The Auditor of the City and County of Denver is independently elected by the citizens 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 and providing 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 citizen confidence and avoiding any appearance of a conflict of interest.

Audit Committee

Timothy M. O’Brien, CPA, Chairman
Rudolfo Payan, Vice Chairman
Jack Blumenthal
Leslie Mitchell
Florine Nath
Charles Scheibe
Ed Scholz

Audit Management

Timothy M. O’Brien, CPA, Auditor
Valerie Walling, CPA, CMC®, Deputy Auditor
Heidi O’Neil, CPA, CGMA, Director of Financial Audits
Katja E. V. Freeman, MA, MELP, Audit Manager

Audit Team

Sonia Montano, CGAP, CRMA, Audit Supervisor
Darrell Finke, CGAP, Senior Auditor
Ronald F. Keller, CIA, CFE, Senior Auditor

You can obtain copies of this report by contacting us:

Office of the Auditor
201 West Colfax Avenue, #705
Denver CO, 80202
(720) 913-5000 • Fax (720) 913-5247

Or download and view an electronic copy by visiting our website at: www.denvergov.org/auditor
Audit report year: 2016
City and County of Denver

February 1, 2018

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

Re: Audit Follow-Up Report

Dear Ms. Day:

In keeping with generally accepted government auditing standards and the Audit Services Division’s policy, as authorized by D.R.M.C. § 20-276, our Division has a responsibility to monitor and follow-up on audit recommendations to ensure that audit findings are being addressed through appropriate corrective action and to aid us in planning future audits.

This report is to inform you that we have completed our follow-up effort for the Denver International Airport (DEN) Airline Agreements audit issued November 17, 2016. Our review determined that DEN has adequately implemented some of the recommendations made in the audit report, while others that were agreed to be implemented by January 31, 2017, are still in progress. Despite DEN’s efforts, auditors determined that the risk associated with the audit team’s initial findings has not been fully mitigated. As a result, the Division may revisit these risk areas in future audits to ensure that appropriate corrective action is taken.

For your reference, this report includes a highlights page that provides background and summary information on the original audit and the completed follow-up effort. Following the highlights page is a detailed implementation status update for each recommendation. Although we did not update the status of recommendations that DEN disagreed with, these recommendations are included in the status update section as a reference.

This concludes audit follow-up work related to this audit. I would like to express our sincere appreciation to you and to DEN personnel who assisted us throughout the audit and follow-up process. If you have any questions, please feel free to contact me at 720-913-5000 or Sonia Montano, Internal Audit Supervisor, at 720-913-5157.

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor
Denver International Airport Airline Agreements
February 2018

Status
We made 14 recommendations in our November 2016 audit, 2 of which Denver International Airport (DEN) officials disagreed with. Of the recommendations that DEN officials agreed with, our follow-up work revealed that DEN has implemented three, partially implemented four, and not implemented five.

Background
DEN operates as a business-type activity called an enterprise fund. As an enterprise, the airport does not use any taxpayer dollars for its operations. DEN is the sixth-busiest airport in the nation and the nineteenth-busiest in the world. In 2015, DEN reported over $874 million in revenue, and much of this revenue is generated by airlines.

Purpose
The purpose of the audit was to determine whether DEN's contract administration activities related to airline agreements were effective, to enforce compliance with contract terms and ensure revenue is complete.

Highlights from Original Audit
In evaluating DEN's practices for the management of airline agreements, we found substantial weaknesses that impacted the airport's ability to effectively collect revenue due from airlines. Specifically, payments for some contract terms were submitted late and associated collection efforts were not administered properly. In addition, we found controls for managing space changes needed to be improved. Furthermore, DEN personnel were unable to provide support documentation from DEN's accounting system to ensure that these space changes were properly billed and collected, which may result in a loss of revenue. Finally, policies and procedures for invoicing and monitoring gate utilization needed to be enhanced.

