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Cover photo by Denver Auditor’s Office staff.
AUDITOR’S LETTER

February 22, 2024

We audited how Denver International Airport oversees and manages its concessions contract with Woody Creek Bakery and Café to assess whether the café is accurately reporting all revenue earned and paying the appropriate rent it owes the airport based on sales. I now present the results of this audit.

The audit found the airport is not sufficiently overseeing the Woody Creek concessions contract. We found airport managers and staff did not identify unallowable deductions the café subtracted from its gross revenues, they did not address monthly payments that were late albeit within the grace period, and they are using an outdated formula for the café’s utility payments. If contract compliance is not properly monitored, the airport may not collect all revenue owed and vendors may be approved for the airport’s incentive awards despite having contract violations.

By implementing recommendations for stronger contract monitoring, the airport will be better able to ensure the café’s revenue reports are accurate and complete and that the amounts owed are collected in a timely manner. In addition, updating the calculation for electric fees and adding charges for the café’s water usage will enable the airport to collect fair amounts for the café’s utilities.

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 at Denver International Airport and at Woody Creek Bakery and Café 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
Woody Creek Bakery & Café Concessions Contract
FEBRUARY 2024

Objective
To evaluate whether Denver International Airport’s Concessions Division provides adequate oversight of the Woody Creek Bakery & Café concessions contract, including whether the café is accurately reporting all revenue earned and paying the appropriate rent it owes the airport based on sales.

Background
Denver International Airport has over 185 concessions locations across its main terminal and three concourses. The airport’s Concessions Division is responsible for overseeing all vendors to ensure they comply with contract requirements.

Woody Creek Bakery & Café has leased space at the airport since 2007. The café’s contract with the airport requires it to pay rent based on a minimum annual guaranteed amount and a percentage fee based on sales. The café’s monthly and yearly revenue statements report its sales and determine the amount of rent it owes.

The airport’s limited oversight of the Woody Creek Bakery & Café contract does not ensure compliance and accountability for revenue collection

Insufficient contract oversight has allowed Woody Creek to operate outside its contract terms without penalty. The airport’s oversight practices did not identify — and therefore did not resolve — unallowable deductions the café subtracted from its gross revenues, nor did the airport address late monthly payments. The airport’s lack of accountability risks it treating concessionaires unfairly and not collecting revenue owed.

Specifically, we identified:

• Insufficient descriptions of roles and responsibilities related to monitoring for concessions contract compliance.
• No tracking of when Woody Creek is not complying with its contract.
• About $185,000 in unallowed deductions subtracted from the café’s gross revenues from January 2021 through June 2023, which reduced its rent owed to the airport.
• No adequate process for the airport to verify the café’s deductions and no policy on allowable deductions.
• No enforcement of an airport requirement that the café’s revenue reports be verified by a certified public accountant.
• Payments that were persistently late, albeit within the grace period, on invoices since January 2021.
• An outdated calculation for electric fees and no charges for water usage, which could enable Woody Creek to pay an unfair amount.

WHY THIS MATTERS
Although the airport operates like a business, it is owned by the city and therefore has a duty to be a prudent steward of public money. When the airport does not do its due diligence to verify concessionaires’ self-reported revenue, it does not hold them accountable to their contract terms and risks the airport losing out on money it is owed.

Additionally, enforcing some contracts more or less strictly than others creates inequality — discouraging local businesses from participating in airport concessions and eroding public trust in the airport’s contract management.
FINDING AND RECOMMENDATIONS

The airport’s limited oversight of the Woody Creek Bakery & Café contract does not ensure compliance and accountability for revenue collection

- The airport’s staffing, documentation, and processes for concessions contract management are inadequate ................................................................. 11
- Insufficient contract monitoring enabled Woody Creek Bakery & Café to subtract $185,000 in unallowed deductions from its gross revenue ......................................................... 17
- The airport did not ensure Woody Creek Bakery & Café paid rent on time and did not charge interest owed to the city for late payments. ................................................................. 24
- The airport’s outdated utility fee could be allowing Woody Creek Bakery & Café to pay an unfair amount ................................................................. 31
**BACKGROUND**

**Denver International Airport** Denver International Airport is owned by the City and County of Denver but operates as an enterprise, in that it must raise enough revenue to cover its costs — like a business does. Enterprises are government-owned businesses that can issue their own revenue bonds and receive limited grants from state or local governments.

With 53 square miles of land, Denver International Airport is the largest airport in the United States and second largest in the world by size. The airport was also ranked as the sixth-busiest global airport as of October 2023 based on total monthly seat capacity for domestic and international flights that serve over 200 destinations — a significant increase from a pre-pandemic ranking when it was the 20th busiest airport. The airport's monthly seat capacity was nearly 4.2 million in October 2023, and it reported serving 69.3 million passengers in 2022.

Over the past five years, both Denver International Airport and its concessions program have grown. Figure 1 shows the growth of passengers and concessions operating revenue from 2018 through 2022.

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**FIGURE 1. Concessions revenue and passenger growth at Denver International Airport, 2018–2022**

<table>
<thead>
<tr>
<th>Year</th>
<th>Concessions Operating Revenue</th>
<th>Number of Passengers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$83.3M (↑3%)</td>
<td>64.5M</td>
</tr>
<tr>
<td>2019</td>
<td>$85.7M (↑7%)</td>
<td>69M (↑7%)</td>
</tr>
<tr>
<td>2020</td>
<td>$45.2M (↓47%)</td>
<td>33.7M (↓51%)</td>
</tr>
<tr>
<td>2021</td>
<td>$69.1M (↑53%)</td>
<td>58.9M (↑74%)</td>
</tr>
<tr>
<td>2022</td>
<td>$103.2M (↑49%)</td>
<td>69.3M (↑18%)</td>
</tr>
</tbody>
</table>

*Source: Information from Denver International Airport's concessions team and its annual revenue reports.*

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Airport concessions program

As of November 2023, Denver International Airport had over 185 shops, restaurants, and passenger services concessions locations across more than 200,000 square feet of its main terminal and three concourses. In 2022, the airport’s concessions program generated about $513 million in gross annual revenue. Of that, food and beverage sales were about $330 million, or 64%.

The Concessions Division is part of a broader Commercial Division at the airport and is responsible for:

- Strategic planning for concessionaires’ administrative and operations activities.
- Creating and implementing relevant policies and procedures.
- Monitoring vendors for compliance with concessions contracts and airport rules and regulations.
- Procuring vendors for concessions spaces.
- Physically inspecting concessions spaces.

As shown in Table 1, several airport departments share responsibility with the Concessions Division in managing the concessions program at Denver International Airport.

### TABLE 1. Airport departments and responsibilities for concessions management

<table>
<thead>
<tr>
<th>Airport units</th>
<th>Responsibilities for airport concessions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting</td>
<td>Processes invoices to recognize concessions revenue in line with accounting standards.</td>
</tr>
<tr>
<td>Business Management Services Administration</td>
<td>Manages the creation and advertisement of requests for proposals, manages the selection process to award contracts to concessionaires, and oversees contract execution.</td>
</tr>
<tr>
<td>Commerce Hub</td>
<td>Manages the Airport Concessions Disadvantaged Business Enterprise program and reviews equity, diversity, inclusion, and accessibility plans to ensure compliance.</td>
</tr>
<tr>
<td>Design, Engineering, and Construction</td>
<td>Manages construction drawings and reviews of mechanical, electrical, and plumbing plans.</td>
</tr>
<tr>
<td>Fiscal Policy</td>
<td>Manages budget approvals, prepares financial forecasts, and reviews requests for proposals, ownership change requests, and financial information to ensure fiscal responsibility.</td>
</tr>
<tr>
<td>Global Communications Administration</td>
<td>Manages communication plans and news releases for grand openings.</td>
</tr>
<tr>
<td>Government Affairs and Global Public Policy</td>
<td>Manages the city's process of approving contracts and airport ordinances through the Mayor's Office and the City Council, and serves as the primary point of communication for contract and amendment execution with other government entities.</td>
</tr>
<tr>
<td>Legal Services</td>
<td>Manages airport contract development and any legal issues that arise over a contract.</td>
</tr>
<tr>
<td>Planning and Design</td>
<td>Manages the design review process from an architectural and planning perspective.</td>
</tr>
</tbody>
</table>

Source: Information provided by Denver International Airport concessions team.
Additionally, two city agencies work with the airport in matters related to concessions management:

- The Department of Community Planning and Development manages construction permitting for concessions spaces and ensures all construction and development adheres to local regulations.
- The Division of Small Business Opportunity oversees the city’s programs for businesses owned by women and people of color, which includes ensuring participating airport concessionaires comply with their contracts and program rules.

