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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.

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Audit report year: 2018
AUDITOR’S REPORT

We have completed an audit of Aramark Concession Revenues. The objective of the audit was to determine whether Aramark Sports and Entertainment LLC (Aramark) remitted amounts owed the City in accordance with the concession agreement it holds with the City. We also assessed whether Denver Arts & Venues properly monitors, controls, accounts for, and reports remittances owed for concession sales. Additionally, we reviewed required annual incentive payments the City made to Aramark for criteria agreed to by both parties.

As described in the attached report, our audit revealed that Denver Arts & Venues needs to strengthen its contract monitoring program to ensure Aramark complies with contract terms. The program requirements need to include periodic testing of controls and/or financials and supporting documentation for event and nonevent gross sales. In addition, the monitoring program would require Aramark to provide Arts & Venues with monthly inventory and sales reconciliations for events and nonevents in that month.

Our report includes recommendations for stronger monitoring and controlling activities. These recommendations will help ensure that Aramark is reporting gross sales, paying amounts owed as stipulated in the concession agreement, and the City is making incentive payments to Aramark in compliance with the agreement.

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 Denver Arts & Venues and Aramark managerial, operational, and accounting personnel who assisted and cooperated with us during the audit.
Aramark
Concession
Revenues
April 2018

Objective
The objective of the audit was to assess whether Aramark Sports and Entertainment, LLC (Aramark) remitted amounts owed in accordance with the concession agreement, including event and nonevent food and beverage, artist, and other novelty retail sales, catering and special events, and restaurant sales. We also assessed whether Denver Arts & Venues monitors, controls, accounts for, and reports remittances owed for concession sales. Additionally, we reviewed required incentive payments the City made to Aramark for performance goals agreed to by both parties annually.

Background
The City contracts exclusively with Aramark Sports and Entertainment, LLC (Aramark) to provide food and beverage concessions at Red Rocks Amphitheatre and the Denver Coliseum. This audit focused on concession sales and profit covered by the agreement for the five years ended October 31, 2017. The City awarded Aramark a new contract on December 20, 2017 for another five-year term.

Highlights
Our audit of the concession agreement between Denver Arts & Venues and Aramark Sports and Entertainment, LLC (Aramark) identified two control deficiencies that affect the accuracy and appropriateness of payments due under the agreement. Through this agreement, the City has received approximately $37 million in revenue and paid Aramark more than $3 million in concessionaire fees and incentive compensation for years 2015 - 2017. Arts & Venues should have sound controls in place to ensure the accuracy and appropriateness of payments between the City and Aramark.

Testing results indicated that the City is unable to determine whether Arts & Venues is receiving all concession revenue due from Aramark and paying the correct amount in concessionaire fees and incentive compensation to Aramark. Although Aramark has a contract monitoring program in place, we noted that the existing program needs to be strengthened to ensure compliance with Executive Order 8. During the audit, we noted three issues with Aramark’s control environment that support the agency’s need to strengthen its contract monitoring program. They are Aramark’s:

- Inconsistent adherence to cash and inventory policies and procedures as noted in event documentation for Denver Coliseum and Red Rocks;
- Lack of inventory reports, and;
- Inconsistent application of controls during an observation of an event at the Denver Coliseum.

Lastly, according to the agreement, Aramark receives an incentive compensation if it meets annually approved criteria. Although Arts & Venues paid the 2016 incentive compensation, we noted that there is no approval to evidence that Aramark met the 2016 criteria.

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

Aramark Sports and Entertainment LLC Is the City’s Concessionaire for the Denver Coliseum and Red Rocks Amphitheatre

The mission of Denver Arts & Venues is to enhance Denver’s quality of life and economic vitality through premier venues, arts, and entertainment opportunities. The Denver Coliseum and Red Rocks Park and Amphitheatre are just two of the City’s venues managed by Denver Arts & Venues. The Denver Coliseum is most well-known for annually hosting the National Western Stock Show and hosts other diverse events including concerts, sporting events, family-friendly entertainment, and cultural events such as Native American powwows. During the 2016 and 2017 seasons, the Coliseum hosted 115 and 81 events performances, respectively.

Red Rocks primarily hosts large concert events but also hosts other events such as the Denver Film Society’s “Film on the Rocks” summer cinema series, yoga and other fitness events, various high school graduations, as well as some religious gatherings. The Red Rocks Park Visitor Center (Visitor Center) also includes the Ship Rock Grille, a restaurant which is open daily that often caters special events such as weddings and corporate events. The Visitor Center also includes the Trading Post, a small shop that sells Red Rocks-branded merchandise such as postcards, mugs, shirts, and sweatshirts, as well as some food and beverage items. In addition to the daily services provided through the Visitor Center, the Red Rocks Amphitheatre hosted 181 and 172 performances during the 2016 and 2017 seasons, respectively.

Food, beverage, and novelty items sold at these venues are offered through the City’s concession agreement with Aramark Sports and Entertainment, LLC (Aramark). The concession agreement grants Aramark exclusive rights to sell concession items such as food, alcoholic and nonalcoholic beverages, and retail items at the Coliseum and Red Rocks.

The City first entered into a concession agreement with Aramark in April 2003. Since then, Aramark has consistently won bids to provide concession services to the Coliseum and Red Rocks. The most recent agreement, signed December 20, 2017, grants Aramark another five-year term, with the option for the City to extend the agreement for up to two additional one-year renewal terms.

Concession Agreement Terms and Definitions

The agreement grants Aramark exclusive rights to provide concession services at events and nonevents held at the Coliseum and Red Rocks. Concession services includes food, beverages, catering services, and the sale of novelty items such as merchandise, souvenir books, and T-shirts. It also includes restaurant sales made at Red Rocks’ Ship Rock Grille and catering services. Events include concerts, sporting events, family-friendly entertainment, or similar activities held at the Coliseum and Red Rocks. Nonevents represents the sale of food, beverages, and novelty items at Red Rocks’ Visitor Center, Ship Rock Grille, and Trading Post.

The agreement encompasses concession sales made directly by Aramark, subcontractors, and independent third-party contractors (“rovers”). Subcontractors and rovers must be approved by both Aramark and the City and must follow Aramark’s policies and procedures related to concession sales. Subcontractors and rovers are paid a commission based on a percentage of their concession sales.

The agreement is structured in such a way that both the City and Aramark receive monthly and annual payouts based on a percentage of gross sales or gross profit derived from concession sales. Outlined below are details concerning the payouts as well as definitions of key financial terms used in the calculation of these payouts. A list of contract definitions can be found in Appendix A of this report.

**Gross Sales** – Includes total revenue (cash and credit card receipts) collected by Aramark less incidentals such as tax, tips, gratuities, and amounts retained by subcontractors and third-party vendors not paid to Aramark.

**Gross Receipts** – Money received and charged by Aramark, whether collected or not, for concession sales, administrative charges, and rental charges less taxes, tips, gratuities, and amounts retained by subcontractors and third-party vendors not paid to Aramark.

**Cost of Sales** – All costs and expenses incurred by Aramark in the operation of the services at the Coliseum and Red Rocks to include inventory and payroll expenses.

**Gross Profit** – All gross receipts less the cost of sales.

**Minimum Guaranteed Payment** – Represents an amount equal to 50 percent of the gross sales. This is a monthly payment Aramark makes to the City.

