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 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. He also chairs the City’s Audit Committee.

The Audit Committee is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities of the integrity of the City’s finances and operations, including the integrity 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.

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Report number: A2016-009
We have completed an audit of Denver International Airport’s (DIA) Airline Agreements. The purpose of the audit was to determine whether DIA’s contract administration activities related to airline agreements are effective, enforce compliance with contract terms and ensure revenue collection is accurate and complete.

As described in the attached report, our audit revealed that DIA needs to improve controls for managing airline agreements. Specifically, we found that DIA lacks effective practices for ensuring timely payments from airlines, promptly collecting delinquent airline payments and associated interest penalties, managing airline space changes, managing agreements and revenue collection, and succession planning for DIA Finance personnel. These weaknesses negatively impact DIA’s ability to properly manage the airline agreements.

Through stronger controls for managing airline agreements, DIA can ensure that agreements are effectively managed and the proper revenue is collected. Our report provides several related recommendations.

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, and was conducted 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 extend appreciation to DIA personnel who assisted and cooperated with us during the audit.

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor
Denver International Airport – Airline Agreements
November 2016

Scope
We assessed Denver International Airport’s (DIA) administration of airline agreements, including assessing internal controls surrounding revenue reporting. Specifically, we determined whether the communication between the DIA divisions is adequate to ensure compliance with contract terms and accurate, complete, and timely revenue billing and collection.

Background
DIA operates as a business-type activity called an enterprise fund. As an enterprise, the airport does not use any taxpayer dollars for its operations. DIA is the sixth-busiest airport in the nation and the nineteenth-busiest in the world. In 2015 DIA 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 DIA’s contract administration activities related to airline agreements are effective, enforce compliance with contract terms and ensure revenue is complete.

Highlights
Denver International Airport (DIA) is a significant economic benefit for the Denver metro region by providing more than $26 billion in economic activity each year to the area. Revenue generated from the airlines operating at DIA under Airport Use and Lease Agreements is critical to DIA, as these funds are used to support the operation, maintenance, planning, and development of the airport.

In evaluating DIA’s practices for the management of airline agreements, we found substantial weaknesses that impact the airport’s ability to effectively collect revenue due from airlines. Specifically, payments for some contract terms are submitted late and associated collection efforts are not administered properly. In addition, we found controls for managing space changes need to be improved. Furthermore, DIA personnel were unable to provide support documentation from DIA’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 need to be enhanced.

In addition to the revenue-related areas we identified for improvement, we identified three opportunities to strengthen internal controls in the area of contract monitoring and compliance. First, we found that United Airlines’ liability insurance coverage had not been adjusted to meet revised amounts specified by DIA 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 support the need for enhanced documentation of processes and procedures. Finally, the contract in place with WJ Advisors, an aviation consulting firm involved in the year-end settlement process, is missing key provisions that should be specified in the contract.

Our audit resulted in nine recommendations to the Finance Unit that focus on improving controls related to payment and collection activities, assessing gate utilization fees, clarifying practices on the year-end settlement process, and aligning policies and procedures with other governing documents. We also included five recommendations for the Properties Division that focus on managing space changes, tracking airline departure equivalents, and enhancing controls for liability insurance and surety bonds.

For a complete copy of this report, visit www.denvergov.org/auditor
Or contact the Auditor’s Office at 720.913.5000
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INTRODUCTION & BACKGROUND

Denver International Airport Overview

The City and County of Denver owns and operates Denver International Airport (DIA) and it is the primary airport serving the greater Denver area. DIA, through the City's Aviation program, provides over $26 billion of economic benefit for the Denver metro area each year. Of the nearly $900 million in DIA revenue, approximately half is generated by airline rental payments, passenger facility charges, and landing fees, collected from the airlines that operate at DIA. Table 1 shows the portion of DIA's revenues for 2014 and 2015 that were derived from airline agreements.

**Table 1.** Denver International Airport Revenue from Airlines and Total Airport Revenues (2014 – 2015)

<table>
<thead>
<tr>
<th>Category</th>
<th>2014 Actual</th>
<th>Percentage of Total Airport Revenue</th>
<th>2015 Actual</th>
<th>Percentage of Total Airport Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facility Rentals*</td>
<td>$235,773,863</td>
<td>27%</td>
<td>$194,004,325</td>
<td>22%</td>
</tr>
<tr>
<td>Landing Fees</td>
<td>$147,840,516</td>
<td>17%</td>
<td>$147,378,640</td>
<td>17%</td>
</tr>
<tr>
<td>Passenger Facility Charges</td>
<td>$103,958,931</td>
<td>12%</td>
<td>$106,006,728</td>
<td>12%</td>
</tr>
<tr>
<td>Total Airline Revenue</td>
<td>$487,573,310</td>
<td></td>
<td>$447,389,693</td>
<td></td>
</tr>
<tr>
<td>Total Airport Revenue</td>
<td>$882,830,046</td>
<td></td>
<td>$874,351,273</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Mayor's 2017 Budget (proposed) and Mayor's 2016 Budget Book.

**Note:** Asterisk (*) indicates that totals include facility rentals for both airlines and for non-airline purposes.

**Passenger Traffic**—DIA is the sixth-busiest airport in the nation and the nineteenth-busiest in the world, serving more than 54 million passengers. In July 2016, DIA reported that more than 4.9 million passengers traveled through DIA in May 2016, an increase of 8.2 percent over passengers in May 2015, making it the busiest May in the airport's history. In addition, this made nine consecutive months of record-setting passenger traffic. The steady growth has been attributed in part due to continued increases in seat capacity by the airlines and a nearly 5 percent jump in international travelers. Table 2 shows DIA's airline passenger traffic for 2015.

**Table 2.** Passengers by Airline (2015)

<table>
<thead>
<tr>
<th>Airline</th>
<th>Passengers</th>
</tr>
</thead>
<tbody>
<tr>
<td>United</td>
<td>22,855,819</td>
</tr>
<tr>
<td>Southwest</td>
<td>15,814,696</td>
</tr>
<tr>
<td>Frontier</td>
<td>6,697,139</td>
</tr>
<tr>
<td>American</td>
<td>3,287,333</td>
</tr>
<tr>
<td>Other</td>
<td>2,684,043</td>
</tr>
<tr>
<td>Delta</td>
<td>2,675,472</td>
</tr>
</tbody>
</table>

**DIA Operates as an Enterprise Fund**

DIA operates as a business-type activity similar to the private sector called an enterprise fund, formally referred to as the Aviation Enterprise Fund. The Aviation Enterprise fund accounts for the operation, maintenance, planning, and development of DIA. Fund sources include revenues received from facility rentals, concessions, parking, and landing fees to support operations. The Manager of Aviation is the expending authority.

**Passenger Airlines at Denver International Airport**

Thirty-one airlines operate at DIA: 16 passenger airlines based in the U.S., 6 passenger airlines that are based internationally, and 9 cargo airlines. Of the 22 passenger airlines, 16 are signatory airlines and 6 non-signatory airlines. Of the signatory airlines, 10 are U.S. based and 6 are international. Signatory airlines are passenger airlines that sign agreements with DIA that require them to continue their relationship with DIA for five years. In addition, signatory airlines must meet certain requirements and are offered preferential rates over non-signatory airlines. If the requirements are not met, then the airline is considered a non-signatory airline.

Within the category of signatory airlines, there is a subset of related airlines called affiliated airlines. Affiliated airlines are smaller airlines that are wholly owned subsidiaries of larger airlines. These affiliates use the gates that are designated to their respective larger signatory airlines. Lease agreements outline the two specific types of gate usage for airlines; preferential and non-preferential, also referred to as common use. Preferential gates are assigned to specific airlines and common use gates are not reserved for a particular airline. Table 3 shows the sixteen U.S. based passenger airlines that conduct operations at DIA, their associated gate usage, and whether ticket counter space is leased.