Woody Creek Bakery & Café

Woody Creek Bakery & Café is a Colorado company that serves baked goods, salads, and sandwiches to passengers and workers at Denver International Airport. Operating in Concourse C, Woody Creek rents 1,586 square feet of concessions space.

The café previously operated under the name Paradise Café when it opened at the airport in September 2007. In 2009, Panera Bread bought the Paradise Café chain of restaurants. Eight Paradise Café locations in the Denver metro severed ties with Panera Bread and changed their names to Woody Creek Bakery and Café. As of 2023, there is only the one Woody Creek location, which is at the airport.

As shown in Figure 2, the café’s initial contract with the city was set to expire on Sept. 30, 2014, but the city allowed the café to continue operations with the same terms and conditions of its original agreement — a process known as “holdover.”

**FIGURE 2.** Woody Creek Bakery & Café’s contracts with Denver International Airport

<table>
<thead>
<tr>
<th>Minimum Annual Guarantee</th>
<th>$915,805 (for 2023)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional Percentage of Sales</td>
<td>18%</td>
</tr>
<tr>
<td>Three-year extension due to pandemic</td>
<td>16%</td>
</tr>
<tr>
<td>New seven-year contract (resulting from premium value benefit)</td>
<td></td>
</tr>
</tbody>
</table>

Note: The minimum annual guaranteed rent for 2023 is based on 2022 sales, which is recalculated annually as required by the 2007 contract. The original minimum annual guaranteed amount in 2007 was $88,816. See pages 5-8 for more details.

Source: Woody Creek Bakery & Café contracts from 2007 and 2023 and information provided by Denver International Airport.
Then because of the COVID-19 pandemic, the city further extended its original contract with Woody Creek — as it did with all airport concessionaires at the time — by three years starting Sept. 1, 2021.

Once the contract expires in September 2024, Woody Creek will begin operating under a new contract with the airport, which was negotiated without a competitive selection process. This is due to provisions in the airport’s prior Premium Value Concessions program — which the airport discontinued in 2022 after our audit on airport concessions found the incentive program to be unfair and lacking a proven benefit for the city.²

Woody Creek received its Premium Value Concessions award in 2014, but the café did not negotiate its next contract until 2023. Woody Creek is among about 18% of all concessions vendors that are still able to get noncompetitive contracts under the discontinued program because the airport must honor its prior commitments.³

Woody Creek’s next contract requires the updated location to open in February 2025 and the contract will last to February 2032. While the current contract extension ends September 2024, five months are needed to build out the space before February 2025.

Based on the total length of the two contracts, including the first contract’s holdover period and pandemic-related extension, Woody Creek will operate at the airport for at least 24 years. During this time, the café will have not gone through the competitive selection process typically required for determining which vendors receive city contracts.

Skyport Holdings LLC, a Denver area-based holding company, owns Woody Creek and five other concessions at the airport.⁴ As shown in Figure 3 on the next page, Skyport Holdings is a joint venture between Skyport Hospitality LLC and Gladman LLC. Skyport Hospitality is a Denver area-based airport hospitality management and retail group operating at

³ City and County of Denver Auditor’s Office, “Airport Concessions Management” Follow-up Report.
⁴ Skyport Holdings LLC previously operated under the name Skyport Companies Inc.
Denver International Airport and Nashville International Airport.

Skyport Hospitality is the part owner of 12 concessionaires at Denver International Airport: Skyport Holdings and 11 others. These 12 vendors own 19 locations throughout the airport. Skyport Hospitality manages the 19 locations of their joint ventures, including Woody Creek, and provides services for three other locations at the airport.⁵

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**FIGURE 3. Ownership of Woody Creek Bakery & Café**

![Diagram showing ownership and management relationships among entities involved in Woody Creek Bakery & Café.]

*Note:* Skyport Hospitality LLC has been in partnership with Gladman LLC since 2014. See Appendix B for more detail about Skyport Hospitality’s ownership interests at Denver International Airport.

*Source:* Information from Denver International Airport and Skyport Hospitality LLC.

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### Key contract terms

The airport contract that governs Woody Creek’s operations has various key provisions that define how the café should submit its reported revenue to the airport and how its rent should be calculated. As shown in Figure 4 on the next page, Woody Creek pays monthly rent in two parts: a minimum annual guaranteed amount and a percentage of monthly sales. The contract also defines “gross revenue” and what allowable deductions the café can subtract from its reported total revenue.

Notably, the contract says:

- The minimum annual guaranteed rent is split up over 12 months and is due on the first of each month. This amount is 85% of the previous year’s sales and cannot be less than $88,816.
- The additional portion of rent that is based on a percentage of monthly sales is due on the 10th of each month. This is calculated as 18% of gross revenue from operations for the preceding month that exceed the minimum annual guaranteed amount.

⁵ See Appendix B for more details about Skyport Hospitality’s involvement at the airport.
• Also, 1% of monthly gross revenue goes to the airport’s Joint Marketing Fund — a central account that the airport uses to promote concessions at the airport.

• When properly recorded and accounted for, Woody Creek can subtract from its gross revenues:
  ▪ Refunds.⁶

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**FIGURE 4. The concessions invoice process for Woody Creek Bakery & Café**

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⁶ The contract allows bona fide returns for credit. Airport concessions managers define allowed “bona fide returns for credit” as merchandise returns or refunds to customers, only to the extent the original sale was reported in gross revenue.

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*Source: The original Woody Creek Bakery & Café contract, invoices pulled from the city’s system of record, and additional information from Denver International Airport.*
- Tips.
- Sales tax, excise tax, and other similar taxes collected from customers.
- Woody Creek must submit its monthly revenue reports by the 10th of each month, and it must submit its certified annual statement for the previous year by Feb. 28.
- The annual statement must be certified by an independent certified public accountant except if the airport’s chief executive officer waives this requirement. In such a case, an executive officer of the concessionaire can self-certify the annual statements.

Two invoices are typically needed for the airport to collect the partial rent due at the start of each month before sales for the last month and the payment for percentage of rent can be calculated. Joint Marketing Fund payments are added to the second monthly invoice and utility costs are added to the initial monthly invoice.

As shown in Figure 5, Woody Creek reported making nearly $14 million in gross revenue from January 2021 through June 2023. It paid the airport about $2.4 million during that time.

FIGURE 5. Woody Creek’s revenue and rent paid to Denver International Airport, January 2021-June 2023

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Rent*</th>
<th>Net revenue</th>
<th>Deductions taken</th>
<th>Minimum annual guarantee</th>
<th>Additional rent paid for percentage of sales</th>
<th>Joint Marketing Fund payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>$3.3M</td>
<td>$585,212</td>
<td>$3.5M</td>
<td>$295,148</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2022</td>
<td>$6M</td>
<td>$1.1M</td>
<td>$6.5M</td>
<td>$550,458</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2023**</td>
<td>$3.8M</td>
<td>$727,846</td>
<td>$4.2M</td>
<td>$355,999</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*In 2021, the concessionaires did not have to pay the minimum annual guarantee or into the Joint Marketing Fund because of the COVID-19 pandemic.

Source: Woody Creek’s 2021 and 2022 certified annual statements and its June 2023 monthly certified statement and point-of-sale system reports provided by Skyport Hospitality.
Concessions incentive programs

The airport's former Premium Value Concessions program operated from 2012 until it was paused in spring 2020 because of the COVID-19 pandemic. It was discontinued in 2022. The premium value program had evaluated concessions vendors based on three criteria: their operations, finances, and customer service.

Vendors received the benefit of negotiating their next contracts with the airport without competitive bidding. As a recipient of this award, Woody Creek received a new contract in 2023. It will last at least another seven years starting in 2025 after the café completes a required buildout of the concessions space.

This new contract will require Woody Creek to pay at least $492,575 for its minimum annual guaranteed rent and to use 16% of its monthly gross revenue — a 2-percentage-point reduction from the current rate of 18% — to calculate additional payments toward rent, as shown in Figure 2 on page 3.

After discontinuing the Premium Value Concessions program, the airport replaced it with a new incentive program called Excellence in Service. The Excellence in Service program awards concessionaires with a one-time three-year contract extension based on excellence in the following categories:

- Equity, diversity, inclusion, and accessibility plans and showing a good-faith commitment to implementing them.
- Airport Concessions Disadvantaged Business Enterprise program.
- Customer service.
- Compliance with contract requirements.
- Environmental sustainability.

Woody Creek will be eligible to participate in the new incentive program under its 2025 contract. If Woody Creek were to be awarded this benefit, then its next contract would extend through 2035.

Previous airport concessions audits

We published an audit of Denver International Airport's general concessions management in February 2022. That audit found some concessionaires were allowed to bypass the competitive selection process by winning the Premium Value Concessionaire award. We also found that holdovers for concessions contracts were long and unlimited, the airport had not evaluated whether it used the optimal contracting approach for its concessions program, and individual score sheets from the contract selection committee were not kept.

