AUDIT REPORT
Denver International Airport
Airport Security
September 2018

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Audit Services Division
City and County of Denver

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We have completed an audit of the Airport Security Section (Airport Security) at Denver International Airport. The objective of the audit was to determine whether Airport Security’s monitoring and enforcement of controls are adequate to ensure that airport badges are properly accounted for and controlled. In addition, we evaluated whether operational controls for the Security Violation Notice Program are effective to enhance overall airport security. We also reviewed the management oversight of the contract with HSS, Inc., for security guard services. Lastly, we determined whether financial controls for managing badging, violations, and civil penalties are efficient and effective.

As described in the attached report, our audit revealed that the procedures surrounding invoicing and collecting badge-related revenue need improvement. In addition, Airport Security’s oversight of the HSS, Inc., contract should be enhanced to ensure compliance with contract terms. Finally, we identified other areas of weaknesses that we reported confidentially to the airport due to their sensitive nature.

Through stronger internal controls and enhanced contract monitoring, Denver International Airport will be able to improve its invoicing and collection of revenue for badge related activities and safeguard funding for a significant airport contract. Our report lists 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 the airport personnel who assisted and cooperated with us during the audit.

Denver Auditor's Office

[Signature]

Timothy M. O’Brien, CPA
Auditor
Our audit of Airport Security at Denver International Airport found that the airport’s controls were insufficient to ensure that all badge-related revenue was collected in a timely manner. Additionally, we found weaknesses in Airport Security’s oversight of their security guard services contract to ensure that the provider, HSS, Inc., (HSS) was successfully complying with the contract’s terms.

We found that Airport Security did not have formal procedures documenting how all badge revenue is billed or a process to monitor the collection of badge revenue. Additionally, we determined that procedures were not in place for both Airport Security and the airport’s Finance Department to coordinate in order to ensure that the timely billing and collection of all badge revenue, including any accrued late fees or interest, is being completed.

Weaknesses in Airport Security’s oversight of the security services contract included a lack of formal documented procedures describing Airport Security’s contract monitoring activities, such as invoice review and reconciliation for billed security services, audits of vehicle mileage accrued while providing services, and billed paid time off for HSS security personnel. Additionally, we observed that Airport Security failed to ensure the contract terms provided for vehicle mileage reimbursement as intended. Therefore, approximately $2.3 million dollars was paid between July 2011 and July 2017 before the contract was amended to identify these payments as allowable.

To improve timely collection of all badge-related revenue and ensure that the airport’s security guard services are provided by HSS in accordance with contract terms, we offer nine recommendations. Four recommendations are directed to the Director of Airport Security, three recommendations are directed to both the Director of Airport Security and Senior Vice President of Financial Management, and two recommendations are directed to the Senior Vice President of Financial Management.

For a copy of this report, visit www.denverauditor.org or contact the Auditor’s Office at (720) 913-5000.
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## OBJECTIVE, SCOPE, & METHODOLOGY

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BACKGROUND

Overview of Denver International Airport Security

Denver International Airport opened in 1995, and is the 20th busiest airport in the world, and the fifth busiest airport in the United States.\(^1\) Owned by the City and County of Denver’s Aviation program, the airport served 61.4 million passengers in 2017.\(^2\) The Airport Security Section is an operational unit of the Airport Operations Department.\(^3\) The team is led by a Director of Aviation Security and is responsible for fulfilling security functions at the airport in compliance with federal regulations and various U.S. Transportation Security Administration regulations, security directives, and guidelines.

**FIGURE 1.** Airport Security Organizational Chart (Abbreviated)

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The Airport Security Section comprises more than 40 personnel who are tasked with functions that include:

- Administration functions, including budget and performance analysis
- Information technology security
- Security compliance and enforcement
- Badging and permitting
- Security contract compliance

In reviewing the budget for the Airport Security Section, we noted that there have been minimal budget increases of four and five percent for 2017 and 2018. The increase from $18.7 million to 20.4 million from 2016 through 2018 is shown in Figure 2.

**FIGURE 2. Airport Security Budget 2016-2018**

![Airport Security Budget](image)

*Source: Budget summary provided by Senior Vice President of Airport Operations.*

**Security Badging Process**

Denver International Airport requires that the employees of the companies and City agencies operating at the airport obtain ID badges to access the areas of the airport necessary to support their company's or City agency's operations and complete their individual job duties. As such, each company or City agency coordinates with Airport Security to determine badge area authorization and the levels
of access necessary for badges to be issued to their employees. Additionally, each company or City agency must designate an authorized signatory whose responsibilities include reviewing and signing badge applications and forms, requesting that airport badges be cancelled and returned upon employee termination, adding and deleting access levels, as well as ensuring that employees comply with airport rules and regulations.

The airport has two badging offices where airport employees can obtain airport security badges: one is on a concourse inside the airport and the other is at a satellite location on airport property. To obtain an airport badge, an employee must first submit an application to either badging office.

Additionally, employees are required to submit fingerprints for a criminal history records check (CHRC) and a security threat assessment (STA), both of which are required by federal regulations. Upon successful clearance of the CHRC and STA, employees will take training specific to their badge area authorization and, upon completion, be issued a badge granting access to their approved areas. The individual badges are processed through the airport’s identity management system, BadgEze.

After completing each transaction, the airport either collects the applicable badging fees directly at the badging office, or invoices through a billing process. Revenue is collected for the following badge transactions:

- Initial airport identification badge;
- Badge renewals; and
- 10-year criminal history record checks

The fees include $10 for a new or renewed badge, and $40 for applicable criminal history record checks. Companies are responsible for paying the fees associated with background checks and badge issuance.

In addition to initial and renewal badge fees, Airport Security also charges fees to companies when airport rules and regulations are not followed. For example, if a company does not return a badge to the Airport Security office within 10 business days after an employee’s

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4 Airport Security issues four different colors of badges based on the area of the airport requiring access for an employee’s individual job functions and a demonstrated need to escort other employees or individuals in their job duties.