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1 Certain resources of DIA’s enterprise fund are classified as restricted assets because their use is limited by applicable bond statements. These statements include requirements for some of the following: the accumulation of resources for current principal and interest on both bonds and subordinate bonds, principal and interest emergency reserve, and operating and maintenance emergency reserve.
### TABLE 3. U.S. Based Passenger Airlines Operating at Denver International Airport

<table>
<thead>
<tr>
<th>Airline Name</th>
<th>Type</th>
<th>Preferential/ Common Use Gates</th>
<th>Leased Ticket Counter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alaska Airlines, Inc.</td>
<td>Signatory</td>
<td>1 Gate on Concourse C</td>
<td>Yes</td>
</tr>
<tr>
<td>Allegiant Air, Inc.</td>
<td>Non-Signatory</td>
<td>Common use - occasional charter flight</td>
<td>No</td>
</tr>
<tr>
<td>American Airlines, Inc.</td>
<td>Signatory</td>
<td>5 gates on Concourse A</td>
<td>Yes</td>
</tr>
<tr>
<td>Boutique Air, Inc.</td>
<td>Non-Signatory</td>
<td>Common Use Ramp at Concourse A Comma, - per use</td>
<td>Yes</td>
</tr>
<tr>
<td>Delta Air Lines, Inc.</td>
<td>Signatory</td>
<td>6 gates on Concourse A</td>
<td>Yes</td>
</tr>
<tr>
<td>Elite Airways</td>
<td>Non-Signatory</td>
<td>Common use - occasional charter flight</td>
<td>No</td>
</tr>
<tr>
<td>Frontier Airlines, Inc.</td>
<td>Signatory</td>
<td>8 Gates on Concourse A</td>
<td>Yes</td>
</tr>
<tr>
<td>Great Lakes Aviation, LTD</td>
<td>Signatory</td>
<td>Common Use Ramp at Concourse A Comma, - 2 gates</td>
<td>Yes</td>
</tr>
<tr>
<td>JetBlue Airways Corporation</td>
<td>Signatory</td>
<td>Common use gate</td>
<td>Yes</td>
</tr>
<tr>
<td>MN Airlines, Inc.</td>
<td>Non-Signatory</td>
<td>Common use gates - occasional charter flight</td>
<td>No</td>
</tr>
<tr>
<td>Miami Air International</td>
<td>Non-Signatory</td>
<td>Common use gates - occasional charter flight</td>
<td>No</td>
</tr>
<tr>
<td>Southwest Airlines Co.</td>
<td>Signatory</td>
<td>22 gates on Concourse C</td>
<td>Yes</td>
</tr>
<tr>
<td>Spirit Airlines, Inc.</td>
<td>Signatory</td>
<td>1 Gate +2 ground load positions on Concourse A</td>
<td>Yes</td>
</tr>
<tr>
<td>United Airlines, Inc.</td>
<td>Signatory</td>
<td>56 gates on Concourse B</td>
<td>Yes</td>
</tr>
<tr>
<td>Virgin America, Inc.</td>
<td>Signatory</td>
<td>Common use gate</td>
<td>Yes</td>
</tr>
<tr>
<td>Key Lime Air (Denver Air Connection)</td>
<td>Non-Signatory</td>
<td>Common Use Ramp at Concourse A Comma, - 2 gates</td>
<td>No</td>
</tr>
</tbody>
</table>

Source: List of airlines provided by DIA personnel as of May 2016.

United Airlines, Southwest Airlines, and Frontier Airlines have the most gates at DIA. United Airlines has 56 gates, Southwest Airlines has 22 gates, and Frontier Airlines has 8 gates. Of the eleven affiliated airlines, six are affiliated with United Airlines, two with Delta Air Lines, and two with American Airlines, Inc. All six international airlines utilize common use (non-preferential) gates. The only affiliated airline with an international airline is Sky Regional Airlines.

**Types of Airline Agreements**

Airlines can choose to sign various agreements with DIA that permit lease of airport facilities, including terminal and concourse space for offices and break rooms, gate and ramp areas, ticket counters, baggage system facilities, and support facilities such as hangars. Generally, there are three types of agreements that airlines can enter into: Airport Use and Lease Agreement (ULA), Airport Baggage System License Agreement, and Airline Support Facilities Lease Agreement. Of these types, the main agreement that is entered into is the ULA.
The ULA comprises terms that permit the airline to use and lease space at the airport. The agreement states the term length; sets revenue terms, such as rental rates and how fees will be collected; details the space that will be allocated to the airline; establishes when late charges will be incurred; and specifies how often gates can be used, among other terms. The baggage agreement and the support facilities lease agreement allow airlines to use the airport’s baggage system and lease grounds space, respectively. The audit focuses primarily on the ULA, which is administered by the Property Management Section within DIA’s Commercial Unit.

**Denver Airlines Airport Affairs Committee**

A committee comprised of airline corporate real estate representatives and DIA Management is the Denver Airlines Airport Affairs Committee (DENAAAC). The purpose of DENAAAC is to establish and maintain effective lines of communication between the airport and the airlines. Bi-monthly meetings are held and minutes are kept. This type of committees is a standard practice at airports.

**Organizational Structure**

Two key units within DIA’s organizational structure are closely involved in managing the provisions of ULAs and other airline agreements: the Commercial Unit and the Finance Unit.

**Commercial Unit**—The Commercial Unit is responsible for managing existing airport businesses and identifies and develops new business opportunities to support the airport’s strategic objectives. The Commercial Unit provides oversight of airport businesses, such as airline leases, rental cars, and parking, as well as commercial property management.

Within this group is the Property Management Section (Properties). Properties is responsible for managing airline activities and performing property management duties, such as entering into lease agreements with airlines. In addition, Properties performs contract compliance activities and inspections of leased and vacant airport space. Two Property Managers on staff have the responsibility to inspect and ensure that airlines are using their leased property in compliance with the terms of the use and lease agreement. They also act as liaisons between the airlines and many of the other internal departments. For example, the Property Managers work with DIA Engineering to obtain up-to-date drawings of airline leased spaces as an exhibit in a ULA. The Property Managers’ constant monitoring and relationship management aids in the creation of new agreements or amendments to existing contracts.

**Finance Unit**—The Finance Unit leads the airport’s financial strategy, manages its financial operations and houses the airport’s accounting and fiscal policy functions. The Revenue Accounting Department (Revenue Accounting) processes all invoices and collections for rents, fees, and other charges to DIA airlines. The Fiscal Policy Department sets rental rates, charges, and fees that are assessed to the airlines.

**Airline Revenues**

Revenues from airline agreements are primarily derived from facility rentals (also referred to as space leases), landing fees, and passenger facility charges.
Space Leases—Facility rentals include the leases for space in the terminals, for ramps, and for hangars. Rates are based on the cost of recovery of land, construction, and indirect costs. Airline space rent is determined by the annual rate per square foot, which is outlined in Exhibit F of each agreement. These lease rates can vary based on the type of carrier agreement (signatory or non-signatory) and they can vary by concourse. DIA uses PROPWorks, a property management and billing software system, to manage the billings for space rentals. Each airline’s leased space is recorded and then charges are allocated based on the contracted agreements and the current year's rates and fees.

Landing Fees—Landing Fees are charged per 1,000-pound unit of aircraft landed weight and are calculated to cover airfield operating expenses net of non-airline airfield revenue. Fees are adjusted annually. After an extensive period of evaluation and testing of an airport solution from PASSUR Aerospace (PASSUR), DIA began using the product to provide greater accuracy in terms of the landed flights and the weight of the aircraft. PASSUR records the plane tail number and cross references this information to determine the maximum gross weight for the aircraft.

Passenger Facility Charges (PFCs)—PFCs are derived from a $4.50 per enplaned passenger fee, authorized by the FAA. Airports may use revenues from PFCs for debt service and capital projects; however, its use must be in accordance with FAA guidelines. PFCs are collected by airlines and remitted to DIA on a monthly basis. Although PFCs are self-reported by airlines, the ULAs require airlines to submit an audited report of PFCs on an annual basis.

