AUDIT REPORT
Denver Arts & Venues
Coliseum and DPAC Event Contracts
August 2017

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

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Denver Auditor

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Timothy M. O'Brien, CPA
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August 17, 2017

AUDITOR'S REPORT

We have completed an audit of Denver Arts & Venues' management of event contracts with the Denver Coliseum (Coliseum) and the Denver Performing Arts Complex (DPAC). Our audit revealed that Denver Arts & Venues, Coliseum, and DPAC personnel are properly monitoring, controlling, and accounting for the use of City-owned venues. Our audit did, however, identify several areas for improvement regarding contract administration and internal controls surrounding event user agreements. We noted that management does not have a comprehensive contract administration policy and related procedures that address contract negotiation authority and approval thresholds, or archival procedures for waiving or deviating from official venue rental rate schedules.

Additional strengthening of internal controls surrounding event user agreements is warranted in four key areas. First, we noted that management is not always ensuring that all contracts are executed before the events take place. Second, Certificates of Insurance are not being collected for each event, and some certificates had insufficient coverage. Third, DPAC resident companies' ticketing agents and Denver Arts & Venues stagehand and security personnel providers have not provided assurance that their systems provide reliable ticket sales and hours worked information. Finally, Denver Arts & Venues personnel are not documenting management decisions when interest penalties are waived. Through stronger controls over managing venue user agreements, Denver Arts & Venues will be better positioned to ensure that promoters and other users comply with the agreements and that the proper revenue is collected. Our report provides five recommendations to achieve this end.

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 the Auditor*, and was conducted 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 extend appreciation to Coliseum, DPAC, and Denver Arts & Venues operational and accounting personnel who assisted and cooperated with us during the audit.

Denver Auditor's Office

Timothy M. O'Brien, CPA
Auditor

REPORT HIGHLIGHTS

Coliseum & DPAC Event Contracts
August 2017

Objective

The objective of the audit was to assess the degree to which the Denver Coliseum, the Denver Performing Arts Complex, and Denver Arts & Venues personnel properly monitor, control, account, and report for remittances of amounts owed from contracted venue use.

Background

Denver Arts & Venues owns and operates the Denver Coliseum and operates most of the major theatres and event spaces at the Denver Performing Arts Complex, including the Ellie Caulkins Opera House, Boettcher Concert Hall, and the Temple Hoyne Buell Theatre. Additionally, Denver Arts & Venues manages the Galleria and the Sculpture Park. These venues collected approximately $9.9 million from 195 unique events in 2015 and approximately $9.4 million from 221 unique events in 2016.

Highlights

Generally, we found that the Denver Coliseum (Coliseum), Denver Performing Arts Complex (DPAC), and Denver Arts & Venues personnel properly monitor, calculate, control, account for, and report remittances of amounts owed by the venue users in compliance with standard venue user contract terms.

The audit identified several areas for improvement, including agency contract administration and internal controls surrounding the agreements for events held at the Coliseum and City-owned DPAC venues. First, we found that Denver Arts & Venues has not updated its contract administration policy and procedures to address approval authority, fee waivers, and rate negotiations—a recurring issue from an audit conducted in 2010. Second, some contracts were not executed prior to the event date. Third, some certificates of insurance were either missing, or insufficient coverage was obtained by the venue user. Fourth, Denver Arts & Venues personnel did not obtain formal assurance to fully assess the accuracy of ticket sales provided by DPAC resident companies and labor hours provided by stagehand, usher, and security personnel providers. Finally, we found no documentation for waiving required interest penalties for late payments.

By strengthening internal controls surrounding venue user agreements and event settlements, the City will be better positioned to ensure that it is receiving all revenues due in a timely and accurate manner.

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

For a copy of this report, visit www.denvergov.org/auditor or contact the Auditor's Office at 720.913.5000.

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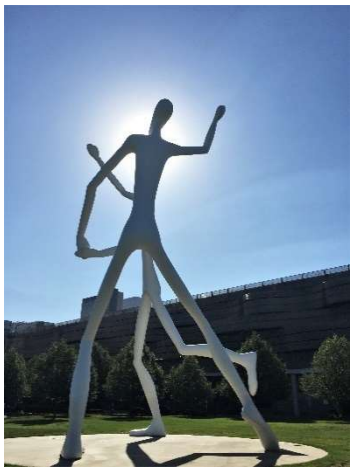
BACKGROUND

The Denver Coliseum and the Denver Performing Arts Complex Host Diverse Events, Generating Revenue for the City



The Denver Coliseum (Coliseum), owned by the City and County of Denver (City), has served Denver citizens for 65 years and is most well-known for annually hosting the National Western Stock Show. The Coliseum has served as the venue for numerous other diverse events including concerts, ice skating events, the circus, volleyball and hockey tournaments, truck and auto shows, as well as Native American pow wows.[1] Denver Arts & Venues manages the Coliseum, as well as Red Rocks Amphitheatre, through its Arenas Program. Coliseum management activities include booking, patron/client services, event oversight, facilities maintenance, and food and beverage contracts.[2]

The Denver Performing Arts Complex (DPAC) is a 4-block, 12-acre site containing 10 performance spaces with more than 10,000 seats. Denver Arts & Venues owns and operates the three largest theatres at DPAC: the Ellie Caulkins Opera House, the Boettcher Concert Hall (Boettcher), and the Temple Hoyne Buell Theatre (Buell Theatre). Additionally, Denver Arts & Venues manage the Galleria (an outdoor space located within the complex), and the Sculpture Park, including the associated retail and parking amenities.[3] Similar to the Coliseum, Denver Arts & Venues manages DPAC's booking, patron/client services, event oversight, facilities maintenance, and food and beverage contracts, as well as provides parking garage facilities management and oversight of attached retail spaces at DPAC.[4]

DPAC is home to seven other performance spaces, all of which are managed and booked by one of four signature resident companies, the Denver Center for the Performing Arts (DCPA).[5] The DCPA, founded in 1972, hosts live theatre and books national Broadway tours at City-owned DPAC venues. DCPA also offers community acting classes, corporate training, and rental facilities.[6] The Colorado Ballet, the Colorado Symphony, and Opera Colorado are the three other resident companies. The Colorado Symphony predominantly books the

The Denver Performing Arts Complex is home to the Denver Center for the Performing Arts, the Colorado Ballet, the Colorado Symphony, and Opera Colorado.

