detail a secondary review process to ensure all contract data from Workday is accurately entered into B2Gnow.

Furthermore, the division is responsible for submitting quarterly reports to department heads, the Denver City Council, and the mayor. These reports detail progress toward the annual goal for small and disadvantaged business participation. Without complete contract data on the performance and participation of small and disadvantaged businesses, these reports may be inaccurate. This could lead to a misrepresentation of progress toward the participation goal for small and disadvantaged businesses, potentially resulting in the city not knowing whether it is truly meeting its annual goals or what needs to be fixed.

2.1 RECOMMENDATION Establish a formalized contract-review process

The Division of Small Business Opportunity should establish a formalized processes for agencies that do not regularly engage with the division to assist in understanding the small or disadvantaged business program determination process. This may include developing service-level agreements, drafting additional guidance for agency procurement personnel, or offering more training opportunities.

AGENCY RESPONSE – DISAGREE

DSBO maintains published tools to help City agencies understand DSBO program determination setting. These resources have been available on DSBO's website, the DSBO SharePoint site, and the Citywide Contracting Hub, including during the audit period. Per mayoral directive, the Contracting & Procurement Resources (CPR) Hub now serves as the City's centralized location for procurement resources and training, and DSBO guidance is available there.

— Division of Small Business Opportunity

AUDITOR'S ADDENDUM TO AGENCY RESPONSE: The Division of Small Business Opportunity says that it maintains published tools to help city agencies understand its program determination process. While the division does maintain published tools to help city agencies understand its program determination process, it must also ensure these tools are communicated effectively to ensure agencies are aware of required processes. The Citywide Contracting Hub was not disclosed to us during our audit. Based on our knowledge, it was implemented after our audit work concluded.

During the audit, division managers said they rely on city agency procurement personnel to bring new procurements to the division to be reviewed. The division is not aware of procurements if agencies do not reach out.

Without establishing formalized processes to ensure agencies understand the division's requirements, some city procurements may be missed, which can impact the opportunities available for small and disadvantaged businesses.

This recommendation to implement service-level agreements, draft new guidance for procurement staff, or to offer additional training is essential to strengthening division processes and to guarantee all applicable contracts are reviewed by the division. Each contract the division fails to review is a potential missed opportunity for small and disadvantaged businesses.

We reaffirm our finding and recommendation.

2.2 RECOMMENDATION Perform a contract data review

The Division of Small Business Opportunity should regularly reconcile contracts within Jaggaer or with city agencies to make sure contracts that require the division's review for program participation are reviewed.

AGENCY RESPONSE – DISAGREE

DSBO has implemented a more efficient approach to ensure agencies obtain a DSBO review prior to solicitation. As of mid-2024, all Jaggaer reviews include DSBO. If there is not a DSBO Business Utilization Memo (including no-program memos) uploaded to Jaggaer with a solicitation, DSBO does not approve that review round until the agency obtains and uploads a DSBO Program Determination Memo.

— Division of Small Business Opportunity

AUDITOR'S ADDENDUM TO AGENCY RESPONSE: The Division of Small Business Opportunity says it has implemented a more efficient, system-enforced approach to ensure agencies obtain a review from the division during the procurement process. However, the process still lacks a quality control or verification step needed to assess agency compliance with obtaining a review and to identify potential gaps in its own process.

While the recently implemented system-enforced approach requires uploading a division "Program Determination Memo" into the Jaggaer system as a procedural checkpoint, it does not address previously procured contracts that may not have received division review during procurement. Also, we found memos that were not uploaded into Jaggaer despite completing division procurement review.

Our recommendation helps the division to identify reviews that were previously missed and to monitor agency compliance with the division's process. Opportunities for small and disadvantaged businesses are impacted when agencies do not involve the division in applicable procurements.

We reaffirm our finding and recommendation.

2.3 RECOMMENDATION Implement a supervisory review process

The Division of Small Business Opportunity should design and implement a supervisory review process to ensure contracts are manually entered into B2Gnow when the system import fails.

AGENCY RESPONSE – AGREE

DSBO agrees with the auditor's underlying finding regarding system import failures. However, DSBO does not support implementing a manual supervisory review process. Instead, DSBO is actively exploring a technology-based solution that ultimately eliminates the root cause of import failures, aiming for a more sustainable and efficient approach.

— Division of Small Business Opportunity

IMPLEMENTATION EXPECTED BY JULY 31, 2026

2.4 RECOMMENDATION — Perform reviews with citywide procurement system

The Division of Small Business Opportunity should regularly analyze information from the city's procurement system and compare its data with the division's contracts in B2Gnow — ensuring all contracts with a small or disadvantaged business program goal are being monitored.

AGENCY RESPONSE – AGREE

DSBO agrees and is actively investigating feasible means to analyze and compare information between various systems to ensure all contracts with DSBO program requirements are being monitored.

— Division of Small Business Opportunity

IMPLEMENTATION EXPECTED BY APRIL 30, 2026

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

To determine the effectiveness of the Division of Small Business Opportunity's processes by assessing whether the division:

- Consistently identifies eligible procurements and applies eligibility processes.
- Ensures effective compliance and oversight of contracts with small and disadvantaged business program requirements.
- Accurately calculates contract goal attainment.
- Adheres to certification and recertification timelines and evaluates how a lapse may have affected eligibility requirements.

Scope

Our review focused on the processes of the Division of Small Business Opportunity across several functions. This included certifying disadvantaged businesses, calculating and applying business-utilization and participation goals for small or disadvantaged businesses, and monitoring city contracts for compliance with small-business program requirements. We excluded processes or projects involving the Airport Concession Disadvantaged Business Enterprise program at Denver International Airport.

The period of review was from July 1, 2023, through Dec. 31, 2024.

Methodology

To accomplish our audit objectives, we:

- Interviewed leaders and staff within the Division of Small Business Opportunity and Denver Economic Development & Opportunity.
- Conducted virtual walkthroughs of the division's B2Gnow system to assess software capabilities.
- Reviewed applicable laws, ordinances, and executive orders; rules and regulations; fiscal rules; and policies and procedures.
- Analyzed agencies' mission statements, strategic plans, organizational charts, annual budgets, expenses, annual reports, and management plans.
- Reviewed contracts, associated contract amendments, and service-level agreements between the Division of Small Business Opportunity and city agencies.
- Reviewed reference and training materials of the division.
- Reviewed federal guidance from the U.S. Government Accountability Office, the U.S. Department of Transportation, and the U.S. Small Business Administration.
- Reviewed leading practices from the Colorado Department of Transportation.
- Analyzed statistical and judgmental samples of contracts with and without local and federal program requirements for compliance oversight and commercially useful function site visits.
- Analyzed the city's 311 data related to local and federal small or disadvantaged business programs.

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.

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