Other Revenue-Related Activities

Gate Usage—The airport has various charges related to gate usage. The two specific types of gate usage reviewed during our audit are preferential and non-preferential gates. Preferential gates are assigned to specific airlines and terms are outlined in the agreements. Non-preferential gates are not reserved for a particular airline, and the fees are charged per 1,000 pounds of maximum gross allowable landing weight. The rate also varies based on the size of the gate and corresponding holding room. The non-preferential gates may be used by signatory or non-signatory airlines as needed.

Year-End Settlement—At the end of each year, DIA compares budgeted airline revenues and expenses to actual airline revenues and expenses received from the airlines. This year-end settlement is completed to determine whether airlines have paid all chargeable rentals, fees, and charges during the year. DIA contracts with third-party WJ Advisors to perform this review.
SCOPE

We assessed Denver International Airport’s (DIA) administration of airline agreements, including assessing internal controls surrounding revenue reporting. Specifically, we determined whether the communication between the DIA Divisions is adequate to ensure compliance with contract terms and accurate, complete, and timely revenue billing and collection.

OBJECTIVE

The objectives of the audit were to determine whether DIA’s contract administration activities related to airline agreements are effective, enforce compliance with contract terms, ensure revenue is accurate and complete and that billing and collection is timely.

METHODOLOGY

We applied various methodologies during the audit process to gather and analyze information pertinent to the audit scope and to assist with developing and testing the audit objectives. The methodologies included the following:

- Interviewing DIA staff involved with airline revenue and billing processes
- Interviewing DIA commercial property management/airline agreement contract administration staff
- Reviewing DIA policies and procedures regarding property management and comparing them to actual practices
- Reviewing DIA Finance policies and procedures and comparing them to actual practices, including invoicing, receiving, and collections
- Determining a sample of airline agreements to review and test
- Conducting testing of specific contract terms for compliance for Frontier Airlines, Southwest Airlines, and United Airlines
- Conducting invoice review and testing
- Reviewing processes related to reconciliations and the year-end settlement process
- Reviewing methodologies of the third-party that conducts the year-end settlement process
- Reviewing meeting minutes related to the Denver Airport Airline Affairs Committee
FINDING

Weaknesses in Denver International Airport’s Controls for Managing Airline Agreements Pose a Risk to Revenue Collection

Denver International Airport (DIA) is a significant economic benefit for the Denver metro region by providing more than $26 billion in economic activity each year to the area. Revenue generated from the 31 airlines operating at DIA under Airport Use and Lease Agreements was more than $447 million for 2015. This revenue is critical to DIA for the operation, maintenance, planning, and development of the airport. In evaluating DIA’s practices for the management of airline agreements, we found substantial weaknesses that impact the airport’s ability to effectively collect revenue due from airlines.

Practices that we found to be ineffective include ensuring timely payments from airlines, promptly collecting delinquent airline payments and associated interest penalties, managing airline space changes, policies and procedures for managing agreements and revenue collection, and succession planning for the DIA Finance personnel. Without improvements in these areas, DIA cannot ensure that airline agreements are being managed effectively to collect all airline revenue due from airlines. As such, we made several recommendations to address control weaknesses, develop and implement additional agreement management processes, and ensure that DIA will be able to meet continued organizational needs.

Controls Surrounding Revenue-Related Airline Agreement Terms Need Improvement

We identified several weaknesses with DIA’s current practices in managing revenue-related agreement terms. Payments for some contract terms are submitted late and associated collection efforts are not administered properly. In addition, we found controls for managing space changes to be insufficient and that airline agreements were not consistently amended to coincide with the space changes. Finally, policies and procedures for invoicing and monitoring gate utilization need to be enhanced.

Airlines Are Not Submitting All Payments Timely and Collection Efforts Are Not Administered Properly

Under the Airport Use and Lease Agreements (ULAs) that DIA has entered into with the airlines that have a presence at DIA, airlines are responsible for paying a variety of fees and charges within required timeframes. However, auditors discovered that many of these fees and charges are not being remitted timely, including for landing fees, space changes, and passenger facility charges. Additionally, we found that DIA Finance is not properly administering collection efforts to secure remittance once payments are past due.

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2 Total airline revenue includes facility rentals, landing fees, and Passenger Facility Charges from Table 1 on page 1. Facility rentals also include rentals for non-airline purposes.
Inconsistent Administration of Landing Fees, Gate Usage, and Interest Penalties—To assess the timeliness of airline landing fee payments, we traced a sample of 21 landing fee invoices to their corresponding receipts in DIA’s accounting system, AMS Advantage® (AMS). We found that airline payments for 6 of the 21 invoices (28 percent) we evaluated from March 2014 through March 2016 were not received by the 20th of the month as required by the ULAs. We also noted concerns related to interest payments associated with these six invoices, which presented in a variety of ways. First, we found that five of the six late landing fee invoices began to accrue interest, but as of the test date, interest had not been collected for three of those invoices. Of those three invoices, two had their interest reversed without the proper support documentation to provide justification and the remaining invoice still had outstanding uncollected interest amounting to $25,064. Further, this particular interest amount was 89 days past due. Lastly, although the other 2 late landing fee payments were ultimately collected, they were resolved through multiple payments; final payments were made following 62 and 135 days outstanding, respectively.

Our testing also identified concerns related to the administration of interest penalties for late payments. DIA Finance has inconsistently applied interest penalties for late landing fees and payments for the use of certain gates. In our testing, we noted that interest penalties were enforced immediately, rather than after the five-business-day grace period established by the ULAs and the Denver Municipal Airport System Rules and Regulations. Specifically, five of the five late landing fee payments discussed above accrued interest immediately. Additionally, for the 5 late gate fee payments we found out of the 23 payments reviewed, interest also began accruing immediately.

We also identified instances of interest penalties for landing fees and non-preferential gate fees being written off without documented justification. Specifically, we noted that an interest penalty of $13,635 was accrued in AMS for a landing fee payment that was 27 days late; however, the interest penalty was not included on any monthly statements to the airline. DIA personnel explained that this was due to timing and system issues. Through further discussions with a DIA Accounting Supervisor, we determined that the interest penalty was subsequently written off, but no documentation for the decision was available.

Similarly, we found interest penalties that were written off for gate invoices. The DIA Accounting Supervisor explained that this occurred because, at the time payment was due, the customer had an unapplied credit on the account that was sufficient to cover the invoiced amount. However, no documentation was available to show the application of the credit to the interest penalties. DIA Finance’s policies and procedures do not include specific guidance regarding when interest penalties should be written off. Accordingly, DIA’s 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.

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3 AMS (American Management Systems) Advantage® is the financial management system currently used by Denver International Airport.
No Process for Assessing Interest Penalties on Late Passenger Facility Charge Payments—
Passenger Facility Charge (PFC) payments are to be remitted no later than the last day of the month following the month in which the PFCs were incurred. To assess the timeliness of PFC payments, we reviewed the total of 81 PFC payments made from January 2014 through March 2016. We found that 26 of the 81 payments (32 percent) were received late. Of the 26 untimely PFC payments, 6 were eligible for interest penalties. However, we found that interest penalties had not been calculated or charged to the airlines by DIA financial staff. Interest penalties for these 6 payments collectively amounted to $72,926. Table 4 shows specific details on late PFC payments and associated interest penalties.

