AUDIT REPORT
Westin Hotel Revenue
Denver International Airport
February 2019

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February 21, 2019

AUDITOR'S LETTER

The objective of our audit of revenue for the Westin at Denver International Airport was to determine the airport's oversight of the hotel management agreement between the City and County of Denver and Marriott International, which manages the Westin. We encountered significant constraints in obtaining documentation related to Marriott's and Westin's internal controls. Additionally, we encountered significant delays in obtaining or reviewing sufficient and appropriate evidence for financial transactions. These obstacles were largely attributed to a clause in the hotel management agreement.

The audit revealed that the airport and City Attorney's Office need to revise conflicting contract language regarding proprietary information and the City's ability to conduct audits and to ensure compliance with the agreement. We also identified limitations that prevented airport officials from assuring Marriott's internal controls were effective. In addition, airport personnel should strengthen monitoring efforts by clearly defining roles and responsibilities of individuals and/or agencies responsible for overseeing the agreement.

By revising conflicting contract terms and through stronger policies, procedures, contract monitoring, and clearly defined roles, the airport will be able to ensure Westin and Marriott's compliance with the hotel management agreement, as well as ensure the Westin is operated in a way that protects the City's asset and optimizes its financial performance. Our report lists several related recommendations.

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*, and was conducted in accordance with generally accepted government auditing standards. Those standards require 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.

I am pleased to present the results of this audit. We extend our appreciation to the personnel in Denver International Airport's Revenue Management and Finance divisions and others who assisted and cooperated with us during the audit. For any questions, please feel free to contact me at 720-913-5000.

Denver Auditor's Office

Timothy M. O'Brien, CPA
Auditor

REPORT HIGHLIGHTS

Westin Hotel Revenue

February 2019

Objective

The audit had three objectives: 1) To determine whether Denver International Airport's Revenue Management and Finance divisions had effective controls in place to ensure revenues and expenses reported by Westin were reasonable and in compliance with the hotel management agreement; 2) To verify that the airport's Director of Commercial Properties was effectively reviewing performance management contract terms to ensure Westin was optimizing revenue; and 3) To demonstrate that the airport's Director of Commercial Properties was verifying that Westin's employees were aware of and effectively implementing internal controls.

Background

The Westin at Denver International Airport opened on November 19, 2015, and is operated according to a hotel management agreement signed April 2011 between the City and County of Denver and Starwood Hotels, now a subsidiary of Marriott International.

The addition of the Westin, as well as the airport's transit center, marked the completion of the airport's original 1989 master plan.

Highlights

This is our first audit of the hotel management agreement between the City and Westin.

We identified limitations that impede the City's ability to monitor compliance with the contract, and we identified controls and processes that should be improved to protect the City's asset and ensure optimization of financial performance.

Denial of Access to Data Prevents Auditors from Evaluating Marriott's and Westin's Operation of the Westin or Providing Assurance that Both Are in Compliance with the Hotel Management Agreement

- Marriott impeded audit efforts and would not provide information and documentation it considers proprietary.
- The hotel management agreement contains language that contradicts the City's audit rights and counters City Charter.
- Auditors have concerns over the quality of external audits and reviews of Marriott's and Westin's internal controls and may be prevented from reviewing detailed reports of additional external financial audits conducted on the hotel.

Airport Management Has Not Clearly Defined Project Monitoring and Asset Management Roles and Responsibilities for the Hotel Management Agreement

- Policies and procedures for overseeing the hotel management agreement lack details to ensure the hotel's operational and financial success.
- Segregation of duties does not exist among the Director of Commercial Properties' responsibilities related to requesting work from Capital Hotel Management LLC—the asset management company the City hired for the hotel—and reviewing supporting documentation and authorizing reimbursements.
- The airport may be spending money on unnecessary external resources to monitor the hotel management agreement.

For a copy of this report, visit www.denverauditor.org or contact the Auditor's Office at (720) 913-5000.

