

FOLLOW-UP REPORT

Denver International Airport ***Westin Hotel Revenue***

APRIL 2021



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DENVER AUDITOR

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City and County of Denver



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AUDITOR'S LETTER

April 1, 2021

In keeping with generally accepted government auditing standards and Auditor's Office policy, as authorized by city ordinance, the Audit Services Division has a responsibility to monitor and follow up on audit recommendations to ensure city agencies address audit findings through appropriate corrective action and to aid us in planning future audits.

In our follow-up effort for the "Westin Hotel Revenue" audit report issued in February 2019, we determined the Denver International Airport fully implemented four and partially implemented seven of 12 of the recommendations it agreed to in the original audit report. Auditors found progress had been made but determined that important risks associated with the audit team's initial findings have not been fully mitigated. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure the city takes appropriate corrective action.

The Highlights page in this report provides background and summary information about the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation.

I would like to express our sincere appreciation to the personnel at the Denver International Airport who assisted us throughout the audit and the follow-up process. For any questions, please feel free to contact me at 720-913-5000.

Denver Auditor's Office

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

Timothy M. O'Brien, CPA
Auditor



Westin Hotel Revenue

APRIL 2021

Objective

1. To determine whether Denver International Airport’s Revenue Management and Finance divisions had effective controls in place to ensure revenues and expenses reported by Westin were reasonable and in compliance with the hotel management agreement.
2. To verify that the airport’s Director of Commercial Properties was effectively reviewing performance management contract terms to ensure Westin was optimizing revenue.
3. To demonstrate that the airport’s Director of Commercial Properties was verifying that Westin’s employees were aware of and effectively implementing internal controls.

Background

The Westin at Denver International Airport opened on November 19, 2015 and is operated according to a hotel management agreement signed April 2011 between the City and County of Denver and Starwood Hotels, now a subsidiary of Marriot International.

The addition of the Westin, as well as the airport’s transit center, marked the completion of the airport’s original 1989 master plan.

ORIGINAL REPORT HIGHLIGHTS

This was our first audit of the hotel management agreement between the city and Westin.

We identified limitations that impeded the city’s ability to monitor compliance with the contract, and we identified controls and processes that should be improved to protect the city’s asset and ensure optimization of financial performance.

Denial of access to data from Marriott prevented auditors from evaluating Marriott’s and Westin’s operations of the Westin or providing assurance that both were in compliance with the hotel management agreement. Marriott impeded audit efforts and would not provide information and documentation it considered proprietary. In addition, the hotel management agreement contained language that contradicted the city’s audit rights and countered City Charter. Auditors had concerns with the quality of external audits and reviews of Marriott’s and Westin’s internal controls and were prevented from reviewing detailed reports of additional external audits conducted on the hotel.

In addition, airport management had not clearly defined project monitoring and asset management roles and responsibilities for the hotel management agreement. Policies and procedures for overseeing the hotel management agreement lacked details to ensure the hotel’s operational and financial success. Segregation of duties did not exist among the Director of Commercial Properties’ responsibilities related to requesting work from Capital Hotel Management LLC — the asset management company the city hired for the hotel — and reviewing supporting documentation and authorizing supporting documentation and authorizing reimbursements. Finally, the airport may have been spending money on unnecessary external resources to monitor the hotel management agreement.

Why This Matters

Revised contract terms and stronger policies, procedures, contract monitoring, and clearly defined roles will allow the airport to ensure Westin is operated in a way that protects the city’s asset and optimizes its financial performance.



4

FULLY IMPLEMENTED



7

PARTIALLY IMPLEMENTED



1

NOT IMPLEMENTED

April 1, 2020

Action Since Audit Report

Westin Hotel Revenue

12 recommendations proposed in February 2019



FULLY
IMPLEMENTED

4



PARTIALLY
IMPLEMENTED

7



NOT
IMPLEMENTED

1

The Denver International Airport fully implemented four recommendations made in the original audit report, but eight others have yet to be fully implemented or acted upon. For example, the hotel management agreement still contains language providing the hotel with the ability to deny access to information it deems proprietary. In addition, the airport's financial performance-monitoring activities do not include a review of the hotel's supporting documentation for revenue and expense transactions. Amending the agreement and implementing the review of documentation would help the airport provide assurance of the hotel's compliance with both the agreement and its internal policies and procedures. In addition, with the impact of the COVID-19 pandemic, the review would provide assurance the airport receives all revenue owed from the hotel.