### TABLE 4. Late Passenger Facility Charges Payments and Interest Penalties

<table>
<thead>
<tr>
<th>Category</th>
<th>PFC Amount Due</th>
<th># of Days Interest</th>
<th>Interest Due</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Frontier Airlines</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PFC Payment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feb-2014</td>
<td>$1,647,027</td>
<td>23</td>
<td>$18,783</td>
</tr>
<tr>
<td>Apr-2014</td>
<td>$1,774,638</td>
<td>15</td>
<td>$13,173</td>
</tr>
<tr>
<td>Sep-2015</td>
<td>$1,489,297</td>
<td>1</td>
<td>$734</td>
</tr>
<tr>
<td>Nov-2015</td>
<td>$1,416,095</td>
<td>3</td>
<td>$2,096</td>
</tr>
<tr>
<td><strong>Southwest Airlines</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PFC Payment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oct-2014</td>
<td>$2,330,502</td>
<td>16</td>
<td>$18,457</td>
</tr>
<tr>
<td><strong>United Airlines</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PFC Payment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mar-2014</td>
<td>$3,619,425</td>
<td>11</td>
<td>$19,683</td>
</tr>
<tr>
<td><strong>Total Interest Due</strong></td>
<td></td>
<td></td>
<td>$72,926</td>
</tr>
</tbody>
</table>

Source: Denver International Airport Revenue by Provider Reports for the period January 2014 through July 2016.

DIA Finance does not currently have a process in place to assess interest for late PFC payments; therefore, airlines have not been held accountable. Airlines hold PFC payments in interest bearing accounts until submitting payments to DIA, and they are receiving the benefit of keeping the interest that has accrued on these funds when submitting PFCs late. Therefore, we recommend that the SVP of Financial Management ensure that the policies and procedures are revised to include a process for assessing the required interest for late PFC payments.

Collection Activities Do Not Resolve Outstanding Invoices and Credit Memos—We sought to determine whether current collection practices adequately resolve outstanding invoices and credit memorandums (credit memos). Our analysis included identifying all items on month-end

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5 Credit memorandums are documents demonstrating that an airline has a credit accounts receivable balance and are issued when an airline makes an overpayment for an invoice, makes a duplicate payment for an invoice, or submits payment with insufficient instructions on how to apply funds.
balance statements, also referred to as aging reports. We reviewed balances related to the following areas:

- Space rentals
- Landing fees
- Gate fees
- Credit Memos

We traced the invoices and credit memos from month-to-month from January 2015 through January 2016 to identify those instances where items went unresolved for over 90 days. Each particular class of items had instances of outstanding items. Table 5 shows totals on the items included in our testing that were outstanding for more than 90 days:

**TABLE 5. Airline Revenue Account Items Outstanding Greater Than 90 Days**

<table>
<thead>
<tr>
<th>Category</th>
<th>Invoices</th>
<th>Amount (Range)</th>
<th>Credit Memos</th>
<th>Amount (Range)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frontier Airlines</td>
<td>20</td>
<td>$174 to $1,269,473</td>
<td>3</td>
<td>$3,960 to $77,931</td>
</tr>
<tr>
<td>Southwest Airlines</td>
<td>3</td>
<td>$15,448 to $370,488</td>
<td>1</td>
<td>$660</td>
</tr>
<tr>
<td>United Airlines</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>$10,559-$251,063</td>
</tr>
<tr>
<td>Total Items</td>
<td>23</td>
<td>$174 to $1,269,473</td>
<td>9</td>
<td>$660 to $251,063</td>
</tr>
</tbody>
</table>

*Source: Monthly Statements of Accounts for airlines from January 2015 through January 2016.*

For those items identified in Table 5 above, we found the following:

- Nine invoices for space rentals
- Five invoices for landing fees
- Nine invoices for gate utilization fees
- Three credit memos for space rentals
- One credit memo for landing fees
- Five credit memos for unspecified overpayments

In addition to reviewing data specific to the revenue items included in our testing—space, landing fees, and gate fees—we also trended all airline revenue data in the aging reports. We found that late payment amounts and credit memos within the first 30 days fluctuate widely for each quarter and for each airline. Outstanding payments and credit memos that remain on the aging reports for more than 90 days range from $156,838 to over $(3,473,000). DIA Finance policies and procedures do not require airlines to provide sufficient documentation to specify what payments are intended for. Therefore, DIA Finance staff will place the payment in a suspense account until research is conducted and the payment can be moved to the correct account. As a result, many items stay on the month-end balance statements for long periods of time. Accordingly, 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.
These findings indicate that DIA Finance staff was not adhering to policies and procedure governing the ongoing collections process to ensure the timely collection of revenue. DIA staff should ensure that invoices are paid promptly and that airline credits are expeditiously applied to outstanding invoices so sufficient funds are readily available to fund airport operational obligations, such as the runway and taxiway system, deicing facilities, terminal and concourse maintenance, capital costs, and other outstanding debts.

**DIA Has Insufficient Controls for Managing Space Changes**

We found three areas of weakness with DIA’s airline space change management practices. First, the processes did not reflect current practices and did not include a requirement for the timely processing of airline space changes. Second, airline agreements were not consistently amended when space changes occurred, as outlined in policies and procedures. Finally, although on-site walkthroughs were conducted by DIA staff to ensure airlines were using their space in accordance with rules and regulations, expectations for the completion of these walkthroughs were not identified in policies and procedures.

**Space Changes Processed Inconsistently**—Airlines pay for space that they occupy in the terminal, on concourses, and, in some cases, in hangars. As business needs change, airlines frequently request more, less, or different space to occupy. As the result of these changes, airlines will owe DIA more or less based on changes to the associated fees. These space changes are initiated using space change forms completed by Property Managers. Subsequently, the ULAs should be updated along with a number of airport IT systems to reflect the new space occupied and updated fee amounts.

We reviewed a sample of 18 space change forms to assess the process in both the Properties Division and the Finance Unit. Our testing found that 7 of 18 space change forms (39 percent) were not processed by the Property Managers within 30 days of the effective date of the space change. The next step—entering space changes into DIA systems that track space assignments—appears to have been conducted correctly. We then tested the steps in the space change process conducted by the Finance Unit, which include sending revised invoices and collecting space fees. However, we were unable to verify that all 18 space changes were properly billed and collected because personnel in the Finance Unit were unable to provide support documentation from AMS. DIA personnel informed auditors that a former Financial Manager who was key in processing space changes resigned recently and other personnel were unaware of the processes related to space change billings and collections. Therefore, we determined airlines may not have been paying the correct amounts related to space changes after the resignation of the Manager.

One specific space change included in our testing for Southwest Airlines was effective January 2015 but not processed by a Property Manager until December 2015. This change amounted to more than $900,000 and, due to the untimeliness, was included in the year-end settlement process. Although we verified that the space change related to square footage was correct in the year-end settlement, the financial aspect of the space change was included in a credit memo for over $9 million; DIA personnel were unable to provide support documentation related to the credit memo. Therefore, we were unable to verify that the space change was accounted for properly.
To improve administration of space changes, 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 for ensuring timely airline space change financial processing. In addition, the SVP of Financial Management should ensure that DIA Finance personnel are cross-trained on key roles and responsibilities so that operations are not impacted when personnel are unavailable or leave the organization.

**Airline Agreements Were Not Consistently Amended after Space Changes Occurred**—We found that although many space changes have occurred for the three airlines tested—Frontier Airlines, Southwest Airlines, and United Airlines—amendments were not consistently made to the contracts. The Property Management policies and procedures related to Airline Activity indicate that amendments should be made when space changes occur. After assessing whether this procedure is being followed, the audit team found that one amendment was administered for each airline during the timeframe of our testing, 2014 through 2016. Since more than one space change occurred for each airline during this time period, not all space changes were accounted for in the amended agreements. DIA personnel explained that when space changes are processed, new exhibits are created to reflect the accurate space rental resulting from the change. These exhibits are shared with airlines and added to the agreements. Although auditors recognize the usefulness of this documentation, a gap in the process nonetheless exists because not all agreements are being amended, as required by the policies and procedures.

Auditors were informed that the Properties Division is currently in the process of updating the airline ULAs, which should be completed by the end of the year. Accordingly, we recommend that 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 ULAs should be updated to reflect periodic space changes. In addition, policies and procedures should be updated to establish a timeframe within which space changes should be processed to ensure timeliness for billing and collections.