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After that audit, we determined risks in the contract management process remained and the Auditor’s Office planned to audit individual concessionaires separately.

In November 2022, we published an audit of the Etai’s Café concessions contract. This audit found that Etai’s Café had violated several contract terms, including taking unapproved discounts and making late rent payments. In addition to these issues, the airport was not holding Etai’s Café accountable to its contract terms.

In November 2023, we followed up on the original concessions management audit and found the airport partially implemented three recommendations and fully implemented the other three.

This audit of Woody Creek café continues this series of audits. We chose it for its location in a different concourse from Etai’s Café and because it is owned by a different concessionaire with multiple airport locations.

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FINDING AND RECOMMENDATIONS

The airport’s limited oversight of the Woody Creek Bakery & Café contract does not ensure compliance and accountability for revenue collection

Limited oversight and accountability for concessions contracts has been a recurring finding in our recent concessions audits at the airport — and we found further evidence of that trend after examining how the airport has administered the Woody Creek Bakery & Café concessions contract.

Denver International Airport’s limited contract oversight has allowed Woody Creek Bakery & Café to operate outside its contract terms without penalty and with no assurance that its reported revenue is accurate. Additionally, we found:

- The airport’s Concessions Division is understaffed and does not have the adequate documentation or established processes it needs to ensure effective monitoring of Woody Creek’s revenue reporting and timeliness of payments and that the café’s point-of-sale system keeps and reports accurate data.
- The airport’s oversight practices did not identify — and therefore did not resolve — unallowed deductions the café had subtracted from its gross revenues.
- Woody Creek paid almost all its invoices late from January 2021 through July 2023 because the airport did not enforce payment deadlines. The airport also did not charge interest on the overdue rent because of ongoing system limitations.

Although the airport operates like a business, it is owned by the city and therefore has a duty to be a prudent steward of public money. When the airport does not do its due diligence to verify concessionaires’ self-reported revenue, it does not hold concessionaires accountable to their contract terms and risks the airport losing out on money it is owed.

Additionally, enforcing some contracts more strictly or more loosely than others creates an environment of inequality among concessionaires — discouraging local businesses from participating in the concessions program and eroding the public’s trust in the airport’s contract management.
The airport's staffing, documentation, and processes for concessions contract management are inadequate

The airport's insufficient monitoring of concessions contracts may stem from understaffing and inadequate policies, procedures, and processes that should otherwise provide a foundation for the airport to effectively monitor revenue-related concessions contract provisions. Specifically, we found:

- A lack of clear policies and procedures including differing accounts of staff roles and responsibilities.
- Staffing levels have not kept pace with the airport's growth, leaving the concessions team understaffed.
- The airport does not monitor anything related to concessionaires' point-of-sale systems — which could directly impact vendors' reported revenue and rent payments to the airport.

Without sufficient staff who have clearly defined roles and responsibilities and without adequate, clear, and documented policies and procedures to guide staff's day-to-day work, concessions managers cannot effectively monitor concessions contracts like the one for Woody Creek Bakery & Café.

LACK OF CLEAR POLICIES AND PROCEDURES FOR CONTRACT MONITORING –

Airport concessions managers and staff provided unclear answers about the roles and responsibilities of the airport teams involved with concessions contract management, and the policies and procedures they provided lacked important details.

A concessions contract administrator said all contract administrators manage their own portfolios of multiple concessionaires, which includes looking for compliance and documenting concessions revenue reports. The same administrator also said they handle compliance issues after they have been escalated from the airport's finance and concessions concourse operations teams. But there have been no escalated compliance issues and no notifications about noncompliance for Woody Creek Bakery & Café.

After more requests for information on the specific roles and responsibilities for how the airport monitors contract compliance, concessions managers gave us a one-page document that listed the names of the employees and the general category of tasks they are supposed to accomplish.

We found this document lacked detailed descriptions of contract monitoring tasks, when they are supposed to be accomplished, and how responsibilities should flow from one person to another within the program.

We also searched for information about revenue contract compliance roles and responsibilities in the concessions revenue policy and procedure from the airport's finance team, the airport's concessions policy, and the concessions administrator's standard procedures provided by the concessions management team. While these policies and procedures sufficiently describe some contract monitoring tasks — such as requiring contract administrators to send notifications within specified time frames
to vendors that have not submitted monthly revenue reports — other tasks are vague.

For example, the standard operating procedure for contract administrators says that a compliance review should include a full review of the provisions in a contract, including the accounts receivable activity. This section does not provide any information about how often, when, or how a full compliance review should be performed.

The concessions contract administrator told us this full review had not been done and was unnecessary for Woody Creek because the vendor did not have “any indication of being in violation.” The administrator said they review account balances monthly and sureties and insurance certificates annually.

Federal guidance recommends that managers document policies and procedures for the organization and that policies contain the appropriate level of detail to effectively monitor an activity — for example, specific procedures should exist for escalating issues of concessionaires’ noncompliance. Additionally, the Government Finance Officers Association says policies, like a document that would detail staff roles and responsibilities, should be a “step-by-step explanation of procedures” and that they should not be vague or idealized.

The city’s Executive Order No. 8 requires agencies under the mayor — including Denver International Airport — to prioritize contract management and oversight. This includes establishing and implementing policies and procedures for monitoring contracts and monitoring vendors’ performance throughout the life of the contract to ensure they comply with contract terms.

Without concise, comprehensive, and clear job roles and responsibilities, airport concessions managers and staff may struggle to successfully follow procedures documented in their policies and important oversight activities may be missed.

UNDERSTAFFING: A KNOWN ISSUE IN CONCESSIONS AND FINANCE DIVISIONS – We learned that in addition to having unclear roles and responsibilities, the airport is understaffed in areas important to effective concessions contract oversight. Airport officials said both the concessions and finance teams want more staff but must work within the confines of their budgets.

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DENVER INTERNATIONAL AIRPORT’S INTERNAL AUDIT OF CONCESSIONS

Although we identified significant gaps in internal controls for the airport’s concessions policy and procedures, we also learned the airport has taken some steps to improve since our 2022 audit of Etai’s Café. In 2023, the airport’s Internal Audit Division started auditing individual concessionaires, including those owned by Skyport Hospitality. As of February 2024, that internal audit report was not complete.

Federal guidance says “agencies conducting effective workforce planning are prepared to face the difficult challenges of attracting, developing, and retaining a workforce that is competent and capable of addressing new objectives, new technologies, and new mission requirements.” The airport conducted workforce planning and identified the necessary staff it needs to effectively manage the airport concessions program and provided us with several documents to show this analysis.

In 2022, the airport worked with a third-party consultant, Landrum & Brown Inc., to assess staffing needs across Denver International Airport as passenger traffic returned to prepandemic levels and staff are preparing to serve 100 million passengers annually as soon as 2027.

Landrum & Brown found staffing levels at the airport remained relatively flat or declined since 2017, despite passenger growth and various airport infrastructure improvements. Out of 68 new potential positions, the consultant identified 20 positions as “high priority” because the airport’s overall staffing needs were greater than its budget could allow.

Included in the 20 high-priority positions were three contract compliance roles directly related to concessions management. The airport filled these positions in 2023, but based on our review of responsibilities for concessions operations staff, it appears these staff have not been assigned responsibility for managing revenue-related provisions in concessions contracts.

After the airport’s overall staffing assessment, the Concessions Division did its own in-depth assessment to determine its potential needs through 2023. This internal analysis found the division needs 21 employees to adequately support its current size. As more new concessions locations were scheduled to be completed by the end of 2023, those staffing needs would increase to 26. But as of November 2023, airport concessions had only 16 full-time employees, which is 38% below the 26 positions needed.

Federal guidance says organizations better position themselves to achieve their strategic goals when they actively manage and develop their workforce. Airport leaders and concessions managers are aware of...
the staffing needs, but they have not provided funding to keep pace with the airport’s growing concessions operations because of other budget priorities.

The Concessions Division gave us a list of staff positions it had requested for 2024. Only one position was related to concessions contract compliance: a senior contract administrator. This position was needed to help oversee documents moving through the contract approval process and to ensure consistency. It was not approved in the airport’s budget for 2024.

Meanwhile, the airport's Finance Division also did a staffing analysis for 2024 through 2026. We learned finance managers requested for 2024 an accounts receivable senior accountant responsible for accurate and timely billing. This position was approved.

Looking ahead to 2025, the airport's Finance Division has identified two other staffing positions that could impact concessions revenue management: an accounts receivable and collections staff accountant and an accounts receivable and revenue specialist. These employees would help collect amounts owed to the airport, coordinate between accounts receivable and collections, and process interest charges on late payments.