5 BadgEze is a “proprietary badge credentialing software application which uses web-based technologies to manage and process badging information for enhanced access control,” immixGroup, accessed May 14, 2018, https://www.immixgroup.com/it-solutions/software-solutions/.
termination, the company is charged a $250 fee per badge. There are also civil administrative citation penalties assessed to companies for violations of the airport’s rules and regulations and these can range from $150 - $999, depending on the number of citations assessed to the company.

**Badge Billing Process**

Revenues from badging fees and citation transactions are collected through direct and indirect billing processes.

**Direct Billing Process** – The direct billing process occurs when the badging customer pays directly at the badging office using cash, check, or credit card. The money collected from the badging offices is deposited in the Airport Revenue Fund. After the money has been collected, the money is processed through the Enterprise Cashiering System (ECS). The ECS integrates transactions to Workday daily.

**Indirect Billing Process** – For the indirect billing process, an invoice is generated through the Airport Finance Office and is mailed to the customer’s address on file. Once payment is received from the customer for the invoice, the cashier enters the funds into ECS and applies them to the outstanding invoice. Following entry, ECS integrates transactions to Workday. Indirect billing is the primary method Airport Security customers pay for badging transactions and represents 90 percent of all badging transactions.

**Security Compliance and Enforcement**

In order to help ensure the safety and security of the traveling public, Airport Security coordinates with the U.S. Transportation Security Administration (TSA), Federal Bureau of Investigation, U.S. Customs and Border Protection agency, Denver Police Department, and Denver International Airport’s security contractor, HSS, Inc. (HSS). Within the Airport Security Section, the Compliance and Enforcement group ensures that an Airport Security Program approved by TSA is implemented and that monitoring occurs to ensure compliance with TSA and other federal regulations.

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6 The Enterprise Cashiering System (ECS) is the money collection system that the City and County of Denver uses to collect revenues through cash, check, and credit card transactions.

7 Workday is the system of financial record for the City and County of Denver, implemented in August 2017.

8 Over $1 million is processed through indirect billing through the Security office each year. Approximately $100,000 is processed directly at the Security badging offices. This equates to 90 percent of revenue coming from indirect billing. Customers who pay include airlines, concessionaires, other vendors and tenants, as well as contractors.

9 The primary federal regulation that Airport Security must comply with for security is 49 CFR 1542, Airport Security. This regulation includes general requirements on areas such as badging, access control, fingerprinting, criminal history checks, and training. The Airport must also comply with various security directives, information circulars, and other guidance issued by the Transportation Security Administration (TSA).
Security guard services are a key component of Airport Security’s operations, provided by more than 400 contract personnel employed by HSS. Airport Security staff are responsible for the oversight of this contract to ensure that HSS is complying with the terms of the contract and that contract personnel are performing their security duties in accordance with applicable regulatory requirements.

The current cycle of services provided by HSS began in July 2011 with a three-year contract through July 2014 for $83 million. This contract was amended, and the term was extended through February 2018 with an increase of the allowable cost to $98 million. The latest contract was executed between HSS and the City in February 2018 with a three-year term for $115 million. It also has an option to extend the contract for an additional three-year term, which may result in increasing the maximum contract amount.
FINDING 1

Denver International Airport Should Improve Its Oversight of Badging Revenue to Ensure Timely Processing, Reconciliation, and Payment

Denver International Airport’s Security Office (Airport Security) is charged with, among other critical duties, reviewing, processing, and monitoring airport badges for thousands of airport employees. One of the objectives of the audit was to determine whether financial controls for managing badging, violations, and civil penalties are efficient and effective. Based on our assessment of direct and indirect billing processes, we found some effective controls for monitoring direct and indirect billing revenue. However, we also found that both the Airport Finance Office (Finance) and Airport Security should improve the oversight for badging revenue, which includes timely processing and collection of payments. Specifically, we found issues in the areas of reconciliation, late fees, customer outreach, and documentation within the financial system.

Lengthy Processing Time for Indirect Billing Invoices

Since January 2017, Airport Security has had two different procedures for processing invoices. During the first nine months of 2017 and prior, Airport Security personnel printed individual invoices for each indirect badging transaction that was processed in the previous month. Airport Security personnel then hand delivered the invoices to Finance. Finance personnel would manually create each invoice in AMS (January through July billing cycles) and Workday (August and September billing cycles). The process to manually enter the invoices took approximately two days for accountants to complete. After completing the manual entry, Finance printed new invoices, attached documentation to each invoice so the customer could identify its purpose, and then sent them to customers.

Greater Efficiency Using BadgEze

Finance management determined that this process required a significant amount of manual entry, which can lead to recording errors. Starting with the October 2017 billing cycle, Airport Security developed a new process in collaboration with Finance. Airport Security began recording all badging transactions in BadgEze, the airport’s identity
management system. BadgEze displays which customers pay directly at the badging office and which pay by invoice. After the close of each month, Airport Business Technologies personnel receives an invoicing spreadsheet from Airport Security. Once the spreadsheet has been downloaded, it is emailed to Airport Security personnel who then format and reconcile the data. Once formatting is complete, Airport Security emails the spreadsheet to Finance. A staff accountant reformats the spreadsheet so it can be uploaded into Workday. After the spreadsheet is entered in Workday, accountants reconcile the information in Workday with backup documentation provided by Airport Security. This process is completed by Finance in approximately four hours, which is more efficient than the prior process.

This new process has reduced the time that elapses between completing the badging transaction and sending the invoice to the customer. However, there is still a two-week delay after the month end. Once the invoice is sent out to the customer, which could be more than a month after the badge transaction occurred, the payment becomes due 30 days after the invoice is processed.11 If Airport Security and Finance could streamline the invoice communication process to customers would be reduced to days rather than weeks. With the airport upgrading to a new identity management system in 2019, we assess that this would be the ideal time to discuss methods to streamline the process.

Without streamlining the process, Finance and Airport Security will continue to conduct manual processes with recording billing invoices and mailing them to customers. Consequently, there will be increased time waiting to receive payment from customers for badging fees and security violation penalties.

**RECOMMENDATION 1.1**

*Integration of Systems of Record* – The Senior Vice President of Financial Management should coordinate with the Director of Airport Security to discuss streamlining the billing invoice process.