[1] "Denver Coliseum Venue Information," Denver Coliseum website, http://www.denvercoliseum.com/AboutUs/VenueInformation.aspx, accessed June 21, 2017.
[2] City and County of Denver, Mayor's 2017 Budget.
[3] "About Us," Denver Performing Arts Complex website, http://www.artscomplex.com/AboutUs/tabid/60/Default.aspx, accessed June 21, 2017.
[4] City and County of Denver, Mayor's 2017 Budget.
[5] "Signature resident company" is the industry term for a separate, independent, not-for-profit organization with its own staff and board of directors residing within a performing arts campus.
[6] Denver Center for the Performing Arts Background Information, July 2014. https://www.denvercenter.org/docs/default-source/About-us/dcpa-backgrounder-2014.pdf?sfvrsn=2, accessed June 26, 2017.

Boettcher Concert Hall for their performances, while the Colorado Ballet and Opera Colorado predominantly book the Ellie Caulkins Opera House.

Coliseum and DPAC Event Revenue in 2016 Exceeded $9.3 Million

As shown in Table 1, attendance at the main venues owned by the City exceeded one million in both 2015 and 2016. The attendance and Seat Occupancy Rate are performance measures used by Denver Arts & Venues to measure success. The Seat Occupancy Rate for 2015 and 2016, as shown in Table 1, is defined as the rate of attendance divided by a facility's seating capacity. This is then divided by the number of events held in each venue to arrive at the occupancy rate. This rate essentially measures the usage of the facility.[7] The Buell Theatre had the highest occupancy rate in both years.

TABLE 1. Attendance and Seat Occupancy Rates, 2015 – 2016

Performance Measure	Attendance 2015	Attendance 2016	Seat Occupancy Rate 2015 (%)	Seat Occupancy Rate 2016 (%)
Coliseum	360,739	359,180	41	31
Boettcher	147,604	163,811	45	53
Buell Theatre	434,308	427,072	68	70
Ellie Caulkins Opera House	220,186	187,702	59	62
Galleria and Sculpture Park	72,339	47,685	29	13
Total	1,235,176	1,185,450		

Source: Denver Arts & Venues.

As shown in Tables 2 and 3, the venues collected approximately $9.9 million from 195 unique events in 2015 and exceeded $9.3 million from 221 unique events in 2016.

TABLE 2. Number of Unique Events Held at Audited Venues, 2015 – 2016

Venue	Unique Events 2015	Unique Events 2016	Total Unique Events
Coliseum	30	27	57
Boettcher	22	32	54
Buell Theatre	30	45	75
Ellie Caulkins Opera House	75	82	157
Galleria and Sculpture Park	38	35	73
Total	195	221	416

Source: Denver & and Venues.

Note: Unique events were used to select our test sample. Denver Arts & Venues also produces an Events Held performance measure for the Annual Mayor's Budget, which includes all performances held of unique events. An example would be a Broadway play with multiple performances over a series of days or weeks.

[7] Mayor's 2017 Budget.

TABLE 3. Total Revenue Excluding Food, Beverage, & Merchandising Concessions, 2015 – 2016 (dollars in thousands)

Performance Measure	Revenue 2015	Revenue 2016	Total Revenue
Coliseum	$ 2,503	$ 2,106	$ 4,609
Boettcher	493	673	1,166
Buell Theatre	4,498	4,201	8,699
Ellie Caulkins Opera House	2,128	1,978	4,106
Galleria and Sculpture Park	257	407	664
Total	$ 9,879	$ 9,365	$ 19,244

Source: Denver Arts & Venues.

The City Contracts with Commercial and Community Users through Venue User Agreements

A venue user agreement is a contract between a commercial or community user and a performance or entertainment space to formally document agreed-upon terms of the event. Denver Arts & Venues utilizes a standard venue user agreement for booking performances and other events at the Coliseum and DPAC venues that are managed by Denver Arts & Venues. The agreements specify terms for the cost of the facility lease rental and reimbursement for City equipment, labor, and parking fees. Each venue uses a separate standard contract template specific to the venue. Infrequently, DPAC venues may also use other types of standardized agreements, such as an automobile display agreement used for one-day or multi-day displays of automobiles, or a memorandum of understanding with a City agency.

The Coliseum and each DPAC venue have two published fee schedules for venue rental rates: one for commercial users and one for community users. A commercial user is defined as a for-profit group or organization. A community user is defined as a civic, educational, religious, or charitable group or organization. Community users pay lower fees to use the facilities than do commercial users. To qualify as a community user, an organization must be registered with the Colorado Secretary of State's Office with an IRS Code Section 501(c)(3) status. The rental rate fee may be set with a flat fee or as a percentage of ticket sales. Move-in dates, rehearsals, and move-out dates are all charged a flat fee.

Community users pay lower fees to use the venues than commercial users.

All event organizers, including resident companies, concert promoters, and other community users, are required to sign a venue user agreement and provide proof of applicable insurance coverage prior to performing at any of the venues. They are also required to submit letters of credit for non-payment or cancellation and pay an advance deposit prior to the event date.

