FOLLOW-UP REPORT
Denver Arts & Venues
Coliseum and DPAC Event Contracts
December 2018

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

Timothy M. O'Brien, CPA
Denver Auditor

Audit Team

Cody Schulte, MAcc, CPA, CIA, Audit Supervisor
Rob Farol, CGAP, Lead Auditor
Brandon Stolba, Associate Auditor

Audit Management

Timothy M. O'Brien, CPA, Auditor
Valerie Walling, CPA, CMC®, Deputy Auditor
Dawn Wiseman, CRMA, Audit Manager

Audit Committee

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You can obtain copies of this report by contacting us:

Office of the Auditor
201 West Colfax Avenue, #705
Denver, CO 80202
(720) 913-5000 ◆ Fax (720) 913-5253

Or access an electronic copy by visiting
our website at: www.denverauditor.org

Timothy M. O'Brien, CPA
Auditor

City and County of Denver

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

December 6, 2018

AUDITOR'S REPORT

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

In our follow-up effort for the Coliseum and Denver Performing Arts Complex (DPAC) Event Contracts audit issued August 17, 2017, we found that Denver Arts & Venues has adequately implemented three of five recommendations included in the audit report. Because two recommendations have not been fully implemented, auditors determined that the risk associated with the audit team's initial findings has not been fully mitigated. As a result, the Division may revisit these risk areas in future audits to ensure appropriate corrective action is taken.

For your reference, this report includes a highlights page that provides background and summary information on the original audit and the completed follow-up effort. Following the highlights page is a detailed implementation status update for each recommendation.

This concludes audit follow-up work related to this audit. I would like to express our sincere appreciation to you and to Denver Arts & Venues personnel who assisted us throughout the audit and follow-up process. If you have any questions, please feel free to contact me at 720-913-5000 or Cody Schulte, Internal Audit Supervisor, at 720-913-5066.

Denver Auditor's Office

Timothy M. O'Brien, CPA
Auditor

REPORT HIGHLIGHTS

Coliseum & DPAC Event Contracts

December 2018

Follow-up Status

Denver Arts & Venues has implemented three of five recommendations made in the August 2017 Coliseum and DPAC Event Contracts audit. The other two recommendations are not implemented.

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 from Original Audit

Generally, we found that the Denver Coliseum (Coliseum), Denver Performing Arts Complex (DPAC), and Denver Arts & Venues personnel properly monitored, calculated, controlled, accounted for, and reported remittances of amounts owed by the venue users in compliance with standard 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 had 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 offered five recommendations to Denver Arts & Venues personnel.

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RECOMMENDATION STATUS OF IMPLEMENTATION

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

Recommendation

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.

Status: Implemented

Agency Action

Arts & Venues developed a written policy and a standardized form to document approvals for deviations from and waivers of the venue fee schedule. The policy includes thresholds, which require the venue director's approval for deviations of more than 50 percent below the venue's official fee schedule. The policy also requires the executive director's approval for waivers of the entire fee. We reviewed documentation for fee waivers granted in 2018 and found no exceptions. Approval of exceptions are also being properly archived.

Recommendation

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.

Status: Implemented

Agency Action

To monitor contracts and signature pages, Coliseum and DPAC venue personnel use Excel spreadsheets to track when agreements have been signed and fully executed. Auditors tested a sample of events during follow-up, and based on our results, the tracking spreadsheets appear accurate and events taking place at the Coliseum and DPAC venues are being properly monitored for timely execution and advance deposits. Letters of credit also are collected prior to the event date. A step to monitor the addition of the contract with signatures to Alfresco, the City's document management system, is also included in the spreadsheet.

Recommendation

1.3 **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.

Status: Not Implemented (Original target date for completion: October 31, 2017)

Agency Action

Coliseum and DPAC venue employees use Excel spreadsheets to track events to ensure venue users provide certificates of insurance, which correspond to the requirements for insurance in the venue user agreements. For follow-up testing, we selected 12 events, three of which were events held at the Coliseum and nine were events held at DPAC venues. Of the 12, we found two—or 17 percent of those tested—had insufficient documentation to show if the event organizer had obtained the contractually required insurance. The monitoring control is not completely effective.

Recommendation

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.[1] 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.

Status: Not Implemented (Original target date for completion: December 31, 2017)

Agency Action

Denver Arts & Venues implemented procedures to collect SOC reports, when available, and developed an Excel spreadsheet to track relevant service providers.[2] This procedure, however, does not include guidance on what should be reviewed within a SOC report.

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

However, there are no such procedures—which should be performed in the absence of a SOC report—for timekeeping systems. Denver Arts & Venues relies on timekeeping systems to calculate labor

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

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

expenses for events. A SOC report for both the timekeeping system and manual operational controls used by a service provider at DPAC—which was provided to auditors as evidence that reports are being collected—did not contain evidence of review, such as a signature and date of review by Denver Arts & Venues personnel. Additionally, there was no evidence of review, such as a sign-off, on documents provided as evidence of additional procedures performed to compare ticket sales reports to the venue gate attendance reports.

Although Denver Arts and Venues has taken some steps in implementing a policy and procedure for SOC report collection and review, as well as creating additional procedures for alternative controls, it is not consistently evidencing that reviews of SOC reports or that alternative control procedures are being completed. Therefore, the agency has not mitigated a majority of the risk.

Recommendation

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.

Status: Implemented

Agency Action

Denver Arts & Venues has implemented procedures to either collect or waive interest after actively monitoring outstanding accounts receivable and conducting biweekly meetings with contract leads.

Of nine Coliseum and DPAC invoices tested during this follow-up, we noted seven late-payment interest penalties were properly waived in accordance with the policy and procedures; the remaining two will be determined by the end of this year. As Denver Arts & Venues has implemented the waiver procedures properly and plans by year-end to assess and either collect interest or document the factors for waiving the interest, this recommendation is considered fully implemented.

CONCLUSION

While Denver Arts & Venues has implemented three recommendations made in the Coliseum and DPAC Event Contracts Audit Report, two others have not been implemented. Auditors determined the risk associated with the audit team's initial findings has not been fully mitigated. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure appropriate corrective action is taken.

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

Office of the Auditor

The **Auditor** of the City and County of Denver is independently elected by the citizens of Denver. He is responsible for examining and evaluating the operations of City agencies and contractors for the purpose of ensuring the proper and efficient use of City resources. He also provides other audit services and information to City Council, the Mayor, and the public to improve all aspects of Denver's government.

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