

**INTERNAL AUDIT DIVISION  
2005 ANNUAL REPORT**

**Dennis J. Gallagher, Auditor**

**Michael S. Clark, CPA, Director of Internal Audit**



**Office of the Auditor  
City and County of Denver, Colorado**



# CITY AND COUNTY OF DENVER

201 West Colfax Ave., Dept. 705 • Denver, Colorado 80202 • 720-913-5000, FAX 720-913-5247

*Dennis J. Gallagher*  
Auditor

September 11, 2006

Honorable Dennis J. Gallagher  
Auditor  
City and County of Denver

This report summarizes the accomplishments and objectives of the Internal Audit Division of the Auditor's Office for the year ending December 31, 2005. Presented herein is information related to the activities of the Division.

The Internal Audit Division staff takes pride in their contribution to making the City operate as efficiently and effectively as possible. The staff of the entire division deserves credit for their accomplishments and the production of this report.

Sincerely,

A handwritten signature in cursive script that reads "Michael Clark".

Michael Clark, CPA  
Director of Internal Audit

*The prudent stewardship of Denver's finances, resources and financial records! We are also committed to improving accountability, efficiency, effectiveness and performance in city government. We will scrupulously protect the taxpayer's interests and work collaboratively with all concerned to improve our city and its government.*

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## **Background**

City Charter, Article V, Part 2, Section 1, *General Powers and Duties of Auditor*, authorizes the duties and responsibilities of the Auditor. In order to fulfill these responsibilities, the Auditor has organized the Auditor's Office into three divisions: Administration and Internal Audit; Accounting, Finance and Policy; and Communications, Marketing and Records.

The Internal Audit Division strives to provide the City's management with information about the adequacy and effectiveness of the City's system of financial internal controls and the quality of operating performance. To accomplish this responsibility, all City agency and department activities are subject to audit.

The Internal Audit Division is comprised of 24 employees (2005 budgeted FTE) who work out of offices located at Denver International Airport (DIA) and in downtown Denver. The DIA office focuses its resources on auditing airlines, concessionaires and other service providers' contracts. The downtown office focuses on auditing city agencies, City contracts and employee separations.

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## **Vision, Mission, and Objectives**

### **The Auditor's Office Vision:**

*Striving together to build a better Denver.*

### **The Auditor's Office Mission Statement:**

*Our mission – the prudent stewardship of Denver’s finances, resources and financial records! We are also committed to improving accountability, efficiency, effectiveness and performance in city government. We will scrupulously protect the taxpayer’s interests and work collaboratively with all concerned to improve our city and its government.*

The Internal Audit Division sets objectives in order to fulfill this vision and mission. The Director of Internal Audit established the following objectives for the year ended December 31, 2005:

## **AUDIT DIVISION**

### **Vision**

- Strive to leave every place a little better off than we found it.

### **Mission**

- To issue objective studies of issues intended to improve decision making by management and the public, promote efficient and effective operations citywide, and to increase management accountability.

### **Objective**

### **Status**

- |  |          |
|--|----------|
| ● Prepare for an external quality control review commonly known as a peer review.  | On-going |
| ● Perform a self assessment to assess the adequacy of Internal Audit’s internal quality control system and assess whether Government Auditing Standards were followed on a representative sample of audit engagements. | On-going |
| ● Incorporate changes in the Policies and Procedures Manual to address normal maintenance, prior peer review comments, and revisions of Government Audit Standards.  | On-going |
| ● Update the annual risk based audit plan to evaluate the adequacy and effectiveness of the City’s system of Internal Controls.  | On-going |

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**Vision, Mission, and Objectives-continued**

<b><u>Objective</u></b>	<b><u>Status</u></b>
● Address the need for formal authoritative enabling legislation.	On-going
● Improve overall audit efficiency by increasing the hours of direct time spent on audits as a percentage of total hours available.	On-going
● Fill existing staff vacancies.	On-going
● Conduct attestation engagements, operational, performance, financial, and program audits as requested by the Auditor, City's Management, and City Council.	On-going
● Follow-up on the status of management's action on significant or material findings and recommendations. Increase management's accountability to remedy findings promptly by identifying and reporting actions taken.	On-going
● Support the transition of the citywide annual audit and production of the City's Comprehensive Annual Financial Report (CAFR) from Internal Audit to Accounting.	Complete
● Prepare and issue the annual report of the Internal Audit Division's activities.	Complete

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# Operations

## CURRENT STAFF

As of December 31, 2005, the Internal Audit Division had 23 audit staff positions and 1 administrative staff. Of the staff positions, one audit supervisor, one senior auditor, and one staff auditor position were vacant.