In addition to the revenue-related areas we identified for improvement, we identified three opportunities to strengthen internal controls in contract monitoring and compliance. First, we found that United Airlines' liability insurance coverage had not been adjusted to meet revised amounts specified by DEN Risk Management. Second, we found that surety renewals for Frontier Airlines were received more than four months after the due date. Although both items were resolved prior to the end of the audit, these exceptions supported the need for enhanced documentation of processes and procedures. Finally, the contract with WJ Advisors, an aviation consulting firm involved in the year-end settlement process, was missing key provisions that should have been specified in the contract.

Findings at Follow-up
Denver International Airport (DEN) has improved its procedures for identifying space changes and amending airline use and lease agreements based on these changes. DEN has also documented a robust policy on the Year-End Settlement process for all airline rentals, fees, and charges. However, DEN should continue its efforts to ensure that Finance Unit staff are cross trained to support succession and contingency planning. Additionally, DEN should update both the Finance Unit and Properties Division's policies and procedures to sufficiently address all processes related to airline revenue and airline space utilization, including timely billing to airlines and documenting charge-offs.

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

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Auditee Action</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FINDING:</strong> Weaknesses in Denver International Airport’s Controls for Managing Airline Agreements Pose a Risk to Revenue Collection</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1.1</strong> The SVP of Financial Management should establish criteria for writing off accrued interest penalties and develop appropriate policies and procedures, which should require documentation when decisions are made to adjust invoices in this manner.</td>
<td>The SVP of Financial Management implemented a new Finance Unit policy establishing a timeframe to charge-off debts, including accrued interest penalties. However, the reasons, criteria, and documentation requirements for charge-offs of interest penalties are not included in the new policy or revised Finance Unit procedures. Although, Finance Unit staff are documenting charge-off reasons in internal tracking documents and in Workday (the City’s system for management of financial processes), our analysis found these charge-offs did not include each of the approvals required by the Finance Unit’s policy.</td>
<td><strong>Not Implemented</strong> Original target date for completion: January 31, 2017</td>
</tr>
<tr>
<td><strong>1.2</strong> The SVP of Financial Management should ensure that the policies and procedures are revised to include a process for assessing the required interest for late Passenger Facility Charges payments.</td>
<td>No action taken.</td>
<td><strong>Disagree</strong></td>
</tr>
</tbody>
</table>
## Recommendations: Status of Implementation

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Auditee Action</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.3</td>
<td>The SVP of Financial Management should ensure a procedure is developed to require airlines to provide documentation identifying the invoices and fees covered by payments submitted.</td>
<td>The SVP of Financial Management did not implement a procedure to require airlines to provide documentation identifying how payments should be applied to invoices and fees. We found that payments were often misapplied by Finance Unit staff. The staff would have to contact airline representatives to reconcile and resolve disputed transactions. Additionally, we noted that misapplied payments often resulted in disputed accrued interest penalties that required additional work by Finance Unit staff to resolve through the charge-off process.</td>
</tr>
<tr>
<td>1.4</td>
<td>The SVP of Financial Management should ensure that the Finance Unit’s policies and procedures for managing airline space are updated to align with current practices, and add a process ensuring timely airline space change financial processing.</td>
<td>Although the SVP of Financial Management revised the Finance Unit’s procedure related to airline space and use charges, this procedure does not include changes to address the timeliness of the billing process. These changes should include identifying new rates and charges and generating a new invoice, once Finance Unit staff are notified of space changes. As a result, we found some airline space changes that occurred between January 2017 and June 2017 were not billed to airlines as of November 1, 2017. Recommendation 1.7 discusses the timely billing of airline space changes in further detail.</td>
</tr>
</tbody>
</table>
# Recommendations: Status of Implementation

