AUDIT REPORT

Denver International Airport

Etai’s Café Concessions Contract

NOVEMBER 2022

TIMOTHY M. O’BRIEN, CPA
DENVER AUDITOR

OFFICE OF THE AUDITOR
AUDIT SERVICES DIVISION, CITY AND COUNTY OF DENVER
Audit Team
Sonia Montano, CGAP, CRMA, Audit Senior Manager
Ryan Barnes, CPA, Lead Auditor
John-Michael Steiner, MPA, Senior Auditor
Katie Scott, Audit Intern

Audit Management
Timothy M. O’Brien, CPA, Auditor
Valerie Walling, CPA, Deputy Auditor
Dawn Wiseman, CRMA, Audit Director

Audit Committee
Timothy M. O’Brien, CPA, Chairman
Rudolfo Payan, Vice Chairman
Jack Blumenthal
Leslie Mitchell
Florine Nath
Charles Scheibe
Ed Scholz
November 17, 2022

We audited Denver International Airport’s oversight of its concessions contract for Etai’s Café to assess whether the café is accurately reporting all revenue earned and paying the appropriate rent it owes the city based on its sales. I now present the results of this audit.

Consistent with our broader audit of airport concessions management earlier this year, this audit found the airport’s Concessions Division is not adequately overseeing how it monitors concessions contracts. In this case, the airport cannot be assured Etai’s Café’s self-reported revenue is accurate. It does not do its own due diligence to hold the café accountable and ensure the vendor complies with its contract terms. Meanwhile, the airport has also allowed the Etai’s Café contract to remain in place for 10 years without reevaluating the terms.

By implementing recommendations for stronger contract monitoring, the airport will be better able to ensure the revenue Etai’s Café reports is reliable, accurate, reported in a timely manner, and calculated in compliance with its contract. In addition, reevaluating the contract before its extension expires in 2024 will allow the airport to uphold the purpose and spirit of the city’s competitive selection requirements.

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.” We conducted this performance audit 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 appreciate the leaders and team members at Denver International Airport who shared their time and knowledge with us during the audit. Please contact me at 720-913-5000 with any questions.

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor
Etai’s Café
Concessions
Contract
NOVEMBER 2022

Objective
To evaluate whether Denver International Airport’s Concessions Division provides adequate oversight of the Etai’s Café concessions contract, including whether the café is accurately reporting all revenue earned and paying the appropriate rent it owes the city based on its sales.

Background
The airport’s Concessions Division is responsible for choosing and overseeing 170 airport concessionaires. One of those vendors is Etai’s Café — which is owned by Mission Yogurt Inc. and has leased space at the airport since 2012. It sells food and drink items.

The airport’s contract requires Etai’s Café to pay rent based on two factors: a “minimum annual guaranteed amount” plus a percentage fee based on sales volume. The café submits financial statements to the airport on a monthly and annual basis to report sales and determine the amount of rent it owes.

Denver International Airport’s Limited Oversight Prevents It from Knowing whether Etai’s Café’s Self-Reported Revenue Is Accurate
The airport lacks sufficient contract-monitoring procedures for its concessions program and instead relies on Etai’s Café to self-report its revenue. Because of this, the airport cannot know whether the sales revenue the café reports — and the resulting rent amount the café owes — is accurate. We could not independently verify the sales Etai’s reported to the airport.

Specifically, we found:

• Because airport concessions staff do not independently verify the café’s revenue, they rely primarily on the café’s president to self-certify the reported amounts.
• The Concessions Division did not ensure the café’s self-certified annual statements were in the required format. Specifically, the airport did not enforce a contract provision that requires the statements to list what deductions the café subtracts from its reported gross revenue. The more deductions taken out, the less rent the café owes the city.
• The airport never approved in writing the various discounts Etai’s Café has deducted from its gross revenue. And because concessions staff were not verifying the self-reported revenue, they did not know the discounts existed until our audit. Discounts also were not supported with appropriate documentation required by the contract.
• The airport did not ensure Etai’s Café paid rent on time, and the airport failed to charge the café interest when it was late.
• The airport has not reevaluated the Etai’s concessions contract in 10 years — which risks the airport not getting the best value from its longtime vendor.

WHY THIS MATTERS
Although the airport operates like a business, it is owned by the city and therefore has a duty to be a prudent steward of public dollars. If the airport fails to ensure contract oversight and do its own due diligence to verify concessionaires’ self-reported revenue, it does not hold vendors accountable to their contract terms and risks the city losing out on money it is owed.
CONTENTS

BACKGROUND 1

FINDING AND RECOMMENDATIONS 5

Denver International Airport’s Limited Oversight Prevents It from Knowing whether Etai’s Café’s Self-Reported Revenue Is Accurate

The Airport’s Insufficient Monitoring Allowed Etai’s Café to Submit Noncompliant Reports, Sometimes with Errors ................................................................. 6

Etai’s Café’s Self-Reported Revenue Did Not Comply with the Contract and Could Not Be Verified .......................................................... 10

The Airport Did Not Ensure Etai’s Café Paid Rent on Time, and Its Processes Failed to Flag Interest Owed to the City for Late Payments ........................................................................... 18

The Etai’s Café Contract Has Been in Place for 10 Years, Limiting Opportunities to Reevaluate the Contract Terms ............................................................................. 22

AGENCY RESPONSE TO AUDIT RECOMMENDATIONS 25

OBJECTIVE, SCOPE, AND METHODOLOGY 28

APPENDICES 30

Appendix A – Methodology for Testing Discounts and Payments 30

Appendix B – Etai’s Café’s Sales, Deductions, and Voids 32
**BACKGROUND**

**Denver International Airport**

The City and County of Denver owns Denver International Airport, which opened in February 1995. In 2021, Denver International Airport was the third-busiest airport in the United States and ranked the same in the world. It served about 59 million passengers that year and generated more than $33 billion for the region.\(^1\)

The airport operates as a government enterprise and is structured like a business. The airport is run by a chief executive officer, who reports directly to the mayor.

**Airport Concessions Program**

Denver International Airport’s concessions program oversees more than 170 shops, restaurants, and passenger services locations. Concessions may operate independently or as part of a larger block where several locations operate under one company.

The airport’s Concessions Division is responsible for:

- Strategic planning for concessionaires’ administrative and operations activities.
- Creating and implementing relevant policies and procedures.
- Monitoring vendors for compliance with concessions contracts and airport rules and regulations.
- Procuring vendors for concessions spaces.
- Physically inspecting concessions spaces.

**RELATED AUDIT**

The Auditor’s Office published an audit of Denver International Airport’s general concessions management in February 2022. That audit found some concessionaires were allowed to bypass the competitive selection process. Airport management had also not evaluated whether it uses the optimal contracting approach for its concessions program and some contracting processes were unfair. For instance, we found the airport allows certain concessionaires to “hold over” when their contract ends and it allows them to stay in their leased concessions space indefinitely without going through the competitive selection process that others must go through.

After that audit, we determined risks in the contract management process remained and the Auditor’s Office plans to audit individual concessionaires separately. We used a risk assessment process to begin this series of airport concessionaire audits. This involved examining which concourse brought in the most revenue from food and beverage sales, considering vendor revenue, determining which vendors owned multiple airport concessions, and assessing whether the vendors were part of the Premium Value Concessions program.

---

In 2021, concessions brought in gross annual sales of about $386 million and generated $69 million in annual revenue for the airport.

When leasing concessions space, businesses pay rent to the airport according to their contract terms. This rent payment generally consists of a “minimum annual guaranteed amount” plus an additional percentage fee based on the vendor’s sales. Collectively, in 2021, the concessions operating at the airport brought in gross annual sales of about $386 million and generated $69 million in annual revenue for the airport.

Concessionaires are required to submit a financial report each month. This should detail their gross sales and any allowable deductions for items such as employee discounts and sales tax. Each vendor then calculates how much it owes in rent based on its reported net revenue, which is gross sales minus deductions.

Figure 1 shows this calculation from gross sales to net revenue.

**FIGURE 1. Calculation of Net Revenue**

![Diagram showing the calculation of net revenue.](source: Auditor's Office illustration based on information from the Etai's Café contract.)

On a yearly basis, concessionaires must also submit a certified annual statement, which contains sales data for the entire year and calculates how much total the vendor owes in rent. At the end of the year, the airport’s Concessions Division compares how much a vendor reported each month with what they reported in their certified annual statement to ensure the monthly amounts correctly add up to the annual total.