*Director of Internal Audit*

**Michael S. Clark, CPA**

*Deputy Director of Internal Audit*

**Richard Wibbens, CPA**

*Administrative Assistant*

Kathleen Howard

***Audit Supervisors***

Philip Cummings, CPA, CFE  
John Finamore, CPA  
Marcus Richardson  
Stan Wilmer, CPA  
Vacant

***Lead Auditors***

Adeniyi Kelani, Ph.D.  
Sonia Montano  
Anita Thompson  
Mike Widner

***Senior Auditors***

Jane Harlow  
Traci Napue  
Norine Reigan, CPA  
Wayne Sanford  
Vacant

***Staff Auditors***

Jacob Claeys  
Nina Davidson  
Anna Hansen  
Jana Kellyova  
Thomas Loreno  
Freddie Martin  
Vacant

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## Operations-continued

All Internal Audit Division auditors have bachelors' degrees in one or more of the following areas: accounting, business administration, economics, finance, fine arts, journalism, and general. In addition, four staff members have masters' degrees and one has a doctorate.

### PROFESSIONAL DEVELOPMENT

In 2005, attention was placed upon meeting continuing professional education requirements in accordance with Government Auditing Standards promulgated by the Comptroller General of the United States. These standards require staff to obtain 80 hours of continuing professional education (CPE) every 2 years.

Professional organizations are a good source for professional development. The audit staff belongs to a combined total of ten different professional organizations. These include the Association of Airport Internal Auditors, American Institute of Certified Public Accountants, Association of Certified Fraud Examiners, Colorado Chapter Association of Certified Fraud Examiners, Colorado Government Finance Officers Association, Colorado Society of Certified Public Accountants, Government Finance Officers Association, Institute of Internal Auditors, National Association of Black Accountants, Inc., and National Association of Local Government Auditors.

### BUDGET-VS-ACTUAL

The Auditor's Office has two budget sources, the City's General Fund and Airport System enterprise fund. The following represents the 2005 Internal Audit Division budget-vs-actual:

	<u>BUDGET</u>		<u>ACTUAL</u>	
	<u>AMOUNT</u>	<u>FTE'S</u>	<u>AMOUNT</u>	<u>FTE'S</u>
General Fund Operations	\$1,154,053	17	\$1,024,521	14
Airport Enterprise Fund Operations	<u>548,879</u>	<u>7</u>	<u>525,756</u>	<u>7</u>
TOTALS	<u>\$1,702,932</u>	<u>24</u>	<u>\$1,550,277</u>	<u>21</u>

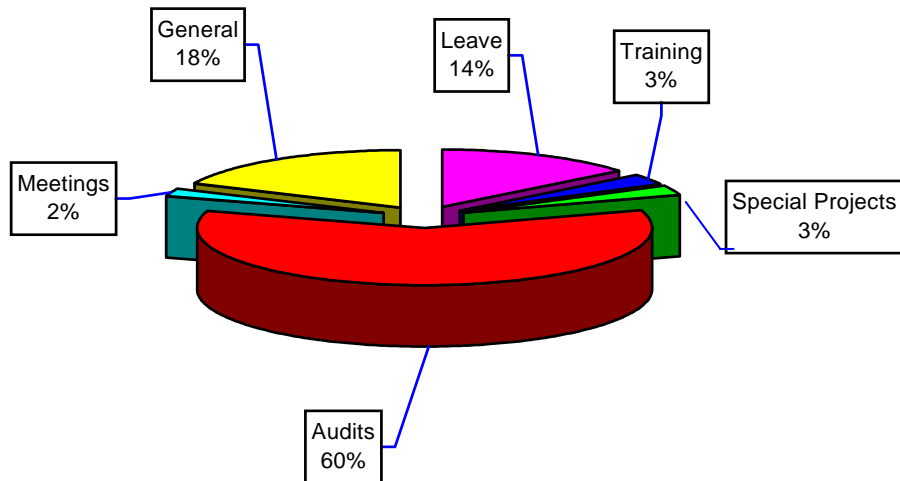


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## Operations-continued

### TIME ALLOCATION

The following chart illustrates the allocation of staff time during the year broken out between audits, special projects, training, meetings, leave and general items.