FINDING 1 | Denial of Access to Data Prevents Auditors from Evaluating Marriott's and Westin's Operation of the Westin or Providing Assurance that Both Are in Compliance with the Hotel Management Agreement

Recommendation 1.1

AMEND CONTRACT TO REMOVE PROPRIETARY RESTRICTIONS ON INFORMATION

The airport's Revenue Management Division should work with the City Attorney's Office, including Airport Legal Services, to revise the hotel management agreement and remove language prohibiting the hotel owner — including airport and Auditor's Office personnel — from having access to proprietary financial and operational information, from conducting audits of the hotel, and from reviewing detailed audit results and recommendations issued by external audit firms.



**NOT
IMPLEMENTED**

AGENCY ACTION

Original target date for completion: May 21, 2019

Airport personnel stated they initiated discussions with Marriott International to discuss changes to the hotel management agreement in 2019. While no commitments were made, the airport agreed with the importance of the need to have access to hotel documentation and plan to reopen discussion in 2021 when the agreement is up for renewal.

We obtained a task order created with a hospitality consulting company in October 2020 to initiate negotiations for amending the proprietary language in the hotel management agreement. However, the airport was unable to provide documentation that negotiations had occurred since hiring the consulting company.

Because of the lack of negotiations related to the proprietary language in the hotel management agreement we consider this recommendation not implemented.

This was the agency's response to the recommendation when the original report was issued in February 2019:

DEN management will initiate discussions to negotiate changes to the Hotel Management Agreement (HMA) regarding handling of Proprietary Materials as identified in this recommendation. The discussions will involve the City's attorney assigned to the Auditor's Office to more fully explain the need for this change to Marriott International. Although DEN management will initiate these discussions, it should

be noted that Marriott International will have to agree to any changes requested in a Hotel Management Agreement amendment. In the event that Marriott International does not agree to the changes recommended by this audit, DEN cannot, at this time, ensure complete implementation of this recommendation.

FINDING 2 | Airport Management Has Not Clearly Defined Project Monitoring and Asset Management Roles and Responsibilities for the Hotel Management Agreement

Recommendation 2.1

ESTABLISH SPECIFIC CONTRACT MONITORING ROLES AND RESPONSIBILITIES

The Director of Commercial Properties should establish and document specific roles and responsibilities related to contract monitoring. Roles and responsibilities should be approved by the Senior Vice President of Airline and Commercial Affairs and should include, but not be limited to:

- Monitoring and documenting compliance with all performance terms outlined in the hotel management agreement to ensure the safeguarding of the city’s asset.
- Managing the contract with Capital Hotel Management LLC, or other third-party contracts associated with the hotel management agreement, and ensuring proper documentation of scopes of work and fees, per the city’s Fiscal Accountability Rules.
- Ensure proper approval is provided to all necessary Westin service contracts, per the hotel management agreement.



**PARTIALLY
IMPLEMENTED**

AGENCY ACTION

Original target date for completion: May 21, 2019

The director of the Commercial Properties Division developed and clearly defined specific roles and responsibilities related to contract monitoring in the division’s standard operating procedures. We found procedures define the division’s responsibilities for monitoring and documenting compliance with all performance terms outlined in the hotel management agreement on a monthly and yearly basis. For example, responsibilities include reviews of the hotel’s budget actuals and approvals, brand standards and guest satisfaction surveys, and other asset management reports. In addition, the division implemented a contract compliance checklist to help ensure all reports are received as outlined in the hotel management agreement. Upon review of the checklist, we found the airport was compliant with monitoring and documenting performance terms outlined in the hotel management agreement; however, we noted the airport does not conduct a review of the hotel’s supporting documentation for financial transactions to ensure compliance with the hotel management agreement and hotel policies and procedures.

In addition, the division’s standard operating procedures define

responsibilities for managing the third-party contracts associated with the hotel management agreement. In line with Recommendations 2.9 and 2.10 – which aim to formalize and document the task order process and establish a review and approval task order process – the division implemented two procedures related to the task order process for contracted services to ensure proper documentation and approval of work and fees are in line with the city’s policies.