TABLE OF CONTENTS

BACKGROUND 1

FINDING 1 6

Denial of Access to Data Prevents Auditors from Evaluating Marriott's and Westin's Operation of the Westin or Providing Assurance that Both Are in Compliance with the Hotel Management Agreement

FINDING 2 15

Airport Management Has Not Clearly Defined Project Monitoring and Asset Management Roles and Responsibilities for the Hotel Management Agreement

Policies and Procedures for Overseeing the Hotel Management Agreement Lack Details to Ensure the Hotel's Operational and Financial Success 15

The Airport May Be Spending Money on Unnecessary External Resources to Monitor the Hotel Management Agreement 26

RECOMMENDATIONS 30

AGENCY RESPONSE TO AUDIT RECOMMENDATIONS 35

OBJECTIVE, SCOPE, AND METHODOLOGY 43

BACKGROUND

Denver's municipal airport is organized as the City and County of Denver's Department of Aviation and includes Denver International Airport and its predecessor, the former Stapleton International Airport.

Denver International Airport's mission is to "operate at the highest standards of safety and security … while delivering consistent, outstanding services to our customers that delights, inspires, eases the pressures of travel and offers the highest levels of services and efficiency." The airport also has a vision to "become America's favorite connecting hub, where the Rocky Mountains meet the world."

The airport implemented a new five-year strategic plan in 2015 that contained seven strategic objectives. One of these objectives was that the airport will excel in financial performance, which includes seeking new sources of airport revenue that do not come from or depend on airline operations.[1] In doing so, the airport will work toward offsetting operating and maintenance costs, reducing operations costs, becoming more competitive globally, and attracting investment for new air services.[2]

The Wall Street Journal in November 2018 named Denver International Airport No. 1 out of the nation's 20 largest airports, with the highest marks particularly in reliability, value, and convenience. More than 5.7 million passengers used the airport in October 2018, setting the record as the busiest October in the airport's history and marking its 13th consecutive month of record-breaking passenger traffic.[3]

The Addition of the Westin

The idea for a globally connected airport with an on-site hotel was first conceived more than 20 years prior to the hotel's opening on November 19, 2015.

The completion of the Westin Hotel and transit center was the final piece toward the realization of the airport's original 1989 master plan. The hotel and transit center include three key elements: the transit center (essentially a commuter rail station), an open-air plaza, and a

[1] The seven strategic objectives as outlined in the 2015 Mayor's budget book include: Winning the Hearts of Our Customers, Inspiring Our Employees, Partnering for Operational Excellence, Investing for Sustainability, Putting the [Airport] on the World Map, Building Airport City, and Excelling in Financial Performance.

[2] "Mayor's 2015 Budget." City and County of Denver, City Budgets, https://www.denvergov.org/content/dam/denvergov/Portals/344/documents/Budget/Mayors_2015_Budget.pdf. Accessed September 25, 2018.

[3] Scott McCartney, "The Best of the Biggest U.S. Airports," *The Wall Street Journal*, November 14, 2018, https://www.wsj.com/articles/the-best-of-the-biggest-u-s-airports-1542204004. Accessed December 20, 2018.