Key Accounting Procedures and Systems Associated with the Coliseum and DPAC Event Settlements

Coliseum and DPAC operational and accounting staff are responsible for preparing event settlements and invoices after the conclusion of an event, which can range from a single day to multiple weeks in duration, in the case of a touring Broadway show. For most events at the Coliseum and DPAC, ticket sales information is provided by AXS Digital, LLC (AXS), the exclusive ticket seller for the City for all venues since late 2014. The DPAC resident companies, however, are excluded from this exclusive agreement and use their own ticket agents. The DCPA uses a software system called AudienceView, while the Colorado Symphony, Colorado Ballet, and Opera Colorado use a software system called Tessitura.

In addition to ticket sales information, accounting personnel need information on costs associated with running the venue during the event. They collect reports of stagehand labor hours expended by the exclusive provider of stagehands, SMG, as well as hours expended for ushers, security, and parking personnel by another exclusive provider, Argus Event Staffing, LLC (Argus). For some events, City employees work as ushers, the hours for which are accounted for through the City's timekeeping system, Kronos. Fire and EMS personnel hours are submitted through internal billing transfers from the Denver Fire Department. Denver Arts & Venues Finance Department staff prepare event summaries using Microsoft Excel workbooks to account for all amounts included in an event settlement.

A Denver Arts & Venues Finance Department Accounting Associate prepares event settlement invoices using QuickBooks, the agency's accounting system of record. Venue users are required to pay invoices within 30 days of the invoice date to avoid incurring an 18 percent per annum interest charge.

The monthly accounting entries are prepared by a separate Denver Arts & Venues Finance Department Fiscal Administrator and recorded into the Arts and Venues Special Revenue Fund. The event settlement check payments are accepted, deposited, and recorded into this fund. A Denver Arts & Venues Special Revenue Fund is used to record all activities from public events held at the Coliseum, DPAC, McNichols Building, and Red Rocks Amphitheatre. Some of these funds are annually transferred from the agency's operating fund to the Denver Arts & Venues Capital Special Revenue Fund which provides for the capital improvements program at the facilities.

The City Collects a "Seat Tax" to Help Fund Denver Arts & Venues Capital Projects and Maintenance

The City collects a seat tax of 10% at events held at City-owned and City-leased venues to help fund Arts & Venues Capital Improvements and Maintenance.

The seat tax is one of three funding sources used by Denver Arts & Venues for capital and maintenance projects. All venue user agreements require that the user collect a seat tax at the rate of 10 percent of the purchase price for each ticket. This is required for all ticketed entertainment events held at a City-owned or City-leased property.[8] The seat tax, formally called the Facilities Development Admission Tax (FDA Tax), is remitted to the City's Manager of Finance, recorded in the General Fund, and then transferred to the Entertainment and Cultural Fund. The Entertainment and Cultural Fund is a

[8] Article VII, Denver Revised Municipal Code.

Capital Improvement Fund, defined in the Mayor's Budget, as a fund used for the acquisition and maintenance of major capital assets other than those financed through special assessments or enterprise funds.[9]

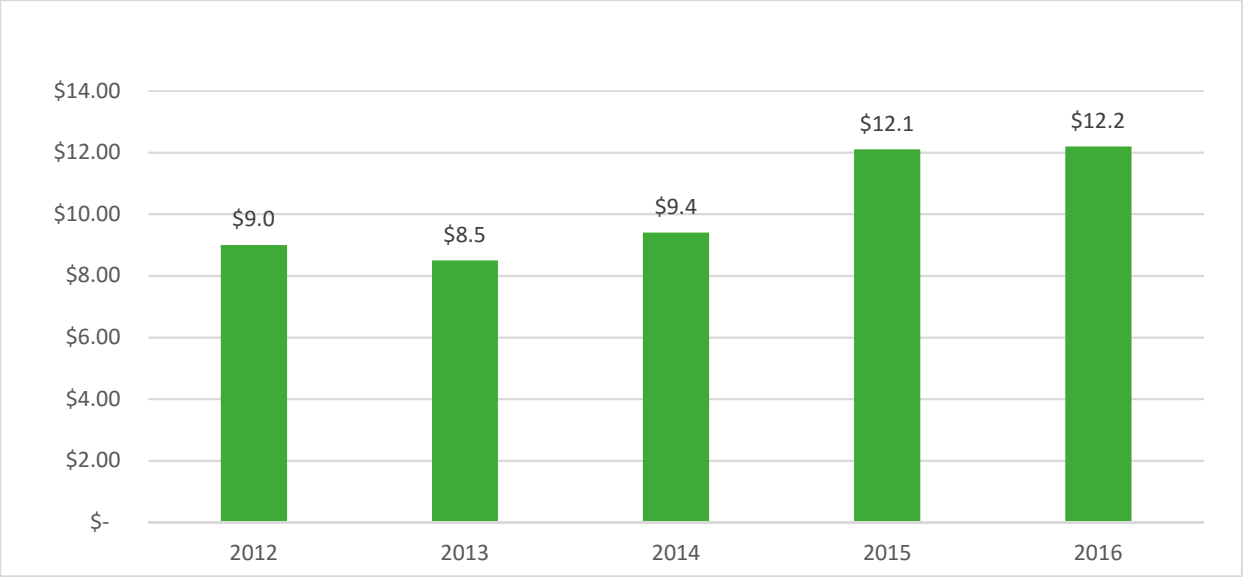
Denver Arts & Venues also pays for its capital projects and maintenance using funding from the City's Annual Capital Improvement Program (CIP) and leftover surplus from the Arts and Venues Special Revenue Fund.

