

FOLLOW-UP REPORT

Denver International Airport

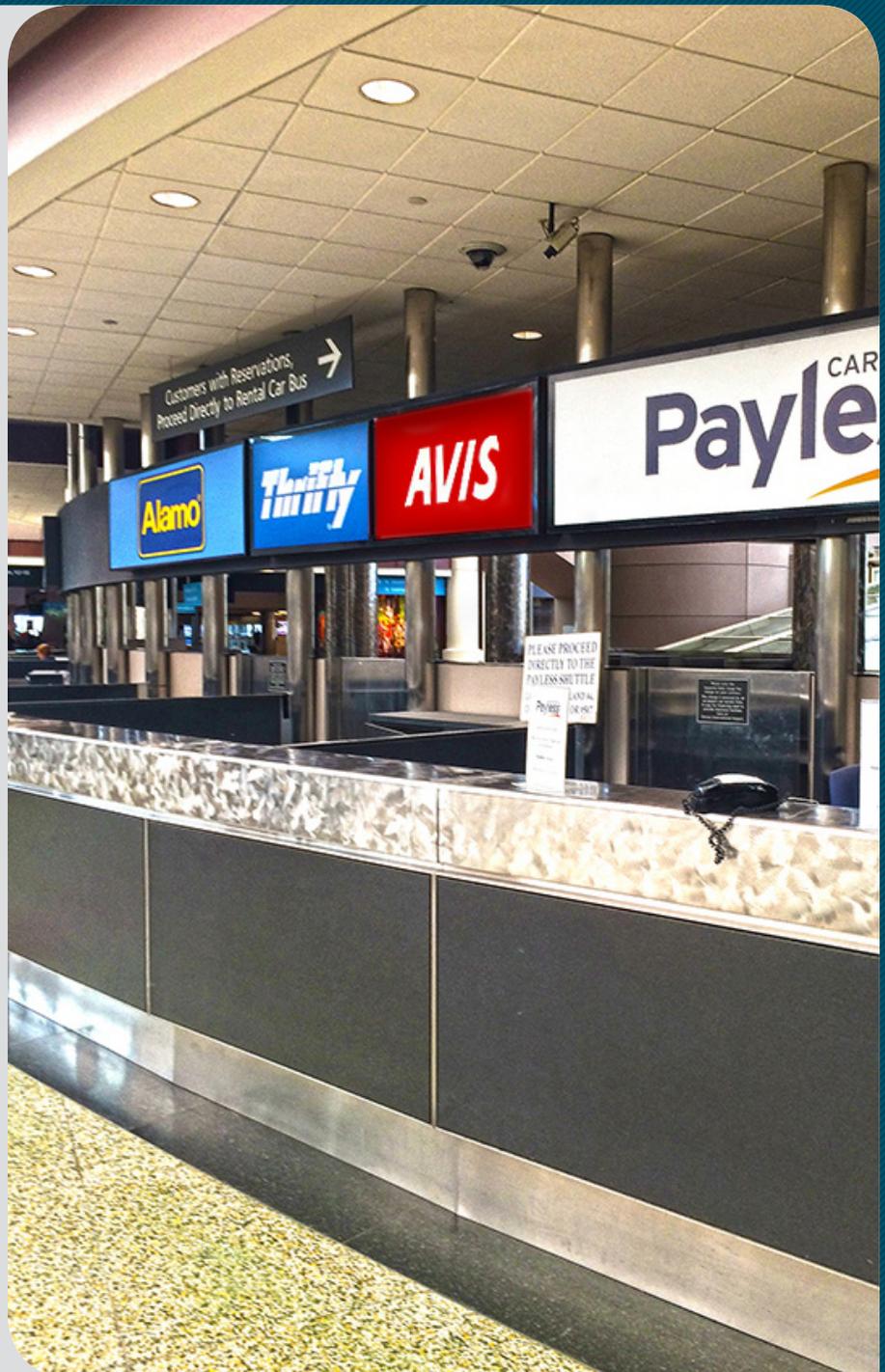
Rental Car Agreements Audit

May 2018

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: **2017**



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May 3, 2018

Kim Day, Chief Executive Officer
Department of Aviation
City and County of Denver

Re: Audit Follow-Up Report

Dear Ms. Day:

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 Denver International Airport (DEN) Rental Car Agreements audit issued February 16, 2017. Our review determined that DEN has adequately implemented some of the recommendations made in the audit report, while others that were agreed to be implemented from February 28 through July 1, 2017, are still in progress. Despite DEN'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 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 and to DEN 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



Denver International Airport Rental Car Agreements May 2018

Status

We made 12 recommendations in the February 2017 audit report. Denver International Airport (DEN) has implemented four, partially implemented five, and not implemented three of the recommendations.