**DIA Property Managers Lack Guidance for Conducting On-Site Inspections**—Airline agreements establish rules and regulations regarding how they can use the airport space that they lease to support their operations. These particular rules specify permitted equipment types, maintenance expectations, fixtures and improvements guidelines, and proper use of common areas. DIA personnel conduct on-site inspections of leased spaces to determine whether airlines are utilizing space consistent with rules and regulations. However, we found that on-site inspection procedures do not specify how often on-site inspections should be conducted, how the results should be documented, or how findings identified during on-site inspections should be resolved.

Auditors accompanied a Property Manager and airline representatives on several walk-throughs, during which the Property Manager pointed out violations of airline agreement terms. For example, we observed a desk located in a common area, which was not in compliance with the agreement. The Property Manager indicated that, although the airline had previously been notified about the violation, the issue had not been corrected. Another example involved a soda machine located in a common area, another placement of equipment that is not in line with
agreement provisions. Without a consistent process in place to address these issues, violations may not be resolved in a timely manner.

We recommend that the SVP of Airline Affairs and Commercial 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.

**Policies and Procedures Need Enhanced Guidance on Invoicing and Monitoring for Gate Utilization**

We found that DIA could provide additional guidance in its policies and procedures specific to gate invoicing and gate utilization monitoring and compliance. Specifically in the area of non-preferential and customs gate invoicing, DIA’s Finance policies and procedures do not contain the level of detail that is contained in DIA’s billing procedures for other airline fees. Additionally, the DIA’s Properties procedures do not specify a procedure for monitoring gate utilization for compliance with contract terms.

**DIA Finance Policies and Procedures Do Not Contain Detailed Instructions for Invoicing Non-Preferential and Customs Gate Utilization Fees**—The airline agreements require airlines to submit non-preferential and customs gate utilization activity reports no later than 15 calendar days after the end of each month. These activity reports are compared to other sources of gate utilization data by DIA staff to determine the amount to be invoiced to airlines. However, we found that DIA procedures do not address the required steps in this process. Additionally, upon receipt of monthly gate activity reports, we found that the procedures do not specify when invoices should be completed and sent to the airlines each month. Finally, while our review of gate utilization invoices found that a due date for these payments had been established as 30 days from the date the invoice was generated, this requirement is not identified in procedures. As a result, we recommend that the SVP of Financial Management ensures 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.

**DIA Property Division’s Policies and Procedures Do Not Include Guidance for Monitoring of Airline Preferential Gate Utilization**—DIA’s signatory airlines, with the exception of United Airlines, are required to satisfy a designated number of departure equivalents, per day, per gate, averaged over each quarter. A departure equivalent considers the number of seats on an aircraft and adjusts the actual number of departures up or down based on the number of seats. For example, an aircraft landing with less than 95 seats counts as six-tenths of a departure while an aircraft with more than 300 seats would count as three departures. Only three signatory airlines land aircraft with fewer than 95 seats: United Airlines and two carriers that were not included in our testing. United Airlines, which is not subject to departure equivalents, and the other two airlines, land larger aircraft with 150 to 200 seats, which count for one-and-one-quarter departures. DIA Management considers these as offsetting amounts. United Airlines’ contract negotiations occurred at an earlier date than other airlines and the ULA does not reference departure equivalents; rather, gate usage requirements are based on an average of flights per day, per preferential gate.

On a monthly basis DIA management reviews gate utilization reports prepared by the planning department that are based on average turns per gate and do not take into consideration departure equivalents. As noted above, DIA Management considers airlines with smaller aircraft
and fewer seats that also land larger aircraft to have departure equivalent amounts that are offsetting. By extension, they have reasoned that the more complicated departure equivalent does not need to be calculated on a regular basis. However, the gate utilization reports could reasonably be considered a critical planning tool for monitoring gate availability, for considering potential airport expansion based on airline traffic activity, and ensuring that DIA can continue to meet the needs of its airline partners from an operational and planning perspective. DIA Management conceded that, with the continued growth of the airport, they may need to look at gate utilization requirements more closely in terms of contract compliance.

The Standards for Internal Control in the Federal Government (Standards), promulgated by the U.S. Government Accountability Office, provide relevant guidance when assessing the quality of DIA’s policies and procedures surrounding preferential gate utilization. The Standards assert that effective documentation assists management's design of internal controls by establishing and communicating who is responsible for a control and then documenting the controls necessary to meet the operational needs. The airline agreements further establish that failure to meet the departure requirements for gate utilization could result in the loss of preferential gates by a non-compliant airline. While the agreements indicate that airlines would be notified in the event of non-compliance, procedures do not include guidance on how and when to complete the notification process and when removal of preferential gates from airlines would be appropriate. Therefore, we recommend that the SVP of Airline Affairs and Commercial 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.

DIA Properties Division Is Not Monitoring Some Contract Terms Effectively

In addition to the revenue-related areas we identified for improvement, we identified three opportunities to strengthen controls in the area of contract monitoring and compliance. First we found that United Airlines’ liability insurance coverage had not been adjusted to meet revised amounts specified by DIA Risk Management. Second, we found 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 support the need for enhanced documentation of processes and procedures. Finally, the contract in place with WJ Advisors, an aviation consulting firm involved in the year-end settlement process, is missing key provisions that should be specified in the contract.

United Airlines’ Liability Insurance Coverage Was Less than Required Amount

The Use and Lease contract executed in 1992 between DIA and United Airlines stipulated that United Airlines must obtain liability insurance in the amount of $200 million. The contract stated that the insurance requirement could be reevaluated every 10 years and adjusted if needed to ensure adequate coverage. In 2010 DIA Risk Management increased the liability insurance requirement for all airlines to $300 million. However, in 2012 when United Airlines’ contract was reevaluated, liability insurance was not increased to $300 million to be equitable with the amount specified in other DIA airline contracts executed on January 1, 2012. This also did not match the
amount specified in the 2011 version of Property Management’s procedures. All airlines should meet this requirement or should have a documented exception. The Standards codify the need for documentation as an effective means to meet operational needs and retain organizational knowledge.

The Property Management procedures have not been updated since 2011 and do not provide instructions for the annual insurance renewals. Auditors learned that the responsibility at the time the procedures were written resided with the Car Rental Properties Manager.

Prior to the completion of the audit, DIA increased United Airlines’ liability requirement and United Airlines provided a new certificate for liability insurance in the amount of $300 million dated July 22, 2016.

**Frontier Airlines’ Performance Bond Continuation Executed Late**

During our testing, we found that a surety continuation certificate for Frontier Airlines was due on January 1, 2016, but was not executed until May 23, 2016. The spreadsheet maintained by the Contract Administrator to track surety data indicated that the first surety notification letter was sent on May 19, 2016, which is more than four months after the certificate was due.

The Contract Administrator indicated that issues with the PROPWorks system beginning in 2015 resulted in duplicate notifications and increased postal expense. As a result of these issues, a manual tracking system was created but it was not completed by the time the initial notification to this airline should have been provided. The Contract Administrator contacted the airline on May 19, 2016, after the audit began, to obtain an updated surety continuation certificate. Although this issue was resolved before the end of our audit, the weakness in contract administration still poses a risk. For example, some insurance documentation copies could not be located and copies had to be requested. In addition, the surety process in the policies and procedures is out of date and does not reference the correct job title or responsible person for some steps in the process. As a result of these concerns, we recommend that the SVP of Airline Affairs and Commercial enhance controls related to monitoring liability insurance and surety bonds to ensure compliance with airline ULAs.