Other Sources of Financing for Denver Arts & Venues Capital Improvements

The Denver Arts & Venues Capital Portfolio includes multi-year financing of excise tax bonds, general obligation bonds and certificates of participation instruments, as well as a self-defined pay-as-you-go annual capital improvement program, which incorporates the capital improvement fund, surplus FDA tax (over debt obligations), and the annual Arts and Venues Special Revenue Fund operating transfer. [10] FDA Tax revenue is obligated to annually service debt from the Quigg Newton Auditorium certificates of participation through 2023, which helped finance capital improvements at the auditorium that houses the Ellie Caulkins Opera House.

Exhibit 1 shows the annual gross FDA Tax collected at all City-owned and leased venues for the past five years.

Exhibit 1. Actual Gross FDA Tax Revenue, All Venues (dollars in millions)



Source: Denver Arts & Venues.

In 2016, the total FDA Tax collected was $12.2 million, of which Red Rocks Amphitheatre and the Buell Theatre generated the majority with approximately $5 million and $3 million, respectively. The City's Department of Finance estimated that, in 2016, the seat tax allocation to the Coliseum and DPAC was approximately $100,000 and just over $1.5 million, respectively.

[9] Mayor's 2017 Budget.

[10] An instrument evidencing a pro rata share in a specific pledged revenue stream, entitling the owner to receive a shared, or participation, in the payments from a project.

OBJECTIVE

The objective of the audit was to assess the degree to which the Coliseum, DPAC, and Denver Arts & Venues personnel properly monitor, control, account for, and report for remittances of amounts owed from contracted venue use. Additionally, we audited whether the standard Venue User Agreement templates used by the Coliseum and various DPAC venues comply with relevant rules, regulations, and ordinances and that agreements are properly executed prior to the event date.

SCOPE

The audit assessed compliance with the Coliseum and DPAC venue user agreements for events held at the relevant venues during fiscal years 2015 and 2016. The audit focused on event facility rental revenues, equipment and labor reimbursements, as well as other miscellaneous revenues collected. Total revenue tested in 2015 was $3.7 million of $9.9 million (or 37 percent) of these revenue types and $2.2 million of $9.4 million (or 23 percent) in 2016. For both years, in total, the audit covers 30.5 percent of all revenues, excluding concessions. We excluded event food, beverage, and merchandising concessions, which are contracted with separate vendors. The exclusive ticketing agreement with AXS, as well as other various revenue contracts, were also excluded from this audit.

METHODOLOGY

We applied multiple methodologies to gather and analyze information pertinent to the audit scope, which included the following:

- Interviewing key personnel from Denver Arts & Venues to obtain contextual information about the event revenue collection and settlement process
- Reviewing internal controls related to the event revenue and settlement process
- Discussing with Denver Arts & Venues management and staff the results of our trend and variance analysis
- Conducting an on-site interview to discuss the DPAC event settlement process
- Choosing an event sample using dollar-value stratified random sampling and specific sampling to account for diverse types of events
- Choosing other revenue and expenditure journal entries to review for reasonableness
- Summarizing key contract terms of all sampled events
- Verifying gross and net revenues for sampled events according to contract terms
- Verifying rates charged for venue rental, equipment, and labor according to contract terms and official fee schedules
- Recalculating amounts due based on supporting documentation and contract terms
- Assessing proper recording of revenue into the accounting system of record
- Recalculating financial transactions and calculations to evaluate accuracy

- Determining timely remittance of event settlement revenue, including advances and letters of credit for incidental expenses
- Verifying evidence of insurance and bonding requirements
- Reviewing and assessing contract administration policy and related procedures
- Reviewing and assessing management controls over service provider reporting

FINDING

Enhanced Contract Oversight of the Denver Coliseum and Denver Performing Arts Complex Could Provide Stronger Assurance of Proper Revenue Collection

Consistent with the Auditor's charter-assigned responsibility to conduct contract compliance audits, this audit examined contracting activity associated with events at the Denver Coliseum (Coliseum) and City-owned venues at the Denver Performing Arts Complex (DPAC). Specifically, we audited the event settlement documentation for 50 of the 416 unique events (and all performances of these unique events), which were hosted at the Coliseum and DPAC Venues in 2015 and 2016. Additionally, we reviewed eight revenue journal entries associated with the venues that were not directly related to events. Generally, we found that Coliseum, DPAC, and Denver Arts & Venues personnel properly monitor, calculate, control, account for, and report remittances of amounts owed by the venue users in compliance with standard venue user contract terms.

The audit did, however, identify several areas for improvement in contract administration practices and internal controls surrounding the agreements that are executed for events held at the audited venues. These areas included contract administration policies and procedures, timeliness of contract execution, insurance coverage, timekeeping reliability, and interest penalties.

Denver Arts & Venues Contract Administration Policy and Procedures Can Be Enhanced

In reviewing Denver Arts & Venues' contract management processes, we determined that the agency does not maintain a written contract administration policy and procedure. The current policy and procedures assign contract negotiation and monitoring responsibilities to certain employees, namely the Denver Arts & Venues Booking Managers and Venue Directors of the Coliseum and DPAC, while other areas are left unaddressed.

Specifically, current internal policy and procedures direct the Booking Manager to negotiate contract terms and to obtain signature pages, certificates of insurance, advances, letters of credit, and security letters prior to the event date. These documents are to be included in the City's document management system, Alfresco, and/or an event contract folder. The procedures do not specifically address the role of the Venue Directors or Assistant Venue Directors in event booking and contract negotiation.

