Department of Aviation Revenue Contract Management
Follow-up Report

July 2014
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Kim Day, Executive Director
Department of Aviation
City and County of Denver
Re: Audit Follow-Up Report

Dear Ms. Day:

In keeping with professional 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 audit findings are being addressed and to aid us in planning future audits.

This report is to inform you that we have completed our follow-up effort for the Department of Aviation Revenue Contract Management audit issued March 17, 2011. Our review determined that the Department has adequately implemented many of the recommendations made in the audit report. Despite the Department of Aviation’s efforts, auditors determined that the risk associated with the audit team’s initial findings has not been fully mitigated. As a result, the Division may revisit these risk areas in future audits to ensure 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 and to the Department of Aviation’s personnel who assisted us throughout the audit and follow-up process. If you have any questions, please feel free to contact me at 720-913-5029 or John Carlson, Deputy Director of Audit Services, at 720-913-5068.

Sincerely,

Kip Memmott, MA, CGAP, CRMA
Director of Audit Services

KRM/alh

cc: Honorable Michael Hancock, Mayor
Honorable Members of City Council
Members of Audit Committee
Ms. Cary Kennedy, Deputy Mayor, Chief Financial Officer
Ms. Janice Sinden, Chief of Staff
Mr. David P. Edinger, Chief Performance Officer
Ms. Beth Machann, Controller
Mr. Scott Martinez, City Attorney
Ms. Janna Young, City Council Executive Staff Director
Mr. L. Michael Henry, Staff Director, Board of Ethics
Mr. John Ackerman, Deputy Manager of Aviation, Chief Commercial Officer
Ms. Melody Ortega, Associate Manager, Concessions Administration

To promote open, accountable, efficient and effective government by performing impartial reviews and other audit services that provide objective and useful information to improve decision making by management and the people.

We will monitor and report on recommendations and progress towards their implementation.
Department of Aviation Revenue Contract Management Follow-up Report: July 2014

The Department of Aviation has implemented seven of the eleven recommendations made in the March 2011 audit report.

Background

The Department of Aviation (Aviation) operates the Denver International Airport (DIA) for the City and County of Denver. As part of its operational oversight, Aviation manages the Division of Revenue Management and Business Development, which provides concessions and properties management, and other landside services. Aviation’s basic contract process mirrors the City’s contract process, outlined in Executive Order 8. Aviation uses PropWorks, a web-based database application, as the electronic contract management system to track and monitor the different agreements and their related revenue contract data. Concessionaires submit to Aviation self-reported monthly revenue reports and annual financial statements that are self-certified by an officer of the concessionaire.

Purpose

The purpose of the audit was to assess whether a sample of revenue contracts contained key elements and whether the system for managing contracts adequately mitigated the risk of inaccurate revenue reports.

Highlights from Original Audit

Inability to Determine Accuracy of Contractor Revenue Reports: The audit revealed systemic weaknesses that raise the risk of Aviation receiving inaccurate revenue reports from its contractors. We recommended that Aviation should develop and implement a series of risk mitigation approaches for contractors who present a heightened risk of inaccurate reporting. Additionally, we recommended that Aviation should incorporate contract language requiring that contractors should bear a greater portion of audit costs if material under-reporting is found as a result of risk mitigation.

Composition of Revenue Contract Files: While the audit provided a level of assurance regarding the composition of contract files, we determined that a few contract files were missing key elements such as sureties and insurance. We recommended that Aviation should ensure the completeness of all contract control forms and that surety and insurance documents should be kept current.

Untimely Response to Audit Request Triggered Penalty Fees Assessed to One Contractor: While evaluating contract management practices and accuracy of contractor revenue reporting, auditors sought to gather financial information. One contractor failed to provide gross revenue documentation because it had shredded the documentation. Failure to provide documentation in a timely manner, under audit provisions, is subject to penalty fees. Aviation should ensure that it collects these penalty fees from contractors.

Findings at Follow-up

Aviation has taken steps to enhance its revenue contract monitoring process such as ensuring that Aviation’s web-based database application—PropWorks—functions more effectively as the central repository of all revenue contract information. However, Aviation has yet to institute a system that provides assurance regarding the accuracy of concessionaires’ revenue reporting.

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Audit Contact Person: John Carlson | 720.913.5068 | john.carlson@denvergov.org
# Recommendations: Status of Implementation