*Auditee Response: Agree, Implementation Date – March 31, 2019*

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11 For example, if a badging transaction occurs on May 1\textsuperscript{st}, the current system does not start the creation of the invoice within Finance until June 7\textsuperscript{th}-10\textsuperscript{th}. In addition, the customer is given 30 days to pay the invoice. Therefore, at the earliest, a payment may not be received until mid July. This is a minimum of a two-month delay to receiving payment.
Nearly $500,000 Outstanding in Airport Security Revenues

Audit work found that Airport Security is currently owed or foregoing nearly half a million dollars due to three issues. First, more than a quarter of the invoices issued for badging fees and penalties are currently outstanding. Second, Finance is not assessing late fees or interest on overdue payments. Third, Finance personnel conduct limited follow-up with customers to collect outstanding payments for Airport Security badging revenue.

Airport Security and Finance Do Not Communicate to Identify Outstanding Invoices – Our review of badging invoice revenue payments revealed that invoices are not always being paid in a timely manner. We found instances where some invoices were more than a year overdue. Best practice for prompt payment is 30 days from the date of invoice creation.12 From January 2017 through March 2018, Finance processed more than $1.4 million in badging transactions for fees and penalty invoices. As of June 13, 2018, more than $430,000 of those badging transactions were unpaid. This equates to 28 percent of invoice revenue being overdue. This unpaid revenue stems from more than 1,670 outstanding invoices. Specifically, 797 invoices are overdue by more than 1 year, 125 are 12 months overdue, 123 are between 7 and 11 months overdue, and 629 are up to 6 months overdue. At least 200 unpaid invoices from this population were for unrecovered badge fees. Since this data is limited to our audit sample of 15 months, it is possible that even more revenue is overdue.

Airport Security personnel told auditors that, after they put transactional information into BadgEze and forward the spreadsheet on to Finance to create invoices, they never verify the payment status of these invoices. Therefore, Airport Security cannot perform any reconciliation activities on amounts due. According to Airport Security, the status of payment is the duty of Airport Finance. Further, Airport Security and Finance do not communicate to identify outstanding invoices, on which follow-up should be conducted. These factors and departmental priority choices are likely contributing to a high volume of uncollected revenue. Without a system to identify when invoices are past due, the airport cannot effectively follow-up on past-due amounts. Although it is Finance’s responsibility to collect and record revenue, it is Airport Security’s responsibility to assess fees or penalties for badging transactions to ensure that customers are being held accountable for compliance with Airport Rules and Regulations.

Airport Security has no way of knowing whether the fees for new badges, badge renewals, fingerprinting, unrecovered badge

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penalties, and civil administrative citation penalties have actually been recorded properly in Workday and paid. In accordance with Denver Fiscal Accountability Rule 2.2, City agencies and departments are required to reconcile their financial records with Workday, which is the system of financial record for the City and County of Denver. Consequently, the absence of reconciliation and follow-up activities may result in decreased incentive for airport customers to follow Airport Security Rules and Regulations.

**RECOMMENDATION 1.2**

**Process for Follow-Up** - The Director of Airport Security should work with the Senior Vice President of Financial Management to develop a process to collaboratively reconcile and follow-up on and collect overdue invoice revenues.

**Audittee Response: Agree, Implementation Date - November 30, 2019**

**Interest and Late Fees Not Being Assessed** - We also learned during audit work that Finance does not currently have the capability to assess late fees or interest on overdue invoices. This issue is due to the functionality limitations associated with Workday implementation. Prior to Workday implementation, AMS, the former financial management system for the airport, automatically calculated late fees and interest on overdue invoices. According to Finance, if the interest on the invoice was less than $5, the interest was not charged to the invoice. However, if the interest was $5 or more, the interest was enforced. When the change to Workday occurred, the system lacked the functionality to perform this function. According to Finance, a consultant working with the airport on the Workday implementation is trying to add the assessment of late fees and interest to another function within Workday. However, that alternative function has not yet been implemented. Finance personnel explained that they are working to develop the functionality to start assessing late fees and interest charges to overdue payments. In the interim, the airport is not tracking the accrued interest on their invoices. According to Finance, this is due to the sheer volume of invoices they process. In the first six months of 2018, approximately 10,000 invoices were created. Although

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13 Workday was implemented in August 2017 when the system went live. This included system implementation, employee training and post-production support, accessed July 31, 2018, https://www.denvergov.org/content/denvergov/en/workday/financials/FinancialTimeline.html.
The airport is missing out on at least $39,400 in interest charges from overdue Airport Security invoices.

No Follow-Up on Overdue Payments by Finance – In addition to Workday functionality problems, Finance does not send follow-up letters or emails to airport customers who do not pay invoices on time. Finance includes a due date on all initial invoices when they are mailed to customers. The due date is 30 days after the invoice was created. Their only follow-up method at present, when an invoice is unpaid, is during monthly meetings between Finance and airport revenue management personnel when the accounts receivable aging report is discussed. At those meetings, outstanding invoices are discussed; including airport security invoices. Although discussions are held internally, no follow-up is done with actual customers who are outstanding on one or more invoices.

The American Institute of Certified Public Accountants issued guidance in 2014 for collecting revenue. When an invoice is overdue, there should be an automatic issuance of reminders, warning letters, and collection calls in sequential order to hold customers accountable for making these payments. In addition, on the original invoice and with all reminder letters, late fees and interest charges should be placed in a prominent place on the letter. The debtor should be made aware in advance that there will be penalties associated with late payment, creating an incentive to pay on time.

In the absence of proper follow-up and imposition of late fees and interest, the airport is left with over $430,000 in unpaid revenue and at

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14 The estimate of interest charges is based on 12 percent annual accrued interest being charged for overdue invoices. The assessment estimate represents 1 percent interest for every month overdue.

15 The accounts receivable aging report shows all invoices that remain unpaid by airport customers.


The following three recommendations are intended to remedy this issue.

**RECOMMENDATION 1.3**

**Overdue Invoice Revenues** – The Senior Vice President of Financial Management should ensure that past due payments for badging invoices will be investigated and payment sought.