The division is also responsible for updating each concessionaire’s minimum annual guaranteed rent on a yearly basis. The new rate is calculated as 85% of the previous year’s rent obligation. The minimum guarantee cannot go below the initial minimum established at the beginning of the contract.

**Etai’s Café**

Etai’s Café opened at Denver International Airport in November 2012. The contract was for seven years, ending in November 2019.

In December 2019, the contract went into “holdover” status — which continued the contract terms on a month-to-month basis — until August 2021. In September 2021, the airport granted Etai’s an extension of that contract due to large drops in sales that it and other concessionaires saw.
because of the COVID-19 pandemic. Therefore, the contract remains in place until Sept. 1, 2024.

Etai’s operates 1,488 square feet of concessions space in Concourse B and offers breakfast, lunch, dinner, and a full bar. Etai’s Café is owned by Mission Yogurt Inc., which operates eight other concessions at Denver’s airport as well as restaurants at San Diego International Airport.

As shown in Table 1, Etai’s Café has reported making on average over $4 million a year in net revenue since 2019 and it paid over $600,000 a year in rent in that time.

| TABLE 1. Annual Reported Revenue and Payments for Etai’s Café, 2019 through June 2022 |
|---|---|---|---|
| Reported Net Revenue | $4,855,598 | $2,413,175 | $4,971,899 | $3,064,999 |
| Rent Paid for Minimum Annual Guaranteed Amount | $552,500 | $138,125 | $0 | $281,178 |
| Additional Rent Paid from Percentage of Sales | $105,869 | $162,062 | $673,191 | $110,029 |
| Joint Marketing Fund Payments | $48,556 | $8,668 | $0 | $30,650 |
| Total Rent Paid to the City | $706,925 | $308,855 | $673,191 | $421,857 |

Note: *The numbers listed for 2022 are through June 30, 2022.
Source: Etai’s Café’s certified annual statements and monthly revenue reports.

**Key Contract Terms**

The airport’s contract that governs Etai’s Café’s operations contains various key provisions. These terms define how the café should submit its reported revenue to the airport and how its rent should be calculated. The contract also defines “gross revenue” and what “allowable deductions” the café can subtract from that reported total.

Notably, the contract says:

- One-twelfth of the minimum annual guaranteed rent is due on the first of each month. This amount is 85% of the previous year’s sales and cannot be less than $552,500.²

• The additional portion of the rent that is based on a percentage of sales is due on the 10th of each month.\(^3\) This is calculated as:\(^4\)
  ▪ 10% of net sales for food and non-alcoholic beverages up to $1 million.
  ▪ 12% of net sales for food and non-alcoholic beverages between $1 million and $2 million.
  ▪ 14% of net sales for food and non-alcoholic beverages over $2 million.
  ▪ 17% of net sales for alcoholic beverages.
  ▪ 1% of all net sales paid to the airport's Joint Marketing Fund.

• The café can subtract from its reported gross revenue certain “allowable deductions,” including:\(^5\)
  ▪ Returns.
  ▪ Tips.
  ▪ Sales tax, excise tax, and other similar taxes collected from customers.
  ▪ Advertised discounts, discounts approved in writing by the city, and discounts given to employees who display an airport badge when the café documents the badge number on the receipt.

• Statements of annual gross revenues are to be prepared and certified by an independent certified public accountant, or CPA, who has audited the gross revenues in accordance with generally accepted accounting principles.\(^6\)

• An executive of Etaï’s Café must self-certify the business’s monthly revenue statements to attest that they are accurate.\(^7\)

• Etaï’s Café must submit its monthly revenue reports by the 10th of each month, and it must submit its certified annual statement for the previous year by Feb. 28.\(^8\)

---

\(^3\) Denver International Airport, “Standard Food and Beverage Agreement – Mission Yogurt Inc.” (2011), § 5.03.
\(^6\) Denver International Airport, “Standard Food and Beverage Agreement – Mission Yogurt Inc.” (2011), § 5.08. In 2008, the airport suspended the requirement for a CPA to certify the statements.
\(^7\) Denver International Airport, “Standard Food and Beverage Agreement – Mission Yogurt Inc.” (2011), § 5.03.
\(^8\) Denver International Airport, “Standard Food and Beverage Agreement – Mission Yogurt Inc.” (2011), § 5.03 and 5.08.
FINDING AND RECOMMENDATIONS

Denver International Airport’s Limited Oversight Prevents It from Knowing whether Etai’s Café’s Self-Reported Revenue Is Accurate

The airport’s Concessions Division does not adequately oversee its contract for Etai’s Café and does not know whether Etai’s reported revenue — and the subsequent rent it pays based on that — is accurate. In particular, we found:

- The division does not independently verify the café’s self-reported revenue. Instead, it relies primarily on the café’s president to self-certify the reported amounts.
- The division does not ensure the café’s self-certified annual statements are in the required format — and specifically that they list what deductions the café subtracted from its reported gross revenue. When a discount is not allowable under the contract, subtracting it from gross revenue improperly reduces the rent the café pays the city.
- The airport never approved in writing the various discounts Etai’s Café has deducted from its gross revenue. And because concessions staff were not verifying the self-reported revenue, they did not know the discounts existed until our audit. Discounts also were not supported with employees’ badge numbers as required, and we could not independently verify the sales data Etai’s reported.
- The airport did not ensure Etai’s Café paid rent on time, and it failed to charge the café interest when it was late.
- The airport has not reevaluated or competitively bid the Etai’s concessions contract in 10 years — which risks the airport not getting the best value from its longtime vendor. It also reduces opportunities for other businesses to potentially compete for lucrative airport concessions space.

Because the airport has not properly overseen Etai’s Café’s self-reported revenue, it is over-reliant on the vendor. The airport trusts that the café’s self-reported revenue statements are accurate. Subsequently, it also relies on the café to accurately calculate its own rent payments — and the airport’s concessions staff do not verify the details of the reported amounts.

Although the airport operates like a business, it is owned by the city and therefore has a duty to be a prudent steward of public dollars. The airport’s lax contract oversight means it is not holding Etai’s accountable for complying with contract terms. It is not ensuring transparency or accuracy in the café’s revenue reporting. And it is not doing its own due diligence to ensure the café pays the city what it owes.
The Airport’s Insufficient Monitoring Allowed Etai’s Café to Submit Noncompliant Reports, Sometimes with Errors

The airport’s Concessions Division has limited procedures to monitor the reported revenue from its concessionaires, including Etai’s Cafe.

Airport staff are required only to verify that vendors’ self-reported monthly revenues add up to the annual totals they report and that the revenue reports are submitted on time. There is no additional verification of the details or calculations of net revenue — which we found has caused various errors and inconsistencies in the certified annual statements we reviewed for Etai’s Café since 2019.

Furthermore, Etai’s Café has paid the same amount in utility costs for over 10 years, because the airport never reevaluated its flat fee.

The Inadequate Contract Monitoring Results in Inconsistencies and Additional Risks

As a result of the airport’s limited oversight, we found areas of risk related to whether the revenue reported and payments made by Etai’s Café were accurate, in addition to instances of noncompliance with the contract.

SELF-CERTIFICATION OF REPORTS – “Certifying” a concessionaire’s annual financial statement is a safeguard meant to ensure the amounts a vendor reports to the airport are true and accurate. However, the airport has allowed a lesser standard for who needs to sign off on vendors’ financial statements.

The Etai’s Café contract requires the café’s annual statement to be prepared and signed off on by an independent certified public accountant, or CPA. But instead, since 2008, the airport has said only a company officer needs to self-certify the annual financial statements — which is a much weaker, less independent form of verification. Although the Etai’s Café contract began after the airport suspended its requirement for a CPA to certify the statements, the contract still contains a clause requiring CPA certification that the airport can reinstate anytime it chooses.

The airport’s Concessions Division relies primarily on this self-certification to have assurance that a concessionaire’s reported revenue is correct. And while all of Etai’s Café’s certified annual statements since 2019 were certified by the president of the café’s parent company, Mission Yogurt Inc., this is not as reliable as being certified by a CPA.