**Concessionaire Fee** – Based on 1.5 percent of gross sales. This is a monthly fee the City pays to Aramark.

**Incentive Compensation** – Both Aramark and the City receive compensation at year-end:

- **Gross Profit** – Aramark pays the City 100 percent of total gross profit received during the contract period (November 1st – October 31st of each year). The amount of gross profit received at year-end is reduced by the monthly minimum guarantee payments received during the year.

- **Incentive Compensation** – If Aramark meets certain pre-approved criteria, the City pays Aramark an amount equal to 7 percent of gross profit. This is an annual payment to Aramark.

As noted in Table 1 and 2, total gross receipts and gross profit from concession activities at the Coliseum and Red Rocks have grown for the past three years. As a result, the corresponding payments between the City and Aramark continue to increase.

**TABLE 1.** Total City Revenue Generated by the Aramark Concession Agreement for 2015, 2016, 2017 (in $ millions)

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Receipts</td>
<td>$17.4</td>
<td>$21.4</td>
<td>$24.1</td>
<td>$62.9</td>
</tr>
<tr>
<td>Less Cost of Sales</td>
<td>$7.1</td>
<td>$8.4</td>
<td>$9.8</td>
<td>$25.3</td>
</tr>
<tr>
<td>Gross Profit – Total City Revenue</td>
<td>$10.3</td>
<td>$13.0</td>
<td>$14.3</td>
<td>$37.6</td>
</tr>
</tbody>
</table>

TABLE 2. Total Payments made to Aramark based on Concession Agreement for 2015, 2016, 2017 (in $ millions)

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concessionaire Fee</td>
<td>$0.3</td>
<td>$0.3</td>
<td>$0.4</td>
<td>$1.0</td>
</tr>
<tr>
<td>Incentive Compensation</td>
<td>$0.7</td>
<td>$0.9</td>
<td>$1.0</td>
<td>$2.6</td>
</tr>
<tr>
<td><strong>Total annual payments to Aramark</strong></td>
<td><strong>$1.0</strong></td>
<td><strong>$1.2</strong></td>
<td><strong>$1.4</strong></td>
<td><strong>$3.6</strong></td>
</tr>
</tbody>
</table>


Cash, Inventory Management, and Reporting Requirements

According to the concessions agreement, the City must approve all cash control, inventory, and accounting systems. This includes computer hardware and account software for all records, proposals, contracts, and all accounting functions related to the operations of the agreement.

With respect to the inventory and point-of-sale systems, Aramark must use systems that meet industry standards. These systems must be able to track the disposition of all concession items from the purchase order through delivery to Aramark, warehouse stocking, inventory depletion, and final sales transactions or other reductions to inventory stock.

Aramark is required to maintain proper, adequate, and accurate accounting records. The accounting records must include the daily receipts and expenses, the daily bank deposits, the daily sales, and business done by Aramark. These records must be preserved and made available at the request of the City for audit and examination.

The agreement also calls for Aramark to provide the City with the following financial reports:

- **Daily Report** – Includes all total receipts, gross receipts, gross sales, and per capita event receipts. Reports are due by noon following the close of each event and are only required for days that Aramark makes any gross receipts at the Coliseum or Red Rocks.

- **Monthly Report** – Includes all total receipts, gross receipts, gross sales, cost of sales (including concessionaire fee), gross profit, minimum guaranteed payment, and incentive compensation. Additionally, the report must be signed by an authorized Aramark representative.

- **Annual Reports** – Audited financial statement of gross receipts, gross sales, cost of sales, and an audited report of Aramark’s compliance with the incentive criteria.

Aramark Maintains Detailed Procedures for Event Sales and Inventory at Red Rocks and the Denver Coliseum

Aramark has established policies and procedures that are intended to provide Aramark employees at Red Rocks and the Coliseum with guidelines to ensure that all transactions are properly recorded and reported. These transactions include inventory sold based on physical inventory counts that are taken at the beginning and end of an event. In addition, the procedures require cash be counted and deposited properly and credit card payments be properly processed.
City Rules Associated with Contract Monitoring and Payment Approval

Under the City’s Executive Order 8, all initiating agencies are charged with establishing and implementing policies and procedures for monitoring contracts by providing the necessary oversight personnel, developing procedures in the event of noncompliance, and monitoring and documenting performance or noncompliance by the contract party. Additionally, for payments made to vendors, the Controller’s Office has provided Fiscal Accountability Rules as guidance for City agencies and offices to obtain proper support for all transactions recorded into the system of record financial accounts, as required by Fiscal Accountability Rule (Rule) 2.5. Additionally, the propriety of all transactions must be verified against relevant requirements in Rule 7.1. A summary table of the applicable rules and regulations can be found in Appendix B.
OBJECTIVE

The objective of the audit was to assess whether Aramark Sports and Entertainment, LLC (Aramark) remitted amounts owed in accordance with the concession agreement, including event and nonevent food and beverage, artist, and other novelty retail sales, catering and special events, and restaurant sales. We also assessed whether Denver Arts & Venues monitors, controls, accounts for, and reports remittances owed for concession sales. Additionally, we reviewed required incentive payments the City made to Aramark for performance goals agreed to by both parties annually.

SCOPE

The audit assessed concession revenue for events and nonevents at Red Rocks Park and Amphitheatre and at the Denver Coliseum in 2016 and 2017. These revenues included food and beverages (both alcoholic and nonalcoholic), artist merchandising, restaurant, and Visitor Center retail sales, as well as shared subcontractor income. The audit excluded other contractual obligations such as insurance requirements, detailed testing of cost of sales including payroll, administrative service charges, and other costs, as well as immaterial vending machine revenues and automated teller machine fees.

METHODOLOGY

We utilized several methodologies to gather and analyze sufficient information related to the audit objective. They included the following:

- Reviewing executive orders, Fiscal Accountability Rules, and other applicable laws to identify and summarize legal requirements for contract management and compliance
- Reviewing and summarizing key revenue and incentive payment contract terms included in the concession agreement versus actual performance by the concessionaire
- Interviewing key personnel from Denver Arts & Venues to obtain contextual information about the concession contract and related revenue streams
- Interviewing key Aramark personnel to obtain contextual information about the concession contract, related concession revenue sources, and related operational and financial controls at the Denver Coliseum and Red Rocks Amphitheatre, Trading Post, Visitor Center, and Ship Rock Grille
- Reviewing annual audited financial statements of gross receipts, cost of sales, gross sales, minimum guaranteed payments, and incentive compensation
- Conducting an on-site visit to observe concession operations, including the sales and inventory cycles, as well as daily event reconciliations
- Choosing a random sample of daily summaries of event and nonevent activities
- Verifying cash receipts, deposits, and inventory movements for daily sales selected
- Recalculating amounts due based on supporting documentation and contract terms
- Assessing proper recording of revenue and receipts into the accounting system of record
- Recalculating financial transactions, including incentive payments, to evaluate accuracy
FINDING 1

The City Cannot Determine Whether Denver Arts & Venues Is Receiving All Concession Revenue Due from Aramark and Paying the Correct Concessionaire Fee and Incentive to Aramark

The City has a concession agreement with Aramark Sports and Entertainment, LLC (Aramark) that requires Aramark to pay Denver Arts & Venues 100 percent of the gross profit generated for concession sales made at both Denver Coliseum and Red Rocks. The gross profit is paid using a monthly minimum guaranteed payment based on 50 percent of gross sales. This amount is subsequently adjusted at year-end to reflect total gross profit received by Aramark less the minimum monthly payments already paid. The agreement also requires the City to pay Aramark a monthly concessionaire fee and if Aramark meets the agreed upon criteria, pay an annual incentive compensation amount.