Based on our review, the airport has established and documented specific roles and responsibilities related to contract monitoring to ensure the safeguarding of the city’s asset. However, due to the lack of a transactional review process as part of the airport’s financial performance-monitoring activities, we consider this recommendation partially implemented.

This was the agency’s response to the recommendation when the original report was issued in February 2019:

DEN agrees the Director of Commercial Properties and the Senior Vice President of Airline and Commercial Affairs will document roles and responsibilities as they relate to compliance monitoring of the Capital Hotel Management, L.L.C. (CHM) contract or other related contracts associated with the hotel management agreement.

Recommendation 2.2

ESTABLISH SPECIFIC FINANCIAL MONITORING ROLES AND RESPONSIBILITIES

– The Director of Commercial Properties and Senior Vice President of Financial Management should establish and document specific financial roles and responsibilities related to the hotel management agreement. Roles and responsibilities should include, but not be limited to: Monitoring and documenting compliance with all financial terms outlined in the hotel management agreement to include periodic review of supporting documentation of financial transactions for accuracy, allowability, and completeness, per the hotel management agreement.



**PARTIALLY
IMPLEMENTED**

AGENCY ACTION

Original target date for completion: May 21, 2019

The director of the Commercial Properties Division and senior vice president of Financial Management developed and clearly defined roles and responsibilities for financial monitoring. The airport’s Finance Division’s standard operating procedures define the division’s responsibilities for tracking trends for management fees, original income projections, reviewing Marriott International, Inc., external audit opinion on financial reports, and flow of funds. In addition, the airport’s Commercial Properties Division’s standard operating procedures state the division is responsible for

reviewing financial monitoring reports such as cash flow, monthly profit and loss, monthly forecast changes, and annual budget on an on-going basis.

While both divisions expanded upon existing policies and procedures related to financial monitoring and documenting activities, neither document mentions a process to review supporting documentation of financial transactions for accuracy, allowability, and completeness per the hotel management agreement as outlined in the recommendation. Airport officials consider the financial statement review conducted by Marriott International, Inc., external audits to be sufficient; however, financial statement reviews performed by external auditors typically do not include a detailed transactional review to determine if transactions within a certain category are allowable per the hotel management agreement.

Based on our review, we consider this recommendation partially implemented. Both divisions could strengthen monitoring efforts by incorporating a review of the hotel's supporting documentation for financial transactions to ensure compliance with the hotel management agreement and hotel policies and procedures. In addition, monitoring the hotel's financial transactions would help provide assurance the airport receives all revenue owed.

This was the agency's response to the recommendation when the original report was issued in February 2019:

DEN uses a risk-based approach as it relates to periodic review of financial transactions incurred under the Hotel Management Agreement. DEN has established several monitoring tools to track the performance of the Westin DIA under the hotel management agreement. DEN agrees to formally define and document each role and associated responsibilities as they relate to the financial terms of the hotel management agreement.

Recommendation 2.3

DEVELOP AND DOCUMENT POLICIES AND PROCEDURES FOR EACH MONITORING ROLE

– Following implementation of Recommendations 2.1 and 2.2, the Director of Commercial Properties, Senior Vice President of Airline and Commercial Affairs, and Senior Vice President of Financial Management should develop documented policies and procedures for each role responsible for monitoring the hotel management agreement and managing the asset. The policies and procedures should include, but not be limited to:

- Identification of responsible parties for monitoring the hotel management agreement;
- Communication of expectations between parties and management involved in monitoring the hotel management agreement;



**PARTIALLY
IMPLEMENTED**

- Specific and detailed steps for ensuring compliance with the hotel management agreement, safeguarding the city’s asset, and managing the contract with Capital Hotel Management LLC or other third-party contracts;
- Specific time frames or deadlines for process steps;
- Documentation of expectations for monitoring activities; and
- A review process to ensure contract monitoring, asset management, and financial monitoring is occurring and that an appropriate segregation of duties exists and is in accordance with Fiscal Accountability Rules.

AGENCY ACTION

Original target date for completion: May 21, 2019

As noted in Recommendations 2.1 and 2.2, the director of the Commercial Properties Division, senior vice president of Airline and Commercial Affairs, and senior vice president of Financial Management developed and implemented procedures for roles and responsibilities related to monitoring the hotel management agreement and managing the asset. We noted updates to the divisions’ standard operating procedures to include additional information related to responsible parties and communication expectations between parties in charge of monitoring the hotel management agreement.