### AUDIT SELECTION PROCESS

The Division utilizes a risk assessment model for audit selection and preparation of an annual audit plan. The objective of using the risk assessment model is to identify and prioritize audits which pose the greatest risk to the City. Division staff established an audit universe, or population of potential audits, and determined there were 341 possible audits. These potential audits were then evaluated using certain risk factors and ranked from the highest risk to the lowest risk.

Based upon the estimated available hours for the audit personnel in 2005, the Division's 2005 Annual Audit Plan established a goal of working on 42 audits. The following was the status of those 42 audits at year end:

- ✓ 6 audits were completed and a report issued.
- ✓ 26 audits were in progress at year-end
- ✓ 10 audits had not been started at year-end.

In addition, during 2005 we completed 11 other audits and projects, planned and unplanned, from past and current periods.

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## Summary of Performance

### REVENUE AND EXPENDITURE CONTRACTS

Twelve of the audits issued in 2005 were revenue and expenditure contract audits. The following chart is a breakdown of these contract audits with amounts due and paid the City or auditee.

REVENUE AND EXPENDITURE CONTRACT AUDIT	AMOUNT DUE THE CITY (AUDITEE)	AMOUNT PAID TO THE CITY (AUDITEE)	AUDIT BALANCE DUE CITY (AUDITEE)	PAID CITY (AUDITEE) THROUGH 6/22/2006	REMAINING BALANCE OWED TO CITY (AUDITEE)
America West Airlines, Inc.	\$ 5,457,690	\$ 5,457,690	\$ -	\$ -	\$ -
AMPCO System Parking, Inc.	\$ 75,203,514	\$ 75,203,514	\$ -	\$ -	\$ -
AMPCO System Parking, Inc.	\$ (8,753,918)	\$ (8,996,771)	\$ 242,853	\$ 242,853	\$ -
Dollar Rent-a-Car Systems, Inc.	\$ 2,727,537	\$ 2,671,713	\$ 55,824	\$ 55,284	\$ 540
Federal Express Corporation	\$ 3,381,681	\$ 3,381,681	\$ -	\$ -	\$ -
Jet Blue Airways Corporation	\$ 959,688	\$ 953,803	\$ 5,885	\$ 5,885	\$ -
McDonald's Corporation	\$ 456,333	\$ 455,038	\$ 1,295	\$ 955	\$ 340
Northwest Airlines, Inc.	\$ 8,568,225	\$ 8,567,320	\$ 905	\$ 259	\$ 646
Rosmik Inc. dba McDonald's	\$ 292,320	\$ 292,320	\$ -	\$ -	\$ -
SuperShuttle International Denver, Inc.	\$ 460,932	\$ 459,195	\$ 1,737	\$ 1,737	\$ -
Tiara Enterprises Inc dba Payless Car Rental	\$ 862,276	\$ 859,163	\$ 3,113	\$ 2,854	\$ 259
United Parcel Service, Inc.	\$ 3,201,622	\$ 2,926,241	\$ 275,381	\$ -	\$ 275,381
<b>Totals</b>	<b>\$ 92,817,900</b>	<b>\$ 92,230,907</b>	<b>\$ 586,993</b>	<b>\$ 309,827</b>	<b>\$ 277,166</b>

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## **Summary of Performance-continued**

All audits issued by the division fall into one of three categories. Below is a listing of the three categories along with the respective audit reports. For more detailed information, please refer herein to the applicable highlights starting on page 13, or view the entire audit report located on the Internet at [www.denvergov.org/auditor](http://www.denvergov.org/auditor).

### **CITY PERFORMANCE AND COMPLIANCE AUDITS**

*The objective of these audits is to determine compliance with applicable city rules and regulations, contract conditions, and accounting and administrative internal controls. In addition, an attempt is made to determine whether the financial accounts of the auditee within the City's accounting system are fairly stated.*

<b><u>Audit</u></b>	<b><u>Highlights Page</u></b>
Citywide Permit Process	13
Salary Redirection Plan for Qualified Parking Program	14
Fire Safety Inspection Program	15
Mayor's Office Internal Controls	15
Public Trustee Cash Management	16

### **Airport Contract Compliance Audits**

*The objective of these audits is to determine whether the airline, concessionaire, or other service provider paid the correct fees to the City. In addition, compliance with Denver Municipal Airport Systems rules and regulations, Federal Aviation Administration regulations, Executive Orders, landing fee reports, and other relevant provisions in the City Charter and the Denver Revised Municipal Code was tested.*