As part of its roles and responsibilities, Denver Arts & Venues is responsible for the management and oversight of the concession agreement with Aramark. Based on the work performed, we noted that Denver Arts & Venues relies upon the annual audit of gross receipts, gross sales, and cost of sales performed by an independent accounting firm for monitoring. It does not have other procedures in place to monitor Aramark’s compliance with terms of the agreement. The annual audit does not test Aramark’s internal controls and only covers the amounts reported. Given the lack of monitoring, Denver Arts & Venues was unaware of control deficiencies resulting from inconsistent application of policies and procedures by Aramark employees and limited inventory reporting capabilities. Each of these control deficiencies could impact the accuracy of gross sales, gross receipts, and gross profit and thus impact the accuracy of payments between Aramark and the City.

Denver Arts & Venues Does Not Sufficiently Monitor Cash, Inventory, Sales Controls, and Financial Information for Compliance with the Concession Agreement

Although Denver Arts & Venues has a policy that incorporates some elements of a contract monitoring program, the policy needs to be strengthened to ensure compliance with Executive Order 8, “Contracts and Other Written Instruments of and for the City and County of Denver." The executive order requires that the initiating agency (in this case, Denver Arts & Venues), establish and implement policies and procedures for monitoring contracts by specifying accountable employees, developing guidance on addressing noncompliance with contract vendors, and ensuring that the vendor is paid promptly in compliance with the City’s prompt payment ordinance. Additionally, the executive order requires agencies to monitor contracts through the life of the agreement to ensure that: a) all terms are met, b) all bonding and insurance requirements are continually met, and c) documentation exists to show that monitoring is occurring with appropriate deliverables by reporting out on contract performance periodically.

Based on our review of Arts & Venues contract monitoring program, we identified the following concerns that support the need for Arts & Venues to strengthen its existing contract monitoring program.
Monitoring of Audited Report Requirements

During our review of the concession agreement, we noted that Aramark is required to provide the City with audited financial statements of gross sales, gross receipts, and cost of sales and an audited report of its compliance with the incentive criteria. The financial statement must also contain a breakdown of the gross sales, gross receipts, cost of sales, minimum guaranteed payments, concessionaire fee, and incentive compensation on a month-by-month basis.

The financial statement must be prepared and certified in accordance with generally accepted accounting principles for special reports. Both reports must be prepared by an independent certified public accountant whom Aramark hires.

As part of the audit, we requested copies of the audited financial statements and audited report on compliance for 2016 and 2017. Although, we received copies of the financial statements, Aramark was unable to provide the audit team with copies of the audited reports of compliance.

Monitoring Inventory Spoilage

In the restaurant and other food-related industries, spoilage is a normal cost of doing business. Costs associated with spoilage are typically treated as a cost of sales and reduces an organization’s gross profit. As provided in the concession agreement, Aramark is responsible for keeping spoilage to a minimum. Furthermore, Aramark must incur any cost associated with spoilage that exceeds 0.5 percent of the total food cost. Specifically, spoilage costs that exceed 0.5 percent are excluded from gross profit. For purposes of the agreement, spoilage not only includes unsold or spoiled food and damaged product, it also includes employee meals.

We noted that Arts & Venues is not actively monitoring Aramark’s compliance with the spoilage requirements outlined in the agreement. Although Aramark records spoilage and employee meals in the inventory management system, the manner in which Aramark tracks spoilage does not identify the amount of spoilage costs that exceeds 0.5 percent of total food costs. As a result, all spoilage costs are included in its cost of sales. Because Aramark was unable to provide auditors with the information needed to determine whether spoilage rates exceed 0.5 percent of food costs, the audit team was unable to determine the accuracy of gross profit received by the City or the incentive compensation paid to Aramark.

When developing its contract monitoring program, Arts & Venues should be certain to include specific procedures to monitor and track Aramark’s compliance with spoilage requirements included in the agreement.

Monitoring Financial Information and Internal Controls

Currently, Arts & Venues does not perform any procedures to verify the accuracy of financial information reported by Aramark. Although Aramark provides Arts & Venues with daily, weekly, and monthly reporting, we learned that Arts & Venues relies on the financial results included in the annual audited financial statements of gross sales, gross receipts, and cost of sales. When performing the inventory to sales reconciliation, we noted instances where Aramark did not have sufficient information to support certain sales and/or inventory transactions that were reported for an event such as management adjustments, inventory transfers and employee meals. Furthermore, the lack of documentation to support sales and inventory transactions points to potential weaknesses within Aramark’s internal control environment.

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3 Spoilage includes damaged items and leftover items such as cooked hotdogs, hamburgers, and pretzels.
Agencies using contractors to provide functions that rely upon the contractor’s internal controls need to confirm that these vendors can prove the adequacy of their system of internal accounting and administrative control. Vendors can do this by providing assurance that the system or processes they use include sufficient effective internal controls that will ultimately provide the City with accurate and reliable financial data information.

In order to help contractors offer this type of assurance to their clients, the American Institute of Certified Public Accountants developed the Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization. This statement requires that service providers must provide an independent audit report attesting to the suitability of the design and operating effectiveness of the controls in their processing system. This assurance is formally provided by an independent firm, which produces a Service Organization Controls (SOC) I report after an examination engagement. Table 3 describes the types of reports that can be prepared to describe a service organization’s internal control environment.

**TABLE 3.** Types of Service Organization Control 1 (SOC1) Reports for Service Organizations

<table>
<thead>
<tr>
<th>Report Type</th>
<th>Report Description</th>
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<tbody>
<tr>
<td>SOC I, Type I</td>
<td>Independent audited report that provides assurance over the design of the internal control environment over the financial reporting process provided by a contracted service provider, without testing of the effectiveness of the control implementation.</td>
</tr>
<tr>
<td>SOC I, Type II</td>
<td>Independent audited report that provides assurance over the design and implementation of the effectiveness of the internal control environment over the financial reporting process provided by a contracted service provider.</td>
</tr>
</tbody>
</table>

Source: City and County of Denver Auditor’s Office

The audit team performed additional testing that, as outlined below, identified other control deficiencies that impact the accuracy of financial information reported to the City as well as payments made between the City and Aramark. The concerns noted are issues that Arts & Venues will need to address with Aramark.

**RECOMMENDATION 1.1**

Denver Arts & Venues should strengthen its existing contract monitoring program for the concession agreement with Aramark that follows Executive Order 8. This program should immediately establish and implement policies and procedures for monitoring contracts including the following:

- Identify and assign a designee(s) within Arts & Venues to manage the contract monitoring program; and
- Develop procedures to identify and address Aramark’s noncompliance with contract terms

Agency Response: Agree, Implementation Date – May 2018

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RECOMMENDATION 1.2

Denver Arts & Venues should request Aramark to perform a Service Organization Control 1, Type II report covering the company’s system of controls over services provided to the City.