Despite several positions recently approved for finance and concessions, the lack of sufficient staffing at the airport is a contributing factor in the challenges concessions managers and staff face in ensuring vendors comply with their contracts and that the airport’s Concessions Division maintains sufficient controls, such as documented policies and procedures.

As the airport continues to grow and passenger traffic increases, this lack of staffing can further compound problems in concessions revenue management and contract compliance if airport officials do not address it.

**NO MONITORING OF POINT-OF-SALE SYSTEMS** – When we analyzed the revenue Woody Creek Bakery & Café had reported to the airport, we learned the airport does not monitor anything related to the point-of-sale systems concessionaires use — despite there being requirements for what functions these systems must have to ensure accurate record keeping.

Point-of-sale systems are systems of record for concessionaires’ sales transactions. The information these systems store directly impacts the revenue that vendors report and the rent payments they make to the airport.

Concessions managers said they do not monitor concessionaires' point-of-sale systems because it would not be feasible to do so based on current staffing. Moreover, there are no written requirements in the airport's policies and procedures to monitor such systems.

The airport’s concessions handbook specifies requirements for the point-of-sale systems concessions vendors can use, such as requiring a transaction history by time and the products sold. Therefore, the airport
should have a process to monitor vendors to ensure they meet these minimum standards.

Without sufficient monitoring of these point-of-sale systems and without understanding how reliable a vendor’s sales data might be, the airport cannot have reasonable assurance that its vendors’ self-reported revenue is accurate, that vendors are complying with contract terms, and that sufficient data is available for internal and external audits.

For instance, while analyzing Woody Creek’s revenue reports, a Skyport Hospitality representative told us transaction-level receipts before September 2022 were deleted as part of a system upgrade and server replacement.

When we asked about the missing records, the airport’s concessions and finance managers were unaware of the unavailable data and said it was unlikely the records were deleted because the point-of-sale system, Aloha, was a trusted system at the airport.

Only after we completed our audit fieldwork in October 2023 did Skyport Hospitality’s representatives inform us that the receipts we initially sought did exist in an alternative form. The company was then able to provide them for our analysis. Nevertheless, without the ability to monitor vendors’ systems, airport managers will have no way of knowing whether data from any concessionaire is kept and reported accurately, as required.

Overall, the airport’s inadequate management of concessions contracts — such as Woody Creek’s — poses various risks.

The lack of monitoring prevents the airport from knowing whether concessionaires are complying with their contracts. Given that the airport’s new Excellence in Service program requires vendors to comply with their contracts, insufficient oversight by the airport risks vendors receiving the benefit of a three-year contract extension when they should not be eligible.

For example, the airport’s standard concessions agreement requires vendors to keep records for three years. If a vendor does not keep the necessary records, they should be automatically ineligible for the incentive benefit of a three-year contract extension — or the airport otherwise risks awarding contract extensions to vendors who did not earn it.

Additionally, inadequate controls and monitoring of vendors’ point-of-sale systems could result in inaccurate sales reports and therefore inaccurate rent payments to the airport.

Finally, without sufficient and consistent monitoring of concessions contracts, the airport risks treating its concessionaires unequally. Contract terms may be enforced for some vendors and not for others. This could erode public trust that Denver International Airport is a fair place to conduct business.
<table>
<thead>
<tr>
<th>1.1</th>
<th>RECOMMENDATION</th>
<th>Continue requesting adequate staffing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Denver International Airport’s Concessions and Finance divisions should continue requesting additional staff based on risks for concessions contract revenue noncompliance, needed internal controls, and any other relevant factors. The divisions should continue requesting funding for adequate staffing.</td>
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<tr>
<td></td>
<td>AGENCY RESPONSE – AGREE</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The Concessions division will continue to prioritize staffing needs and requests. The Finance division, including DEN Accounting which processes concessions customer invoices and payments, will evaluate staffing needs annually and request positions based on the overall risks and priorities identified for the division.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>— Denver International Airport</td>
<td></td>
</tr>
<tr>
<td></td>
<td>IMPLEMENTATION EXPECTED BY JUNE 30, 2024</td>
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</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1.2</th>
<th>RECOMMENDATION</th>
<th>Develop, document, and implement contract monitoring procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Denver International Airport’s Concessions Division should work with the airport’s Finance Division to develop, document, and implement more comprehensive procedures to monitor concessionaire contracts for compliance, particularly for provisions related to revenue requirements and point-of-sale system requirements. The procedures should include, at a minimum:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Clear timelines, steps, and responsibilities for monitoring contracts and ensuring vendors’ point-of-sale systems comply with airport requirements.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Clear responsibilities and criteria for when issues of noncompliance should be escalated.</td>
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<tr>
<td></td>
<td>AGENCY RESPONSE – AGREE</td>
<td></td>
</tr>
<tr>
<td></td>
<td>DEN Concessions and DEN Finance will jointly review the current policies and procedures for monitoring concessions contract compliance related to revenue requirements and will clarify roles and responsibilities as needed.</td>
<td></td>
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<tr>
<td></td>
<td>— Denver International Airport</td>
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</tr>
<tr>
<td></td>
<td>IMPLEMENTATION EXPECTED BY JUNE 30, 2024</td>
<td></td>
</tr>
</tbody>
</table>
Insufficient contract monitoring enabled Woody Creek Bakery & Café to subtract $185,000 in unallowed deductions from its gross revenue

Like other concessionaires’ contracts, the contract between the airport and Woody Creek Bakery & Café allows the café to subtract specified amounts from the gross revenue it reports to the airport. Any subtractions from gross revenue reduce the amount the concessionaire pays to the airport.

The only allowable deductions in Woody Creek's contract are for returns or refunds, sales taxes, tips, and federal excise taxes. The contract stipulates that no other deductions are allowed.

Table 2 shows information on gross revenue, deductions, and taxes for Woody Creek café from January 2021 through June 2023, the period we looked at for this audit.

In analyzing sales reports from Woody Creek's point-of-sale system from January 2021 through June 2023, we found Woody Creek took deductions from gross revenue that were not allowed under the contract terms. Roughly $185,000 — or about 97% — of $192,000 the café had deducted from its gross revenue during that time were not allowed.

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross sales</th>
<th>Discounts</th>
<th>Taxes</th>
<th>Net sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>$3,547,016</td>
<td>$45,766</td>
<td>$249,288</td>
<td>$3,251,962</td>
</tr>
<tr>
<td>2022</td>
<td>$6,536,360</td>
<td>$86,800</td>
<td>$463,519</td>
<td>$5,986,041</td>
</tr>
<tr>
<td>2023*</td>
<td>$4,186,767</td>
<td>$59,209</td>
<td>$296,790</td>
<td>$3,830,768</td>
</tr>
</tbody>
</table>

*Through June.

Source: Woody Creek Café’s point-of-sale reports.

We determined the remaining $6,700 appropriately qualified as merchandise returns or refunds, which can be deducted according to the contract.

Table 3 on the next page shows the different types of deductions and associated amounts we identified in Woody Creek's sales reports from January 2021 through June 2023.

A portion of the unallowed deductions — about 54% — were in discounts to airport employees. A 10% discount offered to airport employees was not permitted by the contract, but the airport appears to allow this discount in practice. As with our previous audit of Etai’s Café, airport staff could not provide any written policy or document describing this discount and deduction from gross revenues.

The contract allows bona fide returns for credit. Airport concessions managers define “bona fide returns for credit” as merchandise returns or refunds to customers, only to the extent the original sale was reported in gross revenue.
TABLE 3. Deductions Woody Creek café subtracted from its gross revenues reported to the airport, January 2021-June 2023

We determined only the $6,700 in deductions for merchandise returns or refunds appropriately qualified under the contract. The remaining deductions were not allowed.

<table>
<thead>
<tr>
<th>Type of deduction</th>
<th>2021</th>
<th>2022</th>
<th>2023*</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Store employee: shift meal</td>
<td>$12,476</td>
<td>$28,281</td>
<td>$17,146</td>
<td>$57,904</td>
</tr>
<tr>
<td>Store manager: shift meal</td>
<td>$3,645</td>
<td>$5,894</td>
<td>$3,037</td>
<td>$12,576</td>
</tr>
<tr>
<td>Airport employee: 10% discount</td>
<td>$27,428</td>
<td>$42,919</td>
<td>$32,966</td>
<td>$103,313</td>
</tr>
<tr>
<td>Military service members and first responders: 15% discount</td>
<td>$1,523</td>
<td>$6,854</td>
<td>$2,378</td>
<td>$10,755</td>
</tr>
<tr>
<td>Refunds</td>
<td>$266</td>
<td>$2,709</td>
<td>$3,682</td>
<td>$6,657</td>
</tr>
<tr>
<td>All others</td>
<td>$428</td>
<td>$143</td>
<td>-</td>
<td>$570</td>
</tr>
<tr>
<td>Total</td>
<td>$45,766</td>
<td>$86,800</td>
<td>$59,209</td>
<td>$191,775</td>
</tr>
</tbody>
</table>

*Through June.