<b><u>Audit</u></b>	<b><u>Highlights Page</u></b>
America West Airlines, Inc.	17
Ampco Systems Parking, Inc.	17
Dollar Rent-A-Car Systems, Inc.	18
Federal Express Corporation	18
JetBlue Airways Corporation	19
McDonald's Corporation	19
Northwest Airlines, Inc.	20
Rosmik, Inc. d/b/a McDonald's	20
SuperShuttle International Denver, Inc.	21
Tiara Enterprises, Inc. d/b/a Payless Car Rental	21
United Parcel Service, Inc.	22

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## **Summary of Performance-continued**

### **AIRPORT EXPENDITURE AUDIT**

*The objective of this audit is to determine whether the City paid the correct fees under the terms of the contract to the service provider. In addition, compliance with Denver Municipal Airport Systems Rules and Regulations, Federal Aviation Administration Regulations, Executive Orders and relevant provisions in the City Charter and the Denver Revised Municipal Code were tested. Also tested were reported and deposited gross revenues as well as reimbursement for expenses incurred.*

**AUDIT**

Camp Dresser & McKee, Inc.

**HIGHLIGHTS PAGE**

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### **OTHER PROJECTS, ANALYSIS AND NONAUDIT SERVICES**

During 2005, the audit division also completed the following other projects or nonaudit services.

- The City Auditor was informed of identified payroll weaknesses in processing reimbursements and refunds to participants in the Qualified Parking program with an accompanying letter to the audit report. A recommendation was made to review the process in place and ensure it is the most efficient procedure possible.
- A nonaudit service to review calculations of the City Attorney's Office for assessing control employees for personal use of City-owned vehicles for the years ended December 31, 2003, 2002, and 2001 was performed. Recommendations were made regarding amounts to be assessed and that proper accounting for control employees was inadequate.
- A nonaudit service for Public Works relating to cash handling for tax assessments at Larimer Street Maintenance District was performed. A recommendation was made regarding inappropriate accounting practices at the district which was turned over to both the City Attorney's Office and District Attorney's Office resulting in a reimbursement through the City back to the District of \$21,454.

### **EMPLOYEE SEPARATION AUDITS**

In addition to the audits listed above, the division audits the final pay of all employees leaving the City. The objective of these audits is to determine whether the employees are properly paid for their vacation, sick, overtime, and regular pay.

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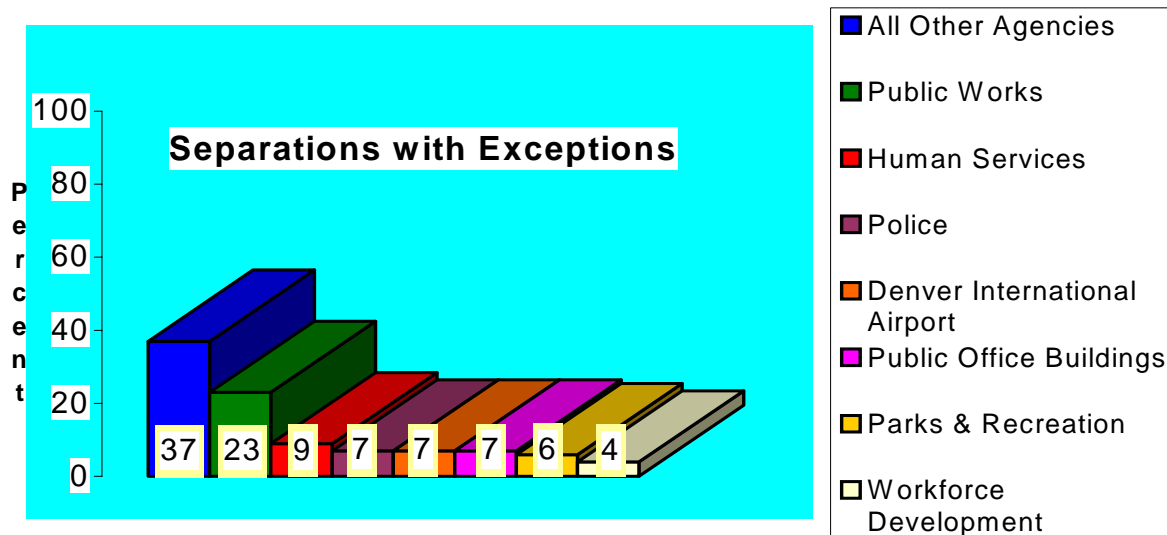
## Summary of Performance-continued

In 2005, 1,064 employees' separations were audited by the Division. There were exceptions in 460, or about 43%, of the separations. This percentage of errors is 36% more than 2004. Amounts determined as due to the City totaled \$245,491; additional amounts due to employees totaled \$81,465 resulting in a net adjustment of \$164,026 due the City. This net adjustment due the City is over 54% higher than the net amount that was due from separations in the year 2004.