Auditee Response: Agree, Implementation Date - November 30, 2019

**RECOMMENDATION 1.4**

**Late Payment Fees and Interest Penalties** – The Senior Vice President of Financial Management should institute late payment fees and interest charges for payments received after the due date.

Auditee Response: Agree, Implementation Date - December 31, 2018

**RECOMMENDATION 1.5**

**Billing Reminders** – The Senior Vice President of Financial Management should coordinate billing reminders to incentivize vendors to pay their invoices on time.

Auditee Response: Agree, Implementation Date - November 30, 2018

Airport Security has no operating instruction for billing invoice control procedures. The largest source of revenue for Airport Security is badging charges which are invoiced through their billing process. For such a large amount of revenue, it should have a robust procedure in place for recording amounts due and collecting payments. While reviewing Airport Security’s processes and procedures for badging transactions, we found that a thorough written operating instruction is in place for direct billing at the badging offices. However, although we requested the written procedure for its billing invoice transaction process, it was not provided during the audit. Airport Security provided written procedures at the exit conference, which did not allow us to verify whether these were put in place.
The billing invoice transaction process has been established between Airport Security and Finance, but it has not been documented and approved. According to Airport Security, once the billing invoices are sent to Finance for processing, their job is done. As a good practice, governmental agencies should establish a revenue control and management policy for the proper control over all receipts and receivables. The policy should include internal controls, methods of payment, and accounting practices to ensure that the revenue has been accurately recorded.\(^\text{18}\)

In the absence of an operating instruction, we could not determine whether Airport Security staff are meeting their responsibilities of the established process. In addition, if the current staff who process invoice billing left the agency, there would be no procedure in place for this process to continue. The new staff responsible for these tasks would have to put in additional time and resources to figure out the process and to ensure their actions conform to what had been done in the past. An up-to-date operating instruction will ensure that operations can continue without interruption and provide Airport Security management an established standard by which to measure compliance and performance.

RECOMMENDATION 1.6

**Indirect Billing Operating Instruction** - The Director of Airport Security should develop an operating instruction to identify the roles and responsibilities of Airport Security and Finance for the indirect billing invoice and reconciliation process.

**Auditee Response: Agree, Implementation Date - November 30, 2018**

FINDING 2

Airport Security Could Improve Oversight of the Security Guard Contract

As part of the airport’s robust security operations, Denver International Airport utilizes contract security guards for observation and reporting of security issues throughout the secure area of the airport. The agreement reviewed for security guard services went into effect on July 16, 2011, with security services company, HSS, Inc., (HSS).\(^{19}\) The contract’s allowable costs include hourly wages for specific airport-assigned employees, as well as paid time off and other expenses where the airport requests the items be provided by HSS. One example of a request would be special assignments during construction work.

The contract established the maximum liability that could be paid to HSS at $83 million for the period of 2011 through 2014. The contract expired after three years but was extended by the airport for another three-year term. The extension was set to expire on July 16, 2017, but the contract was amended to expire on February 1, 2018. In addition to extending the contract for another seven months, the amendment also added mileage reimbursement as an allowable expense on the contract and increased the maximum liability of the City to $98 million. Starting on February 2, 2018, the airport and HSS agreed to a new contract that is set to expire in February 2021. The maximum contract liability for this contract is currently $115 million. With such a large amount of operating funds being used for the payment of this contract, we wanted to ensure that Airport Security is monitoring it effectively.

To make a proper assessment, we reviewed the contract and identified key terms for our evaluation. Our audit period was limited to 2017 and included the following areas:

- Completeness and accuracy of contractor invoices
- Compliance of HSS and the airport to maximum liability terms\(^{20}\)
- Paid time off accrual and billing to the contract

We found that some oversight controls of the contract are effective, but others could use improvement. As such, we have made several

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\(^{19}\) HSS, Inc. is a security guard services company; with specialized focuses on integrative security strategy, aviation security, healthcare facility security and government facility security. “About HSS”, accessed on July 18, 2018, https://hss-us.com/about-hss/history.

\(^{20}\) Maximum liability is the maximum amount the airport can reimburse to the contractor for the life of the contract.
Although Some Oversight Controls Are Effective, Others Could Use Improvement

In reviewing the key contract terms for the audit period, we facilitated and coordinated a review with Airport Security. Our review was designed to determine how effective Airport Security’s oversight controls are for ensuring that HSS remains in compliance with the contract terms. As a result, we found that Airport Security has some oversight controls that are effective, but we also found three areas of oversight controls that could use improvement.

Effective Oversight Controls

In our review of the key contract terms identified in the contract, we found that the following oversight controls work well:

- Airport Security has a robust process for reviewing HSS invoices on a bi-weekly basis. This includes the use of a billing reconciliation spreadsheet that compares the hours submitted with hours that are expected to be submitted for specific positions.
- Airport Security personnel conduct an audit of vehicle miles driven with attention given to the work assignment for that particular time period under review.
- There are monitoring procedures in place to ensure compliance with maximum liability requirements within the contract and associated amendments and extensions.
- HSS invoices appear to be complete and accurate. Auditors performed completeness and accuracy testing of 87 HSS invoices to assess compliance with the contract. We only found two errors, both regarding paid time off billing, and Airport Security was quick to communicate the error to our team and then move towards rectifying it in the next billing cycle. The discussion about paid time off usage can be found later in the report.

Oversight Controls in Need of Improvement

We identified three weaknesses that impact Airport Security’s ability to effectively manage this contract, as follows:

- Airport Security does not have an operating instruction for contract monitoring and invoice review procedures.
- Mileage reimbursement was not listed as an allowable expense in the July 16, 2011, through July 15, 2017 contract. Although an amendment was completed to correct the issue, it did not include the entire contract period.
• Airport Security does not regularly review in detail paid time off accrual and billing to the contract.

A lack of proper internal controls in these areas precludes Airport Security from effectively overseeing the contract with HSS. The following subsections explain these issues in greater detail.