Note: The discount types shown here are from the café’s point-of-sale system. Where applicable, we have changed the name of the deduction type for ease of understanding.

Source: Sales reports from Woody Creek café’s point-of-sale system.

Because the airport is not adequately monitoring deductions from gross sales at Woody Creek café, it is not collecting the full rent payments it is owed. We determined the unallowed deductions from January 2021 through June 2023 cost the airport about $33,000 in rent.

We found similar issues related to unallowable deductions in our prior audit of the Etai’s Café concessions contract — which suggests other concessionaires might also be taking unallowed deductions with financial consequences to the airport.17

RESULTS OF SALES RECEIPT ANALYSIS

We analyzed receipts for 59 transactions and found that the sales and deductions matched the sales reports from Woody Creek’s point-of-sale system. During this analysis, we identified two instances where Woody Creek applied an airport employee discount of 10% twice during the same transaction.

See Appendix A for additional details.

We identified several reasons why Woody Creek Bakery & Café was able to take unallowed deductions that ultimately reduced the rent it paid to the airport:

- **NO POLICY ON OTHER ALLOWABLE DEDUCTIONS** – Despite the Woody Creek contract’s explicit list of allowable deductions, the airport permits the café and other concessionaires to take additional deductions, such as for airport employee discounts. Airport officials claimed these discounts are reasonable in the normal course of business for airport concessionaires.

  When we asked where allowable discounts are documented, airport concessions managers directed us to a section of the Woody Creek contract to find details on allowable deductions. But that section does not include any language about deductions from gross revenue other than what the contract already lists as allowable.

  Additionally, airport concessions managers directed us to the concessions handbook’s section on frequently asked questions. However, the handbook given to us for this audit had no such section. Similarly, the concessions handbook provided during the Etai’s Café concessions contract audit did not have any answers in the frequently-asked-questions section but did have a question about why a concessionaire must give all airport employees a 10% discount. Airport concessions managers gave us no other documentation showing what types of deductions could be allowable. Without such documentation to potentially permit other deductions and with the Woody Creek contract specifically prohibiting any additional deductions, all other deductions outside returns or refunds are not allowed.

- **NO ADEQUATE PROCESS TO VERIFY DEDUCTIONS** – The airport’s Concessions Division claims to verify concessionaires’ deductions by referencing vendors’ self-certified annual statements, but we found the division has no reliable process to verify whether the deductions concessionaires take are allowable.

  Concessions managers said they updated their procedures to include a step to verify concessionaires’ deductions reported on their self-certified annual statements. When we reviewed the procedures, we found no specific step related to reviewing deductions; we found only a definition of reportable revenue, which is gross revenue minus various deductions.

  Airport concessions managers later explained that the concessions contract administrator reviews itemized deductions on vendors’ self-certified annual statements as well as supporting documentation for accuracy and compliance. When the administrator notes a discrepancy between the annual statement and supporting documentation for any month, they email the concessionaire to address the issue.

  However, the contract administrator said the finance team is responsible for reviewing the deduction information. The airport
finance team then confirmed that in 2023 they began receiving monthly point-of-sale system reports from Woody Creek, which were provided in March 2023 for the prior year. However, airport finance team members noted they do not have the resources to analyze — nor do they analyze — the deduction reports from concessionaires. Therefore, it is unlikely that the contract administrator or finance staff have reviewed Woody Creek’s itemized deductions or searched for any discrepancies with underlying information.

Finally, concessions managers said they review the deductions in vendors’ annual statements to ensure they are reasonable and in compliance with the contract. However, as noted earlier, the contract does not allow for any deductions other than taxes, tips, and returns for credit. We are unsure how concessions managers can deem deductions are reasonable without having a baseline from prior years and why they did not identify problems with deductions when comparing to the contract terms.

We also asked Woody Creek employees why they were taking deductions not listed in their contract. They said this is a common practice at this and other airports, concessions staff never questioned the submitted revenue reports, and Woody Creek included the deductions in its proposal to the airport when seeking its contract.

• NO REQUIREMENT FOR INDEPENDENT CERTIFICATION OF REVENUE REPORTS — As we reported in our audit of the Etai’s Café concessions contract, the airport does not require concessionaires to have their annual revenue statements certified by an independent certified public accountant, or CPA.  

The Woody Creek contract says the café’s revenue statements should be certified by a CPA who has audited revenues in accordance with generally accepted accounting principles for special reports — but the airport’s chief executive officer can waive this requirement at any time.

Since 2008, airport leaders have required only that a company officer self-certify a vendor’s annual revenue statements. This is a much weaker, less independent form of verification.

All revenue reports we obtained during this audit of Woody Creek’s contract had a company officer’s self-certification, which is not as reliable as the report being certified by a CPA. An independent CPA would add greater credibility to the revenue amounts reported by the airport’s concessionaires — which in turn would help the airport have greater confidence in the accuracy of vendors’ figures and rent calculations, especially as the airport is understaffed and cannot adequately monitor reported revenues.

In our audit of the Etai’s Café contract, we noted how peer airports were requiring this independent certification of their concessionaires’
revenue statements. We also proposed that the airport consider a revenue threshold to ensure CPA certification is not burdensome for smaller, less profitable vendors.\footnote{City and County of Denver Auditor’s Office, “Etai’s Café Concessions Contract” Audit Report.}

But airport concessions managers at the time cited cost concerns as their reason for not enforcing the CPA certification requirement. They said concessionaires were resistant to this requirement, and airport officials did not agree to implement our prior recommendation to reinstate the CPA requirement for the good of the airport.

The airport’s external auditors also noted in their 2022 audit that the airport’s reliance on self-certifications of concessions revenues increased the risk of underreported revenues. They recommended establishing additional controls to ensure contract compliance such as revenue reports audited by CPAs.

The occurrence of similar risks with the Etai’s and Woody Creek contracts underscores the need for the airport to shore up its controls and oversight to ensure vendors report accurate revenue and that the airport does not lose out on money it is owed.

According to the concessions handbook, the airport reserves the right to implement a universal point-of-sale system, and the handbook also requires full cooperation from concessionaires. A universal, or shadow, point-of-sale system is one that captures sales and deductions information from each vendor’s individual system. This could make it easier for the airport to monitor whether sales and deductions comply with vendor contracts.

We first learned during our 2022 audit of Etai’s Café that the airport was not using such a system. Concessions managers at the time agreed to implement one and they committed to exploring feasibility by January 2023.\footnote{City and County of Denver Auditor’s Office, “Etai’s Café Concessions Contract” Audit Report.} However, as of October 2023, airport officials said they were still in a “discovery phase” to explore the use of multiple shadow point-of-sale systems.

A final significant factor that enabled Woody Creek to take $185,000 in unallowed deductions is the age of the contract itself. The current agreement for Woody Creek was created in 2007; those same terms have remained in effect for 17 years.

Airport finance officials said when the concessions team identifies an issue related to outdated language in a contract, they usually fix it with new language once the contract is up for renewal. But because airport officials put the Woody Creek contract into holdover status after it officially expired in 2014 and because it then received a three-year extension related to the pandemic, the contract was not up for renewal until 2023.

In 2023, the airport and Woody Creek signed a new contract. In examining the new contract, we found it does allow for 10% airport employee
discounts to be deducted from the café’s gross revenue, but beyond that, it does not list any other specific deductions as allowable. Furthermore, it requires Woody Creek Bakery & Café to comply with the concessions handbook, and yet that document also does not list specific allowable deductions for concessions.

The lack of clarity on what deductions are allowable for all concessionaires may result in lost revenue for the airport and unequal treatment of concessionaires.

1.3 RECOMMENDATION  Develop criteria for allowable deductions

To ensure accurate and complete concessionaire rent payments to the airport, Denver International Airport’s Concessions Division should develop and document explicit criteria for allowable and unallowable deductions in a central document such as the concessions handbook. While the airport could allow concessionaires to give any amount of discount, the airport should make clear that vendors can deduct from their revenue and rent paid to the airport only an amount up to the allowable limit.

This document should be approved by all parties who would typically sign off on concessions contract amendments. The Concessions Division should then ensure future concessions agreements identify this document as the source of binding rules instead of listing rules in individual agreements.

AGENCY RESPONSE – AGREE

The Concessions division will develop, document and implement criteria for allowable and unallowable deductions in the concessions handbook.

— Denver International Airport

IMPLEMENTATION EXPECTED BY JUNE 30, 2024

1.4 RECOMMENDATION  Review revenues and deductions

To ensure accurate and complete concessionaire rent payments to the airport, Denver International Airport’s Concessions Division should develop and implement procedures to review and verify concessionaires’ revenues and deductions from revenues to ensure they are complete, accurate, and comply with the criteria for allowable deductions.