Despite some of these responsibilities being outlined in the policy and procedures, we determined that other key guidance was missing. For example, venue users are at times allowed to pay less than indicated by the venue rental schedule, but the policy and procedures do not indicate when this is acceptable or place limits on how much a venue rental rate can be discounted. Further, the procedures do not assign authority for approving rate reductions. During testing, we found

that rental rates for 24 of the 50 events fell below the official fee schedule of the venue resulting in an estimated net undercharge of venue rental fees of approximately $295,000. Total revenue without concessions for all 50 events audited was approximately $6 million dollars. The net undercharge represents approximately five percent of the total revenue for the events tested.

The audit team asked whether the agency had a separate policy governing how these waiver decisions are made. Denver Arts & Venues provided us with a policy in draft form, called "Revenue Accounting Policies," which was dated August 2014. The draft policy directs the Booking Manager to complete an "Arts and Venues Waiver Form" for all waivers that deviate materially from the standard venue fee schedule. Auditors found no evidence of these completed forms; the Finance Director explained that the waiver process was never formally implemented after the draft policy was created.

Denver Arts & Venues' financial and operational management further explained their position that it is impractical to standardize fee structures and booking rates for the myriad users of the venues, given the characteristics and nature of the booking process. Previous management made this same argument when the Auditor's Office, in 2010, recommended that the agency establish criteria regarding which fees can be waived and by how much, and begin keeping documentation of approval for such waivers.[11] Additionally, management is confident that the Booking Managers collaborate and inform the Venue Directors of contract negotiation terms. Finally, management considers the final executed contract to be the required documentation of the negotiated venue rental fees.

Government administration best practices, however, caution against having draft policies that are never finalized and disseminated. According to the *Standards for Internal Control in the Federal Government* (or the "Green Book"), management should communicate to personnel the organization's established policies and procedures so that personnel can implement the control activities associated with their assigned responsibilities as a best practice.[12] We find that Denver Arts & Venues does not maintain consistent criteria and guidance relating to who is authorized to make fee adjustment or waiver decisions and under what circumstances those adjustments or waivers are appropriate. Without this guidance and control, the risk exists that individuals in the organization can be perceived as treating different venue users differently, either unintentionally or intentionally, for personal gain. Fee waivers and fee-deviation decisions should be documented internally and monitored over time. This data can then inform fee schedule negotiations in the future, especially if current key employees leave the employment of the agency, as well as inform the decisions in periodic updates to the official venue rental fee schedules.

As explained in our 2010 audit, establishing specific and detailed criteria and guidance related to waiving and deviating from the official fee schedule protects employees and the City's reputation and ensures that such fees are handled consistently and equitably.

[11] City and County of Denver, Office of the Auditor, "Theaters and Arenas' Management and Operations Performance Audit," December 2010.

[12] The Green Book is published by the U.S. Government Accountability Office, which is an independent, nonpartisan agency that works for Congress. Often called the "congressional watchdog," GAO investigates how the federal government spends taxpayer dollars. The Green Book sets the standards for an effective internal control system for federal agencies; internal control helps an entity run its operations efficiently and effectively, report reliable information about its operations, and comply with applicable laws and regulations.

RECOMMENDATION 1.1

Denver Arts & Venues management should expand the contract administration policy and procedures to incorporate an authorization procedure for venue user contract negotiation as well as monetary thresholds for waiving and deviating from official venue rental user fee schedules during negotiations. These decisions should be formally authorized, documented, and archived.

Agency Response: Agree, Implementation Date – September 30, 2017

Some Coliseum and DPAC Venue Contracts Are Executed Late, and Required Advances and Letters of Credit Are Not Received Timely

During our testing, we found that the signed portion of approximately 16 percent of the venue user agreements in our sample were not collected prior to the event taking place. Executive Order 8, Section 6.2 excludes bookings of events into City facilities for a period of 30 days or less from obtaining all signatures required for full execution (the Mayor, the Auditor, etc.) However, the Denver Arts & Venues policy requires the Booking Manager to obtain the signature of the venue user prior to the event date, in addition to required deposits, certificates of insurance, and letters of credit. During the audit, we tested a sample of 50 event contracts for compliance and found that for 8 of the 50 events, Denver Arts & Venues had not obtained the signature of the venue user to execute the agreement before the date of the event. Additionally, we found that five required advance deposits (10 percent of the sample) and three letters of credit (6 percent of the sample) were not collected prior to the event date or the first date of an event series run.

We attribute this to a breakdown in the proper execution of the Denver Arts & Venues internal Contracting Policy for the Booking Department, which requires the Booking Manager to ensure that signature pages or a fully executed agreement be received prior to the event date and placed into the City's document management system, Alfresco. Ensuring that the City has executed agreements prior to an event may mitigate potential risks that could arise from a potential dispute between the venue user and the City. The Booking Manager is also required to ensure that venue users pay the advance deposit and letters of credit for incidental expenses stipulated in the contract terms prior to the event. These required advance payments mitigate the City's risk of a total loss due to a venue user's non-compliance with agreement terms. Although we found that some of the contracts were not signed and not all advances and letters of credit were collected prior to the event, we confirmed that all revenues for these events were collected.

RECOMMENDATION 1.2

Denver Arts & Venues management should ensure that signature pages or fully executed agreements, advance deposits, and letters of credit for incidental expenses are properly obtained prior to the event date and added timely to the City's document management system and/or contract file.

Agency Response: Agree, Implementation Date – October 31, 2017

Certificates of Insurance Have Not Always Been Collected, and General Liability Coverage Is Sometimes Insufficient

During the audit, we found an area for improvement regarding the required Certificates of Insurance that venue users must submit to the venue's Booking Manager prior to an event. During our testing, we found 9 of 50 events (or 18 percent) did not meet contractual requirements for general liability coverage in the Venue User Agreement. These nine events were either missing certificates, missing coverage amounts in the certificate, or the coverage amounts were insufficient.