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Auditee Action</th>
<th>Status</th>
</tr>
</thead>
</table>
| 1.5            | The SVP of Financial Management identified two fiscal administrator positions that were realigned to provide coverage flexibility for various Finance Unit functions as necessary. However, specific information about how these positions were cross-trained or supported coverage flexibility was not provided. Furthermore, one of the fiscal administrators was promoted to the SVP of Financial Management leaving one of these positions vacant. Additionally, while Finance Unit staff received training on Workday in August 2017 in preparation for the transition of airline financial transactions to this system, no cross-training occurred. Finance Unit supervisors said this training could compromise segregation of duties, such as the separation of duties between cash receivables and other kinds of receivables. However, succession or contingency planning should account for potential vacancies and ensure segregation of duties is maintained. | Not Implemented

Original target date for completion: January 31, 2017 |
## Recommendations: Status of Implementation

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Auditee Action</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1.6</strong></td>
<td>The SVP of Airline Affairs and Commercial should ensure that the Properties Division’s policies and procedures are updated to indicate a timeframe within which airline use and lease agreements should be updated to reflect periodic space changes.</td>
<td>The SVP of Airline Affairs and Commercial Property revised the Properties Division’s Policy and Procedures Guide to implement a process to review airline use and lease agreements twice a year. Additionally, this guide requires an airline use and lease agreement to be amended when a change in space greater than 10 percent of total square footage occurs.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Our analysis of the Properties Division’s 2017 space change documentation confirmed that the semi-annual reviews occurred, and found that no agreement amendments were required as the space changes identified did not exceed the 10 percent threshold.</td>
</tr>
<tr>
<td><strong>1.7</strong></td>
<td>The SVP of Airline Affairs and Commercial should ensure policies and procedures are updated to establish a timeframe within which space changes should be processed to ensure timeliness for billing and collections.</td>
<td>The SVP of Airline Affairs and Commercial Property updated the Properties Division’s Policy and Procedures Guide to require that space changes be processed for billing within 30 days of the airline’s occupancy of space. This policy also subjects airline space changes due to relocation or instances of airlines not occupying leased space to the 30-day requirement. However, our examination of the Properties Division’s 2017 space change documentation found several space changes identified in the twice-a-year review process that were not processed for billing as required, ranging from three to eight months after the changes occurred.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Original target date for completion: January 31, 2017</td>
</tr>
</tbody>
</table>
# Recommendations: Status of Implementation

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Auditee Action</th>
<th>Status</th>
</tr>
</thead>
</table>
| **1.8** The SVP of Airline Affairs and Commercial should ensure the Property Division’s policies and procedures include a process for conducting, documenting, and addressing concerns noted during on-site inspections of airline leased spaces. | The SVP of Airline Affairs and Commercial Property included a process in the Properties Division’s Policy and Procedures Guide for completing inspections of airline spaces at least once per year. These inspections are also required prior to an airline occupying new space or vacating space. Additionally, the guide includes a standardized form to be completed during an inspection. However, we determined that the guide and inspection form does not include instructions for documenting and resolving concerns identified during an inspection. Finally, we noted that Properties Division staff do not maintain an inspection log to track the final disposition of an inspection or to help ensure the inspections are completed as required. | Partially Implemented  
Original target date for completion: January 31, 2017 |
| **1.9** The SVP of Financial Management should ensure that the Finance Unit’s policies and procedures include processes for the timely creation of invoices and the establishment of a due date for airline payments of non-preferential and customs gate utilization fees. | The SVP of Financial Management did not include a process in the Finance Unit’s revised procedures for ensuring the timely creation of invoices for non-preferential and custom gate utilization fees, including codifying a due date for sending invoices to airlines. Additionally, the revised procedures did not identify all the sources of data required to generate invoices for these fees or establish a due date for airline payment of these fees. | Not Implemented  
Original target date for completion: January 31, 2017 |
## Recommendations: Status of Implementation