AGENCY RESPONSE – AGREE
DEN Concessions will partner with DEN Internal Audit to establish procedures through the Continuous Monitoring Program to check for reasonableness of the deductions. DEN Internal Audit will work with the DEN Procurement Team to secure services of a consultant to support establishment of a Continuous Monitoring Program.

— Denver International Airport

IMPLEMENTATION EXPECTED BY FEB. 28, 2025

<table>
<thead>
<tr>
<th>1.5</th>
<th>RECOMMENDATION</th>
<th>Require a certified public accountant to certify annual statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denver International Airport’s Concessions Division should consider reinstating contract requirements to have certified public accountants prepare and certify concessionaires’ annual statements, which would enhance revenue controls.</td>
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</table>

AGENCY RESPONSE – AGREE

All new agreements have language requiring CPA certification for annual Certified Annual Statements. As of Jan 1, 2024, the Concessions Division reinstated this requirement.

— Denver International Airport

IMPLEMENTATION EXPECTED BY JAN. 1, 2024

<table>
<thead>
<tr>
<th>1.6</th>
<th>RECOMMENDATION</th>
<th>Implement a revenue monitoring tool</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denver International Airport’s Concessions Division should work with the Airport’s Internal Audit team to determine a formalized way to enhance oversight and monitoring of concessionaires’ revenue. Such a tool should allow the airport to have real-time access to concessionaires’ sales data for evaluation.</td>
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</table>

AGENCY RESPONSE – AGREE

DEN Concessions will partner with DEN Internal Audit to establish procedures through the Continuous Monitoring Program to check for reasonableness of the deductions. DEN Internal Audit will work with the DEN Procurement Team to secure services of a consultant to support establishment of a Continuous Monitoring Program.

— Denver International Airport

IMPLEMENTATION EXPECTED BY FEB. 28, 2025
1.7 RECOMMENDATION

Collect unpaid rent

Denver International Airport’s Concessions Division should calculate and collect the rent owed based on the amount of unallowed deductions Woody Creek Bakery and Café subtracted from its reported revenues.

AGENCY RESPONSE – AGREE

DEN Concessions will review the deductions taken by Woody Creek Bakery and Café to determine allowability and collect as applicable.

— Denver International Airport

IMPLEMENTATION EXPECTED BY JUNE 30, 2024

The airport did not ensure Woody Creek Bakery & Café paid rent on time and did not charge interest owed to the city for late payments

The airport’s Concessions Division does not monitor whether Woody Creek is paying its monthly rent on time, and the Finance Division does not have the capability to charge interest on late payments, as an audit from our office originally identified more than four years ago.

Of the 62 invoices the airport issued from January 2021 through June 2023, Woody Creek paid 61 — or 98% — late according to contract terms. Most payments were, on average, four days late, but five payments surpassed the contractually permitted grace period of five business days and should have accrued interest. The airport’s unclear guidelines for concessionaire payments contributed to Woody Creek’s lateness.

LATE PAYMENTS – As we showed in Figure 4 on page 6, the airport’s contract with Woody Creek requires two rent payments each month:

• The monthly installment of the minimum annual guaranteed rent, due on the first of each month.
• A percentage of the previous month’s sales, due by the 10th day of each month.

Based on these requirements, Woody Creek paid on time only once during the two-and-a-half-year period we looked at for this audit.

In addition to contract requirements, concessionaires agree to abide by policies and procedures outlined in the airport’s concessions handbook. This document is intended to provide general guidelines and procedures

21 We determined the potential interest for Woody Creek’s late payments from January 2021 through June 2023 to be about $500. Based on discussions with the airport, the contract’s grace period provision is unclear on whether the grace period excludes the due date. If the grace period excludes the due date (meaning that interest accrues beginning on the sixth business day), then only one payment for two invoices was outside the grace period.
to ensure concessionaires operate successfully at the airport. But we found
the section about payment guidelines was vague, outdated, and included a
link to payment instructions that was no longer accessible.

These unclear payment guidelines allowed Woody Creek to pay rent
invoices through the city’s online payment portal. The portal was
designed to allow city residents to pay bills such as tickets, property
taxes, or licensing fees more conveniently — but the airport discourages
concessionaires from using this payment method.

The concessions handbook says payments should be made through only
one of two systems:

• Automated Clearing House, a system that allows funds to be
electronically deposited in financial institutions.

• Electronic funds transfer, a system that allows direct deposits of
money electronically without a physical check.\(^\text{22}\)

We learned if concessionaires pay using a credit card on the city’s payment
portal, the airport incurs additional transaction fees of around 2%-3%.
Although the airport team confirmed Woody Creek did not pay with a credit
card from January 2021 through June 2023, rent payments made by credit
card could result in significant costs to the airport.

Airport finance managers said that for a concessionaire to make a payment
in the web portal, the invoice must first be generated in the city’s system
of record, Workday. While the airport’s finance staff generates the invoices
for Woody Creek’s minimum annual guaranteed rent by the first of each
month, they often generate the invoices for the percentage of monthly
sales after that second payment is due on the 10th of each month. Finance
staff said this is because they must first receive the monthly revenue
reports from Woody Creek before generating the invoice, and those
monthly revenue reports are also due on the 10th of each month.

We found similar evidence of late payments in our prior concessions
contract audit of Etai’s Café, which had the same payment deadlines as
Woody Creek.\(^\text{23}\) We found 41% of Etai’s Café’s payments were more than
five days late. But before that audit was published in November 2022,
the airport had identified a solution that would result in Etai’s making its
payments on time.

The fact that we identified another concessionaire with the same issues of
payment compliance further reflects the airport’s insufficient monitoring of
vendors’ payments. By enforcing payment terms for some concessionaires
and not others, the airport risks treating concessionaires unequally.


According to the airport’s concessions handbook: Woody Creek’s concessions management company, Skyport Hospitality, should not be waiting for an invoice to make its rent payments. However, representatives from Skyport Hospitality said they wait for each invoice in the web system before paying. Because the invoices for the percentage of monthly sales are often generated after the payment due date, Skyport Hospitality sees these invoices on the web portal only after they are already past due.

Finance managers said the airport uses these invoices to ensure each transaction is properly recorded in the city’s general ledger, not for prompting concessionaires to pay their monthly rent. Like the airport’s concessions handbook, Woody Creek’s contract says the concessionaire’s rent payments are due without an invoice.

Policies and procedures, such as the concessions handbook, are meant to document internal controls — or safeguards — that help ensure operations are efficient, effective, and consistent; information is reliable; and laws and regulations are followed. In addition, federal standards say managers should periodically review policies and procedures to ensure they are relevant and addressing related risks.

The airport’s internal concessions administrator policy includes policies and procedures related to default contract provisions and reviewing a concessionaire’s compliance with payment terms. But these policies and procedures do not adequately define what should prompt compliance reviews or how often reviews should be done.

Furthermore, federal standards recommend that managers define procedures in a way that includes the timing of when an activity should occur. An airport concessions contract administrator said the airport has done no comprehensive compliance reviews for Woody Creek. According to the concessions administrator policy, such a review would have required the administrator to look at Woody Creek’s finance account activity to ensure there were no violations of the contract’s default provisions. Late rent payments are a condition of default in the contract and could have been resolved if the airport had done a comprehensive review.

When we asked about how staff monitor payment compliance, airport concessions contract administrators said issues are escalated to them from the airport’s Finance Division. But we learned none of Woody Creek’s compliance issues were escalated to the contract administrator since they began managing the account in 2020.

When we noted Skyport Hospitality’s high percentage of late payments for Woody Creek, finance managers were not concerned because the payments are usually made within the five-business-day grace period. But managers also acknowledged that any payment made late is a violation of contract terms.

By enforcing payment terms for some concessionaires and not others, the airport risks treating concessionaires unequally.
terms, regardless of the grace period.

We also learned that Woody Creek has about $300,000 worth of unpaid invoices from 2017 through 2020.

Representatives from Skyport Hospitality claim they do not owe any amounts during those years for their concessions agreements with the airport. The airport's accounts receivable team says it is researching the account to verify whether the billings were correct in those years and whether payments might have been received and applied incorrectly.

According to the city's Fiscal Accountability Rules, airport finance staff have an obligation to bill concessionaires — such as Woody Creek — in a timely manner and collect owed revenue promptly thereafter.²⁷

We learned the airport's finance staff track late payments on concessionaire accounts only when:

- Vendors are late by 90 days or more.
- An account is classified as "chronically late."

When we asked how finance staff determine a concessionaire is "chronically late," they gave us no specific or written criteria. Finance managers said a "chronically late" account is one with continued problems or patterns of the concessionaire purposely not paying.