Airport concessions officials said they have discussed reinstating the CPA certification requirement, but concessionaires have objected. Having a CPA’s sign-off would reportedly cost them between $8,000 and $15,000 per statement. We found other airports — such as Minneapolis-Saint Paul International Airport and Seattle-Tacoma International Airport — require that certified annual statements be prepared and certified by an independent CPA. In some cases, thresholds to trigger this requirement depend on a concessionaire’s annual revenue.

---

The airport Concessions Division relies primarily on concessionaires to self-certify that their reported revenue is correct. While this CPA requirement may be potentially costly to smaller vendors, Mission Yogurt reported revenue of over $46 million in 2021 across its various concessions businesses at Denver International Airport. Resuming the higher standard would not be unrealistic to ask for such a large concessionaire — especially considering the additional assurance it would provide the airport and the amount of potential airport revenue at stake.

LACK OF INTERNAL REVIEWS – The contract for Etai’s Café allows the city to audit the café’s operations. The Concessions Division cited this provision as something it uses to ensure the café reports its revenue correctly. But the airport’s internal audit team has not examined concessions revenue or the certified annual reports in over five years.

Meanwhile, concessions staff have also not reviewed Etai’s Café’s “point-of-sale” system, which is what businesses use to complete and document sales transactions. Staff said they are considering either a “universal” or “shadow” point-of-sale system that would allow the airport’s concessions team to review vendors’ sales data in real time — thus, providing greater ability to verify whether Etai’s self-reported revenue is accurate.

A “universal” system would be one that all airport concessionaires use, whereas a “shadow” system would be one that captures sales information from each concessionaire’s individual point-of-sale system. Either system would allow easier access to revenue data to analyze trends and perform audits.

OUTDATED UTILITIES FEE – The Etai’s Café contract requires the café to pay for all utilities necessary to operate in the airport’s concessions space. From 2019 through June 2022, Etai’s Café was billed and paid $1,400 per month for its utilities — and we could not determine whether the airport has ever reevaluated that amount in the 10 years since the contract was signed.

Airport staff said utilities for older contracts, such as the Etai’s Café contract, are based on an estimated flat rate times the square footage of the leased space. However, the airport provided no documents showing how the $1,400 monthly charge for Etai’s Café was calculated, and the person in the airport Finance Division who created the formula is retired.

Without evaluating the estimated utilities amount from 10 years ago, the airport could be allowing Etai’s Café to pay an unfair amount based

---

**CONTRACT AUDIT CLAUSE**

Etai’s Café’s contract includes an audit clause that grants several parties the authority to audit the concessionaire’s books. Among these are:

- The airport’s Internal Audit Division.
- The Denver Auditor’s Office.
- The Treasury Division of the city’s Finance Department.
- Any other duly authorized representatives.

---

on the utilities it uses for its concessions space. Airport staff said they are installing meters in newer concessions spaces so utility bills for new contracts will be for actual use, rather than an estimated amount as was used for the Etai’s contract from 2012.

As part of proper contract oversight and equitable treatment of its concessionaires, the Concessions Division should determine an accurate way to calculate utilities for older contracts and adjust billing as necessary.

**The Airport Did Not Ensure Etai’s Café’s Certified Annual Statements Were Sufficiently Detailed and Error-Free**

We found the airport did not hold Etai’s Café accountable to ensure it submitted annual statements that complied with contract terms and that they were free of errors.

The airport’s contract for Etai’s Café requires the café’s certified annual statement to list the gross sales revenue for the year in addition to all deductions the café subtracted from that reported total. This specificity is crucial for accountability, because the resulting net revenue is what the café uses to ultimately calculate the rent it owes.

We found that for 2019 and 2020, the certified annual statements for Etai’s Café were insufficiently detailed. They listed only sales tax as a deduction — but information from Etai’s Café’s point-of-sale system showed this was not, in fact, the only deduction. In addition to sales tax, the system reported various amounts of discounts the café had subtracted from its gross revenue, which the café failed to list in the certified annual statements as was required.

In 2021, the café’s certified annual statement listed no deductions at all and presented the reported gross revenue and net revenue as the same amount. For 2021, the total amount of deductions the café failed to report was $28,883. For all the months we reviewed since January 2019, we recalculated the sales tax deducted — whether Etai’s reported it in the certified annual statements or not — and we found that it correctly equaled the 8% sales tax rate in effect during this time. More information on these deductions is available in Appendix B.

We noticed at least one instance where a certified annual statement had an error and did not add up. We determined the error did not affect the calculation of net revenue and therefore did not affect the rent the café owed for that period. The city’s Executive Order No. 8 requires that contract monitoring be performed throughout the life of a contract with the goal
The airport’s minimal oversight allows Etai’s Café to self-report and self-certify its revenue without any independent verification. of ensuring that the terms of the contract are met. One of the contract terms specifically requires that the statements submitted must be true and accurate.

When Etai’s Café submits its certified annual financial statement without listing all the deductions it subtracted out, it violates the format required by the contract and prevents airport staff from having a complete, accurate understanding of the vendor’s reported revenue. The airport’s minimal oversight becomes more concerning when Etai’s Café can self-report and self-certify its revenue statements without any independent verification — and then calculate its own rent payment with no guarantee the city is being paid what it is owed.

### 1.1 RECOMMENDATION

**Enforce Proper Submission of Monthly and Annual Revenue Reports**

Denver International Airport’s Concessions Division should review the revenue submissions from Etai’s Café to ensure the reports clearly detail all deductions subtracted from gross revenue for the period, as required by the contract terms.

**AGENCY RESPONSE** – AGREE, IMPLEMENTATION DATE – MARCH 1, 2023

SEE PAGE 25 TO READ THE AGENCY’S RESPONSES.

### 1.2 RECOMMENDATION

**Implement a Universal or Shadow Point-of-Sale System**

Denver International Airport’s Concessions Division should conduct a cost-benefit analysis to determine whether using either a universal or shadow point-of-sale system to enhance its oversight and ongoing monitoring of concessionaires’ revenues is feasible. Such a system should allow the airport to have real-time access to vendors’ sales data and to conduct internal audits.

**AGENCY RESPONSE** – AGREE, IMPLEMENTATION DATE – JAN. 31, 2023

SEE PAGE 25 TO READ THE AGENCY’S RESPONSES.

---

1.3 **RECOMMENDATION** Determine an Accurate Utility Fee

Denver International Airport’s Concessions Division should determine an accurate formula to calculate utilities for Etai’s Café and adjust billing as necessary.

**AGENCY RESPONSE – AGREE**, **IMPLEMENTATION DATE – FEB. 1, 2023**

SEE PAGE 25 TO READ THE AGENCY’S RESPONSES.

1.4 **RECOMMENDATION** Require a Certified Public Accountant to Certify Annual Statements

Denver International Airport’s Concessions Division should consider reinstating contract requirements to have certified public accountants prepare and certify concessionaires’ annual statements, which would provide the airport with better assurance that vendors’ submitted statements are accurate. This requirement should either apply to all airport concessionaires or be based on revenue thresholds or other factors as determined by concessions management.

**AGENCY RESPONSE – DISAGREE**

SEE PAGE 25 TO READ THE AGENCY’S RESPONSES.

**Etai’s Café’s Self-Reported Revenue Did Not Comply with the Contract and Could Not Be Verified**

Although, as we discussed, the Concessions Division does not review concessionaires’ sales data to ensure contract compliance or verify concessionaires’ self-reported revenue, we sought to independently determine whether Etai’s Café’s self-reported revenue was accurate.

We found discounts the café subtracted from its reported gross revenue did not comply with contract terms, and the café’s bank records did not entirely match its sales data. Because of this, we could not verify Etai’s Café’s self-reported revenue.

The café’s contract defines “gross revenue” as all revenue generated — including the café’s sales and any discounts not subtracted from that total. Some discounts can be subtracted from gross revenue if they fall within contract terms. The resulting “net revenue” determines how much the percentage fee is that concessionaires pay toward their rent.

The café’s contract specifies that “allowable” deductions from its gross revenue include:

---

Some discounts can be subtracted from gross revenues if they fall within contract terms.

As part of our analysis, we requested policies and procedures for concessions operations from Etai’s Cafe multiple times. But the cafe’s managers provided only piecemeal guidelines: an excerpt regarding cash handling, a narrative illustrating the sales process with examples of point-of-sale receipts, and verbal explanations of other controls the cafe has.