Agency Response: Agree, Implementation Date – May 2018

Aramark Staff Inconsistently Apply Internal Inventory and Cash Controls

In accordance with Aramark’s policies and procedures, certain documentation should exist to support cash collected, inventory and reported sales. This documentation includes, but is not limited to, the following:

- **Concession stand sheet** – used for beginning and ending inventory, as well as the transfer of inventory to and/or from a concession stand, employee meals, and spoilage costs.

- **Inventory transfer slip** – used to document inventory transfers from the venue warehouse to the concession stand and transfers between concession stands during an event. Transfers that occur during the event require two approvals by initials and/or signatures.

- **Opening inventory discrepancy sheet** – documents any inventory discrepancies identified during inventory counts conducted by the stand supervisor prior to the opening of the concession stand.

- **Manager/employee meal form** – documents manager, employee and complimentary meals issued from a concession stand. Forms should be accompanied by meal tickets and should be approved by the stand supervisor.

- **Spoilage worksheet** – documents spoilage at each concession stand.

On the day of an event, there are a series of activities related to stocking a concession stand, counting inventory, counting cash, transfers of inventory during the event, and reconciliation of inventory, cash, and sales at the end of the event. The following figure reflects the activities that occur prior to, during, and after an event.
FIGURE 1. Process Flow of Daily Event Activities

Prior to the Event
- **Venue Warehouse** - delivers inventory to stands
- **Cash Room** - counts cash in safe, distributes opening cash to stand cashiers
- **Concession Stands** - counts and documents opening inventory (including discrepancies), counts starting cash, signs for receipt of cash

During the Event
- **Venue Warehouse** - delivers inventory to stands, as needed
- **Cash Room** - picks up excess cash from concession stands (as needed), verifies and counts cash
- **Concession Stands** - sells inventory, receives deliveries, tracks employee meals

After the Event
- **Cash Room** - counts cash from concession stands, reconciles cash, and prepares bank deposit
- **Concession Stand** - counts and documents ending inventory, spoilage and employee meals, totals cash collected from all registers
- **Night Auditors** - reconciles cash, inventory and sales

Source: City and County of Denver Auditor’s Office.

As part of the audit, we attempted to reconcile inventory, cash, and sales for a total of three events and one nonevent at the Coliseum and Red Rocks by testing all sales documentation. Our testing included all concession stands, including Aramark-owned stands, subcontractor stands (including food trucks), and roving contracted vendors. For the three events, we tested a total of eighty concession stands.

Additionally, we performed a test of Aramark’s cash and inventory controls to determine whether the appropriate documentation was collected and approved in accordance with Aramark policies and procedures.

Out of the eighty stands tested, we identified the following instances where Aramark employees did not consistently adhere to policies and procedures related to inventory and cash controls:

- Seventeen stands, or 21 percent, did not have documentation to support the approval of management inventory adjustments or sufficient explanations to support the management inventory adjustments.
• Eighteen stands, or 23 percent, did not include documentation for inventory transfers in/out of the stand during the event from central warehouses or other stands. As such, we were unable to confirm the receipt and final disposition of the inventory items reported on the concession stand sheet.

• One stand, or 1 percent, did not have supporting documentation for a transfer of inventory prior to the start of an event. As a result, we were unable to determine whether items were sold or potentially given away for free.

• Forty-four stands, or 55 percent, did not have inventory movements dual-initialied or signed. We noted a total of 121 such transfers.

• Thirty-three stands, or 41 percent, had instances where reasons were not provided for all spoilages included on the stand’s spoilage control sheet. As a result, we were unable to determine whether these should have been reported as sales.

• Eight stands, or 10 percent, had cases where the stand spoilage sheets were not signed by two employees, including the stand supervisor.

Each of the above issues has a direct effect on the gross profit calculation and the amount the city should receive and the monthly concessionaire fee the City pays to Aramark.

For example, we noted beginning inventory at one stand included a count of sixty-eight “Philly buns”; however, the stand worker, when performing a physical inventory count identified sixty-five buns. The difference of three was noted on the Opening Inventory Discrepancy Sheet and was subsequently transferred from the stand to the Discrepancy Warehouse to account for it. However, the stand sheet showed a transfer of twenty-three Philly buns from the stand, and there was no support for the extra twenty that were transferred. This is an example where someone could have given away or sold these twenty items and kept the money. Even if no misdeeds were involved, these transferred items are excluded from sales totals. At a price of $8.50 for this sandwich, this means that $170 worth of food product was excluded from sales totals without appropriate support to explain why.

Aramark’s Proprietary Inventory System Does Not Produce Useful Inventory Reports

Although Aramark maintains inventory and sales documentation at a concession stand level, we noted that Aramark’s inventory system is unable to provide a consolidated inventory report that reflects the daily movement of inventory by event. Such reports would better support all inventory movements for events at the venues. Without this type of reporting, reconciling event gross sales to inventory units sold cannot be done efficiently at the event level. Aramark financial managers explained that Aramark does not attempt to reconcile inventory at an event level, but instead relies on monthly physical inventory procedures that include the reconciliation of inventory from the perpetual records to monthly physical inventory counts. We requested monthly physical inventory reconciliations for each venue: September 2016 – Red Rocks event; and January 2018 a Denver Coliseum event. Table 4 is a summary of the inventory discrepancies noted for both venues.
TABLE 4. Inventory Reconciliations for Red Rocks and Denver Coliseum

<table>
<thead>
<tr>
<th></th>
<th>Red Rocks (September 2016)</th>
<th>Coliseum (January 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perpetual Inventory</td>
<td>$165,794</td>
<td>$66,497</td>
</tr>
<tr>
<td>Physical Inventory</td>
<td>$162,089</td>
<td>$65,192</td>
</tr>
<tr>
<td>Difference</td>
<td>$3,705</td>
<td>$1,305</td>
</tr>
</tbody>
</table>

Source: Aramark’s September 2016 Inventory Reconciliation for Red Rocks, Aramark’s January 2018 Inventory Reconciliation for Denver Coliseum.

Based on our understanding of Aramark’s procedures, the above differences would be recognized as a cost of sale and would reduce the amount of gross profit received by the City.

As part of the audit, we also requested a report that provides more detail on the management adjustments that were made at one event held at Red Rocks. Based on our review, we noted that codes in Aramark’s inventory system were insufficient and included reasons such as “to match sales,” “double transfer,” and “fixing opening discrepancy.” Although it does appear monthly perpetual and physical inventory differences are reasonable, daily summary inventory reports by venue should be developed to provide better information to both Aramark managers and Denver Arts & Venues personnel to reconcile daily inventory movements to daily sales. Without the ability to have inventory summaries by venue by day, reviewers of event inventory movements trying to reconcile to daily gross sales cannot easily identify completeness of all inventory movements and adjustments. In addition, without sufficient and meaningful reason codes, reviewers cannot determine the propriety of the management adjustments and inventory movement discrepancies.

These issues increase the risk that individuals or colluding Aramark employees could potentially circumvent inventory to provide free goods to friends and family attending an event, or personally profit by selling products outside the normal channels, circumventing commissionable sales that belong to Aramark and the City.