**Contract Governing Year-End Settlement Process Does Not Include Certain Key Provisions**

DIA has a contract in place with WJ Advisors, an aviation management consulting firm, to conduct the Year-End Settlement process. Our review of the contract with WJ Advisors revealed that a number of key provisions were missing. DIA’s Year-End Settlement process identifies all airline rentals, fees, and charges for the year to determine whether each airline paid all chargeable amounts due. In the event that an airline paid less than the chargeable amount, prompt payment is to be made to account for the deficiency. If the process reveals that an airline paid more than the chargeable amount due, a credit is to be promptly issued for use against future rentals, fees, and charges. The Year-End Settlement process also identifies any monies due to an airline through the airport’s revenue-sharing agreement. To incentivize continued airline operations at DIA, all airline agreements include a revenue sharing provision. Based on the yearly financial achievements of DIA, airlines are paid annually based on their individual contribution to the airport’s financial successes. The payment, called the Airline Revenue Credit, is capped at a
maximum of $40 million dollars per year and disbursed to the airlines at the end of the fiscal year through the Year-End Settlement process.

In reviewing the process, we found that certain requirements were missing, such as review of projected revenue against actual revenue for airline rentals, fees, and charges to determine whether all chargeable amounts have been paid by airlines. Additionally, the annual Year-End Settlement report, which DIA personnel explained to auditors is required to be completed by WJ Advisors, is not identified in the contract as a specific deliverable.

These missing elements represent a departure from the requirements of Executive Order 8 and its associated Memorandum 8A, which establish the City’s policy regarding procedures for preparing and executing contracts. This directive requires that all contracts for professional services include a scope of work to facilitate performance monitoring, which helps ensure receipt of specific deliverables identified in the contract.

Accordingly, the SVP of Financial Management should include the analysis of all airline rentals, fees, and charges on an annual basis and the creation of associated reports in the Finance Division’s policies and procedures. In addition, 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.

Several Factors Contribute to Weaknesses Identified with DIA’s Airport Use and Lease Agreement Monitoring Practices

We noted several areas where DIA’s practices for monitoring airline compliance with airline agreements could be improved. First, we found that existing policies and procedures often contradict other governing rules and regulations, including processes that allow lenient accountability, or omit steps for collection of interest penalties. Second, we found that DIA staff were not always implementing or enforcing the requirements of policies and procedures and, in many cases, the policies and procedures are outdated. Third, DIA Finance staff do not have sufficient knowledge or training in revenue collection and space management, adding to longstanding concerns with employee turnover at DIA. Lastly, we observed that the processes and requirements for the year-end settlement of airline revenue completed by an external firm are not documented in policies and procedures. Therefore, it is not possible to ensure proper oversight that a complete and accurate settlement occur each year.

DIA Finance Division’s Policies and Procedures Often Contradict Governing Regulations and Encourage a Lax Environment of Airline Accountability — There are two primary sources of guidance upon which certain airline agreement terms are based: federal regulations and rules specific to DIA. At the federal level, Part 158 of Title 14 of the Code of Federal Regulations, or 14 CFR 158, lays out the authority for airports to collect passenger facility charges, or PFCs. Specific to DIA, the Denver Municipal Airport System Rules and Regulations 120, or Rule 120, includes a schedule of fees and charges that airlines are to follow. In our analysis, we found instances in
which due dates for fees or charges identified in DIA Finance policies and procedures are inconsistent with those established in these two sources of governing regulations.

First, we found that while 14 CFR 158 mandates that payments for PFCs be remitted no later than the last day of the following calendar month (or that date falls on a weekend or holiday, the first business day thereafter), DIA’s procedures establish a grace period for late payment of five calendar days for PFCs. This grace period is not included in any airline agreements, which do, however, specify application of interest penalties after 5 business days. Second, the airline agreements specify that landing fees should be paid no later than 20 days after the close of each calendar month of the term. However, we noted that DIA’s procedures require a payment due date not later than 15 days after the close of each calendar month. This same inconsistency was repeated in Rule 120, although billing invoices for landing fees correctly identified the 20th of the month as the due date. Finally, both the airline agreements and Rule 120 allow a grace period of 5 business days beyond the due date before accruing an interest penalty for late payment. However, we found that procedures often incorrectly identified the grace period as a more stringent 5 calendar days. While these inconsistencies may not result in material discrepancies, they demonstrate inaccuracy in financial processes.

In addition to these inconsistencies, our examination also found weaknesses that were specifically identified by DIA in policies and procedures. However, these observations were not accompanied by actionable procedures, reflecting an environment of lax airline accountability. These included the following:

- The form, method, and supporting documentation required when remitting payments was not specified by DIA, which would ensure that DIA staff has sufficient information to apply payments that are made by airlines.
- DIA identified the need to invoice interest penalties to help raise airline awareness of the requirement to make timely payments; however, this need was not accompanied by a process for doing so.
- Timely and consistent ongoing efforts to collect late payments is not emphasized by DIA in policies and procedures. Therefore, collection activities are based on staff judgment and not on defined actions and timelines to be followed by staff.
- DIA does not encourage the enforcement of timely PFC payments through the application of penalties. DIA acknowledged that, although a fee can be assessed for late payments, the associated policies and procedures note that “payments are rarely late”.
- Resolution of large, aged credit memos that remained unapplied was recognized as an ongoing issue by DIA in the policies and procedures; however, a process to apply airline credit memos in a timely manner was not included.

We recommend that the SVP of Financial Management 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.

**Inconsistent Use of Follow-up Communications to Collect Late Payments**—DIA Revenue Accounting staff do not always communicate with airline staff within five days of the payment due date as required by policies and procedures. They also are not consistently monitoring past
due balances and sending collection letters, when necessary, which is required by their Revenue Accounts Receivable policies and procedures. According to DIA staff, processing of billing and recording payments from all DIA customers, including concessionaires and rental car companies, is their primary priority. They asserted that these responsibilities take up the vast majority of their time and leave them with very little time to resolve outstanding payments.

**Not Sending Additional Invoices for Interest Penalties**—When delinquent payments accrue interest, current Revenue Accounts Receivable procedures do not include a process for invoicing airlines for that interest or to follow up with the airlines regarding interest charges. The only notification provided to airlines is through their monthly statement of accounts.

**Policies and Procedures Are Outdated**—DIA Property Management policies and procedures related to airline activity appear to be outdated, inaccurate, and incomplete. They have not been updated since 2011. As a result, the policies do not include instructions for certain procedures that have evolved over time. For example, some responsibilities used to reside with a different DIA team but were moved to DIA Property Management. Other examples of out-of-date content include inaccurate job titles, roles, and processes. Policies and procedures for DIA’s Finance Division have also not been updated since 2011 and similarly include references to personnel no longer involved in processes.

The Properties Division has been working with their Peak Performance team to update the policies and procedures but they are waiting for the completion of the PROPWorks upgrade before finalizing the documentation. Although the draft copy that we reviewed addressed some of the concerns, we identified two areas that lack documented processes: on-site inspections and gate utilization monitoring and compliance activities. These guidelines should include greater detail related to conducting, documenting, and following up on on-site inspections and should assign responsibility for monitoring and ensuring compliance with gate usage requirements.

Both sets of policies and procedures establish expectations that are not consistent with the airline agreements, and they lack sufficient guidance for personnel to complete duties related to space management, revenue collection, and assessing interest for late payments. As such, we found that DIA personnel are not referring to these procedures regularly in the performance of their duties. What results is a confusing environment that inhibits staff’s ability to enforce airline compliance with agreements.

We also noted that only one staff member is tasked with completing ongoing efforts to collect delinquent payments from airlines. This staff member is also tasked with primary duties, including recording payments received from all businesses operating at DIA, not just airlines. Accordingly, this individual does not have sufficient time to fully address the duties required of both functions. The situation is exacerbated by the resignation of the Financial Manager who was responsible for coordinating and monitoring these ongoing collection activities during the course of the audit.

Finally, DIA Finance’s policies and procedures do not specify how airlines should make payments to DIA. Therefore, airlines often fail to provide directives on where funds should be applied. DIA staff then have to take additional steps to determine the appropriate billing invoices to satisfy. In these instances, DIA staff routinely do not have sufficient time to complete this additional

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6 Denver’s Peak Performance initiative is part of the Mayor’s vision to strive to improve efficiency and service delivery and identify cost savings. Peak Performance personnel seek to achieve program goals by partnering with City agencies and engaging staff at all levels of the organization. DIA has its own Peak Performance team for all divisions and departments at the airport.
requirement, and unapplied payments are often returned to airlines at a much later date in the form of credit memos as directed by Finance policies and procedures.