Etai’s managers said their software has real-time flags for voided and discounted transactions that require a manager’s review, and they provided an example of these flags. But when we asked how staff determine whether a transaction is a discount versus a void, Etai’s managers did not provide clear answers. Therefore, we were prevented from fully understanding how Etai’s records such transactions.

The cafe’s managers claimed the transactions listed as either a “discount” or a “void” do not affect Etai’s gross revenues for the purpose of calculating the percentage rent paid to the city. But we found this does impact gross revenue.

Because allowable discounts are subtracted from gross revenue, it affects the subsequent net revenue amount the cafe uses to calculate its percentage rent to the city. If a discount is not allowed, the contract says it should be included in gross revenue — which would increase the rent owed the city.\(^{14}\)

The Airport Did Not Know About or Approve Etai’s Various Discounts, so the Cafe Should Not Have Subtracted Them from Reported Gross Revenue

To evaluate the accuracy of Etai’s Cafe’s self-reported revenue, we conducted detailed testing, including reviewing sales reports from Etai’s point-of-sale system and receipts of selected months.

Airport concessions officials said airport employees can get a 10% discount at food and beverage concessions so they can have affordable meals during their shifts. Initially, concessions officials said this general

understanding is not outlined in written policy and they do not want to specify an amount. Rather, concessions staff said each vendor decides how much of a discount to give, since these discounts affect each vendor’s own bottom line. However, it also impacts the airport’s rent payment.

For Etai’s Café, the airport did not approve any discounts in writing — and until we informed them during our audit, airport staff said they were unaware the café was subtracting from its gross revenue all its discounts above the general 10% discount.

In our analysis of four selected months’ worth of sales records since 2019, we found Etai’s gives discounts ranging from 10% to 100%.15

As shown in Table 2, among only the four months’ we looked at, these discounts totaled more than $18,000.

**TABLE 2. Snapshot of Discounts Etai’s Café Recorded**

The discount types shown here are reprinted from the café’s point-of-sale system. The café did not provide us additional details to explain all of these labels.

<table>
<thead>
<tr>
<th>Discount Types</th>
<th>October 2019</th>
<th>May 2020</th>
<th>November 2021</th>
<th>March 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% for Product Testing</td>
<td>$3,847</td>
<td>$2,138</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>10% for Airport Staff</td>
<td>$1,823</td>
<td>$887</td>
<td>$1,815</td>
<td>$2,251</td>
</tr>
<tr>
<td>Emp 50%</td>
<td>$602</td>
<td>$0</td>
<td>$743</td>
<td>$601</td>
</tr>
<tr>
<td>20% and 25% for Friends and Family</td>
<td>$42</td>
<td>$17</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Guest Satisfaction</td>
<td>$523</td>
<td>$67</td>
<td>$284</td>
<td>$296</td>
</tr>
<tr>
<td>Kitchen Mistake</td>
<td>$48</td>
<td>$0</td>
<td>$69</td>
<td>$153</td>
</tr>
<tr>
<td>Mgr %</td>
<td>$255</td>
<td>$0</td>
<td>$624</td>
<td>$268</td>
</tr>
<tr>
<td>Mrg $</td>
<td>$17</td>
<td>$17</td>
<td>$24</td>
<td>$345</td>
</tr>
<tr>
<td>Service Mistake</td>
<td>$93</td>
<td>$23</td>
<td>$9</td>
<td>$163</td>
</tr>
<tr>
<td>President</td>
<td>$0</td>
<td>$0</td>
<td>$51</td>
<td>$52</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$7,250</strong></td>
<td><strong>$3,149</strong></td>
<td><strong>$3,619</strong></td>
<td><strong>$4,129</strong></td>
</tr>
</tbody>
</table>

**Note:** The table shows the categories and amounts of discounts only for the four selected months we looked at. Annual totals of the café’s discounted transactions can be found in Appendix B.

**Source:** Etai’s Café’s point-of-sale reports for October 2019, May 2020, November 2021, and March 2022.

15 The point-of-sale reports refer to discounts as “comps.”
When a transaction is voided, it is no longer recorded as revenue and becomes unverifiable.

Furthermore, when we reviewed 52 transactions from these four selected months, we found the café did not follow the contract and record badge numbers on receipts for airport employee discounts, as required. Etai’s managers said badge numbers might have been written on the physical receipts, but we could not verify this. They provided us receipts only from the digital point-of-sale system, despite our request for all receipts related to the specific transactions.

Of the receipts we could look at, we noted unusual notes on some.

For example, some of the transactions that had 100% employee discounts referenced other airport concessions owned by the café’s parent company, Mission Yogurt — including Kentucky Fried Chicken, Que Bueno, and Pizza Hut. In reviewing another food and beverage concessions contract the airport has with Mission Yogurt, we noticed that 2022 agreement allowed deductions for inter-company transfers; however, this deduction is not an allowable discount under the Etai’s Café contract.

Some of the 100% employee discounts we identified for Etai’s were for large orders. One receipt showed about $156 worth of meals and drinks, which included 22 water bottles. Another order with a full employee discount was for about $121. Because of the lack of detailed documentation Etai’s Café provided us, we could not confirm whether these discounts were appropriate and whether they complied with the contract.

Meanwhile, we found Etai’s Café recorded many transactions as either “discounts” or “voids” interchangeably. For example, two receipts for spills were voided, while another receipt noted as a spill was given a 100% employee discount. When a transaction is voided, it is no longer recorded as revenue and becomes unverifiable.

In another example, the discount of 100% for product testing was also used interchangeably as a void. In 2020, staff recorded transactions that were “100% product testing” as both a void and a discount. But since 2021, we found they were recorded only as a voided transaction.

Table 2 on the previous page and Table 3 on the next page show the transition of 100% product testing from discounts to voids across the months we looked at. As we noted, some spill transactions were found to be recorded as either a spill-sheet void, as noted in Table 3, or as a 100% employee discount, as noted in Table 2. Table 3 also shows other void categories Etai’s Café used.

MORE INFORMATION

See Appendix B for more details on the annual amounts of Etai’s Café’s sales, discounts, and voids.

---

TABLE 3. Snapshot of Voids Etai’s Café Recorded

The void categories shown here are reprinted from the café’s point-of-sale system. The café did not provide us additional details to explain all of these labels.

<table>
<thead>
<tr>
<th>Void Categories</th>
<th>October 2019</th>
<th>May 2020</th>
<th>November 2021</th>
<th>March 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% Product Testing</td>
<td>$0</td>
<td>$0</td>
<td>$2,649</td>
<td>$4,470</td>
</tr>
<tr>
<td>86’d</td>
<td>$297</td>
<td>$143</td>
<td>$1,467</td>
<td>$1,206</td>
</tr>
<tr>
<td>Canceled Order</td>
<td>$1,351</td>
<td>$371</td>
<td>$3,137</td>
<td>$2,805</td>
</tr>
<tr>
<td>Future Order</td>
<td>$228</td>
<td>$31</td>
<td>$82</td>
<td>$0</td>
</tr>
<tr>
<td>Kitchen Waste</td>
<td>$15</td>
<td>$0</td>
<td>$119</td>
<td>$864</td>
</tr>
<tr>
<td>Spill Sheet</td>
<td>$1,393</td>
<td>$664</td>
<td>$1,813</td>
<td>$2,593</td>
</tr>
<tr>
<td>Testing</td>
<td>$19</td>
<td>$14</td>
<td>$54</td>
<td>$97</td>
</tr>
<tr>
<td>Wrong Button</td>
<td>$978</td>
<td>$203</td>
<td>$1,446</td>
<td>$1,224</td>
</tr>
<tr>
<td>Total</td>
<td>$4,281</td>
<td>$1,426</td>
<td>$10,767</td>
<td>$13,259</td>
</tr>
</tbody>
</table>

Note: The table shows the categories and amounts of voids only for the four selected months we looked at. Annual totals of the café’s voided transactions can be found in Appendix B.


Staff from both the airport and Etai’s Café said the “product testing” void category is normal for the food and beverage industry. Etai’s managers said all employees are encouraged to prepare and sample menu items on a regular basis for quality control. But because the café uses voids and discounts interchangeably in its system, the revenue used to calculate rent paid to the city cannot be verified.