Some Aramark Cash and Inventory Controls Could Be Improved at the Denver Coliseum

On January 11, 2018 we conducted an event observation of the National Western Stock Show Rodeo held at the Coliseum. The objective of our visit was to observe the entire event against the stated cash handling and inventory controls included in Aramark’s written policy and procedures as well as information provided during interviews with Aramark managers and personnel.

Based on our observation, we noted the following control deficiencies:

- The Coliseum does not maintain a centralized point-of-sale system and relies on individual registers that are more subject to errors and inefficiencies.
- The centralized cash room is too small to provide a secured area for more than two people to count cash. As a result, stand employees count beginning and ending cash at their respective stands. This practice poses two risks:
Theft of cash. For example, one interviewed subcontractor stated that on one occasion, he was provided a beginning bank balance of $500 when it should have been $300, according to the cash fund distribution sheet he initialed. The effect of this mistake could have been the loss of the difference if the subcontractor had taken advantage of the lack of a dual verification control.

Security risk. Counting cash in public versus a secured space creates a security risk. Aramark does have an armed guard on site near a space close to the cash room. This space could be used as an alternative location for employees to count cash.

Inventory discrepancies at the mobile vendor warehouse included a shortage of 400 water bottles in the beginning inventory count. We observed that the mobile vendor warehouse was unlocked when the stand employee arrived for their shift. When arriving and beginning a shift, the employee is required to verify inventory on hand. We noted that inventory management adjustments are made by the Aramark event auditors at the end of the event, often without investigating the true cause of the discrepancy, especially if the adjustment is to make inventory use conform to the number of items sold.

An inconsistent application of policies and procedures could result in risk, whereby Aramark employees could potentially circumvent inventory controls to provide free goods, or personally profit by selling products outside of the normal channels. As a result, amounts reported as gross sales and gross profit would be misstated. Additionally, the cash control deficiencies observed put cash at risk of theft.

RECOMMENDATION 1.3

On a monthly basis, Denver Arts & Venues should request a reconciliation of inventory to sales for the events and nonevents in that month. This reconciliation should include a summary of all inventory movements such as transfers to and from the concession stand, management adjustments, spoilage, and employee meals compared to sales for the period. Arts & Venues should review and resolve any discrepancies that impact the accuracy of gross sales, gross receipts, and gross profit with Aramark on a monthly basis. Where applicable, the appropriate adjustments should be made to payments between the City and Aramark.

Agency Response: Agree, Implementation Date – June 2018
RECOMMENDATION 1.4

Denver Arts & Venues should obtain monthly documentation from Aramark that details total spoilage costs (as defined in the agreement). This detail should also include the spoilage percentage, amount of spoilage that exceeds the 0.5 percent threshold, and, if applicable, the breakout of spoilage costs to be shared by Arts & Venues and Aramark.

Agency Response: Agree, Implementation Date – June 2018

RECOMMENDATION 1.5

Denver Arts & Venues should identify and quantify the spoilage amount over the 0.5 percent threshold as identified in the agreement for the period from November 1, 2012 through October 31, 2017. Arts & Venues should also review and agree upon the balance that should be returned to the City in compliance with the agreement terms.

Agency Response: Agree, Implementation Date – Completed
RECOMMENDATIONS

We make the following recommendations to Denver Arts & Venues to improve its ability to monitor the concession agreement with Aramark:

1.1 Contract Monitoring Program—Denver Arts & Venues should strengthen its existing contract monitoring program for the concession agreement with Aramark that follows Executive Order 8. This program should immediately establish and implement policies and procedures for monitoring contracts including the following:
- Identify and assign a designee(s) within Arts & Venues to manage the contract monitoring program; and
- Develop procedures to identify and address Aramark’s noncompliance with contract terms.

**Auditee Response: Agree, Implementation Date – May 2018**

Auditee Narrative: Denver Arts & Venues (DAV) agrees with the audit findings recommendation. DAV’s current policy describes procedures that are congruent with Executive Order 8. Nonetheless, DAV will strengthen its current procedures as recommended.

1.2 System of Controls Review – Denver Arts & Venues should request Aramark to perform a Service Organization Control 1, Type II report covering the company’s system of controls over services provided to the City.

**Auditee Response: Agree, Implementation Date – May 2018**

Auditee Narrative: Denver Arts & Venues (DAV) agrees with the audit findings recommendation. DAV’s staff has acted on recommendation 1.2 and is collaborating with Aramark and the external financial audit firm to include SOC procedures leading to a SOC report.

1.3 Inventory to Sales Reconciliations – On a monthly basis, Denver Arts & Venues should request a reconciliation of inventory to sales for the events and nonevents in that month. This reconciliation should include a summary of all inventory movements such as transfers to and from the concession stand, management adjustments, spoilage, and employee meals compared to sales for the period. Arts & Venues should review and resolve any discrepancies that impact the accuracy of gross sales, gross receipts, and gross profit with Aramark on a monthly basis. Where applicable, the appropriate adjustments should be made to payments between the City and Aramark.

**Auditee Response: Agree, Implementation Date – June 2018**

Auditee Narrative: Denver Arts & Venues (DAV) agrees with the audit findings recommendation. It is notable that as part of the annual financial audit, the external auditor identified the monthly perpetual and physical inventory differences as reasonable. Nonetheless, DAV will collaborate with Aramark to develop monthly inventory reporting that DAV will monitor.
1.4 Monthly Review of Spoilage Costs – Denver Arts & Venues should obtain monthly documentation from Aramark that details total spoilage costs (as defined in the agreement). This detail should also include the spoilage percentage, amount of spoilage that exceeds the 0.5 percent threshold, and, if applicable, the breakout of spoilage costs to be shared by Arts & Venues and Aramark.

**Auditee Response: Agree, Implementation Date – June 2018**

Auditee Narrative: Denver Arts & Venues (DAV) agrees with the audit findings recommendation. DAV calculated the estimated impact of the spoilage rate exceeding 0.5 percent up to a possible spoilage rate of 5 percent, with the effect being immaterial to the total payments received by DAV. Additionally, DAV contacted an external industry expert to gauge an appropriate industry spoilage rate given DAV’s venues. DAV will request a monthly report from Aramark that details the spoilage and assess the spoilage percentage against the contract term. DAV will also consider amending the contract to be in line with industry standards for spoilage rates.

1.5 Assess Spoilage Amount for Prior Contract Period (November 1, 2012 – October 31, 2017) – Denver Arts & Venues should identify and quantify the spoilage amount over the 0.5 percent threshold as identified in the agreement for the period from November 1, 2012 through October 31, 2017. Arts & Venues should also review and agree upon the balance that should be returned to the City in compliance with the agreement terms.

**Auditee Response: Agree, Implementation Date – Completed**

Auditee Narrative: Denver Arts & Venues (DAV) agrees with the audit findings recommendation. DAV has calculated the estimated impact of the spoilage rate exceeding 0.5 percent up to a possible spoilage rate of 5%, with effect being immaterial to the total payments received by DAV. Additionally, DAV contacted an external industry expert to gauge an appropriate industry spoilage rate given DAV’s venues. As stated in response to recommendation 1.4, DAV will request a monthly report to better track the spoilage rate on a going forward basis.
FINDING 2

There Is No Approval Verifying That Aramark Met Criteria to Receive an Incentive Payment in 2016

Audit work included a review of the City’s annual incentive compensation payment to Aramark. Specifically, we verified that the incentive compensation payment was 7 percent of the gross profit as outlined in the concession agreement and that the incentive compensation amounts the City paid to Aramark were accurate for the two years in our scope. Although we found the incentive compensation amounts were accurate, we noted Denver Arts & Venues was not able to provide the signature acceptance of the 2016 status summary indicating its agreement that Aramark satisfied the incentive criteria that year. Without this, there is no documentation of Arts & Venues’ acceptance that Aramark’s actions satisfied the incentive criteria.