As mentioned in Recommendation 2.1, the airport’s Commercial Properties Division oversees contract monitoring related to performance and financial terms outlined in the hotel management agreement, reviews brand standards, conducts physical inspections of the hotel, and provides oversight with third-party contracts. Furthermore, as discussed in Recommendation 2.2, the airport’s Finance Division reviews hotel activities on the hotel’s financial statements including, but not limited to, hotel revenue, expenses, assets, and liabilities. The division also tracks overall trends related to management fees, original income projections, and flow of funds. In addition, we found the procedures contain additional information as recommended including detailed steps, specific time frames, and documentation of expectations for monitoring activities, as well as a review of processes in place to ensure compliance with the hotel management agreement and that appropriate segregation of duties exist and are in accordance with the city fiscal rules.

While the improvements expand upon existing policies and procedures, neither mentions a process for reviewing the hotel’s supporting documentation for expense transactions to ensure compliance with the hotel management agreement; therefore, we consider this recommendation partially implemented.

This was the agency's response to the recommendation when the original report was issued in February 2019:

DEN uses a risk-based approach as it relates to periodic review of financial transactions incurred under the Hotel Management Agreement. Also, the Director of Commercial Properties, the Senior Vice President of Airline and Commercial Affairs, and the Senior Vice President of Financial Management will continue to work together on documenting roles and responsibilities as they relate to compliance monitoring of the Capital Hotel Management, L.L.C. (CHM) contract or other related contracts associated with the hotel management agreement as well as financial terms of the hotel management agreement.

Recommendation 2.4

ALLOWABLE REIMBURSEMENTS TO CAPITAL HOTEL MANAGEMENT LLC –

The Senior Vice President of Airline and Commercial Affairs should ensure that reimbursements to Capital Hotel Management LLC, or other third-party contractors, include only allowable expenses and that supporting documentation meets the requirements of Fiscal Accountability Rules.



**FULLY
IMPLEMENTED**

AGENCY ACTION

Original target date for completion: May 21, 2019

In line with Recommendation 2.10 – which aims to establish task order review and approval process – the senior vice president of Airline and Commercial Affairs implemented an internal review and approval process for task order invoices from Capital Hotel Management, LLC, and other third-party contractors in July 2020. The review process ensures appropriate documentation – such as an invoice – is obtained and shows the time spent on the task, at what rate, and by whom. The process also ensures payment of invoices meets the city fiscal rules.

We reviewed task order invoices and compared the supporting documentation to the requirements outlined in the procedure and found that itemized invoices matched the scope of work outlined in the task order per the city fiscal rules.

Based on our review, we did not find evidence of non-allowable expenses being reimbursed to third-party contractors. Therefore, we consider this recommendation fully implemented.

Recommendation 2.5



**FULLY
IMPLEMENTED**

DOCUMENT ON-SITE INSPECTIONS AND SUBSEQUENT RESOLUTIONS –

The Director of Commercial Properties and other individuals conducting inspections of the Westin should document all results and resolutions from each inspection. This documentation should be retained to provide assurance of the safeguarding of the asset and of appropriate actions taken by Westin staff.

AGENCY ACTION

Original target date for completion: May 21, 2019

We determined the director of the Commercial Properties Division developed and implemented written policies and procedures related to conducting physical inspections of the Westin in July 2020. The division's standard operating procedures define periodic physical inspections to ensure proper maintenance of the hotel per the hotel management agreement. We found division personnel conduct an inspection at least once per operating year in accordance with the hotel management agreement.

Procedures establish the process for documenting inspection results and resolutions using a newly developed property walkthrough worksheet. Division management documents deficiencies and sends them to the Westin to be corrected/addressed. The director follows up on the progress of these items through email communications until all items are resolved. In addition, the director retains inspection documentation on spreadsheets to provide assurance of the appropriate actions taken by Westin staff.

Since the implementation of this process, the division has conducted two periodic inspections since September 2019. We reviewed these inspections and compared them to the documented procedures. We found the airport is compliant with its procedures and have continuously worked on improving final resolution documentation for outstanding items. During the September 2019 inspection, we found division personnel only visually verified and noted completion of outstanding items. However, during the October 2020 inspection, personnel began adding photo documentation as well to the property walkthrough tracking spreadsheet. Therefore, based on the division's documentation efforts for physical inspections, we consider this recommendation fully implemented.

