



**FOR IMMEDIATE RELEASE**

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## **City Discloses DME Investigation Findings**

**DENTON, TX, July 27, 2017** – Todd Hileman, City Manager, has disclosed findings regarding the recent Denton Municipal Electric (DME) investigation into the procurement process for the Denton Energy Center (DEC). This initial review focused on the appropriateness of the proposal evaluation process. During the initial review, it was determined that the conduct of the staff and vendors during this process should be investigated. The City Attorney’s Office engaged the law firm of Allensworth and Porter, LLP, to conduct an independent review the procurement process, and the law firm of Lynn, Ross, and Gannaway, LLP, was hired to independently investigate employee conduct. Findings from these reviews include the following:

- Due to issues uncovered with the evaluation of proposals, the procurement process should have been re-started to resolve appearances of impropriety, to clarify performance objectives and scoring criteria for all vendors.
- No “fatal flaws” in the procurement process were identified which would invalidate the contracts to build the DEC facility due to the time that has elapsed and money expended.
- No evidence of fraud or any criminal activity was found with either employees or vendors.
- Two DME employees have been terminated for their actions during the investigative process.

“The City Manager and the Interim City Attorney initiated a comprehensive investigation into several concerns regarding the procurement process for the Denton Energy Center. I am confident the ongoing investigation continues to be thorough and appropriate. I look forward to working with the City Manager, Interim City Attorney, and my City Council colleagues to learn from this experience and develop stronger processes to prevent these types of issues from occurring in the future,” said Mayor Chris Watts.

City Manager Todd Hileman stated, “I am committed to building an organizational team that is focused on fiscal accountability, transparency, and integrity, and we will not tolerate any actions that are counter to these values. We have made significant strides over the past few months, and our leadership team is committed to building a culture for the City of Denton that demonstrates our values, facilitates public involvement, and provides outstanding customer service. Additionally, the next General Manager for DME will be focused on building a culture of openness and collaboration with the Public Utilities Board, City Council, and residents of this city”



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The Denton Energy Center is currently under construction, and the completion of this facility is expected to occur in the summer of 2018. Over the coming weeks, the City Manager's Office will focus our efforts to accomplish the following initiatives:

- Utilize independent energy experts to help expand the City of Denton's renewable energy profile.
- Complete a formal renewable integration plan for consideration by the City Council.
- Craft a strategic plan for the Denton Energy Center which optimizes its resources and engines to accomplish the above initiatives.

Attachment: Overview of DME Investigation

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## **Attachment: DME Investigation Overview**

- In February, 2017, after responding to a request for information related to the Denton Energy Center (DEC), the City Manager and the Interim City Attorney became concerned as to how city staff handled the bidding of the major contracts related to the DEC project. As a result, the City Attorney's Office initiated a review of City employee emails concerning the DEC in February.
- The City Attorney's Office internal review uncovered some issues which were of concern including:
  - Appropriateness of the process of evaluation construction proposals and engine purchases for the DEC.
  - Conduct of staff during the process pertaining to transparency, appearance of conflict of interest.
  - Oversight of the bid process to ensure a fair and level playing field for all vendors.
- In response to these concerns, the City Attorney's Office engaged an outside law firm to independently review these procurement concerns for compliance with both state and city legal requirements, and the following conclusions were reached:
  - An early preference for the selected engines was evident before the proposals were solicited.
  - DME staff signed a confidentiality agreement with the selected engine manufacturer 10 days prior to the issuance of the RFP.
  - The procurement process should have been re-started to resolve appearances of impropriety, to clarify performance objectives and to clarify scoring criteria for all vendors.
  - Notwithstanding these concerns with the procurement process, no "fatal flaws" were identified which would invalidate contracts due to time that has elapsed and money expended.
- As a result of concern over employee conduct found during the above procurement review, the City Attorney's Office engaged a second outside law firm to independently investigate employee conduct. To facilitate this independent inquiry, four DME employees were placed on administrative leave to protect the integrity of the investigation. Findings from this review include:
  - No evidence of fraud or any criminal activity was found either with employees or vendors.
  - Meetings were held in advance of the RFP solicitation with two of the four vendors who ultimately submitted proposals for the project.
  - Some employees did in fact have prior relationships with the preferred vendors and served on the evaluation panels.
- The General Manager of DME resigned before the investigation process was completed in order to assist with moving the organization forward.
- Management conclusions and actions thus far:
  - Workplace culture did not facilitate public involvement, promote transparency, respect City Council guidance, utilize departmental resources outside of DME, and will be a major point of emphasis for the next General Manager.

- Inappropriate behavior by staff will not be tolerated, and the entire City of Denton team will be held accountable for their actions.
- Two DME employees have been terminated for their actions during the investigative process.
- One DME employee placed on administrative leave has since returned to work.
- A new Chief Procurement Officer/Compliance Director position has been created, and a national recruitment for this position is under way.
  - Position will be focused on contract compliance, purchasing oversight, and business review for all departments.
  - Position will interface with the City Attorney's Office, City Manager's Office, and the City Auditor's Office on all bids/RFPs exceeding a yet to be determined amount to ensure maximum compliance processes moving forward.
  - Training program will be implemented with emphasis on purchasing guidelines, transparency, and ethical requirements.
- The City will continue building the Denton Energy Center as designed. Over the coming weeks, the City Manager's Office will focus our efforts to accomplish the following initiatives:
  - Utilize independent energy experts to help expand the City of Denton's renewable energy profile.
  - Complete a formal renewable integration plan for consideration by the City Council.
  - Craft a strategic plan for the Denton Energy Center which optimizes its resources and engines to accomplish the above initiatives.