Transactions listed as discounts are subtracted from gross revenue, but the impact of voided transactions cannot be verified in either revenue or expenses. Because the airport did not approve in writing Etai’s discounts above the generally understood 10% discount, any discounts above that amount should have remained in Etai’s reported gross revenue — increasing the rent the café owed the city.

We estimate the lost revenue to the city for these unallowable discounts to be about $13,000 since 2019.37 This may seem nominal — but considering that Etai’s contract is 10 years old and other airport concessionaires may have similar practices, the total loss in percentage rent to the city over the years could be substantial.

37 In our calculation, we considered any discount over 10% to be unallowable in each year and applied the lower percentage rent rate, given we could not identify whether each specific discount applied to food and beverage or alcohol.

The total loss in percentage rent to the city over the years could be substantial.
Airport concessions staff have never reviewed Etai’s point-of-sale system or financial data. Officials said the contract does not require them to perform these tasks, and they said the city’s Executive Order No. 8 does not specify that they do more than what they are doing. Again, they mentioned their mitigating controls are the certified annual statements, which places the responsibility back on the concessionaires. In addition, finance staff said the city does not have the capability or resources to review concessionaires’ point-of-sale systems and audit the revenue reporting.

However, the city’s Executive Order No. 8 outlines the responsibilities of city agencies to monitor contract compliance throughout the life of all contracts — including those at the airport. Without reviewing Etai’s Café’s point-of-sale system or creating clear criteria in writing for what discounts airport concessionaires can give, the airport cannot evaluate discounted transactions versus voided transactions and assess their validity or whether they comply with a vendor’s contract terms.

In reviewing the one other Mission Yogurt food and beverage concessions contract for comparison, we found it outlines the 10% airport employee discount, unlike Etai’s 10-year-old contract. This inconsistency across the airport’s concessions contracts allows for ambiguity in what are allowable discounts. It also prevents the city from ensuring vendors’ reported revenue is accurate.

Once the airport establishes consistent criteria for allowable discount amounts, concessionaires could still give discounts above the allowable amount — so to safeguard city dollars, the airport should ensure those larger discounts impact only the vendors’ bottom line and not the reported revenue, which would reduce rent owed to the city.

We looked at audits of other airports’ concessions operations to understand how they monitor revenue for contract compliance. The City of Atlanta’s internal auditors conduct regular audits of concessionaires’ self-reported revenues. Over 20 months, they performed 151 audits of concessionaires, and in 2016, they found only 0.2% of underreporting. Auditors found that by conducting regular concessions audits, the controls Hartsfield-Jackson Atlanta International Airport has over its financial reporting seemed to be working as intended because the concessionaires are aware their self-reported revenues were being monitored and held accountable for contract compliance.

---

As mentioned, concessions staff at Denver International Airport said the airport can implement a universal or shadow point-of-sale system, which would capture sales transactions from all concessions at the airport in one system. Officials said they intend to create a “shadow” system to access point-of-sale system data for each concessionaire. Such access to individual vendors’ point-of-sale data would allow the city to monitor sales information on a regular basis, ensure contract compliance, verify the accuracy of reported revenues, and conduct internal audits. This type of system would also assist the airport in monitoring the discounts vendors record and whether they impact net revenue.

Until a universal system is implemented, concessions officials should determine other ways to better monitor concessionaires’ revenues on a periodic basis. This could include partnering with the airport’s Internal Audit Division to identify risk areas and possible audits. Additional monitoring would strengthen the airport’s contract-monitoring controls and help hold concessionaires accountable to comply with their contract terms.

**We Could Not Match Etai’s Café’s Bank Reconciliations with Its Sales Records**

In addition to analyzing discounts to try verifying Etai’s self-reported revenue, we also reviewed documentation to reconcile the café’s sales with its bank deposits. When we initially requested bank statements from Etai’s Café to reconcile these amounts, café managers said the bank statements were consolidated with other concessions owned by the café’s parent company, Mission Yogurt Inc.

We reminded Etai’s about the contract terms, which say the vendor must keep a bookkeeping system in a manner that allows each location to be distinguishable from all other locations or operations. We then received the bank statements specifically for Etai’s Café for the four selected months we asked for: October 2019, May 2020, November 2021, and March 2022. We are unsure why Etai’s initially said the statements were consolidated with other Mission Yogurt concessions.

We also received the documentation Etai’s accounting staff uses to reconcile sales and bank deposits, although we were unable to determine the source of the sales data used.

We discovered that of the four months we reviewed, none of the cash deposits matched the cash sales recorded in Etai’s Café’s point-of-sale system — and discrepancies Etai’s had identified were unexplained. For example, in October 2019, Etai’s reconciliation showed the amount for cash deposits was about $350 less than the amount reported for cash sales. The documentation provided did not explain this shortage.

---

When reviewing the March 2022 credit card sales, we also found differences between that month’s sales and deposits. Etai’s reconciliations showed the amount for deposits was $9,500 less than sales for credit cards, and deposits were also short by $1,500 when compared to recorded sales in tips. Again, there was no explanation for these variances in Etai’s documentation.

Because of the unexplained differences in deposits versus sales recorded in the point-of-sale system, we were unable to verify the reported revenue was accurate.

Guidance from the Government Finance Officers Association says organizations should ensure sound financial management practices by implementing, documenting, and following internal controls — such as reconciling ledgers and transactions in a timely manner.20 Because Etai’s Café did not provide us with its policies and procedures, we are prevented from understanding the reconciliation process its staff uses. Without being able to trace sales to deposits, we are unable to verify the accuracy of Etai’s self-reported revenues.

1.5 RECOMMENDATION

Develop Criteria for Allowable Discounts

Denver International Airport’s Concessions Division should develop criteria for what are allowable discounts and include this in concessions contracts and its Concessions Handbook. While the airport could allow concessionaires to give any amount of discount, the airport should make clear that vendors can deduct from their revenue and rent paid to the city only an amount up to the allowable limit.

AGENCY RESPONSE – AGREE, IMPLEMENTATION DATE – NOV. 1, 2022
SEE PAGE 25 TO READ THE AGENCY’S RESPONSES.

1.6 RECOMMENDATION

Conduct Regular Audits to Monitor Revenue

Denver International Airport’s Concessions Division should work with the airport’s Internal Audit Division to develop a risk assessment and determine steps to regularly monitor concessionaires’ revenues. The two divisions should partner to create a plan to conduct regular audits of vendors’ self-reported revenues.

AGENCY RESPONSE – AGREE, IMPLEMENTATION DATE – JAN. 31, 2023
SEE PAGE 25 TO READ THE AGENCY’S RESPONSES.

The Airport Did Not Ensure Etai’s Café Paid Rent on Time, and Its Processes Failed to Flag Interest Owed to the City for Late Payments

The airport’s Concessions Division does not monitor whether Etai’s Café is paying its monthly rent on time — and the Finance Division’s processes do not sufficiently alert concessions staff that they ought to charge the café interest for late payments.

Since January 2019, we found 30 of 73 payments from Etai’s Café — or 41% — were more than five days late, which violated the terms of the concessions contract.21 The airport’s own payment processes played a significant role in Etai’s Café making its payments late. Because of our audit, the airport and Etai’s Café said they have already taken steps to avoid this issue going forward.

MORE INFORMATION

See Appendix A for more details and methodology on how we tested selected transactions.

21 Our testing initially showed 34 of 73 payments were late. However, the airport’s finance staff were able to show four payments were received on time but they applied them to the invoice on a later date. Finance staff also said they could not accurately verify some payment dates in which physical checks were used, so it is possible other checks were received on time but applied late.
Meanwhile, however, we found the airport’s Concessions and Finance divisions failed to adequately communicate about the late payments. Subsequently, the airport did not enforce contract terms that require it to charge Etai’s Café interest, and the city lost out on penalties it could have recouped.

**LATE PAYMENTS** – The airport’s contract requires two rent payments from Etai’s Café each month:  

- The monthly portion of the minimum annual guaranteed rent, which is due on the first day of each month.
- The portion of rent that is based on a percentage of the previous month’s sales, which is due by the 10th day of the month.

At the same time, the café’s monthly financial reports — which Etai’s uses to calculate the amount of percentage rent owed — are also due on the 10th.

We learned Etai’s Café’s parent company, Mission Yogurt Inc., had been making one monthly lump sum payment for most of its airport concessions businesses, including Etai’s. But because the Etai’s contract specifically requires two different due dates for the payments, this contributed to the café paying its minimum annual guaranteed rent late.