Recommendation 2.6



**PARTIALLY
IMPLEMENTED**

IDENTIFY A COMPREHENSIVE METHODOLOGY FOR MONITORING FINANCIAL PERFORMANCE

– The Senior Vice President of Airline and Commercial Affairs and Senior Vice President of Finance should identify appropriate methodologies, such as an internal rate-of-return analysis and a review of key performance indicators, for conducting comprehensive financial performance-monitoring activities.

AGENCY ACTION

Original target date for completion: Implemented

As a response to the original audit recommendation, airport officials said they identified and implemented appropriate methodologies for conducting financial performance-monitoring. Commercial Properties Division personnel review the hotel's financial performance compared to hotels in the area, near other airports, and monthly booking pace. We reviewed the division's standard operating procedures and found reviews should occur weekly and monthly. In addition, the division's contract compliance checklist confirmed receipt of several hotel financial reports. As a response to the COVID-19 pandemic's impact, the airport adjusted its focus from annual and prior year financial comparisons to financial comparisons month to month.

We also found financial performance-monitoring activities performed by the airport's Finance Division which include a comparison of the hotel's operating income and overall financial performance to a consulting report. However, the report was conducted in 2012. The division also reviews the hotel's flow of funds to ensure funds are allocated properly based on the bond that funded the building of the hotel. Finally, the division also added a new section to their standard operating procedures related to financial monitoring activities over hotel operations.

While the airport performs several activities to monitor the hotel's financial performance and includes the activities within policies and procedures, we found no mention of an internal rate-of-return analysis as part of the airport's financial monitoring activities, as mentioned in the recommendation. In addition, the airport is not conducting a review of the hotel's supporting documentation for expenses to ensure compliance with both the hotel management agreement and the hotel's internal policies and procedures. The airport could strengthen its financial performance-monitoring activities by conducting another financial analysis similar to the consulting report from 2012. This would provide more up-to-date financial projections that would account for the impact of the COVID-19 pandemic. Therefore, we consider the recommendation partially implemented.

We obtained the hotel's revenue for 2019 and 2020 and found a significant decrease in the hotel's revenue in 2020. In 2019, the hotel's revenue was \$62.1 million; however, in 2020 the revenue decreased \$37.8 million to \$24.3

million.¹ Since the airport uses the revenue it receives from the hotel along with other sources of revenue to fund its operations, the loss increases the importance of the airport's role in ensuring it is receiving all revenue owed from the hotel.

This was the agency's response to the recommendation when the original report was issued in February 2019:

DEN management has already identified and implemented appropriate methodologies for conducting financial performance monitoring. Financial performance monitoring methodologies are currently in place and have been performed regularly since the operations of the Westin DIA commenced. DEN management will continue to utilize the existing suite of methodologies for monitoring the financial performance of the Westin DIA and will enhance or adjust the tools within the suite of methodologies as situations warrant.

Recommendation 2.7

DEVELOP FINANCIAL PERFORMANCE-MONITORING PROCEDURES –

Following implementation of Recommendation 2.6, the Senior Vice President of Airline and Commercial Affairs and Senior Vice President of Finance should ensure procedures for conducting financial performance-monitoring activities are developed. The procedures should include the methodologies to be used, the frequency of each monitoring activity, and documentation and reporting requirements for results.



**PARTIALLY
IMPLEMENTED**

AGENCY ACTION

Original target date for completion: March 21, 2019

As noted in Recommendation 2.6, the airport documented procedures for conducting financial performance-monitoring activities. The Commercial Properties Division's standard operating procedures contain weekly, monthly, quarterly, annual, and on-going financial performance-monitoring activities that include a review of profit and loss statements, hotel booking pace, and the hotel's budget. We found updates to the procedures since the original audit to include additional information related to the frequency of review and the type of information that would be reviewed. In addition, the division maintains a contract compliance checklist containing items requiring monitoring. Also mentioned in Recommendation 2.6, we found the airport's Finance Division also updated its standard operating procedures to include a section related to financial performance-monitoring activities.

¹ Revenue information provided by the airport's Finance Division. The division stated the hotel's financials had not been audited at the time the information was provided.