**Loss of Institutional Knowledge and Lack of Cross Training**—In addition to DIA Finance’s policies and procedures not being updated since 2011, we found that staff are not cross-trained on key roles related to the airline space change process. Areas of concern related to the DIA Finance Division have been reported for multiple years in the City's external audit, and turnover has also been a factor in operations. During this audit, a long-term Financial Manager resigned, who had been responsible for key activities related to airline revenue billing and collections. No other personnel were cross-trained on these activities and, therefore, a significant amount of institutional knowledge was lost. This also impacted our audit work; some of the audit team’s questions could not be answered and support documentation related to revenue was not provided to us when requested.

According to Standards, succession plans are a best practice for addressing an organization’s need to replace competent personnel over the long term and can include implementing processes to enable knowledge sharing with a candidate who may fulfill the role in the future. Management should define succession and contingency plans for key roles to help the entity continue achieving its objectives. Additionally, establishing detailed policies and procedures provides a means to retaining organizational knowledge and mitigating the risk of having that knowledge limited to a few personnel, as well providing the ability to communicate key policies and procedures as needed to its customers and other external parties.

**Year-End Settlement Process**—Despite the demonstrated importance of the Year-End Settlement process to determine whether airlines paid all chargeable rentals, fees, and charges for the year, there are no procedures addressing the activities to be completed by DIA personnel for this process. The extent of documentation for the settlement process is a list of reports, such as: financial reports, air traffic activity reports, space reports, cargo reports, amortization reports, and passenger facility charges reports. These reports are provided to WJ Advisors to complete the settlement and an annual report reflecting the results of the settlement process, to include any Airline Revenue Credits that are to be disbursed. Again, as a result of the resignation of the Financial Manager, DIA personnel were unable to provide answers as to how these reports are produced, which leaves a significant gap in the process going forward.

**Weaknesses in DIA’s Contract Administration Practices Have Several Negative Effects**

A contradictory and confusing environment within which to enforce airline compliance with agreements has been created by insufficient documentation in policies and procedures, such as the inclusion of expectations inconsistent with governing regulations and the exclusion of critical processes. As such, we noted areas of airline non-compliance in every area of the airline agreement we evaluated. Additionally, we found that these issues often create additional responsibilities for staff already working at a high capacity, which further diminish their overall effectiveness by spreading their available time among too many functions.

Additionally, with the lack of sufficient documentation to complete job functions, employee turnover can result in a loss of organizational knowledge that is difficult to replace. This was demonstrated during the course of our audit as the resignation of a Financial Manager impacted
the ability of DIA staff to explain critical functions for revenue collection and limited the
documentation available for the audit team to conduct various analyses to determine whether
all revenue due for airlines for rentals, fees, and charges was received.

The lack of adequate guidance for the management of airline agreements was also
compounded by limited efforts by DIA for contingency and succession planning. As staff were not
always cross-trained, the departure of key personnel impacted the ability of DIA staff to seamlessly
continue day-to-day activities.

Finally, the cumulative effects of DIA’s failure to ensure airline compliance with agreements could
lead to consequences for the airport such as: inequity between airline agreements; insufficient
data for airport planning; and inadequate revenue available to satisfy the cost of airport
operations.
RECOMMENDATIONS

We offer the following fourteen recommendations to improve Denver International Airport’s administration of airline agreements nine related to the Finance Unit and five related to the Properties Division.

1.1 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.

_Auditee Response: Agree, Implementation Date - January 31, 2017_

Auditee Narrative: In 2015, the Airport undertook a comprehensive review of its Financial Policies and Procedures to include the systems used to record financial transactions. As a result of that review, changes to governance, organizational structure, financial systems and procedures have been identified and a plan to implement those changes was put in place in early 2016. As part of that plan, the Airport is in the process of migrating along with the City and County of Denver (CCD) to the Workday financial system. Part of that project includes the Airport adopting CCD policies wherever applicable. In anticipation of implementing Workday, we are in the process of reviewing and updating all revenue related procedures in the Finance division. Additionally, we are in the first phase of implementing a new revenue accounting system, PROPWorks, which is aviation specific and a standard in the industry. As part of that project, special attention is being paid to all of our revenue related processes and procedures, including calculations, adjustments and the charging off of penalty interest. In the interim, while we are evaluating and updating procedures with the future state in mind, we are updating the current Revenue - Accounts Receivable Procedure Sub process 4.11 Interest Charges - Late Payment to include charge off procedures.

It should be noted that during the audit period, a total of 744 invoices were processed and a total of approximately $300 million was collected in landing fees. Although the audit identified 6 landing fees payments as late payments, it appears that one payment was received before interest started to accrue. It also appears that interest was billed and collected for two of the 5 late payments that started to accrue interest. A business decision was made to write-off interest for two late payments possibly because of unapplied credits at the time payments were due, essentially leaving 1 of the 21 payments reviewed as an exception. The updated revenue procedures will address such exceptions and documentation requirements.

1.2 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.

_Auditee Response: Disagree_

Auditee Narrative: The Airport does not currently assess penalty interest on Passenger Facility Charges (PFC’s). In fact, during the period 2014-2015, 99.94% of the $210 million
in PFC’s owed were collected. We are evaluating the cost/benefit implications of implementing an interest penalty on PFC’s. Any late penalties would be included in the total authorized PFC collections and would, therefore, not result in additional revenues. Once total collection authorization is reached, PFC collection authority expires. Late penalties, therefore, do not generate additional revenues and not assessing late penalties does not result in lost PFC revenues.

**Auditor’s Addendum:** Governing documents related to managing PFCs allow for assessing interest for late payments. Denver Municipal Airport System Rules and Regulations 120 states that PFC payments not made to the City when due shall accrue interest at the rate of 18% per annum commencing five (5) business days after the due date. In addition, the DIA Finance Unit’s policies and procedures related to managing PFCs provide for the assessment of a late fee for late payments but note that PFC payments are rarely late. FAA guidelines do not prohibit assessing interest for late PFC payments.

1.3 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.

**Auditee Response: Agree, Implementation Date - January 31, 2017**

Auditee Narrative: As mentioned in our response to Recommendation 1.1, we are in the process of implementing PROPWorks to replace revenue accounting that is currently being done in AMS (the Airport financial system) and Excel. PROPWorks will provide the Airport with real time financial information resulting in improved communications with our airline partners. With regard to payment detail provided on a remittance, we will make this a discussion topic at the next DENAAAC meeting with the airlines. We will make every effort possible to get the airlines to provide information that makes our accounting for payments more efficient, while not rejecting a payment that is clearly ours but lacking some information.

1.4 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.

**Auditee Response: Agree, Implementation Date - January 31, 2017**

Auditee Narrative: We are in the process of evaluating and updating every procedure in Finance in anticipation of implementing Workday financials. We are also migrating our revenue accounting from AMS and Excel to an aviation specific software, PROPWorks. PROPWorks is used by the majority of large U.S. airports. Airport Concessions went live in PROPWorks in October, 2016, to be followed by Rental Car and Airline Space Agreements. In the future, almost every Airport revenue stream will reside in PROPWorks. Meanwhile, and in response to this audit finding, Finance will update the Revenue - Accounts Receivable procedure (Sub process 4.4 Facility Rentals), and commit to implementing performance management including metrics for the process from the point a space change request is received by Finance from the Properties Division.
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**Auditee Response: Agree, Implementation Date - January 31, 2017**

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1.6 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.

**Auditee Response: Agree, Implementation Date - January 31, 2017**

Auditee Narrative: The Properties Division was in the process of updating all Policies and Procedures during the Audit. The Division’s new policies and procedures now include bi-annual review by the Property Managers of all agreements to determine if a lease amendment is necessary because leased space changed by 10% or more. The details are addressed specifically in Section II.E - Amendments.