Given that 98% of Woody Creek's payments were late — albeit within the grace period — during the two and a half years we reviewed, it appears Woody Creek meets the general definition for "chronically late." By not consistently enforcing payment terms — including having clear, written guidance to define what "chronically late" is — the airport risks treating its concessionaires unequally.

Federal guidance says managers should document policies and procedures for their organization and ensure the policies contain the appropriate level of detail to effectively monitor an activity — for example, criteria for which concessionaires are chronically late so the airport can hold the concessionaires accountable.²⁸ Additionally, the Government Finance Officers Association says policies should be a clear, "step-by-step explanation of procedures" and that they should not be vague or idealized.²⁹

**INTEREST NOT CHARGED** — As we mentioned, the airport’s contract with Woody Creek Bakery & Café grants the company a five-business-day grace period on late payments before interest is assessed. If Woody Creek does

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not pay its rent within that grace period, the airport must charge an interest rate of 18%, calculated from the day the payment was due.

But we learned the airport has not charged Skyport Hospitality any interest fees for the five payments we identified from January 2021 through June 2023 that were paid on either the fifth business day or a later business day past the due date, which the contract says should prompt the late fee. Airport officials later said that they interpret the language of the contract differently and therefore would count only two invoices being paid past the grace period.

Finance staff acknowledged that some of the payments from Skyport Hospitality exceeded the grace period, but they said the airport charged no interest on the late payments because it has neither the staff nor the technology necessary to track late payments and calculate interest.

The airport’s inability to both track payments less than 90 days late and calculate interest on overdue accounts remains an ongoing risk that we first identified in an audit more than four years ago. Even now, the airport says it is continuing to try and address this gap through a planned upgrade to its revenue management system, PROPworks.

Our 2019 audit of the airport’s accounts receivable recommended that airport finance officials manually charge interest for accounts with late payments until they could find a solution in PROPworks.30 Airport finance officials at the time agreed to ensure PROP Works could charge interest but they disagreed with manually charging interest in the interim.

Although the interest for any one vendor such as Woody Creek can be a nominal amount, we reported in 2019 that the practice of not charging interest to any airport vendors such as concessionaires and airlines results in an average loss of over $1 million a year in potential revenue.

In audits since, we continue to find that the airport is leaving money on the table that it is owed because it lacks the ability to hold concessionaires accountable for their contract terms. For instance, our 2022 audit of the Etai’s Café concessions contract found the airport had not charged interest for any of the café’s 30 late payments due to the airport’s lack of resources.

During this audit of Woody Creek Bakery & Café, finance managers said the PROPworks system may not be fully functional until the end of 2024. In the meantime, they said they do not have enough staff to manually calculate the interest that concessionaires like Woody Creek owe.

By not collecting interest the airport is owed and by not prioritizing an urgent solution to calculating interest, airport officials have potentially left substantial amounts of money on the table over the years — money that it could otherwise invest in the staff it needs to improve its contract compliance or fund other airport priorities.

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1.8 RECOMMENDATION  Encourage Woody Creek Bakery & Café to pay on time

Denver International Airport’s Concessions Division should work with Skyport Hospitality and the airport’s Finance Division to encourage Woody Creek to make monthly payments according to the due dates in its contract.

AGENCY RESPONSE – AGREE

The Concessions Division and DEN’s Finance Division will remind Skyport Hospitality representatives as needed, that payments for rent are due as stated in their contract.

— Denver International Airport

IMPLEMENTATION EXPECTED BY APRIL 30, 2024

1.9 RECOMMENDATION  Explore opportunities to report late payments

Denver International Airport’s Finance Division should work with the Concessions Division and other airport stakeholders to explore feasible opportunities for automatic reporting of vendors’ late payments so issues can be identified and resolved more quickly.

AGENCY RESPONSE – AGREE

DEN Finance is implementing full PROPworks Accounts Receivable functionality as part of the overall PROPworks re-implementation project, including customer payment processing in the system. PROPworks doesn’t have the capability to automate reporting of vendors’ late payments. DEN currently utilizes a manual Accounts Receivable Aging Reporting process and will explore other possible automations.

— Denver International Airport

IMPLEMENTATION EXPECTED BY SEPT. 30, 2024

1.10 RECOMMENDATION  Review and update concessions payment guidelines

Denver International Airport’s Concessions Division should review and update its policies and procedures to ensure payment guidelines are clear, accurate, and up to date. The Concessions Division should also ensure that guidelines specify the frequency and process for concessionaire compliance reviews.

AGENCY RESPONSE – AGREE
DEN Concessions will review and update policies and procedures, including payment guidelines and compliance reviews.

— Denver International Airport

IMPLEMENTATION EXPECTED BY APRIL 30, 2024

1.11 RECOMMENDATION Inform concessionaires about the airport’s payment policy

Denver International Airport’s Concessions Division and Finance Division should work with all concessionaires to ensure the requirements for when, where, and how to pay invoices are clearly communicated.

AGENCY RESPONSE – AGREE

The Concessions Division and DEN’s Finance Division will inform and remind concessionaires that payments for rent and other charges are due as stated in their contract. The concessionaire handbook, in conjunction with the concession contracts, provide details of how invoices can be paid.

— Denver International Airport

IMPLEMENTATION EXPECTED BY APRIL 30, 2024

1.12 RECOMMENDATION Charge interest and fees on late payments

Denver International Airport’s Finance Division should ensure the process for calculating and charging interest is included in the PROPworks upgrade.

AGENCY RESPONSE – AGREE

The PROPworks re-implementation project includes programming and set up parameters that will allow DEN to begin charging interest on customer invoices that are not paid within the grace period.

— Denver International Airport

IMPLEMENTATION EXPECTED BY SEPT. 30, 2024
The airport’s outdated utility fee could be allowing Woody Creek Bakery & Café to pay an unfair amount

As with other concessions contracts, the airport’s contract with Woody Creek requires the concessionaire to pay for all water, electricity, and gas it uses in its 1,586 square feet of concessions space.

Water and electric utilities are billed by providers directly to the airport, and the airport bills each concessionaire to recover the cost of their individual usage. Each concessionaire pays directly for its own gas utilities.

But we learned the airport does not charge any concessionaire for the water it uses, and all concessionaires at the airport are billed a flat rate for their electricity usage, which is calculated based on average electric costs from up to 13 years ago.

From January 2021 through June 2023, the airport billed Woody Creek at a flat rate of $1,000 a month for electricity at its main concessions space and $60 a month for electricity at a storage location the vendor has on the concourse. This flat utility fee was last recalculated in 2017, when the airport used a formula that relied on average utility costs from 2010 through 2015.

According to rate history from Xcel Energy, base electricity rates in Colorado increased by 55% from January 2014 through January 2023 — further highlighting the fact that the airport’s utility calculation is outdated and insufficient.31

Concessions managers said some concessionaires, including Woody Creek, had electricity meters installed during the construction of their concessions locations. But neither airport concessions managers nor Woody Creek’s managers know the locations of the meters.

In addition, airport concessions managers said none of these meters are tied to a central reporting system, so airport staff would have to manually read each meter to determine usage. They said manual meter-reading for the airport’s more than 185 concessions locations is not practical on a monthly basis — which is why they use a calculation based on average costs.

RELATED AUDIT

Our November 2022 audit of the Etai’s Café concessions contract found the airport had billed the café a flat monthly rate of $1,400 for its utilities, which had not been recalculated in the 10 years that concessionaire had been operating at the airport.

Our similar finding with the Woody Creek Bakery & Café contract shows that the airport’s approach of charging an outdated flat rate for utilities could be costing it significant amounts while not ensuring airport concessionaires pay their fair share to cover the airport’s utility costs.

In 2019, the airport began a project to link concessionaires’ meters to a central reporting system as part of an overall energy plan. This project, however, was paused at the onset of the COVID-19 pandemic. Because the airport is unable to accurately charge concessionaires for their electricity usage, Woody Creek and other concessionaires are likely paying an inadequate amount.

Our 2022 audit of the Etai’s Café concessions contract found that the café was also paying an outdated flat fee for its utilities. We had recommended the airport determine an accurate utility fee for Etai’s Café, and the airport agreed to do so. Additionally, officials claimed they had been working to determine an accurate formula for Etai’s utilities since July 2021.

When we asked during this audit about the progress the airport had made toward implementing that recommendation, concessions managers said the airport has tracked accurate electricity usage for the Etai’s location since January 2023.

As of November 2023, the airport planned to monitor Etai’s usage until the end of 2023 and, if the method is determined to be accurate, officials then plan to request proposals from contractors to tie in other concessionaires. Concessions managers said accurately measuring electricity usage for all concessionaires will be a lengthy process and will likely continue to be an issue in future years.