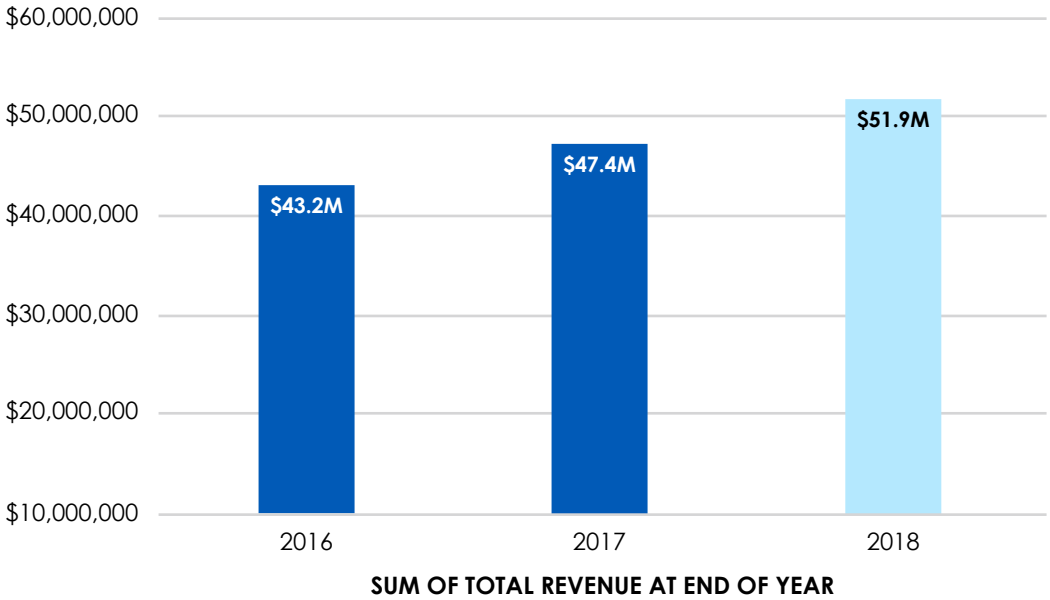
hotel and conference center. The Westin features 519 guest rooms, 35 suites, a 37,500-square-foot conference center, and the Grill and Vine Restaurant. The hotel was designed to resemble the wings of a bird in flight. The conference center includes two ballrooms and 15 additional meeting rooms and boardrooms.

Due to Denver's central location in the United States, the new hotel and conference center are positioned to be a highly competitive and attractive location for meetings and conferences, as well as a convenient location for airline crews and travelers, including passengers with layovers. The hotel is connected to downtown Denver by the Regional Transportation District's A-Line train, which began service in April 2016.

Westin Hotel and Transit Center Funding and Revenues – The hotel and transit center were funded by a 2012 bond issuance, as well as the airport capital fund.[4] According to airport management, the total capitalized costs for the hotel upon opening were about $203 million.[5]

As shown in Figure 1, the Westin has increased its revenue from $43.2 million in 2016 to $47.4 million in 2017. Management attributed the

FIGURE 1. Revenues for the Westin at Denver International Airport, 2016-2018



Source: Auditor's Office analysis of Westin's year-end operating revenues for 2016 and 2017 and Westin's self-reported forecast revenue for 2018.

[4] The City's Series 2012 A-B-C Bonds are paid through the net revenues from the airport and are partially repaid from the Westin's net revenues.

[5] In an Independent Accountant's Report published by BKD on December 31, 2015, the total contracted value for the hotel and transit center as of that date was about $715 million—with close to $189 million being attributed to the hotel and $78.7 million being attributed to other capital improvement projects, which included excavation, a sanitary sewer tie-in, the Level 4 bridge to the hotel, and a storm sewer.

increase in revenue to an increase in rooms sold, as well as food and beverage sales. Marriott's self-reported revenue forecast for 2018 is $51.9 million. A portion of Westin's revenue is used to repay the 2012 bonds, as required by the hotel management agreement, a document that will be described in detail in the next section of the report.

Opportunities for Future Development – The airport's Real Estate Division's website includes a variety of potential future business and development opportunities for approximately 16,000 acres of commercial land, including for hotels near East 61st Avenue and Peña Boulevard and an area along East 78th Avenue, known as the West Approach.[6]

However, with the opening of the 1,500-room Gaylord Rockies Resort & Convention Center—less than a 20-minute drive from the airport and located near the first stop on westbound trains from the airport—the Real Estate Division has postponed advancement of future hotel projects in order to monitor the lodging market over the next six to 12 months.[7]

The Agreement between the City and Westin DIA Operator

The City, for and on behalf of its Department of Aviation, entered into a hotel management agreement with Westin DIA Operator LLC, on April 11, 2011, prior to building the hotel facility.

The agreement has been amended three times and covers various topics, including sections on general management and responsibilities of the hotel manager, fees and expenses, and the term of the agreement. The agreement defines the City as the owner and Westin DIA Operator as the hotel manager.