Background

There are 12 rental car companies operating at DEN, several of which are grouped with their subsidiaries under a single agreement with the airport. DEN generated \$85 million, or 12 percent of its total operating revenue, from rental car activities in 2015.

Purpose

The purpose of the audit was to determine whether DEN's contract administration activities related to airline agreements are effective, to include, enforcing compliance with contract terms, ensuring revenue is accurate and complete, and conducting timely billing and collection.

REPORT HIGHLIGHTS

Highlights from Original Audit

Our evaluation of DEN's practices for managing rental car agreements identified weaknesses in DEN's Properties Division and in its Finance Unit that impacted DEN's ability to effectively collect all revenue due under the agreements.

Weaknesses in the Properties Division's practices included failing to enforce the agreement's 20-mile radius clause, failing to provide rental car companies with correct and timely ground, facility, and minimum annual guaranteed amounts, and failing to ensure timely remittance of a certified annual revenue statement and a year-end concession payment.

We also found that roles and responsibilities in the Properties Division needed to be clarified and the associated policies and procedures needed to be updated. Additionally, the rental car companies self-reported their revenue data and no staff in either the Properties Division or in the Finance Unit checked or verified the data to ensure the accompanying payment was accurate. Finally, we discovered that Avis and Alamo were leasing counter space in the Jeppesen terminal at DEN without a current contract in place. We verified that these companies were paying for the counter space, but without an executed contract in place, DEN did not have a legal basis to require payment. We also identified four areas where the Finance Unit's practices for monitoring rental car companies' compliance with the rental car agreements could be improved.

To enhance the administration of rental car agreements, we offered eight recommendations to the Properties Division and four recommendations to the Finance Unit.

Findings at Follow-up

Denver International Airport (DEN) has improved its procedures for identifying rental car satellite offices and documenting segregation of duties for credit memos. Additionally, they have executed contracts for space utilized by rental car companies. However, DEN should continue its efforts to ensure that procedures sufficiently support that rental car payments are true and correct. These procedures should also clearly document the roles and responsibilities of both Commercial Property and Finance staff in these processes.

For a copy of this report, visit www.denvergov.org/auditor or contact the Auditor's Office at 720-913-5000.

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
FINDING: Denver International Airport’s Ineffective Control Environment for Managing Rental Car Agreements Results in Non-Compliance and Lost Revenue		
<p>1.1 Enhance Oversight of Satellite Offices – The SVP, Airline Affairs & Commercial Property should clarify whether the Concession Agreement’s 20-mile radius clause is to be measured by driving distance or aerial distance, create a listing of all current satellite offices that are within a 20-mile radius of the Jeppesen Terminal, and develop procedures to identify when new satellite offices are established.</p>	<p>Commercial Property personnel updated their Rental Car Standard Operating Procedure to define satellite locations as those "within a 20 mile drivable radius of the airport" and identified a process to send a list of satellite locations annually to the rental car companies prior to their submission of annual statements to help ensure revenues, fees, and charges were reported as required. Additionally, Commercial Property personnel provided letters to rental car companies confirming satellite office locations for 2017 and generated maps identifying these offices.</p> <p>Recommendation 1.3 discusses in further detail the methodology for determining the drivable radius.</p>	<p>Implemented</p>

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<p>1.2</p>	<p>Identify Airport Customers – The SVP, Airline Affairs & Commercial Property should ensure that all rental car company customer contracts be designed to allow customers to designate on each agreement whether the customer is considered an airport customer.</p> <p>Our review of rental contracts found rental car companies added a mechanism to identify airport customers. However, Commercial Property has not done anything to ensure that rental car companies are validating airport customer designations in accordance with the requirements of the Concession Agreement.</p> <p>We also noted that rental car company contracts, for both airport and satellite locations, do not always include customer information, such as driver’s license number or address information, necessary to confirm an accurate airport customer designation. Additionally, the contracts were not designed to provide sufficient information to be used in determining whether an airport customer can be exempted based on the time of their arrival at the airport.</p>	<p>Partially Implemented</p> <p>Original target date for completion: June 1, 2017</p>

