

FOLLOW-UP REPORT

Denver International Airport

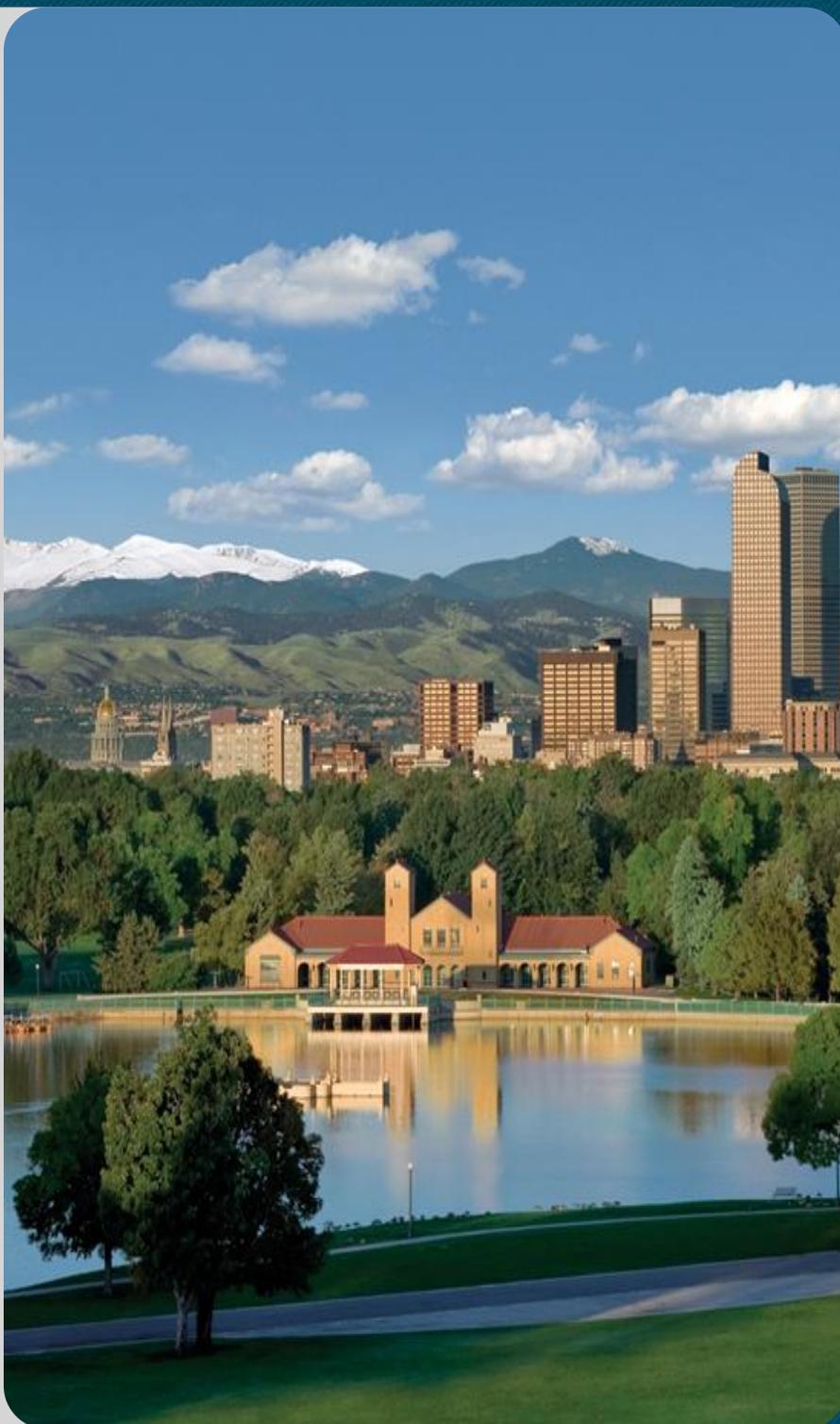
Airport Concession Disadvantaged Business Enterprise Program

April 2017

**Office of the Auditor
Audit Services Division
City and County of Denver**



**Timothy M. O'Brien, CPA
Denver 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 and providing other audit services and information to City Council, the Mayor, and the public to improve all aspects of Denver's government.

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Office of the Auditor

201 West Colfax Avenue, #705
Denver CO, 80202
(720) 913-5000 ♦ Fax (720) 913-5247

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City and County of Denver

201 West Colfax Avenue, #705 • Denver, Colorado 80202

720-913-5000 • Fax 720-913-5253 • www.denvergov.org/auditor

Timothy M. O'Brien, CPA
Auditor

April 6, 2017

Ms. Kim Day, Chief Executive Officer
Department of Aviation
City and County of Denver

Mr. Paul Washington, Director
Office of Economic Development
City and County of Denver

Re: Audit Follow-Up Report

Dear Ms. Day and Mr. Washington:

In keeping with generally accepted government auditing standards and the Audit Services Division's policy, as authorized by D.R.M.C. § 20-276, our Division has a responsibility to monitor and follow-up on audit recommendations to ensure that audit findings are being addressed through appropriate corrective action and to aid us in planning future audits.