This also appears to be due to a breakdown in the proper execution of the Denver Arts & Venues internal Contracting Policy for the Booking Department, which requires the Booking Manager to ensure that certificates of insurance are submitted by venue users prior to an event and that the coverage is sufficient per contract requirements. Ensuring that certificates are submitted timely and coverage is sufficient may mitigate the potential risk of bodily injury, medical costs, and personal damage claims that could arise from potential accidents at an event.

RECOMMENDATION 1.3

Denver Arts & Venues Booking Managers should ensure that all events have Certificates of Insurance or documentation of exemptions and verify with the event contract that the insurance coverage amounts are present and sufficient to meet contract requirements.

Agency Response: Agree, Implementation Date – October 31, 2017

Denver Arts & Venues Has Not Obtained Formal Assurance Regarding the Reliability of Resident Company Ticket Sales Reporting and Stagehand, Usher, and Security Personnel Timekeeping

In November 2014, the City contracted with AXS Digital, LLC (AXS Digital), an Anschutz Entertainment Group subsidiary, to be the exclusive event ticketing vendor for all City venues, including the Coliseum and DPAC venues, through December 2019. In order to settle events with the venue user, Red Rocks and Denver Arts & Venues rely heavily on reports provided by AXS Digital regarding the number of tickets sold.

Best business practice indicates that for systems such as the one used by AXS Digital, service providers should provide assurance that the system will provide clients with accurate information. Specifically, the American Institute of Certified Public Accountants 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. This assurance is formally provided by an independent firm, which produces a SOC I, Type II, or Service Organization Control report after an examination engagement. Table 4 describes the types of reports that can be prepared for a service organization's organizational, system, or hosting control environment.

TABLE 4. Types of Service Organization Control Report for Service Organizations

Report Type	Report Description
SOC I, Type I	Independent report that provides a description of the design of the organizational system or hosting control environment over financial reporting without testing for the effectiveness of the design.
SOC I, Type II	Independent report that provides a description of the design of the organizational system or hosting control environment over financial reporting with testing that provides assurance for the effectiveness of the design.
SOC II	Independent report for a system that provides assurance regarding the security, availability, processing integrity, confidentiality, and privacy controls, which is provided to management and regulators and normally only shared under a non-disclosure agreement.
SOC III	Independent report similar to a SOC II that is prepared in a manner that can be released to anyone in the public without a non-disclosure agreement.

Source: SSAE 16 Guidance, American Institute of Certified Public Accountants.

During the audit work culminating in the *Red Rocks Event Contracts Audit* issued by our office in March 2017, Denver Arts & Venues requested and received a SOC I, Type II report from AXS Digital's independent service auditor. The report provided assurance on the suitability of the design and effectiveness of the controls for AXS Digital's ticketing system and its other organizational controls. In their response to the audit, Denver Arts & Venues stated that they will continue to request this report, or similar, in the future as a consistent internal control to help assess the reliability of ticket sales information for event settlements for all events ticketed by AXS Digital. This report, by extension, covers ticket sales reporting for the Denver Coliseum events, as well as events held at DPAC venues that are not organized by the DPAC resident companies. However, Denver Arts & Venues has not obtained a SOC II report from AXS Digital.

As mentioned earlier, DPAC resident companies are excluded from the exclusive agreement with AXS and use their own ticketing systems. DCPA uses a software system called AudienceView, while the Colorado Symphony, Colorado Ballet, and Opera Colorado use a software system called Tessitura, hosted by TierPoint, a cloud-based service provider. During our audit, we found that Denver Arts & Venues personnel had not requested or obtained SOC I Type II reports for AudienceView and Tessitura from the resident companies. The resident companies were only able to provide a Payment Application Data Security Standard Attestation of Validation report as required by the Payment Card Industry Standards. This report is required of all companies that accept, process, store, or transmit credit card information to ensure that the company maintains a secure environment. Tessitura also provided a SOC II report regarding their cloud hosting vendor,

TierPoint. Vendors providing resident company ticketing system services should provide assurance that the ticket sales information provided by their systems is reliable for event settlement billings. Denver Arts and Venues may need to work with their resident companies and applicable vendors to obtain assurance reports, such as SOC I & SOC II, or implement further manual compensating controls to verify the reliability of ticketing sales reporting from the resident companies.

In addition to ticket sales information, Denver Arts & Venues finance personnel collect reports of stagehand labor hours expended by the exclusive provider, SMG, using the timekeeping system ADP. They also collect reports of hours expended for ushers, security, and parking personnel provided exclusively by Argus Event Staffing, LLC (Argus), which uses the timekeeping system, Mosaic. City employees work as ushers for some events and the hours are accounted for using the City's timekeeping system, Kronos.

During our audit, Denver Arts & Venues management stated that they had not asked for, and were unaware whether SMG and Argus produced, SOC I, Type II reports for ADP and Mosaic. Both vendors provided their SOC I Type II reports to Denver Arts & Venues management during the audit. Denver Arts & Venues management had not requested SOC I Type II or SOC II reports from SMG and Argus, prior to our request. To strengthen controls over time-keeping and reporting for event settlements, Denver Arts & Venues management should request and review SOC I Type II and SOC II reports on an annual basis. In the absence of the assurance provided by these reports, risk exists that the timekeeping system could be compromised due to a lack of effective system and operating controls. This may result in underreported labor hours for stagehands, ushers, and security personnel.

RECOMMENDATION 1.4

Denver Arts & Venues management should annually request, obtain, and review SSAE 16 SOC I, Type II and SOC II reports for services provided by its exclusive ticket seller, its resident companies' ticket sellers, and the vendors that provide stagehand, usher, and security services. If these SSAE reports are unavailable, Denver Arts & Venues management should work with the providers to secure such reporting or develop a framework of compensating controls to ensure that ticket sales and timekeeping reporting are reliable for event settlement billings.