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<p>1.3</p>	<p>Collect Fees for Airport Customers – The SVP, Airline Affairs & Commercial Property should identify which of the satellite offices have failed to remit concession and CFC fees for airport customers over the period from 2014 through 2016 and collect the amount due, including interest.</p> <p>Commercial Property personnel sent payment notices to two rental car companies between June and December 2017 to collect outstanding fees generated by satellite airport customers between June and December 2017. However, our review revealed that the notice for one rental car company did not reflect an accurate outstanding amount. This was because the methodology used by DEN Internal Audit for determining which rental car locations fell “within a 20-mile drivable radius of the airport” was not consistent with the methodology used for the annual process, described in Recommendation 1.1. Therefore, one of fourteen rental car locations was erroneously identified by DEN Internal Audit as a satellite office and included in determining the outstanding amount due.</p> <p>As of the conclusion of our follow-up work for this audit, two rental car companies were in negotiation with the airport and had not submitted payment.</p>	<p>Partially Implemented</p> <p>Original target date for completion: July 1, 2017</p>

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<p>1.4 Provide Updated Rates – The SVP, Airline Affairs & Commercial Property should establish procedures to ensure that updated rental rates are delivered to all 12 rental car companies in a timely manner that is compliant with the Facilities and Ground Lease as well as the Properties Division’s policies and procedures.</p>	<p>While Commercial Property improved the timeliness of communicating rental rate changes by four months in 2018 compared to 2017, the 2018 notification was not sent by the date required in the revised procedure.</p>	<p>Not Implemented</p> <p>Original target date for completion: April 30, 2017</p>
<p>1.5 Provide and Review MAG Amounts – The SVP, Airline Affairs & Commercial Property should implement procedures to ensure that both the correct minimum annual guaranteed (MAG) rates are provided to the rental car companies as well as to ensure all MAG payments received are in the correct amount.</p>	<p>Commercial Property made significant improvement in providing rental car companies with initial MAG rates each year in a timely manner. However, updated MAG rates based on annual reconciliation of 2016 revenue were not provided to rental car companies until September 2017.</p> <p>While the Rental Car Standard Operating Procedure was updated to include a process to ensure that all fees paid are true, correct, and timely, Commercial Property staff could not provide auditors with documentation showing that rental car companies were always making accurate payments. Our review of Commercial Property’s documentation used for tracking and analyzing rental car reported revenue revealed that it could not be reconciled with payment information from January through July 2017.</p>	<p>Not Implemented</p> <p>Original target date for completion: April 30, 2017</p>

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<p>1.6</p>	<p>Timely Submission of Statements – The SVP, Airline Affairs & Commercial Property should establish procedures to monitor the timeliness of the submission of both the Certified Annual Revenue Statements as well as any required additional year-end concession payments.</p> <p>Commercial Property revised its Rental Car Standard Operating Procedure to provide rental car companies with a 30-day reminder prior to the due date for annual revenue statements. Additionally, Commercial Property created a mechanism to track the timeliness of these submissions.</p> <p>Commercial Property personnel also created a procedure for conducting an annual “true-up” process for reconciling concession payments to determine whether additional billing or crediting to rental car company accounts is required. However, this procedure does not include a timeliness requirement for completion. When assessing to see whether this lack of a timeliness requirement impacted communications with rental car companies, we determined that the companies were not notified of credits resulting from the 2016 true-up process until December 2017.</p> <p>Additional discussion of the true-up process is included in discussion of DEN’s partial implementation of Recommendation 1.11.</p>	<p>Partially Implemented</p> <p>Original target date for completion: April 30, 2017</p>

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<p>1.7 Identify Key Controls – The SVP, Airline Affairs & Commercial Property should identify key controls for ensuring that rental car companies pay the accurate fee amounts as outlined in the rental car agreements, identify the staff responsible for associated duties, and update its policies and procedures accordingly.</p>	<p>While Commercial Property personnel revised the Rental Car Standard Operating Procedure to reflect functions they are currently assigned, our review determined that this procedure is still inadequate or incorrect regarding monthly and annual revenue reconciliation processes.</p> <p>Specifically, we reviewed Commercial Property’s process for analyzing the monthly revenue from minimum annual guaranteed (MAG) amount payments to ensure that the payments were true and correct. We determined that this process is not detailed enough because it does not identify certain key steps or specify what information is needed to complete the process. Additionally, we found that the revised procedure identified Finance staff as being responsible for the preparation of the year end reconciliation process although rental car staff are completing this step.</p>	<p>Not Implemented</p> <p>Original target date for completion: April 30, 2017</p>
<p>1.8 Terminal Space – The SVP, Airline Affairs & Commercial Property should finalize and execute the contracts for counter space in the terminal that are currently in process.</p>	<p>Commercial Property personnel executed contracts in May 2017 with all rental car companies accounting for all counter space utilized in the Jeppesen Terminal.</p>	<p>Implemented</p>