The concession agreement requires the City to pay incentive compensation on an annual basis, in an amount up to 7 percent of gross profit provided that:

- The City has received all minimum guaranteed payments due from Aramark;
- The minimum guaranteed payments have not been reduced by payment of the incentive compensation; and
- The incentive criteria have been satisfied as demonstrated by the auditable report described in Section 6A of the agreement. Section 6A refers to the "Statement of Receipts and Expenses," which is the annual audit a contractor performs for Aramark.

Each year, the City and Aramark develop specific criteria that Aramark must complete in order to receive the incentive compensation. Decisions regarding the updated incentive criteria are documented and signed off by both Denver Arts & Venues and Aramark representatives. For example, the criteria established for the contract year ending October 31, 2016 included the following seven activities. A full description of the criteria can be found in Appendix C.

1. Support the promotion of the Red Rocks 75th Anniversary
2. Develop programs to increase off-season business
3. Design and integration of new concessions carts to maximize food and beverage sales
4. Development of new Ship Rock Grille kitchen design
5. Integration of Food Trucks in the Park
6. Implement warehouse position to oversee loading dock, elevator, and mezzanine
7. Implement gluten-free items in restaurant

Arts & Venues reviews Aramark’s performance and progress throughout the year and at year-end. Aramark provides Arts & Venues with a summary of the actions taken to satisfy the incentive criteria. Arts & Venues and Aramark sign this summary as acknowledgement that Aramark satisfied the criteria. A copy of this documentation is retained by Arts & Venues as evidence that Aramark met the approved criteria.

We requested the incentive criteria and Denver Arts & Venues’ sign-off that Aramark satisfied the requirements for the two years in the scope. Arts & Venues provided the 2016 and 2017 approved criteria. It also provided Aramark’s summary document with the actions taken to satisfy the
requirements in both years. However, the summary document for 2016 did not have the signature page with Denver Arts & Venues and Aramark representatives’ signatures indicating their agreement Aramark satisfied the incentive criteria that year.

Obtaining signatures of Denver Arts & Venues and Aramark representatives to document agreement that Aramark satisfied the incentive criteria and keeping this documentation is a control that helps support the propriety of the incentive payment. However, we also found that only one Arts & Venues employee maintains the documentation. In 2016, there was a breakdown in the established practice of: a) obtaining signatures from Denver Arts & Venues and Aramark acknowledging that Aramark satisfactorily met the incentive criteria and b) retaining this evidence.

Without a signature of Denver Arts & Venues personnel, there is no documentation to support that the agency agreed that the steps and actions taken by Aramark throughout 2016 satisfied the incentive criteria for that year. When Denver Arts & Venues cannot provide assurance that Aramark satisfied the requirements, it also cannot provide assurance the incentive compensation amount was proper.

**RECOMMENDATION 2.1**

Denver Arts & Venues should develop and document a procedure to ensure its representative and an Aramark representative document their agreement that Aramark has satisfied the established incentive criteria each year and then retain the documentation.

**Agency Response: Agree, Implementation Date – October 2018**
RECOMMENDATIONS

We make the following recommendation to Denver Arts & Venues to ensure the propriety of the incentive compensation payment:

2.1 **Obtain and Retain Evidence of the Review and Approval of Incentive Criteria Completion**—Denver Arts & Venues should develop and document a procedure to ensure its representative and an Aramark representative document their agreement that Aramark has satisfied the established incentive criteria each year and then retain the documentation.

**Auditee Response: Agree, Implementation Date – October 2018**

Auditee Narrative: Denver & Arts (DAV) agrees with the audit findings. This is a standard procedure that was completed for other years of the contract including 2014, 2015, and 2017. For 2016, the incentive criteria were developed and a report from Aramark outlined the progress of the criteria, unfortunately we are unable to locate the signed off completion of the incentives.
APPENDICES

Appendix A – Concession Agreement Key Definitions

These key definition terms are verbatim from the concession agreement in place for November 1, 2012 through October 31, 2017.

**Concessionaire Fee** – City shall pay monthly to Concessionaire an amount equal to one and one-half percent (1.5%) of the Gross Sales for each Accounting Period (the “Concessionaire Fee”). The Concessionaire Fee shall be paid to Concessionaire upon the City’s receipt of an invoice and the Monthly Financial Report for the subject Accounting Period in accordance with the City’s Prompt Payment Ordinance, §§ 20-1079 through 20-118, Denver Revised Municipal Code (D.R.M.C.) (the “Prompt Payment Ordinance”). Further, notwithstanding Section 4.I below, the City shall continue to pay Concessionaire the Concessionaire Fee in the event of an Operating Loss.

**Cost of Sales** – shall mean and include all costs and expenses incurred by Concessionaire in the operation of the Services at the Facilities, including, but not limited to, the direct product costs, payroll and personnel costs of Concessionaire’s employees assigned to the Facilities (including bonuses, gratuities and the costs of fringe benefits of the type customarily provided by Concessionaire and its affiliates to its employees, workers’ compensation costs and payroll taxes, but not including regional or general corporate management personnel), the Concessionaire Fee, allocated insurance costs (including, without limitation, liquor liability insurance), permitting and licensing fees (including, without limitation, liquor licensing fees and any related attorney’s fees, provided that such attorney’s fees have been approved by the City in accordance with Section 7.F), taxes (including, without limitation, state and local sales taxes), costs of required employee uniforms, costs of utilities and all other costs of supplies and services used or attributable to the provision of the Concession Services, including, but not limited to, costs which are reimbursable pursuant to the terms of this Agreement, costs of alcohol awareness training (e.g. TIPS or TEAM), costs of training of staff and management, costs of annual health examinations required under this Agreement for Concessionaire’s employees, costs of installation of cash and product computerized control systems, costs of any maintenance of equipment and small wares, cleaning costs, maintenance, repair and replacement expenses contemplated by the Agreement, disposal of grease costs, vending operation costs, extermination costs and permitted bad debt expense contemplated by this Agreement. Cost of Sales shall not include the Document Preparation Fee and Bonus Fee. For purposes of determining direct product costs, local trade discounts will be credited to direct product costs, but cash discounts or discounts not exclusively related to Concessionaire’s operations at the Facilities shall not be credited to such direct product costs. Without limitation of the foregoing, in the event Concessionaire’s costs increase due to increases in employee health and welfare benefits costs for Concessionaire’s employees assigned to the Facilities, including, but not limited to, an increase in required employer contributions to social security or payroll taxes (including retroactive changes to such contributions), such increased costs shall automatically be included in Cost of Sales, such adjustment to be retroactive to the date of such increase. Notwithstanding the foregoing and anything to the contrary contained in this Agreement, Cost of Sales shall not include costs or expenses necessitated as a direct result and to the extent of the negligence or willful misconduct of Concessionaire.
**Gross Receipts** – shall refer to the total amount of money, administrative (or service) and rental charges received or charged by the Concessionaire, or any agent, employee of the Concessionaire for all sales, cash or credit, whether collected or not, derived at the City Venues as a result of the service rights granted under the Agreement, excluding applicable sales taxes. Gross Receipts shall also include Miscellaneous Gross Receipts and one hundred percent (100%) of any commissions actually paid by Subcontractors and third-party vendors to Concessionaire. For the avoidance of doubt, Gross Receipts shall not include any sums retained by Subcontractors or third-party vendors and not paid to Concessionaire. Gross Receipts shall also not include (i) gratuities to the extent that those gratuities are paid by Concessionaire directly to its employees or (ii) ordinary and customary credit card fees paid.