Agency Response: Agree, Implementation Date – December 31, 2017

Interest Penalties Have Been Waived Without Documentation

This audit identified an area for improvement regarding provisions within the contracts that are executed for events held at the Denver Coliseum and DPAC venues. Specifically, some event settlements are not paid on time. The contracts require that an event settlement invoice be paid within 30 days of issuance or a penalty of 18 percent interest per annum will be enforced. During the audit, we found that 18 out of 50 invoices tested were not paid timely and in accordance with the contract terms. This amounted to a collective total of 1,051 days and a total interest amount of approximately $33,500.

Denver Arts & Venues chose not to collect interest so that they can continue business and maintain positive relations with their venue users. However, the contract requires collection of an interest penalty on any late payments made. Additionally, there was no documentation in the file explaining why these interest penalties were waived. Without proper documentation stating why the contract terms were not followed, Denver Arts & Venues is allowing venue users to be out of compliance with the venue user agreement as well as not collecting revenue due to the City. The U.S. Government Accountability Office's Green Book standards specify that management should design appropriate internal control activities for the entity's internal control system.[13] Collecting interest penalties was important enough to be incorporated into the venue user agreement. If this has shifted as a priority, then properly documenting decisions to waive required interest penalties would serve as an appropriate internal control activity.

RECOMMENDATION 1.5

Denver Arts & Venues should properly document the reasons for waiving interest penalties for all venue users whose settlements were paid late.

Agency Response: Agree, Implementation Date – October 31, 2017

[13] U.S. Government Accountability Office, "Standards for Internal Control in the Federal Government," p. 51-54, accessed June 27, 2017, http://www.gao.gov/assets/670/665712.pdf.

RECOMMENDATIONS

We offer the following five recommendations to assist Denver Arts & Venues, the Coliseum, and Denver Performing Arts Complex (DPAC) with strengthening internal controls associated with the Coliseum and DPAC venue user agreements.

1.1 **Expand Contract Administration Policy and Procedures**—Denver Arts & Venues management should expand the contract administration policy and procedures to incorporate an authorization procedure for venue user contract negotiation as well as monetary thresholds for waiving and deviating from official venue rental user fee schedules during negotiations. These decisions should be formally authorized, documented, and archived.

Agency Response: Agree, Implementation Date – September 30, 2017

Denver Arts & Venues agrees that the Agency will develop a written procedure for venue user contracts that incorporates our current policy with respect to full waivers requiring Executive Director approval as well as approval procedures for deviations from official venue rental user fee schedules that will require approval from the COO or Venue Director as designated.

1.2 **Timely Contract Execution**—Denver Arts & Venues management should ensure that signature pages or fully executed agreements, advance deposits, and letters of credit for incidental expenses are properly obtained prior to the event date and added timely to the City's document management system and/or contract file.

Agency Response: Agree, Implementation Date – October 31, 2017

Denver Arts & Venues agrees that signature pages or fully executed agreements, advance deposits and letters of credit for incidental expenses should be received in a timely manner and in accordance with agency protocols. We Believe this to be the prevalent practice, but will review and adopt procedures to ensure the timely receipt of these items or document any exceptions or unintended circumstances that may cause a delay.

1.3 **Event Insurance Coverage** —Denver Arts & Venues Booking Managers should ensure that all events have Certificates of Insurance or documentation of exemptions and verify with the event contract that the insurance coverage amounts are present and sufficient to meet contract requirements.

Agency Response: Agree, Implementation Date – October 31, 2017

Denver Arts & Venues agrees that Certificates of Insurance and/or documentation of exemptions should be received prior to the event and that they meet the contract requirements. We believe this to be the prevalent practice, but will continue to review

to ensure the timely receipt and verification of these items or document any exceptions or unintended circumstances that may cause a delay. Additionally, we will develop processes to match the contracts required insurance coverage with the contracted party's provided certificate of insurance coverage.

1.4 **Service Provider Controls**—Denver Arts & Venues management should annually request, obtain, and review SSAE 16 SOC I, Type II and SOC II reports for services provided by its exclusive ticket seller, its resident companies' ticket sellers, and the vendors that provide stagehand, usher, and security services. If these SSAE reports are unavailable, Denver Arts & Venues management should work with the providers to secure such reporting or develop a framework of compensating controls to ensure that ticket sales and timekeeping reporting are reliable for event settlement billings.

Agency Response: Agree, Implementation Date – December 31, 2017

Denver Arts & Venues agrees that the Agency will obtain (when available) the SSAE 16 SOC I Type II and SOC II reports for services provided by our exclusive ticket seller on an annual basis, as well as SSAE reports for vendors that provide stagehand, usher and security services. For resident companies that are excluded from using the Agency's exclusive ticket seller, arts & Venues will communicate directly with the ticket providers for the resident companies and shall obtain SSAE reports to the extent they are available. In the absence of SSAE reports from such third-party vendors, the Agency will develop a framework for compensating controls with the resident companies, including but not limited to, spot checks for select performances to verify ticket inventory against sale (e.g., "drop counts").

1.5 **Document Waived Interest Penalties**—Denver Arts & Venues should properly document the reasons for waiving interest penalties for all venue users whose settlements were paid late.

Agree, Implementation Date – October 31, 2017

Denver Arts & Venues agrees with the audit findings recommendation. There are a number of valid reasons the venue user may delay payment: for example, clarification of a user charge or a minor misunderstanding of the labor charges etc. Nevertheless, documenting the factors or reasons for waiving the interest charge is prudent and Denver Arts & Venues Director of Finance will institute the documentation process.