While the agreement was signed between the City and Westin DIA Operator, Marriott International completed its acquisition of Starwood Hotels and Resorts Worldwide, which included the Westin, in September 2016, making Marriott the current operator and party on the other end of the agreement.[8]

[6] "The Districts at DEN," Fly Denver, https://www.flydenver.com/real_estate/districts_den. Accessed February 1, 2019.

[7] The Gaylord Rockies Resort & Convention Center opened in December 2018. The resort is in Aurora and features 1,501 rooms and 486,000 square feet of meeting space.

[8] For purposes of this report, Marriott will be used to refer to the corporation or any corporate processes, and Westin will be used to refer to Westin DIA Operator, the hotel, and on-site employees, as well as site-specific policies and procedures.

When conducting our review of the hotel management agreement, we specifically noted the following sections:

- **Operating Standard** – The Westin is to be operated and maintained at a "first-class" and "full service" level.[9]
- **General Management Duties** – The Westin is charged with implementing policies and practices, managing personnel, establishing rates, and maintaining complete books and records and equipment consistent with the operating standard.
- **Approval of Certain Contracts** – The Airport Manager is to approve third-party contracts with terms of more than one year, including those that are automatically renewable, or contracts with costs above $100,000.[10]
- **Internal Control Structures** – The Westin should have controls in place such as policies, procedures, and training that ensure hotel assets are safeguarded and financial records are reliable.
- **The Owner's Audit Rights** – The City and its designees have the ability to audit and verify books and records of the hotel and its operations.
- **Operating Term** – Unless terminated sooner, the term is November 19, 2015, to November 18, 2030.
- **Transfers from Hotel Operating Account** – An account shall be used by Westin to transfer available revenues to the City's revenue fund on the first business day of each month. The funds are used to satisfy requirements outlined in the agreement, such as paying for administrative expenses and repaying the bond.[11]

Oversight of the Hotel Management Agreement

In November 2014, prior to the opening of the hotel, the City contracted with Capital Hotel Management LLC (CHM), an asset management company specializing in the hotel industry.

As outlined in the contract, CHM was to provide both pre- and post-opening professional asset management services for the hotel, including preparing monthly ownership reports and completing regular on-site property reviews. While CHM was not specifically charged with monitoring the hotel management agreement, certain responsibilities

[9] The agreement indicates that "first-class" and full service" is equal to or better than the level of service and quality of other Westin hotels and in a manner reasonably expected to earn the hotel a score that is not less than one standard deviation below the average score for upscale hotels in at least one of two consecutive guest satisfaction index studies, taking into account the character, size, and location of the hotel.

[10] The term "Airport Manager" in the agreement refers to the City's Manager of Aviation or his or her designee. The Airport Manager authorizes all work under the agreement, to the extent of the City's rights.

[11] To date, Westin's revenues have not been sufficient to provide the airport with excess revenues; however, airport finance personnel indicated that hotel revenues should satisfy the operating reserve requirements for 2018, much sooner than expected, with excess funds sent to the airport for the first time.

outlined in the scope of work helped ensure Westin's compliance with the agreement, such as reviewing Westin's profit and loss statements, reviewing reports required to be delivered by Westin to the City under the agreement, and analyzing income statements or conducting other analyses related to maximizing revenues and minimizing expenses to improve asset performance. The City paid CHM a monthly fee plus expenses to perform asset management services.

The airport's oversight of the hotel management agreement resides primarily within its Revenue Management and Finance divisions. In January 2016, the Revenue Management Division hired a Director of Hotel and Transit Center to oversee management of both the Westin and the airport's transit center. According to the job description, the Director of Hotel and Transit Center's responsibilities included "all aspects of the hotel's revenue performance and [managing] the activities and events for the transit center and plaza." Additionally, this individual was to manage current and future hotel operating agreements, including the CHM hotel asset management professional services agreement. The airport's Finance Division is charged with recording information based on the monthly financial reports provided by the Westin into the City's financial system, Workday.