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**Auditee Response: Agree, Implementation Date - January 31, 2017**

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**Auditee Response: Agree, Implementation Date - January 31, 2017**
Auditee Narrative: We now have a 6-step process detailed in Section II.K - Inspections, to address property inspections that will be completed no less than once a year for every airline tenant. Included in our Policies and Procedures is Appendix E, Inspection Form, that details the inspection activity and the inspector signs following each inspection.

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.

**Auditee Response: Agree, Implementation Date - January 31, 2017**

Auditee Narrative: We are in the process of evaluating and updating every procedure in Finance in anticipation of implementing Workday financials. We are also migrating our revenue accounting from AMS and Excel to an aviation specific software, PROPWorks. PROPWorks will integrate contract terms and conditions to business rules. While our initial focus will be signatory airlines, non-signatory airlines will be evaluated in the scope of automation. Meanwhile, we will revise Finance Revenue – Accounts Receivable Procedure, Sub-process 4.28 to include performance management metrics for receipt of airline self-reporting on gate use.

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**Auditee Response: Agree, Implementation Date - January 31, 2017**

Auditee Narrative: We have updated the Policies and Procedures, Section II.G – Gate Use and Departure Equivalent to have the Contract Administrator prepare a monthly report for each airline totaling the airline departure equivalents per leased gate, as defined in the corresponding airline use and lease agreement. If the airline is not in compliance, the Contract Administrator will escalate to the respective property manager for resolution with the airline in accordance with the airline use and lease agreement.

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**Auditee Response: Agree, Implementation Date - January 31, 2017**

Auditee Narrative: All Policies and Procedures were in progress during the Audit process. This recommendation is accommodated in the updated Policies and Procedures, Section III.A - Surety Administration & Compliance and III.B - Insurance Administration & Compliance.

1.12 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.
Auditee Response: Agree, Implementation Date - January 31, 2017

Auditee Narrative: A Year-End Settlement book is provided on an annual basis that includes a detailed summary of all revenues, expenses and statistics required to calculate the final settlement amount. Included in this book is a comparison of what the airlines were billed versus the actual amount required by each service (cost center). The Airport will specify in greater detail the associated reports collected to include how they are created, validated, the necessity of the file and how it impacts the Rates & Charges analysis within its policies and procedures.

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.

Auditee Response: Disagree

Auditee Narrative: The WJ Advisors contract expires on 12/31/16. The Airport is currently completing a competitive procurement process to select a vendor to provide financial consulting services as required by its bond ordinance to begin in January 2017. The new contract will contain language addressing scope in compliance with all City procurement rules.

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.

Auditee Response: Agree, Implementation Date - January 31, 2017

Auditee Narrative: In 2015, the Airport undertook a comprehensive review of its Financial Policies and Procedures to include the systems used to record financial transactions. As a result of that review, changes to governance, organizational structure, financial systems and procedures have been identified and a plan to implement those changes was put in place in early 2016. As part of that plan, the Airport is in the process of migrating along with the City and County of Denver (CCD) to the Workday financial system. Part of that project includes the Airport adopting CCD policies where ever applicable. In anticipation of implementing Workday, we are in the process of reviewing and updating every procedure in the Finance division. Additionally, we are in the first phase of implementing a new revenue accounting system, PROPWorks, which is aviation specific and a standard in the industry. As part of that project, special attention is being paid to all of our revenue related processes and procedures, including calculations and communications pertinent to payment dates and penalty interest. While we are evaluating and updating procedures with the future state in mind, we will review and update our Policies and Procedures to ensure consistency across revenue types, contractual compliance, and as applicable compliance with 14 CFR 158.
AGENCY RESPONSE

November 3, 2016
Denver International Airport
8500 Peña Blvd, AOB 8th Floor
Denver, CO 80249

Auditor Timothy O’Brien, CPA
Office of the Auditor
City and County of Denver
201 West Colfax Avenue, Dept. 705
Denver, Colorado 80202

Dear Mr. O’Brien,

The Office of the Auditor has conducted a performance audit of Denver International Airport Airline Agreements.

This memorandum provides a written response for each reportable condition noted in the Auditor’s Report final draft that was sent to us on October 13, 2016. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING

Weaknesses in Denver International Airport’s Controls for Managing Airline Agreements Pose a Risk to Revenue Collection.

RECOMMENDATION 1.1

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.

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<td>1/31/17</td>
<td>Hugh Curran SVP, Financial Management (303) 342-2296</td>
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Narrative for Recommendation 1.1

In 2015, the Airport undertook a comprehensive review of its Financial Policies and Procedures to include the systems used to record financial transactions. As a result of that review, changes to governance, organizational
structure, financial systems and procedures have been identified and a plan to implement those changes was put in place in early 2016. As part of that plan, the Airport is in the process of migrating along with the City and County of Denver (CCD) to the Workday financial system. Part of that project includes the Airport adopting CCD policies where ever applicable. In anticipation of implementing Workday, we are in the process of reviewing and updating all revenue related procedures in the Finance division. Additionally, we are in the first phase of implementing a new revenue accounting system, PROPWorks, which is aviation specific and a standard in the industry. As part of that project, special attention is being paid to all of our revenue related processes and procedures, including calculations, adjustments and the charging off of penalty interest. In the interim, while we are evaluating and updating procedures with the future state in mind, we are updating the current Revenue — Accounts Receivable Procedure Sub process 4.11 Interest Charges – Late Payment to include charge off procedures.

It should be noted that during the audit period, a total of 744 invoices were processed and a total of approximately $300 million was collected in landing fees. Although the audit identified 6 landing fees payments as late payments, it appears that one payment was received before interest started to accrue. It also appears that interest was billed and collected for two of the 5 late payments that started to accrue interest. A business decision was made to write-off interest for two late payments possibly because of unapplied credits at the time payments were due, essentially leaving 1 of the 21 payments reviewed as an exception. The updated revenue procedures will address such exceptions and documentation requirements.

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<tr>
<td>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>
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**Narrative for Recommendation 1.2**

The Airport does not currently assess penalty interest on Passenger Facility Charges (PFC’s). In fact, during the period 2014-2015, 99.94% of the $210 million in PFC’s owed were collected. We are evaluating the cost/benefit implications of implementing an interest penalty on PFC’s. Any late penalties would be included in the total authorized PFC collections and would; therefore, not result in additional revenues. Once total collection authorization is reached PFC collection authority expires. Late penalties; therefore, do not generate additional revenues and not assessing late penalties does not result in lost PFC revenues.
## RECOMMENDATION 1.3

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.

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**Narrative for Recommendation 1.3**

As mentioned in our response to Recommendation 1.1, we are in the process of implementing PROWWorks to replace revenue accounting that is currently being done in AMS (the Airport financial system) and Excel. PROWWorks will provide the Airport with real-time financial information resulting in improved communications with our airline partners. With regard to payment detail provided on a remittance, we will make this a discussion topic at the next DENAAAC meeting with the airlines. We will make every effort possible to get the airlines to provide information that makes our accounting for payments more efficient, while not rejecting a payment that is clearly ours but lacking some information.

## RECOMMENDATION 1.4

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.

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As always, we appreciate your partnership in improving our processes and controls. Please contact me at 303-342-2296 with any questions.

Sincerely,

Hugh Curran, CMA<br>SVP – Financial Management<br>Denver International Airport
cc: Valerie Walling, Deputy Auditor, CPA, CMC  
    Sonia Montano, Audit Supervisor  
    Kim Day, Chief Executive Officer, Denver International Airport  
    Gisela Shanahan, Executive Vice President, Chief Financial Officer, Denver International Airport  
    Patrick Heck, Executive Vice President, Chief Commercial Officer, Denver International Airport  
    Ken Greene, Executive Vice President, Chief Operating Officer, Denver International Airport  
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