This report is to inform you that we have completed our follow-up effort for Denver International Airport's (DIA's) Airport Concession Disadvantaged Business Enterprise (ACDBE) program audit issued May 21, 2015. Our review determined that the Division of Small Business Opportunity (DSBO) and DIA have implemented some of the recommendations made in the audit report. Despite their efforts, auditors determined that the risk associated with the audit team's initial findings has not been fully mitigated. As a result, the Division may revisit these risk areas in future audits to ensure that appropriate corrective action is taken.

For your reference, this report includes a highlights page that provides background and summary information on the original audit and the completed follow-up effort. Following the highlights page is a detailed implementation status update for each recommendation. Although we did not update the status of recommendations that DSBO disagreed with, these recommendations are included in the status update section as a reference.

This concludes audit follow-up work related to this audit. I would like to express our sincere appreciation to you and to DIA and DSBO personnel who assisted us throughout the audit and follow-up process. If you have any questions, please feel free to contact me at 720-913-5000 or Yvonne Harris-Lott, Internal Audit Supervisor, at 720-913-5086.

Denver Auditor's Office

A handwritten signature in black ink, appearing to read "Timothy M. O'Brien".

Timothy M. O'Brien, CPA
Auditor



Denver International Airport – Airport Concession Disadvantaged Business Enterprise Program April 2017

Status

The Division of Small Business Opportunity (DSBO) and Denver International Airport (DIA) have implemented 8 of the 13 recommendations the agencies agreed to implement from the May 2015 audit report.

Background

The federal government established the Airport Concession Disadvantaged Business Enterprise (ACDBE) program to encourage minority business owners to own concessions at airports, such as newsstands, coffee shops, restaurants, and retail shops. In return for participation, DIA receives funding for airport infrastructure improvement projects. DSBO manages the ACDBE program by certifying firms for participation and monitoring for compliance with eligibility provisions. Firms are certified based on social and economic disadvantage, business size, ownership and control requirements, and personal net worth.

Objective

The objective of the audit was to determine whether the City's ACDBE program is:

- Meeting its intended purpose; and
- Effectively mitigating potential abuse of the program through its certification and compliance activities.

REPORT HIGHLIGHTS

Highlights from Original Audit

FINDING 1

Audit work identified several issues with calculating owner personal net worth for certification purposes. We found inaccuracies, inconsistencies, and questionable calculations performed by DSBO. Further, DSBO generally did not use third-party resources to verify the accuracy of owners' personal financial information. We also found that DSBO could have more fully utilized its system for maintaining certification information, and that a recent amendment to the federal regulations could have helped DSBO utilize its resources more strategically. These weaknesses increased the risk that firms would remain in the program when they were no longer eligible.

We also reviewed additional activities performed by DSBO to ensure program compliance, including monitoring joint venture agreements and performing concession site visits. We found that the joint venture agreements addressed key features recommended by federal guidelines. However, DSBO had not finalized its site visit procedure to ensure continuity or maximize coverage of all ACDBE concession locations. Furthermore, DSBO had not revised the DIA ACDBE Concession Program Plan in accordance with federal regulation. Finally, DSBO needed to establish and document ACDBE complaint handling procedures.

FINDING 2

DIA and DSBO had adopted some key practices to encourage contract awards to ACDBE-certified firms but DSBO could have done more to improve program participation. First, implementing a business development program or mentor-protégé program could have furthered the development of ACDBE-certified firms by helping them compete more effectively outside of the ACDBE program. Second, DIA could have fully implemented its Million Dollar Loan Program to provide financial assistance to ACDBE-certified firms for future concession opportunities. Third, DIA should have worked with DSBO to assess what long-term effect the Premium Value Concessions Program may have had on new ACDBE entrants into DIA's concession program.

Findings at Follow-up

Of the 13 recommendations agreed to, 8 have been fully implemented. DSBO has developed policies and procedures related to the certification process and the personal net worth analysis. DSBO now requires documentation to be uploaded to its certification system (B2G) and has enhanced its procedures for conducting site visits. The Concession Program Plan has been approved. DSBO is formalizing complaint procedures and has implemented the Concession Loan Program and posted details of the program on DIA's website. However, five recommendations were not fully implemented. Additionally, DSBO disagreed with two of the recommendations in the initial response to the audit.