In mid-2016, the role of Director of Hotel and Transit Center was expanded to include additional asset management responsibilities based on the skillset of the individual holding the position and to save the City money on the contract with CHM. This position is now titled the "Director of Commercial Properties."[12] The contract with CHM was subsequently amended on April 4, 2017, to modify the scope of work to include task-based professional services relating to the operation of the Westin.

In 2018, the airport tasked CHM with identifying, contracting with, and monitoring both a review and an audit of the Westin. Bleser and Associates conducted an internal control review of Marriott's processes, and RubinBrown LLP conducted a financial audit.

[12] The Director of Commercial Properties is still sometimes referred to as the "Director of Hotel and Transit Center," as well as "Asset Manager."

FINDING 1

Denial of Access to Data Prevents Auditors from Evaluating Marriott's and Westin's Operation of the Westin or Providing Assurance that Both Are in Compliance with the Hotel Management Agreement

During the audit, auditors were presented with several limitations that inhibited our ability to provide assurance regarding the internal control environment of the Westin or to ensure that Marriott and Westin are in compliance with the hotel management agreement.

The hotel management agreement between the City and the Westin defines the City—or more specifically, Denver International Airport—as the owner of the hotel, and Westin as the hotel manager. Since Marriott International's acquisition of Starwood Hotels and Resorts Worldwide in 2016, Marriott has been operating as the Westin's hotel manager.

As mentioned in the background section, the City capitalized about $203.1 million in costs, funded by City-issued bonds and the airport capital fund, to build the Westin. As outlined in the hotel management agreement, the airport pays Westin a predetermined management fee to operate the hotel. The hotel revenues—or profit after expenses minus two months of operating expenses—are then remitted to the airport to satisfy other requirements included in the agreement, such as paying the debt service bonds, reimbursing the City for advances including interest, and establishing reserve operating funds. Any amount of cash remaining, after all these obligations are satisfied, is available to the City for any purpose.

The agreement includes authorized and agreed-to operating standards that direct Westin to maintain the hotel at a level of service and quality generally considered to be "first-class" and "full service," as measured by guest satisfaction studies, so as to protect and preserve the asset and to optimize the financial performance of the hotel's operation.

Additionally, the agreement indicates Westin should maintain an internal control structure designed to provide assurance that the hotel and its assets are safeguarded, that transactions are executed in accordance with Westin's authority, and that financial records are reliable for the purposes of preparing financial statements. The internal control structure should be supported by the selection, training, and development of qualified personnel, by an appropriate segregation of duties, and by the dissemination of written policies and procedures.

Further, the agreement indicates the airport or its designees and its consultants shall, at any time, have the right to audit and verify Westin's books and records, as well as its operations. Finally, the City Charter grants audit rights to the City Auditor to conduct audits of contracts and franchises with access at all times to books, accounts, reports, or other records or information maintained by any department or agency of the City.[13]

Because of pushback, auditors were unable to complete testing as originally intended.

Despite these contract and regulatory terms allowing the airport and the City, as the owner, to audit the financials and operations of the hotel, auditors were met with significant pushback and delays regarding documentation and information requests that would have allowed us to provide assurance over Marriott's and Westin's internal control structure and ensure financial transactions and operations are in compliance with the hotel management agreement. Because of this pushback, auditors were unable to complete testing as originally intended.

Marriott Impeded Audit Efforts and Would Not Provide Information and Documentation It Considers Proprietary

Throughout our audit, Marriott declined to provide auditors with information and documentation related to the Westin's internal control structure that it deemed proprietary, citing a provision in the hotel management agreement. We were permitted to view some proprietary information on-site and under the supervision of Westin personnel. However, we were not allowed to make copies of or take detailed notes related to documentation so that auditors could retain sufficient and appropriate evidence for our audit records, which is required by our audit standards.[14] Examples of documentation and information Marriott considered proprietary included: Marriott and Westin standard operating procedures; external and internal reviews, audits, and risk assessment reports; guest satisfaction surveys and customer complaint details; Westin employee payroll and benefit information; and Westin guest information.