Airport officials said their extended timeline for implementing accurate utility billing is because installing new meters at concessions locations is expensive and takes time. It requires permits, bonds, and shutdown requests in addition to cooperation from other airport and city stakeholders. However, until the airport addresses this issue, it may continue losing money when concessionaires do not pay their fair share for the electricity they use to operate their businesses at the airport.

Compounding the problem, we learned the airport has never charged any concessionaire for their water usage since Denver International Airport opened in 1995.

According to airport officials, based on an internal review, as of 2021, only 60 concessionaires — or 46% of active concessionaires at that time — had a water meter installed. The airport said these meters do not function accurately and they are not tied into a central reporting system.

The same internal review estimated that the airport could be incurring up to $150,000 in extra utility costs per year by not charging its concessions vendors for their water use.

As of November 2023, the airport was still not tracking — nor charging for — concessionaires’ water usage.
RECOMMENDATION

Determine an accurate utility fee

Denver International Airport’s Concessions Division should work with other airport stakeholders to determine the most effective and efficient way to accurately calculate utility usage — for electricity and water — for Woody Creek Bakery & Café and adjust billing as necessary.

AGENCY RESPONSE – AGREE

The Concessions division will continue to work with other airport stakeholders to determine the most effective and efficient way to accurately calculate utility usage for Woody Creek Bakery & Café.

— Denver International Airport

IMPLEMENTATION EXPECTED BY SEPT. 1, 2024
OBJECTIVE, SCOPE, AND METHODOLOGY

Objective
To evaluate whether Denver International Airport’s Concessions Division provides adequate oversight of the Woody Creek Bakery & Café concessions contract, including whether the café is accurately reporting all revenue earned and paying the appropriate rent it owes the airport based on its sales.

Scope
We reviewed the airport’s oversight of the Woody Creek Bakery & Café concessions contract and whether the café complied with its revenue-related contract terms, reported its revenue accurately, and paid the city the appropriate rent it owed. Our review included analyzing monthly and yearly revenue reports, comparing data from the café’s point-of-sale system to its revenue reports, evaluating deductions from gross revenue, and verifying the amounts and timing of the café’s rent payments to the airport.

We reviewed documentation from Jan. 1, 2021, through June 30, 2023.

Methodology
We used several methods to gather and analyze information related to the audit objective. These included:

- Interviewing:
  - Staff from the Airport’s Concessions, Internal Audit, and Finance divisions.
  - Personnel from Skyport Hospitality LLC.
  - Personnel from Woody Creek Bakery & Café.

- Reviewing:
  - Denver Auditor’s Office audits of:
    - The Etai’s Café concessions contract in November 2022.
    - Denver International Airport’s concessions management in February 2022 and its associated follow-up in November 2023.
  - The 2007 concessions contract related to Woody Creek Bakery & Café, including its amendments and holdover letter.
  - The Concessions Division’s policies, procedures, handbook, locations, revenue, and organizational chart.
  - City and County of Denver Executive Order No. 8.
  - Documentation from Skyport Hospitality, including policies and procedures, the number of concessions owned, website information, and locations.
• Documentation from Woody Creek Bakery & Café.
• Articles on restaurant and concessions fraud.
• Denver’s 2023 city budget.
• City and County of Denver Fiscal Accountability Rules.
• The airport’s 2022 Annual Comprehensive Financial Report.

• Reviewing and analyzing:
  • Submission dates for Woody Creek’s monthly and annual revenue reports.
  • Documentation from the Concessions Division about its tracking of revenue reports.
  • The calculation for Woody Creek’s minimum annual guaranteed rent and whether that amount complied with its contract.
  • Woody Creek’s self-certified annual statements to determine compliance with revenue reporting and allowable deductions.
  • Documentation for monthly utility calculations and payments.
  • Woody Creek’s point-of-sale reports.
  • Invoices and payments to determine compliance with contract requirements.
  • Supporting documentation for discounts and voids to determine compliance with contract requirements.
  • Sales taxes paid to the city compared to sales tax deductions in revenue reports.
  • Reconciling documentation from Woody Creek’s point-of-sale system and its bank deposits to verify revenue.
  • Payments made to the airport’s Joint Marketing Fund.
APPENDICES

Appendix A – Analyzing discounts and payments

Analysis of discounts

This appendix details the methodology we used to analyze the accuracy of reported revenues and contract compliance for deductions taken and discounts given by Woody Creek Bakery & Café. These discounts ultimately reduced the revenues and rent paid to the airport.

We performed the following steps:

- We used our professional judgment to select three months within our audit period of January 2021 through June 2023. The months we chose were July 2021, January 2022, and February 2023.
- Initially, Woody Creek was unable to provide transaction-level data for July 2021 and January 2022, saying information was not available. Later, Woody Creek made this information available in an alternative format, and we were able to complete our planned analysis.
- We obtained reports from Woody Creek’s point-of-sale system, Aloha — which included detailed sales data and monthly summary reports. To ensure the detailed sales data from Aloha was not changed before it was sent to us, we observed how it was retrieved from the system and emailed to us.
- We evaluated the information in these reports to verify whether sales data matched the information in the café’s certified annual statements and the monthly sales reports it had submitted to the airport. Woody Creek accounted for the small differences we identified, and we confirmed the sales amounts matched.
- We used our professional judgment to select 59 individual sales transactions. We then requested corresponding receipts for the selected transactions. Woody Creek gave us a copy of the digital point-of-sale receipt for each of these transactions.
- For each receipt, we verified whether the transaction amounts matched the detailed summary reports. We found two instances when Woody Creek applied an employee discount twice in the same transaction.
- To gain confidence that the revenue and deduction amounts were accurate, we interviewed Skyport Hospitality staff to learn about ways someone could potentially change the reports. We learned revenues can be changed at the café’s physical location before closing out the sales for the day, and this is typically done to adjust errors staff note when closing out sales. For example, sometimes the amount of tips entered can be unreasonably high due to data-entry errors. Furthermore, we asked whether sales data could be changed later in the process and learned that it could not be.

We discuss our findings regarding unallowable deductions and discounts beginning on page 17.

Payment testing

To assess whether Woody Creek made its payments to the airport on time and in compliance with the contract terms:
• We requested Woody Creek’s invoice data from the airport’s Finance Division for the audit period of January 2021 through June 2023. The data included all payments Woody Creek made to the airport: the minimum annual guaranteed rent, its portion of rent from a percentage of its monthly sales, contributions to the Joint Marketing Fund, and payments for electric utilities.

• Using each invoice’s unique code, we searched for the invoices in Workday, the city’s system of financial record. While the invoice data from airport staff contained the payment amounts and due dates, the data in Workday contained the dates payments were made.

• We created a spreadsheet comparing the payment data from the airport’s Finance Division to the invoices reported in Workday. We validated the data by using Excel formulas to ensure the payment amounts matched between the data the Finance Division sent and the invoice data reported in Workday.

• We also used Excel formulas to compare the payment due dates in the Finance Division’s data to the payment dates reported in Workday.

• To confirm we correctly identified payments as late, we sent a list of the identified payments to the airport’s Finance Division for verification.

• We initially identified 98% as late, or 61 of 62 payments on invoices. Most of these late payments were within the grace period and would not have resulted in any late payment fees.

We discuss Woody Creek’s late payments beginning on page 24.
Appendix B – Skyport Hospitality ownership interests at Denver International Airport

This appendix provides additional details of Skyport Hospitality’s ownership interests at the airport. This information was provided by Skyport Hospitality employees.

Skyport Hospitality is a member in the following joint ventures and related concessions locations:

- Skyport Holdings LLC:
  - Pour La France.
  - Wolfgang Puck Express.
  - Woody Creek Bakery & Café.
  - Cantina Grill B & T.
  - Caribou Coffee and Ben & Jerry’s.
  - Caribou Coffee.
- Denver Concessions Group LLC: Dunkin Donuts.
- DIA Juice LLC: Jamba Juice.
- The Aviators Holding Group LLLP: Aviators BBQ.
- DEN Breakfast LLC: Snooze, an AM Eatery.
- DIA F&B Concessions LLC: Sky Snax.
- DIA Steakhouse LLC: Elway’s Steakhouse.
- Skyport Group LLC:
  - Qdoba.
  - Shake Shack.
- FM Wok LLC: City Wok & City Pho.
- CI/DRC LLC: Chick-Fil-A.
- Rocky Mountain Hospitality Partners LLC: Dazbog Coffee.
- Woody Creek Coffee Company: Caribou Coffee.

Additionally, Skyport Hospitality provides management services for:

- Dos Amigos Joint Venture, doing business as Tamales by La Casita.
- FM Juice LLC, doing business as Jamba Juice.
- Lounge 5280 LLC, doing business as Lounge 5280.
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