There were approximately 835 individual errors detected in auditing separations for 2005. The most frequent errors, in order, were:

- ✓ Incorrect leave accruals
- ✓ Overpayment on last employee paycheck
- ✓ Failure to process separation documentation in a timely manner
- ✓ LWOP taken but not deducted from pay
- ✓ Leave record posting error
- ✓ Underpayment on last employee paycheck
- ✓ Sick payout miscalculated
- ✓ Failure to process PAF in a timely manner

For the following schedule, seven city agencies with the highest percentage of errors were selected. These seven agencies accounted for 63% of all employee separation errors.



The Internal Audit staff has put forth an effort to try and reduce the overall error rate in separations by sending letters to agency heads and meeting with managers.

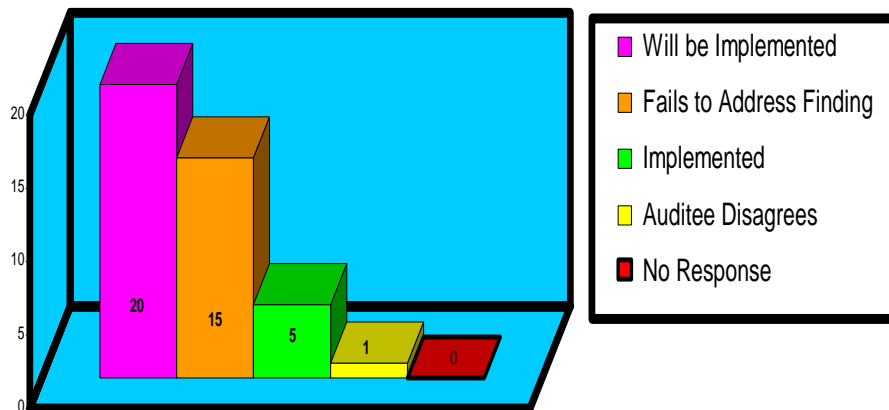
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## Summary of Performance-continued

### AUDIT FOLLOW-UP

To meet the standard of due professional care, the Internal Audit Division has established a process that assesses the adequacy, effectiveness, and timeliness of management's actions on reported findings and recommendations. Management of each audited entity is primarily responsible for deciding the appropriate action to be taken on reported audit findings and recommendations. One of the Division's on-going objectives is to track the status of management's action on findings and recommendations.

After the issuance of each audit report, a form entitled "Audit Follow-up" is completed. The form summarizes and categorizes the audit's findings and the auditee's responses, which were included in the audit report. Findings are categorized based on type, activity, or function. Responses are categorized within a range from implementation of corrective measures to no auditee response. For audit reports issued during 2005, the responses are categorized as follows:



Six months after our audit report's issuance, a follow-up letter may be sent to the auditee depending upon the content of the original findings. This letter requests written confirmation of all actions taken to correct or otherwise resolve the findings and recommendations included in the audit report. Internal auditors review responses to determine if physical confirmation of the action taken is necessary or feasible. Appropriate measures may include additional testing procedures or merely documenting the written contact. A letter of disclosure may be sent to the appropriate City officials to convey the status of taking corrective action, if deemed necessary.

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## **Future Goals**

For the year 2006, the Internal Audit division has set the following goals to pursue:

- ⇒ Undergo an external quality control review to meet Government Audit Standards.
- ⇒ Address the need for formal authoritative enabling legislation for Internal Audit operations.
- ⇒ Review and evaluate the impact of the expected revised Yellow Book standards on the Division's quality control system.
- ⇒ Strive to improve overall audit efficiency by increasing the hours of direct time spent on audits.
- ⇒ Strive to reduce the staff hours necessary to perform audits.
- ⇒ Strive to issue more timely audits and reduce audit duration.
- ⇒ Continue encouragement and support for staff members participation in the N.A.L.G.A. reciprocity peer review program.
- ⇒ Review and assess the Annual Audit Plan process for currency and validity.
- ⇒ Analyze the value added concept for management as it relates to the types of audits performed.
- ⇒ Seek City management's and Audit Committee input to the annual risk assessment plan.
- ⇒ Address routine upkeep needed within Internal Audit's Policies and Procedures Manual.
- ⇒ Develop and implement a standardized training program for new audit staff.