While the airport has made some progress towards documenting procedures to closely monitor the hotel's financial performance within its policies and procedures, procedures do not include a review of the hotel's supporting documentation related to revenue and expense transactions to ensure compliance with the hotel management agreement and the hotel's internal policies and procedures. As previously mentioned, the COVID-19 pandemic significantly impacted the hotel's 2020 revenues which contribute to the funds used to operate the airport. Due to the lack of this review, we consider this recommendation partially implemented.

This was the agency's response to the recommendation when the original report was issued in February 2019:

DEN management has already identified and implemented appropriate methodologies for conducting financial performance monitoring. Financial performance monitoring methodologies outlined in the procedures are currently in place and have been performed regularly since the operations of the Westin DIA commenced. DEN management will evaluate existing procedures for monitoring financial performance of the Westin DIA and adjust those procedures as additional tools are added to the suite of monitoring tools.

Recommendation 2.8

CONDUCT FINANCIAL PERFORMANCE-MONITORING ACTIVITIES – Following implementation of Recommendation 2.7, the Senior Vice President of Airline and Commercial Affairs and Senior Vice President of Finance should ensure that comprehensive financial performance-monitoring activities are conducted in accordance with identified procedures.



**PARTIALLY
IMPLEMENTED**

AGENCY ACTION

Original target date for completion: Implemented

As noted in Recommendations 2.6 and 2.7, while the airport made some improvements to its financial performance-monitoring activities, the airport does not have procedures in place to monitor supporting documentation of the hotel's revenue and expenses to ensure compliance with the hotel management agreement and the hotel's internal policies and procedures.

As noted in the original report, the hotel considered documents such as its internal policies and procedures and some information included in supporting documentation for transactions as proprietary. To determine if the hotel still considered this information proprietary, we requested hotel expense and revenue transactions for 2019 and 2020. We selected a sample of two months of transactions in 2019 and two months in 2020, where we then selected nine revenue and 29 expense transactions and requested the

supporting documentation from the hotel. The hotel cooperated with us and provided unredacted supporting documentation along with requested hotel policies and procedures.

Upon review, we found several purchases of employee gifts and items for hotel guests through Amazon using residential shipping addresses. When we reviewed the hotel's policy related to expense reimbursement, these purchases were not allowed. When we asked, hotel management explained the issue was discussed with the employee at the time of the purchase and the hotel's policy was updated in 2020 making Amazon purchases unallowable. When we brought the purchases to the airport's attention, management agreed residential addresses should not be used to ship items but said the types of purchases were "common in the hotel industry." Other expenses reviewed included employee food costs, guest car washes, guest relocation charges to another hotel, and employee travel. We reviewed several hotel policies corresponding with the purchases and found the hotel was in compliance with its policies and procedures.

When we asked airport personnel if they were conducting any review of transactions and supporting documentation to ensure all owed revenue was received, personnel confirmed they were not. The hotel management agreement allows "reasonable direct out of pocket costs and expenses" incurred while managing the hotel in accordance with policies and procedures "applicable to other Westin hotels." While the airport has made improvements to policies and procedures related to financial performance-monitoring activities, the airport should include periodic reviews of supporting documentation for revenue and expense transactions to ensure the hotel is compliant with both the hotel management agreement and internal policies. In addition, the airport should consider adding specific language to the agreement during negotiations related to allowable expenses. Most importantly, the significant impacts of the COVID-19 pandemic on both hotel and airport revenues increases the need for the airport to ensure it is receiving all revenue owed from the hotel. We noted the hotel's revenue decreased from \$62.1 million in 2019 to \$24.3 million in 2020.²

Due to the lack of a review of the hotel's supporting documentation for transactions, we consider this recommendation partially implemented.

This was the agency's response to the recommendation when the original report was issued in February 2019:

DEN management has already identified and implemented appropriate methodologies for conducting financial performance monitoring. Financial performance monitoring methodologies are currently in place and have been performed regularly since the operations of the Westin DIA commenced. DEN management will continue to conduct these

² Airport personnel said the revenues for 2020 had not been audited by the external CPA firm at the time we received them in February 2021.

monitoring activities over the financial performance of the Westin DIA utilizing an existing suite of methodologies. In addition, DEN management will ensure assigned DEN staff follow the procedures as written or as they are modified from time to time.