**Gross Sales** - shall mean the total revenue (cash and credit) actually received by Concessionaire from the operation of the Services at the Facilities less (i) sales taxes and other direct taxes imposed upon receipts collected from consumers, (ii) tips and gratuities, which are disbursed to employees, (iii) any administrative charge (or service charge) for private events, which is not intended to be a tip or gratuity for the benefit of service employees, (iv) credit/debit/gift card transaction fees and charges and (v) any sums retained by Subcontractors or third party vendors and not paid to Concessionaire.

**Incentive Compensation** – City shall pay annually to Concessionaire after each Contract Year compensation in addition to the Concessionaire Fee in an amount equal to up to seven percent (7%) of Gross Profit (“Incentive Compensation”); provided that Concessionaire shall receive Incentive Compensation only to the extent (i) the City shall have received from the Concessionaire all due and owing Minimum Guaranteed Payments; (ii) the Minimum Guaranteed Payments are not reduced as a result of payment of Incentive Compensation; and (iii) the incentive criteria attached hereto and incorporated herein [the contract] as Exhibit B (the “Incentive Criteria”) shall have been satisfied by Concessionaire as demonstrated by the auditable report described in Section 6.A below. Concessionaire shall pay to the City at the time of its delivery of the Statement of Receipts and Expenses an amount equal to the Gross Profit set forth on such Statement. Upon the City’s receipt thereof, City shall pay to Concessionaire the maximum amount of Incentive Compensation payable hereunder calculated in accordance with the Incentive Criteria and paid in accordance with the City’s Prompt Payment Ordinance. City may, in its sole discretion, waive or deduct any Cost of Sales from the calculation of Incentive Compensation.

**Minimum Guaranteed Payment to City** –Concessionaire shall pay monthly to the City an amount equal to fifty-percent (50%) of the Gross Sales for each Accounting Period. The Minimum Guaranteed Payment shall be paid to the City at the same time that Concessionaire provides the City with its Monthly Financial Report for the subject Accounting Period.
# Appendix B – Summary of Key City Rules and Regulations

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<thead>
<tr>
<th>City Rules</th>
<th>Title</th>
<th>Description</th>
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</thead>
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| Executive Order No. 8 | Contracts and Other Written Instruments of and for the City and County of Denver | Requires that the initiating authority:  
* establish and implement policies and procedures for monitoring contracts to:  
  o identify specific employees to be accountable for the department’s monitoring responsibilities  
  o develop steps to address noncompliant vendors  
  o ensure that the contractor is paid in a timely manner  
* monitor performance through the life of the contract to:  
  o ensure that all terms are met  
  o ensure that bonding and insurance requirements continue to be met throughout the life of the contract  
  o document contract monitoring and deliverables  
* report contract performance if required |
| Fiscal Accountability Rule 2.5 | Supporting Documentation with Guide | Requires every transaction include adequate supporting documentation that provides a clear picture of the transaction.  

The rule also includes a supporting documentation guide that specifies supporting documentation as essential because it provides a clear picture of a transaction, describes the basic facts, and provides an explanation of why the transaction is processed.  

Supporting documentation should contain all key aspects, such as:  
* name and address of the vendor or the agency/department providing the good/service;  
* date the transaction occurred;  
* amount of the transaction;  
* nature and purpose of the transaction (i.e., descriptions); and  
* special terms and conditions of the transaction (i.e., discount, payment, and delivery details); and/or necessary approvals. |
| Fiscal Accountability Rule 7.1 | Propriety of Expenditures | Requires that every expenditure comply with the following test of propriety. An expenditure is not in compliance if the response to any question is “no.”  

* Is the expenditure for official City business?  
* Is the expenditure in the best interest of the City?  
* Is the expenditure in compliance with all applicable policies, laws, regulations, and rules; and contracts, and grants including having the required approvals and authorizations?  
* Does the expenditure provide a valid benefit to the City without providing personal benefit to an employee or without creating the appearance of providing personal benefit to an employee?  
* Is the expenditure within approved budgets, taking into consideration all outstanding commitments and encumbrances?  
* Is the expenditure necessary to accomplish City business? Meaning that without the expenditures, objectives would be difficult or costlier to achieve or the impact, level, or quality of the achievement of these objectives would be reduced. Is the expenditure reasonable? Meaning that the quality and quantity of the goods or services is sufficient to meet, but not exceed, the identified need. |
Appendix C – Incentive Criteria for Year Ending October 31, 2016

Criterion 1: Support the Promotion of the 75th Anniversary - value 25%

Criterion 1: Concessionaire shall satisfy criterion by researching and developing merchandise branded with the 75th Anniversary logo. Upon approval from the City, concessionaire will sell 75th Anniversary retail items at the Trading Post, Visitor Center retail counter, and the concession stands. Concessionaire will also assist in the development and creation of the 75th anniversary CD through Forza.

Criterion 2: Develop Programs to Increase Off-Season Business - value 15%

Criterion 2: Concessionaire shall satisfy criterion by researching potential revenue generating public events such as house bands, beer and wine pairing dinners, and whiskey tastings. Concessionaire shall reach out to house band promoters as well as sponsors, to create these themed events and execute them. Cost for events will go through Aramark. Upon approval from the City, events will be selected, appropriately marketed, and rolled-out in the 2016/2017 off-season.

Criterion 3: Design and Integration of New Concessions Carts to maximize food and beverage sales - value 15%

Criterion 3: Concessionaire shall satisfy criterion by working with concessions cart vendor to develop new carts with updated food concepts. Concessionaire will provide measurements, drawings, equipment requests and other features to vendor. Concessionaire will assist in bid process and review products as needed. Upon approval from the City, concessionaire will assist in any way feasible on the timeline and placement of the equipment.

Criterion 4: Development of New Ship Rock Grille Kitchen Design - value 20%

Criterion 4: Concessionaire shall satisfy criterion by developing a new concept and design layout for the Ship Rock Grille kitchen and restaurant. Concessionaire will work with design team on renderings and design concepts to enhance the restaurant and bar space, as well as the kitchen. Upon approval from the City, Aramark will pursue this project.

Criterion 5: Integration of Food Trucks in the Park - value 15%

Criterion 5: To satisfy this criterion Concessionaire shall research and implement a food truck program in the park for concert nights in the 2016 concert season. Concessionaire will vet and choose food truck concepts and place them in parking lots throughout the Amphitheatre (3-5 per night). Concessionaire will also work with the City marketing team to post these trucks and locations on the website, in order to drive business. Upon approval from the City, Concessionaire shall work out subcontractor agreements with food trucks to meet the City’s financial goals.