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## Highlights

### CITY PERFORMANCE AND COMPLIANCE AUDITS

Audit Title:                   **Citywide Permit Process**  
Audit Period:                January 1, 2003 through March 31, 2004

Summary of Reportable Conditions:

- Customer Service was lacking in some areas.
- Customers did not receive adequate and current rules and regulations to follow.
- Projects are assigned to case managers based on land dimensions and not complexity of the projects. Case managers do not provide assistance to customers from beginning to completion of the project, i.e. certificate of occupancy.
- The City's zoning code is complicated; therefore the rules were not applied in a consistent manner.
- Cooperation and communication between City departments and agencies within the overall permit process was weak.
- City staff did not fully utilize the Geographic Information System (GIS) and CityView System.
- There was a lack of obtaining or renewing professional certification and on-going inter-agency training of staff.
- Customer training sessions (offered in other cities) that could result in time savings for the planning, zoning, building permits, and inspection groups were not in place.
- Information available to permit customers on the City's web site was not easy to use and difficult to find.
- Engineering staff of the Wastewater Division was separated from the counter staff causing delays and poor customer service.
- Signage in the Webb Building was inadequate and confusing.
- Zoning research was a time consuming process.
- Furniture and computers did not provide the necessary tools for staff to conduct their jobs in the most efficient manner.
- Internal controls were not adequate; some non-exempt staff were allowed to work unpaid overtime.
- There was a lack of segregation of duties and adequate backup for the health inspector who reviews restaurant plans and inspects the facilities prior to opening.



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## Highlights-continued

Disposition:

The initial responses did not address or correct the findings and indicated that recommendations would be considered when revising the permit process.

Comment:

A performance audit is an objective and systematic examination of a process or function. This report is a guideline, a roadmap, not only detailing areas in need of improvement in the City's permitting and licensing process but making specific recommendations regarding those improvements.

Audit Title:

**Salary Redirection Plan for Qualified Parking Program**

Audit Period:

Year Ended December 31, 2003

Summary of Reportable Conditions:

- The internal controls surrounding the administration of the Qualified Parking program in CSA needed improvement. Procedures used to process reimbursement claims were not documented or followed in a consistent manner.
- CSA personnel did not perform detailed reconciliations of the Qualified Parking Fund in 2003. As a result, incorrect entries caused the fund to be misstated.

Disposition:

CSA responded that many of the findings would no longer occur with the PeopleSoft system being used to administer the program. CSA agreed that stronger internal controls could be helpful in improving the administration of the program; additional corrective measures with respect to this matter were being developed and would be implemented. CSA indicated they would make every effort to reconcile funds on a monthly basis with their current resources until a person could be hired to perform the accounting duties.

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## Highlights-continued

Audit Title:           **Fire Safety Inspection Program**  
Audit Period:        January 1 through December 31, 2004

Summary of Reportable Conditions:

- There was not adequate training for all firefighters to understand the fire code and to deliver inspection services effectively. Inspectors assigned to the Fire Prevention Bureau required more technical and specialized training.
- The internal controls in place for receiving, recording, and depositing the program's revenue needed improvement.

Disposition:

The majority of responses indicated that the agency implemented the recommendations as they were brought to their attention.

Comment:

The objective of the audit was to gain an understanding of the daily routine of the firehouses responsible for local inspections and the inspectors assigned to the Fire Prevention Bureau in order to evaluate the processes associated with the task of completing annual fire inspections. Additionally, the procedures for receiving revenue were reviewed to determine if all revenue is recognized on an efficient and timely basis.

Audit Title:           **Mayor's Office Internal Controls**  
Audit Period:        January 1, 2000 through December 31, 2003

Summary of Reportable Conditions:

- The Mayor's Office was not properly accounting for, identifying, and safeguarding the City's fixed assets by not maintaining adequate and timely fixed asset records.
- The Mayor's Office was unable to account for and determine the disposition of 10 of 23 (44%) cell phones assigned to the office at the time of the administrative changeover in July 2003. In addition, the Major's Office allowed an ex-employee to possess and use a City cell phone for 26 months after their employment separation, resulting in the City paying \$653 for related phone charges.

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## Highlights-continued

Disposition:

The Mayor's Office responded that current and future physical inventory counts of the Mayor's Office fixed assets and cell phones would take place. Annual reconciliations of recorded fixed assets would be implemented. A comprehensive City policy regarding cell phones and hand-held devices will be considered.