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<td><strong>Finding 1: Aviation’s Contract Management Process is Unable to Determine the Accuracy of Contractor Revenue Reports and Results in Increased Risk</strong></td>
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<td>1.1 The Manager of Aviation should develop a system for assessing the level of risk revenue contractors should include, at a minimum, contractors’ compliance with other contractual requirements and the accuracy of contractors’ previous revenue reports.</td>
<td>Aviation developed and implemented a risk assessment and procedures program addressing concessionaire’s risk of inaccurate reporting by watching overall business health.</td>
<td>Implemented</td>
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<td>1.2 The Manager of Aviation should develop and implement a system of enhancements to the current system for controlling the risk of inaccurate revenue reporting. This system should set a range of risk mitigation approaches, including certified annual financial statements, internal control assessments, and full revenue audit conducted by external parties.</td>
<td>Pending the outcome of the risk analysis, Aviation would plan for the selection of an outside audit firm to perform full revenue audits of selected concessionaires based on the risk analysis. However, Aviation stated that since there was considerable concern expressed from concessionaires about the passing of audit costs to high-risk concessionaires, Aviation was holding discussions with concessionaires to address the airport’s and their concerns.</td>
<td>Agree/Not Implemented</td>
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<td>1.3 The Manager of Aviation should develop and implement a guide, such as a risk mediation matrix, that identifies the appropriate mitigation approach to use regarding contractors who present a heightened risk of inaccurate reporting. This guide should adopt more intensive risk mitigation approaches for contractors who present relatively high risks of inaccurate reporting.</td>
<td>Aviation has developed and implemented a risk matrix used to determine levels with highest priority given to regular and timely revenue reports, rent payments, then compliance with surety protections and insurance coverage. According to Aviation, the introduction of the Premium Value Program has made these elements of compliance more important to concessionaires. The risk mediation matrix lacks a guide for progressive actions to use towards non-compliant contractors and does not appear to control the risk of inaccurate revenue reporting.</td>
<td>Agree/Not Implemented</td>
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<td><strong>1.4</strong></td>
<td>The airport has polled other airports to determine their approaches to audits. The Airport has changed contract language to pass costs for a limited number of audits to the Concessionaires. Concessionaires have expressed concern over this issue and Aviation is assessing its current audit language in light of concessionaires' concerns and Aviation’s needs. Because of this ongoing discussion, Aviation has kept this as &quot;in progress.&quot;</td>
<td><strong>Agree/Not Implemented</strong></td>
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<td><strong>1.5</strong></td>
<td>Current language stipulates that if sales are misreported in an amount greater than 1 percent, concessionaires shall be assessed the audit’s cost. In addition, the airport has the right to audit, at the concessionaire’s expense, once for leases up to five years and twice for leases greater than five years. However, concessionaires have expressed concerns with this language and the airport is in discussions with them to address the mutual concerns. Because of this ongoing discussion, Aviation has kept this as “in progress.”</td>
<td><strong>Agree/Not Implemented</strong></td>
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<td><strong>1.6</strong></td>
<td>The Manager of Aviation should develop and implement a timetable to enter all revenue contract documents into PropWorks. Contract documents should include but are not limited to: contract control documents, such as Form 42; relevant Request for Proposal information; bond documents; insurance documents; contracts and amendments; financial information and other documents related to contract monitoring; and management letters that change contract language or otherwise impact contract management. Under recently reorganized Alfresco process contract data will be entered into PropWorks within seven days of execution. Bonds and insurance will be entered into PropWorks upon receipt. RFP information shall be maintained in hard copy form. Many contract documents, such as Form 42, no longer exist since City moved to electronic processing through Alfresco.</td>
<td>Implemented</td>
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**Finding 2: Review of Random Sample of Contracts Shows Some Enhancements Should be Made to Ensure Key Elements Are in Place**

| 2.1 | To comply fully with Executive Order 8 and to ensure that contracts receive proper scrutiny, the Manager of Aviation should ensure that all new contracts and contract amendments maintain all required signatures and the required contract control form. Alfresco electronic process enforces all signature requirements. | Implemented |
## Recommendations: Status of Implementation

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<td>2.2</td>
<td>It was discovered that the majority of items found outstanding were data entry errors on the part of clerk. Additional training and supervision eliminated that issue. Monthly, pending expiration reports are reviewed and demand for insurance documents is made forty-five days prior to expiration. Surety demand notices are made weekly and forty-five to sixty days in advance of expiration. Non-compliance results in a step process of increasing severity up to default and potential termination of contract.</td>
<td>Implemented</td>
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<td>2.3</td>
<td>The airport modified its processes to ensure that scanned versions of the NTP document is maintained in PropWorks.</td>
<td>Implemented</td>
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<td>2.4</td>
<td>Time-stamped receipts are now being kept and included in the RFP Book.</td>
<td>Implemented</td>
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### Finding 3: One Company Failed to Provide Gross Revenue Documentation in the Required Timeframe

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<td>3.1</td>
<td>Mission Yogurt was billed an invoice for $9,450 that was paid in November 2011. The amount was reduced in September of 2011.</td>
<td>Implemented</td>
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Conclusion

While the Department of Aviation has implemented the majority of the recommendations made in the Department of Aviation Revenue Contract Management audit report, others have yet to be acted upon or fully implemented. Specifically, based on the current status, Aviation still relies on revenue information that the concessionaire prepares and submits to the Department monthly. In addition, Aviation is still relying on annual statements of gross revenues signed by an officer of the concessionaire instead of an independent Certified Public Accountant. Aviation has developed and implemented a risk matrix and a risk assessment to monitor concessionaires’ compliance to contract requirements, but the system does not provide a guide for progressive actions to use towards non compliant contractors and does not appear to mitigate the risk of inaccurate revenue reporting. Without a progressive remediation system, which would possibly lead to a revenue audit performed by an external audit firm as ultimate remedy, the risk exists that different standards will be applied to different concessionaires. Further, there is risk that the current understanding of how risk assessment should be conducted regarding concessionaires will be lost to successors in these oversight roles. Finally, Aviation is still refining its Request for Proposal language to identify and select an external audit firm that would perform revenue audits of non compliant concessionaires. As a result, the Auditor’s Audit Services Division may revisit these risk areas in future audits to ensure appropriate corrective action is taken.

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