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July 11, 2019

AUDITOR’S LETTER

In keeping with generally accepted government auditing standards and Auditor’s Office policy, as authorized by city ordinance, the Audit Services Division has a responsibility to monitor and follow up on audit recommendations to ensure audit findings are addressed through appropriate corrective action and to aid us in planning future audits.

In our follow-up effort for the “Aramark Concession Revenues” audit issued April 19, 2018, we determined Denver Arts & Venues did not adequately implement most of the recommendations made in the audit report. We found Arts & Venues implemented only two of the six recommendations. Three others were not implemented, and another was only partially implemented. Therefore, auditors determined the risks associated with the audit team’s initial findings have not been fully mitigated. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure appropriate corrective action is taken.

The Highlights page in this report provides background and summary information about the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation.

I would like to express our sincere appreciation to the Denver Arts & Venues personnel who assisted us throughout the audit and the follow-up process. For any questions, please feel free to contact me at 720-913-5000.

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor
Aramark Concession Revenues
July 2019

Follow-Up Status
Of the six recommendations made in the April 2018 audit report, Denver Arts & Venues did not implement three, only partially implemented one, and fully implemented two.

Objective
The objective of the audit was to assess whether Aramark Sports and Entertainment LLC remitted amounts owed in accordance with the concession agreement, including event and non-event 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 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 ending Oct. 31, 2017. The City awarded Aramark a new five-year contract on Dec. 20, 2017.

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

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

- Inconsistent adherence to cash and inventory policies and procedures, as noted in event documentation for the 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 received incentive compensation if it met annually approved criteria. Although Arts & Venues paid the 2016 incentive compensation, we noted that there was no approval to evidence that Aramark met the 2016 criteria.

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RECOMMENDATION — STATUS OF IMPLEMENTATION

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 **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.

**Status:** Partially Implemented (Original target date for completion: May 2018)

**Agency Action**

Denver Arts & Venues updated its policies and procedures for its contract monitoring program on August 28, 2018, by identifying and assigning responsible parties for monitoring contract terms for both its revenue and expenditure contracts.

The associate accountant maintains an Excel spreadsheet to inventory and monitor contract expiration dates, bonds, and certificates of insurance—as well as required audited financial reports from concessionaires and Service Organization Controls reports from third-party service providers. A Service Organization Controls report provides assurance to the City that a third-party provider has effective internal controls in place over its financial reporting processes.

However, when we followed up on our original audit, we found the updated procedures lacked guidance on how often the associate accountant should monitor the contract, and we found the section entitled “ensure contract terms are met” initially said only “to be determined.” Although Arts & Venues updated the policies and procedures again during our follow-up work, we found insufficient evidence that the policies and procedures were established and fully implemented.

Beginning in 2019, the associate accountant now lets the applicable responsible managers know in writing that a contract is about to expire. Arts & Venues management intends to increase the frequency of these communications to a monthly basis.
1.2 System of Controls Review – Denver Arts & Venues should request Aramark to perform a Service Organization Controls 1, Type II report covering the company’s system of controls over services provided to the City.

Status: Implemented (Original target date for completion: May 2018)

Agency Action
The Denver Arts & Venues finance director requested that Aramark staff initiate Service Organization Controls reporting for the agency.

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.

Status: Not Implemented (Original target date for completion: June 2018)

Agency Action
A venue director with Denver Arts & Venues meets monthly with Aramark’s general manager to review inventory and spoilage reports. However, we found no evidence that Aramark reconciles its inventory to its sales. Beginning in May 2019, the decisions made in the monthly meeting are summarized and signed off by both managers. The first meeting summary stated that the parties agreed a new report will be developed to accomplish the recommended reconciliation. But, to date, they have not reconciled inventory to sales.

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.

**Status: Not Implemented (Original target date for completion: June 2018)**

**Agency Action**

A venue director from Denver Arts & Venues reviews the monthly spoilage reports with Aramark’s general manager during their monthly meeting. The concessionaire contract states this figure should be based on total food cost. Spoilage reports show that Aramark spoilage—which is both employee meals and spoiled goods—is below 0.5 percent. However, Aramark is calculating it based on the larger gross sales.

In June 2019, Denver Arts & Venues’ venue director asked the assistant city attorney to prepare an amendment to the contract to remove the requirement that the 0.5 percent be based on total food cost. The venue director said the clause is either no longer needed or is not the right threshold based on food costs. Until the contract is amended, this recommendation is not implemented.

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**Recommendation**

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.

**Status: Not Implemented (Original target date for completion: Agency response stated the agency had implemented this recommendation as of the issuance of the original audit report)**

**Agency Action**

In the original audit report, Denver Arts & Venues officials stated they had already implemented this recommendation. However, they had not.

As discussed in the agency action related to Recommendation 1.4, the concessionaire contract states that spoilage rates should be based on total food cost. Calculations done by Aramark for the contract period—based on available data between 2015-2018—showed an average spoilage (of both employee meals and spoiled goods) of between 0.31 percent and 0.39 percent against total sales instead of total food cost as required by the contract.

Because the spoilage rates being used by Aramark were not based on the contract-required total food cost, this recommendation is not implemented.
FINDING 2 – There is No Approval Verifying That Aramark Met Criteria to Receive an Incentive Payment in 2016

Recommendation

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 satisfied the established incentive criteria each year and then retain the documentation.

Status: Implemented (Original target date for completion: October 2018)

Agency Action

Denver Arts & Venues collected supporting documentation proving the 2018 incentive criteria were fulfilled before the agency paid Aramark its incentive. A new incentive agreement was completed and signed by Denver Arts & Venues and Aramark for 2019.
CONCLUSION

While Denver Arts & Venues implemented two of the recommendations made in the “Aramark Concession Revenues” audit report, four others have yet to be acted upon or fully implemented. Despite Denver Arts & Venues’ efforts, auditors determined the risk associated with the audit team’s initial findings has not been fully mitigated. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure appropriate corrective action is taken.

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

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.

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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.