Internal controls are a key foundation to effective governance. They are safeguards — created and documented in policies, procedures, and other tools — that help ensure the accuracy of information, promote accountability, prevent fraud, and improve efficiency of operations. Federal standards say management should implement internal controls through documented policies and procedures and monitor those controls.  

Although the airport has documented policies and procedures, it did not have a safeguard in place to ensure it identified late payments that were not more than 30 days late.

Meanwhile, the airport’s own payment process also had an impact on the timeliness of payments.

Before the café could pay its percentage rent owed each month, the airport first needed to create and send back an invoice based on the café’s monthly financial report. But because both the percentage rent payment and the monthly financial report used to calculate that payment are both due on the 10th of the month, on-time payments were not consistently feasible based on the contract terms.

In response to this audit finding, the airport’s Finance Division said in August 2022 it had asked Mission Yogurt to begin paying twice per month for Etai’s Café’s rent and to use a different payment method. Etai’s Café agreed to do so to meet the contract requirements and avoid late

payments in the future. Subsequently, we verified with the finance staff that Etai’s payments for August and September were paid on time.

We are pleased they identified a solution, and we encourage continued communication between the Concessions and Finance divisions to monitor Mission Yogurt’s account credit and payments and ensure compliance.

**INTEREST NOT CHARGED** – The airport’s contract for Etai’s Café says if the café’s monthly payments are more than five days late, the airport must charge the café 18% interest. But the airport did not do so on any of the 30 late payments we identified.

Finance staff acknowledged late payments from concessionaires are an issue and they agreed the Etai’s contract requires the airport to charge interest for late payments. However, they said they lack the resources and software capability to track and charge interest.

The airport’s inability to charge interest on vendors’ overdue accounts is an ongoing risk, but the airport is working to address it through an upgrade to its revenue management system called PROPworks.

An audit we released in 2019 recommended the airport manually charge interest for accounts with late payments. We had found the airport was not charging interest on overdue accounts because Workday, the city’s system of financial record, lacked the capability to automatically charge interest on overdue invoices.

At that time, the airport was upgrading to a new invoicing system in PROPworks — which it is still implementing three years later. The prior audit recommended the airport ensure PROPworks could charge interest and that it find an alternative way to do so in the meantime until the software transition was complete.

In response to that audit, airport finance officials agreed to ensure PROPworks could charge interest but they disagreed with manually charging interest in the interim. During this audit of Etai’s Café’s concessions contract, finance officials said they still disagree with manually charging interest — claiming they lack the resources to do so effectively and efficiently.

**LACK OF COMMUNICATION** – Meanwhile, the Concessions Division was unaware the payments from Etai’s Café were late because the Finance Division monitors only those payments from vendors that are over 30 days late.

Each month, an internal report from the airport’s financial system identifies accounts with payments that are over 30 days late. Finance staff then use this information to communicate with other airport divisions about companies with outstanding payments.

Finance staff said they believe this internal report is effective in monitoring the timeliness of vendors’ payments — but this control failed to catch the issues with Etai’s payments. Although Etai’s Café had submitted 41% of its monthly payments late, we noted they were all paid within 30 days. Therefore, the airport’s internal report did not trigger any concerns and subsequently the Concessions Division was not prompted to address the tardiness with Etai’s staff.

Finance officials said they do not view Etai’s late payments as a risk because its parent company — Mission Yogurt Inc. — has kept a large credit on its account for the past three years.

In 2019, finance staff discovered Mission Yogurt had overpaid its accounts by more than $300,000 over several years. Mission Yogurt chose to keep the overpayment as a credit on its account. As a result, finance staff said Etai’s parent company was never in a position to default on the money it owed over the past three years. Meanwhile, finance staff noted Mission Yogurt received more than $400,000 in pandemic-related grant money in 2021. Because of the existing credit and this grant money, finance officials acknowledged they did not have concerns about Mission Yogurt’s accounts.

We did not audit Mission Yogurt’s overall finances. Our focus was on Etai’s Café — and we conclude its payments did not comply with the airport’s contract and the airport did not have adequate processes to catch this.

1.7 RECOMMENDATION

Ensure Etai’s Café Pays on Time

Denver International Airport’s Concessions Division should work with the airport’s Finance Division to ensure Etai’s Café’s monthly payments are paid according to the due dates in the contract.

AGENCY RESPONSE – AGREE, IMPLEMENTATION DATE – OCT. 1, 2022
SEE PAGE 25 TO READ THE AGENCY’S RESPONSES.

29 The airport calls this an “accounts receivable aging report.”
The Etai’s Café Contract Has Been in Place for 10 Years, Limiting Opportunities to Reevaluate the Contract Terms

Competitive selection for government contracts guarantees the city receives the best value from its vendors. This is particularly so with airport concessionaires, especially as Denver International Airport recovers from significant revenue losses due to the COVID-19 pandemic. However, we learned the airport’s contract for Etai’s Café has not been updated or placed out for bid since it was signed in 2012.

This limits competition for airport concessions contracts and goes against the city’s Executive Order No. 8.30

The order established contracting procedures for all city agencies under the mayor, and it says “contracts are considered one of the highest administrative priorities within the City.”31 The order requires all city agencies to justify contracts with terms longer than three to five years, in addition to “ensur[ing] contract compliance throughout the life of the contract.”32

It also specifically says formal competitive bidding processes are advised for concessions contracts.33

An audit we released earlier this year identified broader concerns related to the airport’s overall concessions management — including a pattern of concessions contracts staying in place for years without being let out for competitive bid.34 That audit found the airport violated the executive order by allowing contracts to exceed their terms. Airport staff had let some vendors continue to pay rent and occupy their spaces at the airport long after their concessions contracts expired — on average by more than five and a half years, among concessionaires operating as of early August 2021.35

That audit concluded that while the term of an original contract may be justified, extending contracts in such a “holdover” status and not letting them out for bid was not.36

In the case of Etai’s Café, the airport’s original contract with Mission Yogurt Inc. to operate the Etai’s Café concessions expired in November 2019 — as shown in Figure 2 on the next page.

31 Exec. Order No. 8, § 1.0.
32 Exec. Order No. 8, § 1.0 and Memorandum B § 5-6.
33 Exec. Order No. 8, § 1.0 and Memorandum B § 5-6.
The city allowed Etai’s Café to continue operating on a month-to-month basis in “holdover” status from December 2019 through August 2021. Then, because of the COVID-19 pandemic, the airport extended all contracts — including the one for Etai’s Café — by three years beginning Sept. 1, 2021. Because of this, the Etai’s contract now expires Sept. 1, 2024.

At the same time, the Etai’s contract also benefited from the airport’s Premium Value Concessions program, which allowed select concessionaires to enter into direct negotiations for new agreements instead of competing in a bidding process. One of the criteria participants were evaluated on was paying rent on time — but as we noted, Etai’s Café was not complying with this term.

Our prior audit found the Premium Value Concessions program allowed some concessionaires to bypass the competitive selection process and to remain years after their contracts expired. We recommended the airport discontinue the Premium Value Concessions program because it violated Executive Order No. 8’s requirement for competitive selections and had no proven benefit to the airport. Airport officials agreed to discontinue the program as of August 2022.

That audit also recommended the airport review all contracts in holdover status and assess opportunities for new contracts in accordance with Executive Order No. 8. Airport officials also agreed with this recommendation. Therefore, they should not wait until 2024 to evaluate the Etai’s contract for a competitive bid.

Denver International Airport is the third-busiest airport in world — making concessionaire contracts at the airport particularly valuable.

---

contracts are lucrative. Because these airport contracts are so valuable, being able to operate at the airport should be incentive enough for vendors to perform well.\footnote{City and County of Denver Auditor’s Office, “Concessions Management” Audit Report (2022), accessed April 15, 2022, https://www.denvergov.org/files/assets/public/auditor/documents/audit-services/audit-reports/2022/airport-concessions-management-february-2022.pdf.}

As we found with that prior audit, Denver International Airport could potentially earn more revenue when changing concessionaires. Other major airports, including McCarran International Airport in Las Vegas and Minneapolis-St. Paul International Airport, reported increased revenues when they changed concessions brands.\footnote{City and County of Denver Auditor’s Office, “Concessions Management” Audit Report (2022).}

Our recommendations from the prior audit remain important, because competitive selection assures the airport can receive the best value from its concessionaires. Because the Concessions Division already agreed to evaluate held-over contracts for competitive bidding in response to that audit, the Etai’s contract should be part of that evaluation.\footnote{City and County of Denver Auditor’s Office, “Concessions Management” Audit Report (2022).}

1.8 RECOMMENDATION

**Review Etai’s Contract**

Denver International Airport’s Concessions Division should work with the airport’s contracts director to review the contract for Etai’s Café and assess opportunities for competitive bidding or negotiating a new contract, in accordance with Executive Order No. 8, before the contract extension expires on Sept. 1, 2024.