Recommendation 2.9

FORMALIZE AND DOCUMENT TASK ORDER PROCESS – The Senior Vice President of Airline and Commercial Affairs should establish a documented process for utilizing formal task orders for requesting work from Capital Hotel Management LLC and other contracted entities charged with providing contract monitoring or asset management services. Task orders should clearly state, at a minimum, the terms and conditions, as well as an estimate of time and costs associated with the task.



**FULLY
IMPLEMENTED**

AGENCY ACTION

Original target date for completion: May 21, 2019

We determined the senior vice president of Airline and Commercial Affairs established and implemented documented procedures for utilizing formal task orders when requesting work from contracted entities that provide contract monitoring and asset management services in July 2020. The Commercial Properties Division’s standard operating procedures require a completed task order to include information relevant to the work including, but not limited to, company name, contract number, reason and scope of request work, and amount that the cost shall not exceed. The senior vice president of Airline and Commercial Affairs reviews and signs task orders. In addition, the completed task order includes all costs of work to help ensure costs do not exceed the approved amount.

Since the implementation of this process, the division completed three task orders. We reviewed the task orders and compared them to the documented procedure to ensure proper documentation of information, at a minimum, included the terms and conditions, estimate of time and costs associated with the task, and signed approval. We determined the division follows its established procedures. Therefore, we consider this recommendation fully implemented.

Recommendation 2.10



**FULLY
IMPLEMENTED**

ESTABLISH TASK ORDER REVIEW AND APPROVAL PROCESS – Following implementation of Recommendation 2.9, the Senior Vice President of Airline and Commercial Affairs should establish a process for reviewing and approving task orders to ensure work being requested is necessary and not duplicative of the roles and responsibilities of airport personnel charged with managing the hotel management agreement.

AGENCY ACTION

Original target date for completion: May 21, 2019

As part of the procedure discussed in Recommendation 2.9, the senior vice president of Airline and Commercial Affairs established and implemented a process for reviewing and approving task orders in July 2020. The review process helps ensure appropriate documentation for all completed work – such as an invoice – is obtained and details the time spent, at what rate, and by whom for the task. Upon completion of the review, if no revisions are needed, the senior vice president of Airport Commercial Business Development approves the task order before the Finance Division processes it through Workday, the city’s system of record.

We reviewed task order invoices and compared them to the documented review process and found the division follows its documented process. In addition, we determined the work requested was necessary and not duplicative of the roles and responsibilities of airport personnel charged with managing the hotel management agreement. The Commercial Properties Division contracts with third-party hospitality consultants with industry knowledge and tools to better execute needed services – such as preparing objection letters and impact analysis reports – both of which do not fall under division personnel’s job descriptions. Therefore, we consider this recommendation fully implemented.

Recommendation 2.11



**PARTIALLY
IMPLEMENTED**

UTILIZE EXISTING CITY RESOURCES – The Director of Commercial Properties should leverage existing city resources for identifying and contracting with independent certified public accounting firms or other external auditors to conduct audits and reviews of Marriott’s corporate and site-specific internal control structure and financial statement.

AGENCY ACTION

Original target date for completion: May 21, 2019

Airport officials said an external audit of Marriott’s financial statements and

internal controls was conducted in 2019 and no other financial audits have been conducted at the Westin since 2017. However, the airport is leveraging several airport divisions, including its own Internal Audit Division, to plan the scope for the next financial audit of the hotel's accounts. Also, as previously stated, the airport leverages the airport's Finance Division to review the hotel's annual financial reports for internal controls.

While the airport continues to use outside audit firms to conduct financial audits of the hotel, the airport plans to leverage internal resources to develop the scope of financial and internal control audits of the hotel. However, no other audits have been conducted since 2017. Therefore, we consider this recommendation partially implemented.

This was the agency's response to the recommendation when the original report was issued in February 2019:

The Hotel Management Agreement contains certain requirements that define an outside audit firm be utilized to conduct financial audits and DEN management will continue to follow these requirements. If City resources have the specialized expertise to provide required services, the Director of Commercial Properties will work with the identified resources to complete specifically defined work. For example, now that a hospitality specific audit scope has been defined, future financial audits of the Westin DIA can be requested and scoped internally. We will also leverage existing City resources to follow up on outside financial audit action items to ensure Westin DIA compliance with agreed-upon actions.

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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