AGENCY RESPONSE

Denver Arts & Venues

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DENVER
THE MILE HIGH CITY

August 3, 2017

Auditor Timothy O'Brien, CPA
Office of the Auditor
City and County of Denver
201 West Colfax Avenue, Dept. 705
Denver, Colorado 80202

Dear Mr. O'Brien,

The Office of the Auditor has conducted a performance audit of Coliseum & DPAC Event Contracts.

This memorandum provides a written response for each reportable condition noted in the Auditor's Report final draft that was sent to us on July 13, 2017. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING 1: Enhanced Contract Oversight of the Denver Coliseum and Denver Performing Arts Complex Could Provide Stronger Assurance of Proper Revenue Collection

RECOMMENDATION 1.1
Denver Arts & Venues management should expand the contract administration policy and procedures to incorporate an authorization procedure for venue user contract negotiation as well as monetary thresholds for waiving and deviating from official venue rental user fee schedules during negotiations. These decisions should be formally authorized, documented, and archived.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	September 30, 2017	Mark Heiser 720-865-4222

Narrative for Recommendation 1.1
Denver Arts & Venues agrees that the Agency will develop a written procedure for venue user contracts that incorporates our current policy with respect to full waivers requiring Executive Director approval as well as approval procedures for deviations from official venue rental user fee schedules that will require approval from the COO or Venue Director as designated.

*Denver Arts & Venues' mission is to amplify Denver's quality of life and economic vitality through premier public venues, arts and entertainment opportunities.

FOR CITY SERVICES VISIT DenverGov.org | CALL 311

RECOMMENDATION 1.2 Denver Arts & Venues management should ensure that signature pages or fully executed agreements, advance deposits, and letters of credit for incidental expenses are properly obtained prior to the event date and added timely to the City's document management system and/or contract file.		
Agree or Disagree with Recommendation	**Target date to complete implementation activities (Generally expected within 60 to 90 days)**	**Name and phone number of specific point of contact for implementation**
Agree	October 31, 2017	Mark Heiser 720-865-4222

Narrative for Recommendation 1.2
Denver Arts & Venues agrees that signature pages or fully executed agreements, advance deposits and letters of credit for incidental expenses should be received in a timely manner and in accordance with agency protocols. We believe this to be the prevalent practice, but will review and adopt procedures to ensure the timely receipt of these items or document any exceptions or unintended circumstances that may cause a delay.

RECOMMENDATION 1.3 Denver Arts & Venues Booking Managers should ensure that all events have Certificates of Insurance or documentation of exemptions and verify with the event contract that the insurance coverage amounts are present and sufficient to meet contract requirements.		
Agree or Disagree with Recommendation	**Target date to complete implementation activities (Generally expected within 60 to 90 days)**	**Name and phone number of specific point of contact for implementation**
Agree	October 31, 2017	Mark Heiser 720-865-4222

Narrative for Recommendation 1.3
Denver Arts & Venues agrees that Certificates of Insurance and/or documentation of exemptions should be received prior to the event and that they meet the contract requirements. We believe this to be the prevalent practice, but will continue to review to ensure the timely receipt and verification of these items or document any exceptions or unintended circumstances that may cause a delay. Additionally, we will develop processes to match the contracts required insurance coverage with the contracted party's provided certificate of insurance coverage.

RECOMMENDATION 1.4
Denver Arts & Venues management should annually request, obtain, and review SSAE 16 SOC I, Type II and SOC II reports for services provided by its exclusive ticket seller, its resident companies' ticket sellers, and the vendors that provide stagehand, usher, and security services. If these SSAE reports are unavailable, Denver Arts & Venues management should work with the providers to secure such reporting or develop a framework of compensating controls to ensure that ticket sales and timekeeping reporting are reliable for event settlement billings.

gree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	December 31, 2017	Mark Heiser/Frank Delmonte 720-865-4222/4233

Narrative for Recommendation 1.4
Denver Arts & Venues agrees that the Agency will obtain (when available) the SSAE 16 SOC I Type II and SOC II reports for services provided by our exclusive ticket seller on an annual basis, as well as SSAE reports for vendors that provide stagehand, usher and security services. For resident companies that are excluded from using the Agency's exclusive ticket seller, Arts & Venues will communicate directly with the ticket providers for the resident companies and shall obtain SSAE reports to the extent they are available. In the absence of SSAE reports from such third-party vendors, the Agency will develop a framework for compensating controls with the resident companies, including but not limited to, spot checks for select performances to verify ticket inventory against sales (e.g., "drop counts").

RECOMMENDATION 1.5
Denver Arts & Venues should properly document the reasons for waiving interest penalties for all venue users whose settlements were paid late.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	October 31, 2017	Frank Delmonte 720-865-4233

Narrative for Recommendation 1.5
Denver Arts & Venues agrees with the audit findings recommendation. There are a number of valid reasons the venue user may delay payment: for example, clarification of a user charge or a minor misunderstanding of the labor charges etc. Nevertheless, documenting the factors or reasons for waiving the interest charge is prudent and Denver Arts & Venues Director of Finance will institute the documentation process.

Please contact Kent Rice at 720-865-4202 with any questions.

Sincerely,

Kent Rice

Kent Rice
Executive Director

cc: Valerie Walling, Deputy Auditor, CPA, CMC
Dawn Wiseman, Audit Supervisor, CRMA
Heidi O'Neil, CPA, CGMA, Director of Financial Audits
Rob Farol Jr., Senior Auditor
Cody Schulte, Internal Audit Supervisor
Mark Heiser, Chief Operating Officer, Denver Arts and Venues
Frank Delmonte, Director of Finance, Denver Arts and Venues
Tad Bowman, Venue Director, Red Rocks and Coliseum
Mark Najarian, Venue Director, DPAC