Audit Title:                   **Public Trustee Cash Management**  
Audit Period:                January 2003 through December 2003

Summary of Reportable Conditions:

- The Public Trustee (PT) did not maintain appropriate written procedures or trained personnel for accurate and timely bank statement reconciliations. Internal controls related to segregation of duties, accounting for stale and outstanding checks, and recording internal transactions were weak.
- There was an overall lack of internal controls and accounting procedures related to cash handling and internal accounting.
- Several exceptions were related to the accounting of revenue for copying services provided by PT.

Disposition:

The response received from PT indicated that corrective actions have been or will be implemented on each reportable condition.

Comment:

A previous audit issued by the Auditor's Office in 1995 reported similar findings related to cash handling and bank reconciliations. The current audit did not note any significant improvements in these areas.

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## Highlights-continued

### AIRPORT CONTRACT COMPLIANCE AUDITS

Audit Title:           **America West Airlines, Inc.**  
Audit Period:        Year Ended December 31, 2002

Summary of Reportable Conditions:

- America West Airlines, Inc. did not submit the audited annual report of its passenger facility charges (PFC).

Disposition:

The Department of Aviation's response indicated that corrective measures would be developed and they would obtain the required audited PFC report. America West chose not to respond.

Comment:

The Auditor's Office was unable to review the annual PFC report, and therefore was unable to determine if the independent auditor concluded that the report was fairly presented and whether the PFC amounts and compensation withheld were calculated properly.

Audit Title:           **Ampco System Parking, Inc.**  
Audit Period:        Year Ended December 31, 2003

Summary of Reportable Conditions:

- It was determined Ampco owed the City \$245,086 for excessively reimbursed unemployment costs.
- The City owed Ampco \$2,233 for company incentive fees.
- It was determined that additional controls would be beneficial to verify workers' compensation costs.

Disposition:

Both Aviation's and Ampco's responses were positive and favorable for taking corrective action for the excessive reimbursement and the underpayment of incentive fees.

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## Highlights-continued

Comment:

The purpose of the audit was to determine whether Ampco properly reported and deposited gross revenue and was reimbursed for expenses that were incurred and paid by Ampco according to contract terms.

Audit Title:           **Dollar Rent-a-Car Systems, Inc.**  
Audit Period:        Year Ended December 31, 2002

Summary of Reportable Conditions:

- It was determined Dollar Rent-a-Car Systems, Inc. owed the City \$55,824. This amount included underpayments of concession fees (\$19,848) and usage fees (\$9,952), past due interest (\$12,492), and audit costs (\$13,532).

Disposition:

The Department of Aviation agreed to assess the amounts due. Dollar requested additional time to determine the validity and accuracy of the finding.

Comment:

The Auditor's Office did not support Dollar's request for further delay in processing and issuance of the audit report. The Auditor's Office recommended that if Dollar seeks change or relief from the audit results, Dollar should obtain DIA's approval to engage an independent CPA to test the error percentage or pull and examine 100% of the rental agreements and compute the exact percentage from all documents.

Audit Title:           **Federal Express Corporation**  
Audit Period:        Year Ended December 31, 2001

Summary of Reportable Conditions:

- Federal Express Corporation did not maintain the amount of performance bond required by the contract.

Disposition:

The Department of Aviation and Federal Express Corporation's response indicated a new performance bond in the correct amount is maintained for the current year.

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## Highlights-continued

Audit Title:           **Jet Blue Airways Corporation**  
Audit Period:       Year Ended December 31, 2002

Summary of Reportable Conditions:

- Jet Blue Airways owed the City \$5,885 for interest on late payments.
- The Department of Aviation allowed Jet Blue to lease space at DIA without prior approval from City Council.

Disposition:

The Department of Aviation will invoice Jet Blue for interest due. The Department of Aviation is developing a month-to-month lease for non-signatory airlines leasing space at the airport to be approved by City Council. Aviation was preparing a permit for Jet Blue which would be circulated internally for review and comment.

Comment:

Jet Blue is a non-signatory airline and does not have a contract with the City. Therefore, Airport rules and regulations apply to Jet Blue's activities at DIA.

Audit Title:           **McDonald's Corporation**  
Audit Period:       Year Ended December 31, 2002

Summary of Reportable Conditions:

- McDonald's Corporation owed the City \$1,295 for interest accrued on late payments.

