

FOLLOW-UP REPORT

Denver Arts & Venues

Red Rocks Events Contracts

December 2018



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City and County of Denver
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AUDITOR'S REPORT

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 audit findings are being addressed through appropriate corrective action and to aid us in planning future audits.

In our follow-up effort for the Red Rocks Event Contracts audit issued March 16, 2017, we determined that Denver Arts & Venues has adequately implemented most of the recommendations made in the audit report. We may revisit the remaining potential risk area, which was not fully mitigated, in future audits to ensure 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.

This concludes audit follow-up work related to this audit. I would like to express our sincere appreciation to you and to Denver Arts & Venues 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 Cody Schulte, Internal Audit Supervisor, at 720-913-5066.

Denver Auditor's Office

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

Timothy M. O'Brien, CPA
Auditor



Red Rocks Event Contracts November 2018

Follow-up Status

We made five recommendations in the March 2017 audit report. Denver Arts & Venues has implemented four of the recommendations and partially implemented the remaining one.

Objective

The objective of the audit was to assess the degree to which Red Rocks and Denver Arts & Venues personnel properly monitor, control, account, and report for remittances of amounts owed from contracted Red Rocks venue use. Additionally, we audited whether the standard Red Rocks Venue User Agreement template complies with appropriate rules, regulations, and ordinances and that agreements are properly executed prior to the event date.

Background

Red Rocks is an outdoor entertainment venue that the City has owned since 1928. It generated \$31.2 million in revenue in 2016 and \$23.5 million in 2015.

REPORT HIGHLIGHTS

Highlights from Original Audit

Generally, we found that Red Rocks and Denver Arts & Venues personnel properly monitored, calculated, controlled, accounted for, and reported remittances of amounts owed by the venue users in compliance with standard Red Rocks venue user contract terms. However, we identified a few minor internal control exceptions. By strengthening internal controls surrounding venue user agreements, the City will be better positioned to ensure that it is receiving all revenues due in a timely and accurate manner.

The audit identified several areas for improvement of the internal controls currently in place surrounding the agreements for events held at Red Rocks. First, we found that event contracts were often not executed prior to the event date. Second, authorization documentation was not maintained for invoice charges for entertainer awards. Third, Denver Arts & Venues personnel did not obtain formal assurance to fully assess whether ticket sales information provided by its exclusive ticket seller for all Denver Arts & Venues venue events was correct. Fourth, we observed that event settlements were paid using a physical check versus minimizing the risks of loss and theft and increasing efficiency by utilizing electronic funds transfer. Finally, we found that there was no documentation for waiving required interest penalties for late payments.

To enhance internal controls surrounding venue user agreements, we offered five recommendations to Denver Arts & Venues personnel.

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RECOMMENDATION STATUS OF IMPLEMENTATION

FINDING: Adjustments to City's Oversight of Red Rocks Venue User Agreements Could Provide Even Stronger Assurance of Proper Revenue Collection

Recommendation

- 1.1 **Timely Contract Execution** – Denver Arts & Venues management should monitor that signature pages or fully executed agreements are properly obtained prior to the event date and added timely to the City's document management system.

Status: Implemented

Agency Action

To monitor contracts and signature pages, Red Rocks personnel use an Excel spreadsheet to track when agreements have been signed and fully executed. Auditors tested a sample of events during follow-up, and based on our results, the tracking spreadsheet appears accurate and events taking place at Red Rocks are being properly monitored. A step to monitor the addition of the contract with signatures to Alfresco, the City's document management system, is also included in the spreadsheet.

Recommendation

- 1.2 **Award Charge Authorization** – Red Rocks and Denver Arts & Venues personnel should obtain authorizing documentation for the entertainer awards that are being charged to the event settlement.

Status: Implemented

Agency Action

Denver Arts & Venues has begun documenting venue users' approval for any applicable award charges. Auditors tested a sample of events held at Red Rocks during the 2018 season for which awards were purchased, and the results showed Arts & Venues consistently documents venue users' approvals for Red Rocks award charges.

Recommendation

- 1.3 **Service Provider Controls** – Denver Arts & Venues management should strengthen its internal controls by requesting, obtaining, and reviewing an SSAE 16 report for the ticketing system, or similar assurance, at least annually.¹

¹ The American Institute of CPAs developed the Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization, which requires that service providers offer their customers assurance that information provided by the system is accurate and reliable by reporting on the suitability of the design and operating effectiveness of the controls in the system. Since the time this recommendation was made, SSAE 16 was replaced by SSAE 18, which expanded the scope of attestation engagements and enhanced the risk assessment procedures.

Status: Partially Implemented

Agency Action

Denver Arts & Venues implemented procedures to collect SOC reports, when available, and developed an Excel spreadsheet to track relevant service providers at Red Rocks.² This procedure, however, does not include guidance on what should be reviewed within the SOC report. A SOC report for the ticket seller's system and manual operational controls at Red Rocks— which was provided to the auditors as evidence that reports are being collected—did not contain evidence of review, such as a signature and date of review by Denver Arts & Venues personnel.

For times when SOC reports are unavailable, Denver Arts & Venues developed additional procedures to verify the number of tickets sold, which is used as an input into the settlement statement when recording revenue.

Recommendation

- 1.4 **Electronic Funds Transfer** – The Denver Arts & Venues Director of Finance should work with the Cash, Risk and Capital Funding Division to develop a formal risk and efficiency analysis to determine whether electronic funds transfer is a proper solution for payment of event settlements.

Status: Implemented

Agency Action

After analyzing the risk, Denver Arts & Venues requested electronic fund transfers from its main venue users at Red Rocks and obtained agreement from those users to use electronic fund transfers for future transactions. Electronic fund transfer payment statistics provided to auditors show an increase from 68 electronic payments in 2016 to 231 electronic payments this year through September.

Recommendation

- 1.5 **Document Waived Interest Penalties** – Denver Arts & Venues should document the rationale for all decisions to waive interest penalties assessed on late payments from venue users.

Status: Implemented

Agency Action

Denver Arts & Venues has developed a finance interest waiver policy that addresses how to calculate interest on unpaid or late payments, procedures for waiving interest, and guidance on how to address late payments and waivers for all organizations. In addition to the policy, Denver Arts & Venues monitors these activities by conducting biweekly meetings with contract leads.

After testing a sample of 2018 events at Red Rocks, we found that for some events during this season, interest was not collected and waivers for interest have not yet been filled out. According to the Denver

² SOC—or Service Organization Control—reports are a means to hold accountable third-parties that provide and host (software, systems, etc.; in this case, those third-party service providers are ticket sellers and vendors that provide stagehand, usher, and security services.

Arts & Venues agency controller, interest charged for late payments will be evaluated by the end of the year, in conjunction with rebate calculations. Because two venue users provide the majority of bookings at Red Rocks, they are entitled to volume rebates according to incentive agreements. At year-end, this might result in the City owing the venue users or in the City documenting its rationale for waiving interest. This approach is most efficient given that Denver Arts & Venues does not have adequate personnel to perform this function for each event. When making decisions to waive interest, Denver Arts & Venues considers the best way to balance the agency's relationships with long-standing venue users and its mission to enrich and advance Denver's quality of life and economic vitality through premier public venues, arts, and, cultural and entertainment opportunities.

As Denver Arts & Venues plans its annual year-end activities, agency staff will either collect interest or document the factors for waiving interest.

CONCLUSION

While Denver Arts & Venues has implemented almost all of the recommendations made in the Red Rocks Event Contracts Audit Report, one recommendation has been only partially implemented. Despite 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 the risk 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 their dedicated public service.

Office of the Auditor

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