**AGENCY RESPONSE** – AGREE, IMPLEMENTATION DATE – OCT. 24, 2022

SEE PAGE 25 TO READ THE AGENCY’S RESPONSES.
AGENCY RESPONSE TO AUDIT RECOMMENDATIONS

The following agency narratives are reprinted verbatim from the agency’s response letter.

RECOMMENDATION 1.1
AGENCY RESPONSE: AGREE
AGENCY’S TARGET DATE FOR IMPLEMENTATION: MARCH 1, 2023

The Concessions Division will continue to review revenue submissions from Etai’s Cafe to ensure the reports clearly detail all deductions subtracted from gross revenue for the period.

RECOMMENDATION 1.2
AGENCY RESPONSE: AGREE
AGENCY’S TARGET DATE FOR IMPLEMENTATION: JAN. 31, 2023

The Concessions Division will continue to explore the feasibility and availability of systems which can work to interpret data from multiple systems as a shadow point-of-sale. This research will include conducting a cost-benefit analysis and contacting peer airports for best practice recommendations to understand the feasibility of such a system and how it may enhance contract monitoring.

RECOMMENDATION 1.3
AGENCY RESPONSE: AGREE
AGENCY’S TARGET DATE FOR IMPLEMENTATION: FEB. 1, 2023

This initiative began in July 2021. The Concessions Department will continue to work with DEN Internal Audit and Finance teams to finalize the formula for calculating utilities for Etai’s cafe.

RECOMMENDATION 1.4
AGENCY RESPONSE: DISAGREE

To support small businesses, the airport considered continuous feedback from the community about the high cost of annual Certified Public Accountant (CPA) certifications. Small business concession partners indicated costs being in the thousands of dollars per year for each report. On 11/1/2008, in exercise
of the reserved authority to modify requirements for annual statements, the Manager of Aviation at the time granted permission to continue to have its officer, in lieu of an independent CPA certify each annual revenue statement so long as the business satisfies the conditions in its concession agreement. The annual revenue statements signed by an officer of the concession must be submitted to the Airport Concession Management Section and Airport Finance Section not later than February 28 of each and every year, and any annual revenue statement submitted after this deadline, needs to be certified by an independent CPA, in accord with and as required by each concession agreement. The airport has continued to support this change in support of small business. DEN retains the right in its contractual language to require a CPA-certified annual statement at any time for any reason.

**RECOMMENDATION 1.5**

**AGENCY RESPONSE:**

**AGREE**

**AGENCY'S TARGET DATE FOR IMPLEMENTATION:**

NOV. 1, 2022

The Concessions Division has criteria in place for allowable discounts and agrees to add language to the handbook to accompany the other documents in which the discount is specified. During concessionaire orientation the Concessions Department reviews the expectation for concessionaires to offer at least a 10% employee discount. This information is reviewed with all concessionaires and is listed in the orientation “frequently asked questions” document. Further, the following language is posted in DEN Concessions Request for Proposals:

**D. DEN Employee Discount**

Concessionaire shall offer a minimum ten percent (10%) discount on all food and non-alcoholic beverages purchased by DEN employees who have been issued (and show at the time the discount is requested) appropriate identification badges. The discount shall be based on Concessionaire’s normal non-sale or non-promotional prices. No discount shall be given on food and non-alcoholic beverages with a manufacturer pre-printed price.

**RECOMMENDATION 1.6**

**AGENCY RESPONSE:**

**AGREE**

**AGENCY’S TARGET DATE FOR IMPLEMENTATION:**

JAN. 31, 2023

DEN’s Concessions and Internal Audit Divisions will develop a risk assessment and determine steps to regularly monitor concessionaire revenue.
RECOMMENDATION 1.7

AGENCY RESPONSE: AGREE

AGENCY’S TARGET DATE FOR IMPLEMENTATION: OCT. 1, 2022

This recommendation has been implemented. DEN Accounts Receivable team contacted Etais management (Mission Yogurt) in September 2022 and requested that they submit payments in accordance with the contract. All monthly payments since that request have been received by the due dates in the contract. Also, DEN Accounts Receivable and Concession divisions meet monthly to discuss outstanding customer balances, which can be used to discuss payment compliance by customers.

RECOMMENDATION 1.8

AGENCY RESPONSE: AGREE

AGENCY’S TARGET DATE FOR IMPLEMENTATION: OCT. 24, 2022

The Etais contract was a recipient of a Premium Value Concession (PVC) award in 2019. DEN is committed to honoring all awards from the former PVC program as a new incentive program is introduced. New contract details have been contemplated and are in motion to align with the COVID-19 extension expiration of Sept. 1, 2024.
OBJECTIVE

To evaluate whether Denver International Airport’s Concessions Division provides adequate oversight of the Etai’s Café concessions contract, including reviewing whether the café is reporting all revenue earned and paying the rent it owes the city based on sales.

SCOPE

We reviewed the airport’s oversight of the Etai’s Café concessions contract and whether the café complied with its contract terms, reported its revenue accurately, and paid the city the appropriate rent it owed. Our review included reviewing monthly and annual revenue reports, comparing point-of-sale system data to financial reports, evaluating deductions from gross revenue, and verifying the amounts and timing of the café’s payments to the city.

We reviewed documentation from July 1, 2019, through June 30, 2022.

METHODOLOGY

We used several methodologies to gather and analyze information related to the audit objectives. The methodologies included but were not limited to:

- Interviewing:
  - Personnel from the Airport’s Concessions, Internal Audit, and Finance divisions.
  - Personnel from the Finance Department’s Treasury Division.
  - Personnel from Etai’s Café.
- Reviewing:
  - The concessions contract and amendments related to Etai’s Café.
  - The airport Concessions Division’s procedures for concessions administration.
  - The airport Finance Division’s procedures for revenue accounting for concessions.
  - City and County of Denver Executive Order No. 8.
  - Government Finance Officers Association policies.
• The U.S. Government Accountability Office’s “Standards for Internal Control in the Federal Government.”
• The Denver Auditor’s Office’s audit of Denver International Airport’s concessions management, issued in February 2022.
• The Denver Auditor’s Office’s audit of Denver International Airport’s accounts receivable, issued in September 2019.
• The Atlanta City Auditor’s Office’s performance audit of the Department of Aviation’s concessions management unit, issued in August 2016.

• Reviewing and analyzing:
  • Submission dates for Etai’s Café’s monthly and annual revenue reports.
  • The airport Concessions Division’s revenue-reporting tracking documentation.
  • The calculation for Etai’s minimum annual guaranteed rent and whether it complied with the contract.
  • Etai’s Café’s self-certified annual statements to determine compliance.
  • Monthly utility documentation for calculation and payments.
  • Etai’s Café’s point-of-sale reports.
  • Invoices and payments to determine compliance with contract requirements.
  • Supporting documentation for discounts and voids to determine compliance with contract requirements.
  • Sales taxes calculated and paid to the city for contract compliance.
  • Reconciliation documentation from Etai’s Café, its point-of-sale system, and its deposits to verify revenue.
  • Payments made to the airport’s Joint Marketing Fund.
APPENDICES

Appendix A – Methodology for Testing Discounts and Payments

Discount Testing

This appendix details methodology used to analyze the accuracy of reported revenues and contract compliance for discounts given by Etai’s Café, which ultimately reduced the revenues and rent paid to the city. We performed the following steps:

• We judgmentally selected four months from the audit period of July 2019 through June 2022. The months selected were October 2019, May 2020, November 2021, and March 2022.
• We obtained reports from Etai’s point-of-sale system, including detailed sales data and monthly summary reports.
• We evaluated the information on these reports to verify the sales data matched the certified annual statements submitted to the city. These sales amounts matched without fail.
• Using Excel, we sorted the transactions that included “comps” — the point-of-sale system’s term for discounts — into the different percentages given by Etai’s. These comps percentages included 10%, 50%, 100%, and “other.” We also sorted voided transactions from the data. From this, we selected 52 individual transactions of comps and voids, both judgmentally and randomly. We then requested all corresponding receipts and supporting documentation for the selected transactions. Etai’s gave us a copy of the digital point-of-sale receipt for each of the transactions.
• For each receipt, we verified that the transaction amounts matched the detailed summary reports.
• For each receipt for an employee comp transaction, we checked whether a badge number was listed according to the requirement in the contract.