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Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
FINDING 1: Weaknesses in Division of Small Business Opportunity Processes Could Adversely Affect the Integrity of the Airport Concession Disadvantaged Business Enterprise Program		
<p>1.1 Personal Financial Statement Supporting Documentation— Develop more detailed guidance regarding certification processes in the form of policies and procedures, especially where the federal regulations are broad or lack clarity. DSBO should require that owners of certified firms submit documentation to support the information reported on the Personal Financial Statement and determine what supporting information is required. These requirements can be defined using a risk-based approach, to reduce the burden on both owners with a lower personal net worth and DSBO personnel.</p>	<p>DSBO agreed with the recommendation but did not specifically agree to develop more detailed guidance. However, in August 2015, DSBO developed a policy that provides guidance on requesting additional documentation when evaluating the personal net worth of certified firms’ owners. This policy addresses when to request additional documentation to support information reported on the Personal Financial Statement (PFS). It also requires additional requests for information to be made in writing with an explanation and for all follow-up requests to be documented in the B2G system. Finally, the policy authorizes DSBO personnel to utilize external resources to help verify information submitted by applicants. The policy does not require owners to submit documentation to support information reported on the PFS and does not address what supporting information is required. However, the agency is in the process of updating their policies to address this matter and have determined that an updated policy will be available no later than December 2017.</p>	<p>Partially Implemented</p>

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<p>1.2 Additional Supporting Documentation—Establish a threshold defining material assets and liabilities that will trigger additional documentation requests and subsequent personal net worth analysis and develop more detailed guidance in the form of policies and procedures to address when and what additional supporting documentation should be obtained to enhance the assessment of the personal net worth of ACDBE-certified firms’ owners. DSBO should work with the Federal Aviation Administration to ensure that the guidance developed is in full compliance with federal regulations.</p>	<p>DSBO developed a policy that provides guidance regarding requesting additional documentation when a Personal Financial Statement (PFS) reveals that the applicant is close to the \$1.32 million personal net worth limit. However, the guidance is broad in nature and does not establish a threshold. Specifically, it states that the analyst should request additional documentation when the PFS shows that the applicant is "close to the \$1.32M limit." This is not significantly different from the current unwritten practice. Further, the policy does not address what additional supporting documentation should be obtained. Therefore, this recommendation is considered not implemented.</p>	<p>Not Implemented</p>
<p>1.3 External Resources—Develop guidance in the form of policies and procedures addressing external resources that DSBO personnel could use to assist in its personal net worth analysis.</p>	<p>The policy DSBO developed to provide guidance on when to request additional documentation when evaluating personal net worth addresses this recommendation. Specifically, it states that analysts may use county assessor offices, Zillow, or audited financial statements to assist in analyzing personal net worth.</p>	<p>Implemented</p>
<p>1.4 Documentation Maintenance—Determine what certification supporting documentation should be maintained in B2G.</p>	<p>DSBO provided information and documents indicating that all certification documentation is loaded and stored in B2G.</p>	<p>Implemented</p>

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<p>1.5 Threshold for Alternative Approach to Personal Net Worth Analysis— Define a threshold for implementation and utilize the alternative approaches allowed by federal regulations to evaluate whether a firm’s owner is economically disadvantaged on an as-needed basis.</p>	<p>In the formal audit response, DSBO agreed with this recommendation, adding that the agency already does this; we disagree. The policy that DSBO provided in response to implementing Recommendation 1.1 contains language that mirrors language in the Code of Federal Regulations (CFR), but the policy does not address the point at which the analyst should utilize alternative approaches. Additionally, it does not refer to some alternative approaches available in the CFR, such as whether the average adjusted gross income of the owner over the most recent three-year period exceeds \$350,000, or whether the total fair market value of the owner’s assets exceeds \$6 million. Although DSBO included at a high level, language related to use of alternative options, they did not provide clear examples of alternative approaches to reviewing an applicant’s personal net worth. Therefore, this recommendation is considered not implemented.</p>	<p>Not Implemented</p>
<p>1.6 Define Experience Requirements— Develop guidelines for evaluating the experience and qualifications required for ACDBE certification.</p>	<p>No action taken</p>	<p>Disagree</p>
<p>1.7 Risk-based Approach to Frequency of Renewals—Work with the Federal Aviation Administration to determine whether DSBO could adopt a risk-based approach to the frequency of renewal reviews rather than continuing with standard three-year certification renewals.</p>	<p>No action taken</p>	<p>Disagree</p>