Failure to Create and Adopt Contract Monitoring Operating Instruction
- We reviewed the methods that Airport Security uses for monitoring and overseeing HSS's compliance with the contract terms. These methods include:
  • Invoice review and reconciliation
  • Vehicle mileage audit
  • Summary review of paid time off billed during the billing invoice period
  • Weekly meetings to review outstanding items
  • Maximum liability monitoring

Although Airport Security has some procedures they follow for contract monitoring and oversight, they do not have a written and adopted operating instruction detailing these procedures. Instead, their current procedures are known only by contract management staff. Accordingly, there is no document that holds Airport Security accountable to certain tasks and actions associated with monitoring contract terms. According to the National Association of State Procurement Officers, contract staff should have, in written form, the critical elements of contract administration, including: 1) delivery terms and requirements; 2) contract monitoring methods; 3) milestones for measurement; 4) reporting method and frequency; and 5) documentation.21

In the absence of an operating instruction, it is difficult to ensure that Airport Security contract management staff are meeting their responsibilities or following the established procedure. In the event that these individuals leave the office, there will be no institutional knowledge within the team to continue monitoring activities. The new staff responsible for these tasks would face continuity issues as well as the potential for issues to be overlooked. Developing an up-to-date operating instruction will help to remedy these issues and provide Airport Security management with an established standard by which to measure compliance with the adopted procedure.

RECOMMENDATION 2.1

**Contract Compliance Operating Instruction** - The Director of Airport Security should develop an operating instruction for procedures to monitor HSS's compliance with the contract terms.

**Auditee Response: Agree, Implementation Date - November 30, 2018**

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**An Amendment to the Contract Was Not Completed Timely** - In the 2011 contract, HSS was required to have a minimum of 23 vehicles available at the airport for security responsibilities and patrol of airport property. With that responsibility in place, Airport Security and HSS agreed, prior to the execution of the contract, to include mileage reimbursement as an allowable expense to the contract.

After careful review of the terms in the 2011 contract and its associated amendments, we found that the 2011 contract did not include language to allow mileage reimbursement for the period of July 16, 2011, through July 15, 2017. When the contract was amended on July 16, 2017, the language to allow vehicle mileage reimbursement was added. Although the amendment authorized mileage reimbursement on and after July 16, 2017, the contract between the months of July 16, 2011, through July 15, 2017 did not. Over this period, the airport had already paid HSS an estimated $2.3 million for mileage reimbursement. The estimate was made based on an average mileage reimbursement per 12 months of $389,000. Since 2011 and 2017 were only partial years, we based our estimation for those years on reimbursements for a partial year.

When we met with Airport Security, we discussed the history of how mileage reimbursement was communicated with HSS. We learned that mileage reimbursement was included in the 2005 through 2011 contract as Exhibit C. Although Exhibit C states that mileage is reimbursable, the terms are not listed in the body of the contract under Section 6, “Compensation and Payment terms”. Since mileage reimbursement was not listed anywhere other than in the exhibit, that may be one reason why the term did not make it into the final signed contract. According to Airport Security, one intention of contract negotiations in 2011 was to incorporate Exhibit C in the body of the new contract. However, this was not done.

After reviewing communications and draft contracts from 2011, we confirmed that Airport Security and HSS had intended to include mileage as a reimbursable expense. We discussed this issue with a representative from the City Attorney’s Office, who determined that...
since the two parties agreed, paying mileage was legal even though the contract did not include that term.

For all future contracts, attention should be focused on ensuring that contracts clearly, comprehensively, and unambiguously state the obligations of the parties to the payment terms to avoid any legal disagreements.22 When the error was discovered, Airport Security should have issued an amendment that included: 1) mileage reimbursement; and 2) back dated this provision to the start of the contract period. As a result of this error, the airport spent operating revenue for seven years on an expense not formally included in the contract and increased legal risk to the Airport.

RECOMMENDATION 2.2

Contract Amendment with Payment Terms – When an allowable expense agreed to by both parties is found to be missing from future legal contracts, the Director of Airport Security should immediately issue an amendment to include the missing payment terms, and it should be back dated to the start of the contract period.

Agency Response: Agree, Implementation Date - Complete

Failure to Regularly Review in Detail Paid Time Off – In accordance with the contract terms, HSS is permitted to accrue and bill paid time off (PTO) to the contract for employees who work 2,080 hours of continuous service at the airport their first year and each year after while they are still assigned to the airport. The PTO accrual increases for each year of an employee’s service, as follows: 48 hours during the first year, 56 hours during the second year, 64 hours during the third year, 72 hours during the fourth year, and 80 hours during the fifth year. In addition to taking PTO, an employee who earns PTO can cash in their unused PTO annually, as long as 40 hours remain in the employee’s PTO bank. We found during our team’s initial meetings with Airport Security that they are not regularly reviewing PTO accrual and use in detail. Airport Security does ask HSS to audit their PTO billings if they detect any noticeable spikes in PTO use, but HSS is not required to review PTO accrual in detail on a regular basis.

To determine whether PTO is being earned and used in accordance with the contract, we requested a sample of 50 HSS employees. We

chose the employees randomly and, from our review of the sample, we determined that some employees used more PTO than they should have accrued in accordance with contract terms. Based on our calculations, this resulted in approximately $1,300 in overpayment to the contractor.

The contract states that employees cannot accrue more than 80 hours of PTO per year. However, we identified six instances where PTO accrual exceeded 80 hours. The contract also specifies that PTO can be cashed in if there are at least 40 hours of PTO remaining in the bank. We found inconsistencies with this contract term in the sample HSS provided to our team.

In addition to the sample we reviewed, our team's review of invoices from 2017 revealed an invoice in the amount of $16,182. The invoice was for PTO reimbursement back to the airport. Airport Security overpaid HSS in 2016 for PTO that did not comply with contract terms. Airport Security has also found through review of PTO records that HSS has made other mistakes with PTO billing compliance. In total, the airport has been credited $30,082 by HSS for PTO overpayment.

As a result of limited PTO review, Airport Security is not properly monitoring HSS for compliance with the contract terms. Airport Security is also overpaying HSS for some PTO use due to the errors that we discovered. However, we cannot provide a total amount owed since our testing was limited to only a sample of employees. Airport Security should complete a regularly occurring review, at least annually, of HSS’s PTO accrual and billing records to ensure compliance with the contract terms.