We noted an explanation of each transaction documented on the receipt and made comments of unusual transactions we found, such as spills being used interchangeably as voids and comps, other Mission Yogurt Inc. concessions recorded on the receipts, and 100% discounted transactions.

Payment Testing

To assess whether Etai’s Café made its payments to the airport on time in compliance with the contract terms:

• We requested Etai’s invoice data from the airport’s Finance Division for the audit period. The data included all payments for Etai’s: the minimum annual guaranteed rent, the percentage rent, and utilities.
• Using each invoice’s unique code, we searched the invoices in Workday, the city’s system of financial record. The invoice data from airport finance staff contained the payment amounts and due dates but not the actual payment dates. The data in Workday contained the dates payments were made.
• We created a spreadsheet comparing the payment data from the Finance Division to the invoices in Workday.
• We validated the data by using Excel formulas to ensure the payment amounts matched between the data the Finance Division sent and the invoice data in Workday.
• We also used Excel formulas to compare the payment due dates in the Finance Division’s data to the payment receipt dates in Workday.

• To confirm we correctly identified payments as late, we sent a list of late payments to the airport’s Finance Division for verification.

• We initially identified 34 of 73 payments as late. Finance staff acknowledged some payments were late, but they were able to show four payments were received on time but applied late.
Appendix B – Etai’s Café’s Sales, Deductions, and Voids

This appendix provides additional details of Etai’s Café sales data, which we evaluated during the audit. The data in the following tables shows annual amounts for 2019, 2020, and 2021 and amounts for January through June 2022.

Table 4 shows the annual gross sales minus deductions such as discounts and taxes, totaling to net sales.

| TABLE 4. Etai’s Café’s Annual Sales and Deductions, 2019 through June 2022 |
|-----------------|----------------|--------|--------|--------|
|                 | Gross Sales    | Discounts | Taxes   | Net Sales |
| 2019            |                |          |        |        |
| Food and Non-Alcoholic Beverages | $4,006,659 | $76,117 | $291,065 | $3,639,476 |
| Alcoholic Beverages | $1,322,611 | $9,206 | $97,284 | $1,216,122 |
| Annual Total     | $5,329,270 | $85,323 | $388,349 | $4,855,598 |
| 2020            |                |          |        |        |
| Food and Non-Alcoholic Beverages | $1,999,579 | $65,399 | $143,275 | $1,790,905 |
| Alcoholic Beverages | $669,634 | $822 | $49,542 | $619,270 |
| Annual Total     | $2,669,213 | $66,221 | $192,817 | $2,410,175 |
| 2021            |                |          |        |        |
| Food and Non-Alcoholic Beverages | $4,058,921 | $25,754 | $298,758 | $3,734,393 |
| Alcoholic Beverages | $1,339,636 | $3,129 | $99,000 | $1,237,506 |
| Annual Total     | $5,398,557 | $28,883 | $397,758 | $4,971,899 |
| 2022*            |                |          |        |        |
| Food and Non-Alcoholic Beverages | $2,531,889 | $17,562 | $186,223 | $2,328,105 |
| Alcoholic Beverages | $799,338 | $3,492 | $58,952 | $736,894 |
| Total, through June | $3,331,227 | $21,054 | $245,175 | $3,064,999 |

Note: *The numbers listed for 2022 are through June 30, 2022.
Source: Etai’s Café’s point-of-sale reports.
Table 5 shows all discounts given by Etai’s Café during our audit period, while Table 6 on the next page shows all voids Etai’s Café recorded during that same time.

---

**TABLE 5. Etai’s Café’s Discounted Transactions, 2019 through June 2022**

The discount types shown here are reprinted from the café’s point-of-sale system. The café did not provide us additional details to explain all of these labels.

<table>
<thead>
<tr>
<th>Discount Type</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blank</td>
<td>$859</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>10% for Airport Staff</td>
<td>$23,812</td>
<td>$14,389</td>
<td>$20,907</td>
<td>$12,307</td>
</tr>
<tr>
<td>Emp 100% Discount (renamed “100% for Product Testing” in 2020)</td>
<td>$46,382</td>
<td>$47,972</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Emp 50%</td>
<td>$5,351</td>
<td>$1,073</td>
<td>$3,494</td>
<td>$3,480</td>
</tr>
<tr>
<td>20% and 25% for Friends and Family</td>
<td>$706</td>
<td>$237</td>
<td>$24</td>
<td>$33</td>
</tr>
<tr>
<td>Guest Satisfaction</td>
<td>$4,623</td>
<td>$1,822</td>
<td>$1,694</td>
<td>$751</td>
</tr>
<tr>
<td>Kitchen Mistake</td>
<td>$330</td>
<td>$83</td>
<td>$126</td>
<td>$470</td>
</tr>
<tr>
<td>Mgr %</td>
<td>$2,472</td>
<td>$97</td>
<td>$1,778</td>
<td>$2,446</td>
</tr>
<tr>
<td>Mrg $</td>
<td>$174</td>
<td>$244</td>
<td>$380</td>
<td>$881</td>
</tr>
<tr>
<td>Service Mistake</td>
<td>$548</td>
<td>$304</td>
<td>$429</td>
<td>$622</td>
</tr>
<tr>
<td>President</td>
<td>$66</td>
<td>$0</td>
<td>$51</td>
<td>$64</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$85,323</strong></td>
<td><strong>$66,221</strong></td>
<td><strong>$28,883</strong></td>
<td><strong>$21,054</strong></td>
</tr>
</tbody>
</table>

*The numbers listed for 2022 are through June 30, 2022.*

**Source:** Etai’s Café’s point-of-sales reports.
### TABLE 6. Etai’s Café’s Void Transactions, 2019 through June 2022

The void categories shown here are reprinted from the café’s point-of-sale system. The café did not provide us additional details to explain all of these labels.

<table>
<thead>
<tr>
<th>Void Categories</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022*</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% Product Testing</td>
<td>$0</td>
<td>$19,134</td>
<td>$40,010</td>
<td>$18,130</td>
</tr>
<tr>
<td>86’d</td>
<td>$2,550</td>
<td>$2,260</td>
<td>$11,461</td>
<td>$7,401</td>
</tr>
<tr>
<td>Canceled Order</td>
<td>$15,510</td>
<td>$9,786</td>
<td>$26,068</td>
<td>$16,947</td>
</tr>
<tr>
<td>Future Order</td>
<td>$1,919</td>
<td>$657</td>
<td>$154</td>
<td>$0</td>
</tr>
<tr>
<td>Kitchen Waste</td>
<td>$391</td>
<td>$721</td>
<td>$1,051</td>
<td>$5,059</td>
</tr>
<tr>
<td>Spill Sheet</td>
<td>$17,824</td>
<td>$8,720</td>
<td>$16,568</td>
<td>$15,047</td>
</tr>
<tr>
<td>Testing</td>
<td>$690</td>
<td>$376</td>
<td>$875</td>
<td>$492</td>
</tr>
<tr>
<td>Wrong Button</td>
<td>$7,461</td>
<td>$3,829</td>
<td>$15,353</td>
<td>$6,184</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$46,345</strong></td>
<td><strong>$45,483</strong></td>
<td><strong>$111,540</strong></td>
<td><strong>$69,260</strong></td>
</tr>
</tbody>
</table>

*Note: The numbers listed for 2022 are through June 30, 2022.*

*Source: Etai’s Café’s point-of-sales reports.*
Office of the Auditor

The Auditor of the City and County of Denver is independently elected by the residents 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 residents' confidence and avoiding any appearance of a conflict of interest.

201 West Colfax Avenue #705
Denver CO, 80202
(720) 913-5000 | Fax (720) 913-5253
www.denverauditor.org

Our Mission

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