Disposition:

The Department of Aviation agreed to invoice McDonald's for \$955. Aviation responded that their interest system was modified in January 2002 to run the interest program weekly instead of monthly, with a materiality basis of more than \$20 per invoice. This reflects a disagreement with amount due for interest charges. McDonald's chose not to answer.

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## Highlights-continued

Audit Title: **Northwest Airlines, Inc.**  
Audit Period: Year Ended December 31, 2002

Summary of Reportable Conditions:

- It was determined Northwest Airlines owed the City \$905 for interest charges.
- The Department of Aviation did not bill Northwest Airlines electrical charges timely.

Disposition:

The Department of Aviation disagreed with the amount owed for interest charges; mostly with regard to how interest is charged for holidays or weekends. Aviation indicated the electrical billing process has been improved.

Comment:

The Auditor's Office responded that DIA should collect the entire amount of interest charges according to the contract.

Audit Title: **Rosmik, Inc. d/b/a McDonald's**  
Audit Period: Year Ended December 31, 2002

Summary of Reportable Conditions:

- There were no reportable conditions disclosed in this audit.

Disposition:

Not Applicable.

Comment:

The audit objective was to determine whether Rosmik properly reported gross revenue and costs, and paid the City the correct amounts for compensation fees, space rent, and utility charges in accordance with the contract. The audit also determined whether Rosmik and the Department of Aviation complied with other terms and conditions of the contract, as well as other City rules and regulations.

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## Highlights-continued

Audit Title: **SuperShuttle International Denver, Inc.**  
Audit Period: January 1, 2003 through December 31, 2004

Summary of Reportable Conditions:

- It was determined SuperShuttle owed the City \$1,737 for interest charges.
- The Department of Aviation issued SuperShuttle a \$150 credit, which was not applied in a timely manner.
- Due to a Automated Vehicle Identification system error, SuperShuttle was erroneously billed.
- The contract between the City and SuperShuttle erroneously required SuperShuttle to submit certified annual statements to the City.

Disposition:

The Department of Aviation response agreed with amount of interest due. Aviation is implementing new software that will help eliminate billing errors. Aviation also responded that they would renegotiate contract terms to eliminate or modify the required annual statement.

Audit Title: **Tiara Enterprises, Inc. d/b/a Payless Car Rental**  
Audit Period: Year Ended December 31, 2002

Summary of Reportable Conditions:

- It was determined Payless Car Rental owed the City \$2,398 for percentage compensation fees and \$715 for interest on late payments.

Disposition:

The Department of Aviation's response indicated they would invoice Payless \$2,398 for percentage compensation fees. Aviation responded that their interest system was modified in January 2002 to run the interest program weekly instead of monthly, with a materiality basis of more than \$20 per invoice. This practice reflects disagreement with the amount due for interest charges as reported.



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## Highlights-continued

Audit Title: **United Parcel Service, Inc. (UPSI)**  
Audit Period: Year Ended December 31, 2003

Summary of Reportable Conditions:

- It was determined that UPS did not maintain the required performance bond amount.
- United Parcel Service, Co. (UPSC) owed the City \$275,381 in non-signatory landing fees.
- UPSI was not in compliance with having a written agreement for subletting and assignment arrangements.

Disposition:

The Department of Aviation's and UPS' responses indicated that corrective measures were developed and the performance bond was corrected. The Department of Aviation did not intend to bill UPSC for the non-signatory landing fees as the intent of both parties had been that UPSC was a signatory cargo airline and that they would issue a replacement contract to clarify. DIA was to survey other airports to determine best practices with regard to cargo feeder airlines and was planning to document a policy in Airport Rules and Regulations. UPSI did not believe they had sublet or assigned their space to anyone.

Comment:

The Auditor's Office responded that they were reporting the fact that two separate legal entities were operating at DIA and only one entity had a contract with the City. It was the Auditor's Office opinion that UPS had assigned use of its rented space to Key Lime.

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## Highlights-continued

### AIRPORT EXPENDITURE AUDIT

Audit Title: **Camp Dresser & McKee, Inc.**  
Audit Period: May 11, 1999 through April 30, 2002

Summary of Reportable Conditions:

- Camp Dresser & McKee, Inc. did not comply with the requirement to include sub-consultants performing services under the contract on each required insurance policy or furnish separate certificates.

Disposition:

The Department of Aviation responded that if they determine that a contractor is not in compliance with the insurance requirements, then payment to the contractor will be withheld until requirements have been met.