**RECOMMENDATION 2.3**

Regular Review of Paid Time Off - The Director of Airport Security should establish a recurring audit of the contractor’s accrual and billing of paid time off to ensure compliance with the contract terms.

Agency Response: Agree, Implementation Date - November 30, 2018
RECOMMENDATIONS

We make the following recommendations to Airport Security and Airport Finance to improve controls surrounding revenues for Airport Security operations, and to enhance contract management oversight.

1.1 **Integration of Systems of Record** - The Senior Vice President of Financial Management should coordinate with the Director of Airport Security to discuss streamlining the billing invoice process.

*Auditee Response: Agree, Implementation Date - March 31, 2019*

Auditee Narrative: The current process will remain the same as the Airport Security Department is transitioning to a new identity management system and the full capabilities regarding billing and reporting are still being investigated. DEN Finance along with the DEN Information Technology team and DEN Airport Security team will continue to coordinate to address the most effective approach to obtain necessary billing information from the new system. This potentially includes centralizing this information into PROPworks to streamline the billing invoice process.

1.2 **Process for Follow-Up** - The Director of Airport Security should work with the Senior Vice President of Financial Management to develop a process to collaboratively reconcile and follow-up on and collect overdue invoice revenues.

*Auditee Response: Agree, Implementation Date - November 30, 2019*

Auditee Narrative: With the conversion to Workday, there have been several changes to processes and procedures. DEN Finance is in the process of addressing collections of outstanding revenue invoices. This includes restructuring some teams for available resources to communicate with customers. DEN Finance will continue to have currently established monthly meetings on outstanding invoices with airport personnel who maintain the relationship with the contractor (i.e. Revenue Management, etc.) and update Airport Security accordingly. Also, Accounts Receivable currently reconciles the supporting billing documentation provided by Airport Security to the actual invoices sent to the customers. These billings are also reviewed by the Accounts Receivable Manager prior to distribution to the customers.

1.3 **Overdue Invoice Revenues** - The Senior Vice President of Financial Management should ensure that past due payments for badging invoices will be investigated and payment sought.

*Auditee Response: Agree, Implementation Date - November 30, 2019*

Auditee Narrative: As noted in the narrative for Recommendation 1.2, now that DEN Finance has had time to evaluate and assess our cash functionalities with Workday, DEN Finance has restructured the cash receipts team to focus on collections. In addition, DEN Finance will continue to have currently established monthly meetings on outstanding invoices with the correct parties to address past due payments and coordinate timely collection efforts.
1.4 **Late Payment Fees and Interest Penalties** - The Senior Vice President of Financial Management should institute late payment fees and interest charges for payments received after the due date.

*Auditee Response: Agree, Implementation Date - December 31, 2018*

Auditee Narrative: DEN Finance has been working with our Workday consultants on setting up the interest calculations within Workday. There are some outstanding functionalities still pending. As noted in Recommendation 1.1, we are evaluating the new identity management system and the opportunity to integrate this information into PROPworks which can charge interest.

1.5 **Billing Reminders** - The Senior Vice President of Financial Management should coordinate billing reminders to incentivize vendors to pay their invoices on time.

*Auditee Response: Agree, Implementation Date - November 30, 2018*

Auditee Narrative: With the restructuring of the cash receipts team and re-evaluating the processes after converting to Workday, DEN Finance will establish a monthly customer statement notification process on outstanding balances.

1.6 **Indirect Billing Operating Instruction** - The Director of Airport Security should develop an operating instruction to identify the roles and responsibilities of Airport Security and Finance for the indirect billing invoice and reconciliation process.

*Auditee Response: Agree, Implementation Date - November 30, 2018*

Auditee Narrative: As stated in the narrative within Finding 1, Airport Security provided written procedures at the exit conference. These previously implemented procedures were documented in a step by step guideline document prior to this audit. Additionally, Airport Security provided a draft operating instruction to demonstrate our intent, to codify these step by step procedure. Airport Security will coordinate with DEN Finance for billing summaries, invoicing and/or reconciliations.

2.1 **Contract Compliance Operating Instruction** - The Director of Airport Security should develop an operating instruction for procedures to monitor HSS's compliance with the contract terms.

*Auditee Response: Agree, Implementation Date - November 30, 2018*

Auditee Narrative: Per the audit report, DEN has demonstrated that current internal processes provide adequate oversight to ensure CCD contract compliance requirements are met. That said, Airport Security recognizes the need to additionally codify the invoice review process in the form of an OI in order to meet fiduciary obligations.

Regarding operational / regulatory compliance associated with the scope of work, Airport Security disagrees with the need for an OI in this area and prefers to rely on existing process and procedures. If Airport Security were to develop an operating instruction, the document would have to be constantly revised to reflect the changing regulatory environment as controlled by the Transportation Security Administration (TSA) through 49 C.F.R. Part 1520, national amendments, and the security directives.
The contract’s scope of work is designed to meet an ever changing operational and regulatory environment. The contract is structured to provide flexibility and allow DEN Security to adapt to this environment. The specific duties within contract, in particular the duties assigned to each position to ensure compliance, are monitored and adjusted on a continuous basis depending on changing demands of security. Such compliance is achieved through Airport Security’s operational needs and interpretations of federal regulatory requirements.

HSS compliance is constantly monitored by program management staff and already achieved through adherence to established scope of work, training curriculum, post orders, and responsiveness to City requests. Daily interactions with HSS management and staff by Airport Security Program Management Staff allow for continuous monitoring of requirements set-forth in the contract as well as Directives made by Airport Security.

2.2 Contract Amendment with Payment Terms - When an allowable expense agreed to by both parties is found to be missing from future legal contracts, the Director of Airport Security should immediately issue an amendment to include the missing payment terms, and it should be back dated to the start of the contract period.

Auditee Response: Agree, Implementation Date - Complete

Auditee Narrative: The Director of Airport Security does not have unilateral authority to issue an amendment to a contract of the City and County of Denver. However, in situations where discrepancies are identified, the Director of Airport Security will initiate a request to amend the contract via the appropriate procurement process.

In reviewing official documentation and correspondence associated with vehicle mileage reimbursement throughout the life of the 2011-2018 Security Services contract, there are numerous references to internal auditing and invoice adjustments keeping both the City and HSS in good standing.