Marriott and Westin Standard Operating Procedures – Marriott declined to provide copies of its standard operating procedures, specifically those related to financial controls. Auditors were given limited access under supervision to look at some of the corporate-level standard operating procedures and local standard operating procedures. However, we were not allowed to make copies or take detailed notes as Marriott and Westin deems these policies proprietary.

[13] City and County of Denver Charter § 5.2.1.a and § 5.2.1.c.

[14] U.S. Government Accountability Office, GAO-12-331G, Government Auditing Standards (2011). https://www.gao.gov/assets/590/587281.pdf. Accessed December 27, 2018.

Marriott's refusal to provide full access to necessary documentation prohibited auditors from conducting detailed testing related to internal controls.

According to the U.S. Government Accountability Office's Standards for Internal Control in the Federal Government, also referred to as the federal "Green Book," internal controls are a process established by management to provide reasonable assurance that an entity's objectives will be achieved. Additionally, as outlined in the Green Book, management should develop and maintain documentation of its internal control system.[15] When testing internal controls, auditors evaluate whether policies and procedures, including standard operating procedures, exist, determine if they provide for a strong control environment, and then compare actual processes to the procedures to determine the degree to which they are being followed.

While Marriott's and Westin's documented procedures appear to be standardized and contain certain aspects of an internal control structure (i.e., review and approval, documentation requirements, and implementation process steps), Marriott's refusal to provide full access to necessary documentation prohibited auditors from conducting detailed testing related to the implementation of Marriott's corporate or Westin's site-specific internal controls, including a review of operations, financial processes, and employee training.

External and Internal Reviews of Westin's Internal Controls – In the absence of being able to conduct testing on Marriott's and Westin's internal control structure, auditors sought to evaluate the results of recent external and internal review and audit efforts.

As described in the background section of the report, the airport contracted with Capital Hotel Management to identify, establish a subcontract with, and monitor both an external review and an external audit of the Westin. Bleser and Associates conducted a review of internal controls and processes, and RubinBrown LLP performed a financial audit. Although the airport paid for both through CHM, auditors could not initially review available results or documentation—such as the scope of work—related to these efforts, as Marriott considered the results and documentation to be proprietary. Further, Marriott required the City (through the airport), as well as both Bleser and RubinBrown, to sign nondisclosure agreements prohibiting all parties from disclosing proprietary information.

Despite the City, as the owner, being party to the nondisclosure agreement, Marriott continued to refuse to provide the results of the Bleser report. Marriott finally authorized the release of these review results to us, but only after repeated requests and only after our fieldwork exit meeting with airport personnel in mid-December 2018. Because of the nondisclosure agreement, we cannot include the

[15] U.S. Government Accountability Office, GAO-14-704G, Standards for Internal Control in the Federal Government (2014). http://www.gao.gov/assets/670/665712.pdf. Accessed December 7, 2018.

details of the Bleser review within our report. However, we continue to have serious concerns related to the quality of the internal control review performed by Bleser based on the information provided within the report, as well as Marriott's and Westin's internal control structure.

As of December 17, 2018, despite the report not being complete, Marriott had still not indicated whether the RubinBrown report would be made available to us.

In addition to external reviews, Marriott conducts annual summary risk assessments on its hotels. These include a review of revenue flows, user access, key controls, vendor requests, systems, and certificates of insurance. While Westin management indicated that the hotel achieved one of the best scores for Marriott hotels in 2018, Marriott considered the results of the summary risk assessment proprietary. As a result, auditors could not review detailed results of the assessment report to gain comfort over Westin's internal control structure, including areas with identified deficiencies, and we were only allowed to take high-level notes regarding aggregate results.