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Auditee Action</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1.10</strong> The SVP of Airline Affairs and Commercial should develop a process for tracking airline departure equivalents required by the airline agreements and ensure procedures are included in Property Division’s policies and procedures.</td>
<td>The SVP of Airline Affairs and Commercial Property revised the Properties Division’s Policy and Procedures Guide to require the review of a monthly report tracking airline departure equivalents to ensure airlines are meeting the gate utilization requirements of airline use and lease agreements. Our analysis of the airport’s first quarter 2017 gate utilization tracking documentation found that airlines were compliant with the requirements of their use and lease agreements. However, we determined the guide did not include some necessary steps, such as identifying the staff responsible for creating the monthly report and establishing timeframes for the review process and the resolution of airline noncompliance.</td>
<td>Partially Implemented</td>
</tr>
<tr>
<td><strong>1.11</strong> The SVP of Airline Affairs and Commercial should enhance controls related to monitoring liability insurance and surety bonds to ensure compliance with airline use and lease agreements.</td>
<td>Prior to our completion of the original audit, the SVP of Airline Affairs and Commercial Property updated the Properties Division’s Policy and Procedures Guide to ensure it identified correct staff responsible for monitoring surety and insurance requirements, codified insurance requirements, and improved the airline notification process when surety or insurance renewals are required.</td>
<td>Implemented</td>
</tr>
</tbody>
</table>
# Recommendations: Status of Implementation

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Auditee Action</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1.12</strong> The SVP of Financial Management should include the analysis of all airline rentals, fees, and charges on an annual basis (the Year-End Settlement) and specify the creation of associated reports in the Finance Division’s policies and procedures.</td>
<td>The SVP of Finance Strategic Management implemented a robust fiscal policy detailing the Year-End Settlement process. This policy includes a process timeline map, process model, and descriptions of the various reports to be used in the process, to include the sources of data for these reports and their intended purposes. Additionally, we determined that the airport continues to publish an annual Year-End Settlement report with the assistance of WJ Advisors, an aviation management consulting firm, that includes the analysis of all airline rentals, fees, and charges.</td>
<td><strong>Implemented</strong></td>
</tr>
</tbody>
</table>

| **1.13** The Chief Financial Officer should update or amend the WJ Advisors scope of work to incorporate specific requirements for the Year-End Settlement process, including noting the annual settlement report as a required deliverable. | No action taken. | **Disagree** |
## Recommendations: Status of Implementation

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Auditee Action</th>
<th>Status</th>
</tr>
</thead>
</table>
| **1.14**  
The SVP of Financial Management should ensure the Finance Unit’s policies and procedures are revised to include payment due dates and interest penalty enforcement dates that are consistent with those identified in the Code of Federal Regulations and airport rules and regulations.  

The SVP of Financial Management revised the Finance Unit’s procedures to ensure they are consistent with both airport and federal regulations for passenger facility charges due dates. However, the Finance Unit’s revised procedures and the airport regulations governing airline landing fees still contain an inaccurate payment due date of the 15th of the month following activity. This is not consistent with the airlines’ use and lease agreements, in which the due date is established as the 20th of the month. | Partially Implemented  
Original target date for completion: January 31, 2017 |
Conclusion

While Denver International Airport (DEN) has implemented some recommendations made in the Airline Agreements audit report, others have yet to be acted upon or fully implemented. Despite DEN’s efforts, auditors determined that the risk associated with the audit team’s initial findings has not been fully mitigated. For example, Finance Unit staff have not been cross trained to support succession and contingency planning and the Finance Unit’s procedures do not completely address charge-offs, are not consistent with the requirements of airline use and lease agreements, and do not always include timely billing processes.

Additionally, the Properties Division’s policy and procedures do not encapsulate the process for tracking airline gate utilization. The procedures also do not ensure that the completion of airline space inspections is thoroughly documented, including inspection deficiencies and the resolution of these deficiencies. Finally, the Properties Division does not ensure that airline space changes are identified in a timely manner to allow for timely airline billing adjustments. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure that appropriate corrective action is taken.

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