Recommendations: Status of Implementation

	Recommendation	Auditee Action	Status
1.9	Credit Memos – The SVP of Financial Management should implement internal controls to properly record credit memos, and store support documentation.	<p>Finance personnel carried forward the group’s preexisting standard accounting procedures for recording and approving credit memo transactions that were not being implemented as required. With DEN’s transition to the City’s Workday system in August 2017, full details for each transaction, including staff responsible for initiating and approving transactions, are documented. Our analysis of credit memos issued to rental car companies in December 2017 found that Finance’s accounting procedures were implemented as required for these transactions.</p> <p>Additionally, source documentation supporting proper segregation of duties for these credit memos was available. The completeness and accuracy of this documentation is discussed further in Recommendations 1.11 and 1.12.</p>	Implemented

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<p>1.10 Access Controls – The SVP of Financial Management should ensure that access reviews for creating and approving journal entries within DEN’s accounting system be implemented. Additionally, internal controls should be designed to introduce proper segregation of duties so users do not have the ability to approve a journal entry that they created.</p>	<p>As discussed in Recommendation 1.9, DEN transitioned to the City’s Workday system in August 2017. Therefore, access permissions are granted by the City’s Technology Services department based on DEN’s requests. Finance created a new procedure outlining the roles of each DEN financial user in Workday and the process for reviewing and forwarding access permission requests to Technology Services.</p> <p>Additionally, Finance staff provided auditors with Workday documentation demonstrating proper segregation of duties in compliance with their procedures for MAG payments made by rental car companies from September through December 2017.</p>	<p>Implemented</p>

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<p>1.11</p>	<p>Update Financial Policies and Procedures – The SVP of Financial Management should update the Finance Unit’s policies and procedures to ensure that they reflect current practices and provide sufficient clarity regarding staff responsible for key controls.</p>	<p>Finance personnel revised standard accounting procedures to reflect the appropriate responsibility of Commercial Property personnel for ongoing tracking and an analysis of rental car revenue information, since Finance no longer has a primary role in the annual true-up process to reconcile concession payments.</p> <p>However, our analysis of the 2016 true-up process found that the amounts credited to rental car companies did not match those amounts identified in reconciliation documentation. This indicates that the revised procedures no longer include sufficient detail regarding the process that Finance staff needs to follow to review and approve Commercial Property calculations.</p>

Recommendations: Status of Implementation

	Recommendation	Auditee Action	Status
1.12	<p>Clarify Properties Policies and Procedures – The SVP of Financial Management should collaborate with the SVP of Airline Affairs and Commercial Property to establish surrounding clarity of roles between the two groups where policies and procedures overlap.</p>	<p>Commercial Property staff confirmed that full responsibility for the ongoing tracking and analysis of rental car revenue has been assigned to them. They also indicated that the Finance group is only involved in reviewing and approving the annual true-up calculations after Commercial Property staff complete them. Despite this understanding by Commercial Property staff, the Commercial Property’s Rental Car Standard Operating Procedure still identifies Finance staff as responsible for preparing the annual reconciliation documentation.</p> <p>Our analysis of the 2016 true-up documentation revealed that calculations were indeed completed by Commercial Property staff. However, the field in the documentation that identifies when Finance staff have reconciled the amounts was labeled “TBD”. This indicates that Finance did not provide reconciliation oversight, as intended. Therefore, DEN was unable to provide sufficient documentation to support the amounts credited to rental car companies, which are discussed in Recommendation 1.11.</p>	<p>Partially Implemented</p> <p>Original target date for completion: February 28, 2017</p>

Conclusion

While Denver International Airport (DEN) has implemented some recommendations made in the Rental Car Agreements audit report, others have yet to be acted upon or fully implemented. Despite DEN's efforts, we determined that the risk associated with the audit team's initial findings has not been fully mitigated. For example, in the Commercial Property division, the appropriate procedures are still not in place to ensure that rental car companies are appropriately validating airport customers. Further, more work needs to be done to clearly identify and define key controls and processes to track and analyze rental car revenue in order to ensure that payments are accurate and timely. In the Finance group, more work needs to be done to ensure that procedures sufficiently address the responsibilities of Finance staff in the annual revenue reconciliation process and to ensure that these responsibilities are communicated to Commercial Property staff. 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 the Denver International Airport for their cooperation during our follow-up effort and their dedicated public service.