Additional supporting documentation outlining agreed upon mileage reimbursement rates included in the actual 2011 RFP where DEN is requesting mileage rates as part of the package, an addendum to the same 2011 RFP discussing clarification for mileage reimbursements as well as HSS’s response to the 2011 RFP with stated $0.60 mileage rate was provided to the audit team. These references were reviewed and found to be legal. In 2017, an amendment to the contract included specificity regarding mileage reimbursement. In the 2018 agreement, mileage reimbursement language was specifically included.

2.3 Regular Review of Paid Time Off - The Director of Airport Security should establish a recurring audit of the contractor’s accrual and billing of paid time off to ensure compliance with the contract terms.

Auditee Response: Agree, Implementation Date - November 30, 2018

Auditee Narrative: Airport Security currently conducts periodic audits of PTO accruals. In 2017, Airport Security conducted a PTO audit of HSS staff and found an error totaling $30,082 in overpayment to HSS due to errors made within their system. The City did request and was credited the full overage amount in subsequent invoices. Due to the errors, HSS implemented
new PTO guidelines at the request of Airport Security to prevent such errors in the future. These new measures are currently in place with no documented unsuccessful PTO audit since. Airport Security will require a PTO audit of HSS four (4) times per year. This audit will be completed quarterly and at the direction of contract management.
Thursday, August 30, 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 Airport Security at Denver International Airport.

This memorandum provides a written response for each reportable condition noted in the Auditor’s Report final draft that was sent to us on August 9, 2018. This response complies with Section 2C-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING 1
Denver International Airport Should Improve Its Oversight of Badging Revenue to Ensure Timely Processing, Reconciliation, and Payment

RECOMMENDATION 1.1
The Senior Vice President of Financial Management should coordinate with the Director of Airport Security to discuss streamlining the billing invoice process.

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<tbody>
<tr>
<td>Agree</td>
<td>March 31, 2019</td>
<td>Michael Biel 303-342-2158 &amp; Adam Steffl 303-342-4123</td>
</tr>
</tbody>
</table>

Narrative for Recommendation 1.1
The current process will remain the same as the Airport Security Department is transitioning to a new identity management system and the full capabilities regarding billing and reporting are still being investigated. DEN Finance along with the DEN Information Technology team and DEN Airport Security team will continue to coordinate to address the most effective approach to obtain the necessary billing information from the new system. This potentially includes centralizing this information into PROPworks to streamline the billing invoice process.
RECOMMENDATION 1.2
The Director of Airport Security should work with the Senior Vice President of Financial Management to develop a process to collaboratively reconcile and follow-up on and collect overdue invoice revenues.

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<td>November 30, 2019</td>
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Narrative for Recommendation 1.2
With the conversion to Workday, there have been several changes to processes and procedures. DEN Finance is in the process of addressing collections of outstanding revenue invoices. This includes restructuring some teams for available resources to communicate with customers. DEN Finance will continue to have currently established monthly meetings on outstanding invoices with airport personnel who maintain the relationship with the contractor (i.e. Revenue Management, etc.) and update Airport Security accordingly. Also, Accounts Receivable currently reconciles the supporting billing documentation provided by Airport Security to the actual invoices sent to the customers. These billing are also reviewed by the Accounts Receivable Manager prior to distribution to the customers.

RECOMMENDATION 1.3
The Senior Vice President of Financial Management should ensure that past due payments for badged invoices will be investigated and payment sought.

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Narrative for Recommendation 1.3
As noted in the narrative for Recommendation 1.2, now that DEN Finance has had time to evaluate and assess our cash functionalities with Workday, DEN Finance has restructured the cash receipts team to focus on collections. In addition, DEN Finance will continue to have currently established monthly meetings on outstanding invoices with the correct parties to address past due payments and coordinate timely collection efforts.
### RECOMMENDATION 1.4
The Senior Vice President of Financial Management should institute late payment fees and interest charges for payments received after the due date.

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**Narrative for Recommendation 1.4**
DEN Finance has been working with our Workday consultants on setting up the interest calculations within Workday. There are some outstanding functionalities still pending. As noted in Recommendation 1.1, we are evaluating the new identity management system and the opportunity to integrate this information into PRC/works which can charge interest.

### RECOMMENDATION 1.5
The Senior Vice President of Financial Management should coordinate billing reminders to incentivize vendors to pay their invoices on time.

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**Narrative for Recommendation 1.5**
With the restructuring of the cash receipts team and re-evaluating the processes after converting to Workday, DEN Finance will establish a monthly customer statement notification process on outstanding balances.

### RECOMMENDATION 1.6
The Director of Airport Security should develop an operating instruction to identify the roles and responsibilities of Airport Security and Finance for the indirect billing invoice and reconciliation process.

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Narrative for Recommendation 1.6
As stated in the narrative within Finding 1, Airport Security provided written procedures at the exit conference. These previously implemented procedures were documented in a step by step guideline document prior to this audit. Additionally, Airport Security provided a draft operating instruction to demonstrate our intent, to codify these steps by step procedure.

Airport Security will coordinate with DEN Finance for billing summaries, invoicing and/or reconciliations.

AUDIT FINDING 2
Airport Security Could Improve Oversight of the Security Guard Contract

RECOMMENDATION 2.1
The Director of Airport Security should develop an operating instruction for procedures to monitor HSS’s compliance with the contract terms.

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<td>Agree</td>
<td>November 30, 2019</td>
<td>Adam Steffi 303-342-4123</td>
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Narrative for Recommendation 2.1
Per the audit report, DEN has demonstrated that current internal processes provide adequate oversight to ensure CCD contract compliance requirements are met. That said, Airport Security recognizes the need to additionally codify the invoice review process in the form of an OI in order to meet fiduciary obligations.

Regarding operational/ regulatory compliance associated with the scope of work, Airport Security disagrees with the need for an OI in this area and prefers to rely on existing process and procedures. If Airport Security were to develop an operating instruction, the document would have to be constantly revised to reflect the changing regulatory environment as controlled by the Transportation Security Administration (TSA) through 49 C.F.R. Part 1520, national amendments, and the security directives.