Criterion 6: Implement warehouse position to oversee loading dock, elevator and mezzanine - value 10%

Criterion 6: Concessionaire shall satisfy criterion by bringing on a warehouse position to oversee the deliveries and elevator use by vendors on concert days from 9am to 4pm. This person will track and direct deliveries to their proper location, oversee the use of the elevator, and maintain traffic on the loading dock during high volume times. The goal of this role will be to maintain order on the loading dock, remove 24-hour security from the delivery/receiving process and prevent elevator damage by hasty delivery drivers.
Criterion 7: Implement Gluten Free Items in Restaurant - no value

Concessionaire shall satisfy criterion by including gluten free menu items on Ship Rock Grille menu. Concessionaire also look into feasibility of including gluten free options in concessions locations.
April 10, 2018

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 Aramark Concession Revenues. This memorandum provides a written response for each reportable condition noted in the Auditor’s Report final draft that was sent to us on March 16, 2018. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING 1

The City Cannot Determine Whether Denver Arts & Venues Is Receiving All Concession Revenue Due from Aramark and Paying the Correct Concessionaire Fee and Incentive to Aramark

RECOMMENDATION 1.1

Denver Arts & Venues should strengthen its existing contract monitoring program for the concession agreement with Aramark that follows Executive Order 8. This program should immediately establish and implement policies and procedures for monitoring contracts including the following:

- Identify and assign a designee(s) within Arts & Venues to manage the contract monitoring program; and
- Develop procedures to identify and address Aramark’s noncompliance with contract terms

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<th>Name and phone number of specific point of contact for implementation</th>
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<tr>
<td>Agree</td>
<td>May 31, 2018</td>
<td>Frank Delmonte 720-865-4233</td>
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Narrative for Recommendation 1.1
Denver Arts & Venues (“DAV”) agrees with the audit findings recommendation. DAV’s current policy describes procedures that are congruent with Executive Order 8. Nonetheless, DAV will strengthen its current procedures as recommended.

RECOMMENDATION 1.2
Denver Arts & Venues should request Aramark to perform a Service Organization Control 1, Type II report covering the company’s system of controls over services provided to the City.

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Narrative for Recommendation 1.2
Denver Arts & Venues (“DAV”) agrees with the audit findings recommendation. DAV’s staff has acted on recommendation 1.2 and is collaborating with ARMARK and the external financial audit firm to include SOC procedures leading to a SOC report.

RECOMMENDATION 1.3
On a monthly basis, Denver Arts & Venues should request a reconciliation of inventory to sales for the events and nonevents in that month. This reconciliation should include a summary of all inventory movements such as transfers to and from the concession stand, management adjustments, spoilage and employee meals compared to sales for the period. Arts & Venues should review and resolve any discrepancies that impact the accuracy of gross sales, gross receipts, and gross profit with Aramark on a monthly basis. Where applicable, the appropriate adjustments should be made to payments between the City and Aramark.

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<td>Tad Bowman/Frank Delmonte 720-865-2488/54233</td>
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Narrative for Recommendation 1.3
Denver Arts & Venues (“DAV”) agrees with the audit findings recommendation. It is notable that as part of the annual financial audit, the external auditor identified the monthly perpetual and physical inventory differences as reasonable. Nonetheless, DAV will collaborate with ARAMARK to develop monthly inventory reporting that DAV will monitor.
RECOMMENDATION 1.4
Denver Arts & Venues should obtain monthly documentation from Aramark that details total spoilage costs (as defined in the agreement). This detail should also include the spoilage percentage, amount of spoilage that exceeds the 0.5 percent threshold, and, if applicable, the breakout of spoilage costs to be shared by Arts & Venues and Aramark.

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</thead>
<tbody>
<tr>
<td>Agree</td>
<td>June 30, 2018</td>
<td>Tad Bowman 720-865-2488</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 1.4
Denver Arts & Venues (“DAV”) agrees with the audit findings recommendation. DAV calculated the estimated impact of the spoilage rate exceeding 0.5 percent up to a possible spoilage rate of 5%, with the effect as being immaterial to the total payments received by DAV. Additionally, DAV contacted an external industry expert to gauge an appropriate industry spoilage rate given DAV’s venues. DAV will request a monthly report from Aramark that details the spoilage and assess the spoilage percentage against the contract term. DAV will also consider amending the contract to be in line with industry standards for spoilage rates.

RECOMMENDATION 1.5
Denver Arts & Venues should identify and quantify the spoilage amount over the 0.5 percent threshold as identified in the agreement for the period from November 1, 2012 through October 31, 2017. Arts & Venues should also review and agree upon the balance that should be returned to the City in compliance with the agreement terms.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree</td>
<td>Completed</td>
<td>Tad Bowman 720-865-2488</td>
</tr>
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</table>

Narrative for Recommendation 1.5
Denver Arts & Venues (“DAV”) agrees with the audit findings recommendation. DAV has calculated the estimated impact of the spoilage rate exceeding 0.5 percent up to a possible spoilage rate of 5%, with effect being immaterial to the total payments received by DAV. Additionally, DAV contacted an external industry expert to gauge an appropriate industry spoilage rate given DAV’s venues. As stated in response to recommendation 1.4, DAV will request a monthly report to better track the spoilage rate on a going forward basis.
AUDIT FINDING 2

There Is No Approval Verifying That Aramark Met Criteria to Receive an Incentive Payment in 2016

RECOMMENDATION 2.1
Denver Arts & Venues should develop and document a procedure to ensure its representative and an Aramark representative document their agreement that Aramark has satisfied the established incentive criteria each year and then retain the documentation.

<table>
<thead>
<tr>
<th>Agree or Disagree with Recommendation</th>
<th>Target date to complete implementation activities (Generally expected within 60 to 90 days)</th>
<th>Name and phone number of specific point of contact for implementation</th>
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<tr>
<td>Agree</td>
<td>October 31, 2018</td>
<td>Tad Bowman 720-865-2488</td>
</tr>
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</table>

Narrative for Recommendation 2.1
Denver Arts & Venues (“DAV”) agrees with the audit findings. This is a standard procedure that was completed for other years of the contract including 2014, 2015 and 2017. For 2016 the incentive criteria were developed and a report from Aramark outlined the progress of the criteria, unfortunately we are unable to locate the signed off completion of the incentives.

Please contact Mark Heiser at 720-865-4222 with any questions.

Sincerely,

Kent Rice
Executive Director

cc: Valerie Walling, CPA, CMC, Deputy Auditor
Heidi O’Neill, CPA, CGMA, Director of Financial Audits
Kevin Sear, CPA, CIA, CISA, CFE, CGMA, Audit Manager
Yvonne Harris- Lott, CPA, Audit Supervisor
Rob Farol Jr., Senior Auditor
Nancy A. Howe, AO Lead Internal Auditor
Roberta M. Holbrook, AO Senior Internal Auditor
Mark Heiser, Chief Operating Officer, Denver Arts & Venues
Frank Delmonte, Director of Finance, Denver Arts & Venues
Tad Bowman, Venues Director Red Rocks & Denver Coliseum