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<p>1.8 Planned Site Visit Approach— Establish a planned approach to conduct concession site visits for all ACDBEs that is random yet risk-based, occurs within a set time period not to exceed three years, and plans site visits of two or more concessions at a time.</p>	<p>DSBO developed a Concessions Site Visit Procedure and updated its site visit log. The procedure requires staff to create a schedule for site visits. It does not address how this is to be established and it does not require a random or risk-based approach. Instead, it requires that "All concessions... should be visited at least once per year, or more frequently if issues arise." It also encourages DSBO staff to schedule two or three visits per outing.</p>	<p>Implemented</p>
<p>1.9 Site Visit Tracking—Establish a log to document and track all site visits to help schedule visits, monitor progress, and follow-up on concerns at concessions, as appropriate.</p>	<p>DSBO updated its site visit log. The log shows site visits to aid scheduling, but the site visit results and supporting documentation are maintained in B2G. DSBO will have to utilize B2G to monitor progress and follow up on concerns. However, because DSBO developed the log, this recommendation is considered implemented.</p>	<p>Implemented</p>
<p>1.10 ACDBE Concession Program Plan— Expedite the review of the December 2014 draft ACDBE Concession Program Plan and submit it to the FAA for review and approval. In addition, all significant future program changes should be updated and submitted to the FAA in a timely manner.</p>	<p>The updated ACDBE Concession Program Plan was approved and posted to Denver International Airport’s website.</p>	<p>Implemented</p>

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<p>1.11 ACDBE Complaint Process— Establish ACDBE complaint handling procedures that include independent review and recommendation subject to final approval by the DSBO Director and documentation requirements of all final decisions.</p>	<p>Although there is a “File a Complaint” link on DIA’s website providing an outlet for reporting complaints, the link directs users to DSBO’s website and the MWBE program’s complaint policy, and then provides the address for submitting a written, signed complaint. In addition, the link was broken when auditors checked it in January 2017. The agency is in the process of formalizing procedures to address the complaint process. These procedures will address the agency’s documentation requirements and dispute resolution.</p>	<p>Implemented</p>

FINDING 2: Denver International Airport and the Division of Small Business Opportunity Could Better Serve the Airport Concession Disadvantaged Business Enterprise Population by Removing Additional Barriers to Obtaining Concessions

<p>2.1 Business Development/Mentor-Protégé Program Implementation— The DSBO Director should initiate action to create and implement a business development program including a potential mentor-protégé component with a limited approach or pilot program.</p>	<p>In its formal response to the audit, DSBO agreed to create a business development program. In January 2017, DSBO provided a copy of its draft Mentor Protégé program, but has not demonstrated that the program has been finalized or initiated. Additionally, the agency is in the process of developing a business development program; however, due to the complex nature of this type of program DSBO subsequently recognized that it will take at least two years to develop a robust program.</p>	<p>Partially Implemented</p>
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Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<p>2.2 Concession Loan Program Implementation—The DIA Chief Revenue Officer should continue to work with OED and DIA personnel to fully develop and implement the Million Dollar Airport Concession Loan Program, including the creation of policies and procedures specific to loan application review and approval.</p>	<p>In April 2016, DIA officially announced the offering of the Airport Concession Loan Program. DIA also developed policies and procedures specific to loan application review and approval. Although no loans have officially been made, DIA has taken steps to develop and implement the program and reduce the risk identified in the audit report.</p>	<p>Implemented</p>
<p>2.3 Concession Loan Program Transparency—Once fully developed, the DIA Chief Revenue Officer should offer interested parties an avenue to learn about the Million Dollar Airport Concession Loan Program on-line.</p>	<p>DIA’s website includes a page dedicated to the Concession Loan Program. This webpage includes basic information and has links to application documents and contact information for specific staff from whom interested parties can obtain more information.</p>	<p>Implemented</p>
<p>2.4 PVC Program Assessment—The DIA Chief Revenue Officer should work with the DSBO Director to perform an assessment of the potential long-term impact the Premium Value Concessions program may have on DIA’s goal of providing disadvantaged businesses the maximum opportunity to participate in its concession program.</p>	<p>In the formal audit response, DSBO stated that representatives from the DIA Revenue Management Division would meet with the DSBO Director to perform this assessment. However, auditors did not receive any documentation of such a meeting or of any analysis. Therefore, this recommendation is considered not implemented.</p>	<p>Not Implemented</p>

Conclusion

While the Division of Small Business Opportunity (DSBO) and Denver International Airport (DIA) have implemented most of the recommendations made in the DIA Airport Concession Disadvantaged Business Enterprise Program audit, others have yet to be acted upon or fully implemented. In the past year, there have been significant changes in DSBO's management and staff responsible for the ACDBE program. Management informed the audit team of several areas where they are improving processes and controls. We acknowledge these efforts and the difficulty that the current management team faces in addressing risks identified under a prior team. However, auditors determined that 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 that appropriate corrective action is taken.

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