The contract’s scope of work is designed to meet an ever-changing operational and regulatory environment. The contract is structured to provide flexibility and allow DEN Security to adapt to this environment. The specific duties within contract, in particular the duties assigned to each position to ensure compliance, are monitored and adjusted on a continuous basis depending on changing demands of security. Such compliance is achieved through Airport Security’s operational needs and interpretations of federal regulatory requirements.

HSS compliance is constantly monitored by program management staff and already achieved through adherence to established scope of work, training curriculum, post orders and responsiveness to City requests. Daily interactions with HSS management and staff by Airport Security Program Management. Staff assure for continuous monitoring of requirements set forth in the contract as well as Directives made by Airport Security.
RECOMMENDATION 2.2
When an allowable expense agreed to by both parties is found to be missing from future legal contracts, the Director of Airport Security should immediately issue an amendment to include the missing payment terms, and it should be backdated to the start of the contract period.

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Narrative for Recommendation 2.2
The Director of Airport Security does not have unilateral authority to issue an amendment to a contract of the City and County of Denver. However, in situations where discrepancies are identified, the Director of Airport Security will initiate a request to amend the contract via the appropriate procurement process.

In reviewing official documentation and correspondence associated with vehicle mileage reimbursement throughout the life of the 2011-2018 Security Services contract, there are numerous references to internal auditing and invoice adjustments keeping both the City and HSS in good standing.

Additional supporting documentation outlining agreed upon mileage reimbursement rates included the actual 2011 RFP where DEN is requesting mileage rates as part of the package, an addendum to the same 2011 RFP discussing clarification for mileage reimbursements as well as HSS’s response to the 2011 RFP with stated $0.60 mileage rate was provided to the audit team. These references were reviewed and found to be legal.

In 2017 an amendment to the contract included specifically regarding mileage reimbursement.

In the 2018 agreement, mileage reimbursement language was specifically included.

RECOMMENDATION 2.3
The Director of Airport Security should establish a recurring audit of the contractor’s accrual and billing of paid time off to ensure compliance with the contract terms.

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Narrative for Recommendation 2.3
Airport Security currently conducts periodic audits of PTO accruals. In 2017, Airport Security conducted a PTO audit of HSS staff and found an error totaling $30,062 in overpayment to HSS due to errors made within their system. The City did request and was credited the full overage amount in subsequent invoices. Due to the errors, HSS implemented new PTO guidelines at the
request of Airport Security to prevent such errors in the future. These new measures are
currently in place with no documented unsuccessful PTO audit since.

Airport Security will require a PTO audit of HSS four (4) times per year. This audit will be
completed quarterly and at the direction of contract management.

Please contact Dave LaPorte at 303-342-2269 with any questions.

Sincerely,

Dave LaPorte
Senior Vice President - Airport Operations

CC: Kim Day, Chief Executive Officer, Department of Aviation
Gisela Shanahan, Executive Vice President, acting Chief Operating Officer
Adam Giombetti, acting Executive Vice President, acting Chief Financial Officer
Usha Yaragadda, Director of Internal Audit, Department of Aviation
Valerie Walling, Deputy Auditor, CPA, CMC
Sonia Montano, Audit Supervisor
OBJECTIVE

The objective of the audit was to determine whether Denver International Airport’s monitoring and enforcement controls are adequate to ensure airport badges are properly accounted for and controlled. In addition, we evaluated whether operational controls for the Security Violation Notice Program are effective to enhance overall airport security. Lastly, we determined whether financial controls for managing badging, violations, and civil penalties are efficient and effective.

SCOPE

We assessed the effectiveness of Denver International Airport’s Airport Security function as it relates to the badging and credentialing processes and Security Violation Notice Program. In addition, we reviewed the management oversight of the contract with HSS, Inc., for security guard services as well as financial controls for revenue collection. The time period reviewed for this audit was January 1, 2017 through March 31, 2018.

We identified areas of weakness that were reported confidentially to the airport due to their sensitive nature.

METHODOLOGY

We applied multiple methodologies to gather and analyze information pertinent to the audit objective. These methodologies included:

- Interviewing key personnel within Airport Security and Airport Finance (Finance) to gain an understanding of invoicing and revenue collection processes for badging and credentialing transactions
- Reconciling revenue transactions with the corresponding records provided to Finance
- Comparing revenue transactions with the corresponding financial systems, AMS and Workday, to ensure amounts reconciled
- Determining whether late fees are applied with proper interest for late revenue payments
- Reviewing Airport Security’s operating instructions for badging and credentialing, specifically focusing on audits, violations, and financial and contract management
- Ensuring appropriate documentation of all contract extensions and amendments for the HSS, Inc., (HSS) contract
- Analyzing a sample of invoices to ensure that proper documentation is provided and to make sure that unallowable expenses are not reimbursed

Due to the sensitive nature of some security-related information and recommendations, confidential working papers were developed and reported directly to the airport personnel.
• Reviewing all payments made under the HSS contract from 2014 through 2017 to ensure that they did not exceed the maximum contract liability
• Evaluating paid time off accrual and paid records to assess compliance with contract terms
• Obtaining records of non-performance or substandard performance violations to ensure associated fees are assessed in accordance with contract terms
• Analyzing the process for the quarterly incentive award evaluation and payment
• Evaluating whether the quarterly incentive award paid in 2017 exceeded the 1.5 percent of the applicable quarter's billing invoice amounts verified by Airport Security
The Auditor of the City and County of Denver is independently elected by the citizens of Denver. He is responsible for examining and evaluating the operations of City agencies and contractors for the purpose of ensuring the proper and efficient use of City resources. He also provides other audit services and information to City Council, the Mayor, and the public to improve all aspects of Denver’s government.

The Audit Committee is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities regarding the integrity of the City’s finances and operations, including the reliability of the City’s financial statements. The Audit Committee is structured in a manner that ensures the independent oversight of City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.

Our Mission

We deliver independent, transparent, and professional oversight in order to safeguard and improve the public’s investment in the City of Denver. Our work is performed on behalf of everyone who cares about the City, including its residents, workers, and decision-makers.