Reports Evidencing System Internal Controls – In March 2017, following Marriott's acquisition of Starwood, Westin completed an accounting system conversion from Starwood's financial systems to Marriott's. To verify the accuracy and reliability of the financial data auditors required for testing, we requested documentation to validate that the conversion from Starwood to Marriott financial systems occurred successfully, and that the data was complete and converted accurately. Marriott indicated the conversion was recently reviewed as part of an audit conducted by Ernst & Young LLP; however, Marriott considered the results of the audit proprietary and would not provide a copy of the report to us.[16] Similar to other proprietary documentation, Marriott permitted us to view a copy of the report only on-site and under the supervision of Westin financial personnel. While the report provided some assurance of an adequate internal control environment, we could not rely on this work.

In December 2018, Marriott announced in an email to customers that it had taken measures to investigate and address a data security incident involving Starwood's guest reservation database, which was the same database the Westin used until November 2018. The investigation determined that there was unauthorized access to the database, which contained guest information relating to reservations at Starwood properties on or before September 10, 2018. Additionally, the investigation revealed that this unauthorized access into the Starwood network had been occurring since 2014. Per a January

[16] Ernst & Young LLP is a global professional services firm that offers assurance, advisory, tax, and transaction advisory services. https://www.ey.com/en_gl. Accessed February 4, 2019.

2019 announcement on Marriott's investor site, the unauthorized users obtained access to personal information on 383 million guest accounts, which may have contained information such as names, addresses, passport numbers, and dates of birth. Additionally, some guest accounts included credit and debit card numbers and their expiration dates.

While we do not know the full scope of Marriott's 2018 financial systems conversion audit, or whether it included the hotel's reservation system, we do know it included a review of user access—the details of which Marriott considers proprietary and thus cannot be discussed in this report. Regardless, the recent massive data breach into Starwood's reservation system could indicate that unidentified risks existed in Marriott's internal control environment prior to the breach.

Reports Containing Detailed Westin Customer Feedback – To evaluate whether customer complaints are handled according to Marriott's and Westin's policies and procedures and as included as a high-level step in the asset manager's standard operating procedures, we requested a sample of guest satisfaction surveys and customer complaint reports. However, in addition to its policies related to customer satisfaction, Marriott also considers official guest satisfaction surveys and customer complaint reports proprietary; therefore, auditors could not review the relevant internal controls or the results of the surveys or complaint reports.

We could not complete testing on 96 of 132 items due to incomplete documentation provided.

According to the Director of Commercial Properties, they receive a monthly summary of scores, which includes some detailed survey responses from the hotel. However, the audit team was provided only the monthly summary scores without any responses. When we requested a sample of guest surveys from Marriott to validate the self-reported information on the monthly report, we were told this was proprietary and we were unable to complete testing.

Lacking this information hinders the airport's and City's oversight capabilities. Bad reviews and unanswered customer concerns could result in reputational damage and lost revenue to the City.

Documentation Supporting Self-Reported Financial Transactions Related to Employee or Guest Information – We could not complete testing of Westin's financial transactions to provide assurance that Marriott's self-reported expenses and revenues are reasonable and in compliance with the hotel management agreement. While Marriott provided appropriate supporting documentation for some requests—such as quarterly beverage inventory and the monthly management fee as required by the agreement—we could not complete testing on 96 of 132 items (73 percent) due to incomplete documentation provided.

For example, Marriott provided limited access to supporting documentation for financial transactions related to payroll, benefits, and guest information. Initially, Westin financial personnel informed us that, due to the proprietary nature of employee payroll and benefit data, we would not be permitted to view supporting documentation for related transactions.

However, following our fieldwork exit meeting with airport personnel on December 11, 2018, Westin financial personnel determined we could view supporting documentation on-site. Upon review of the documentation, auditors still could not ensure the transactions were in compliance with specific testing attributes, such as the presence of supporting documentation or that the general ledger entry for the transaction matched the supporting documentation. Specifically, some of the entries were accruals for multiple employees, and others were benefit and tax transactions.

Westin financial personnel informed us that they were unable to identify individual employees' payroll taxes or benefits because the detail is not available at the hotel level; Marriott manages these items at the corporate level, and consequently, Marriott would have to provide the detail to support the transactions. However, Marriott would still not provide copies of supporting documentation for employee-level transactions related to payroll and benefits for our audit files.

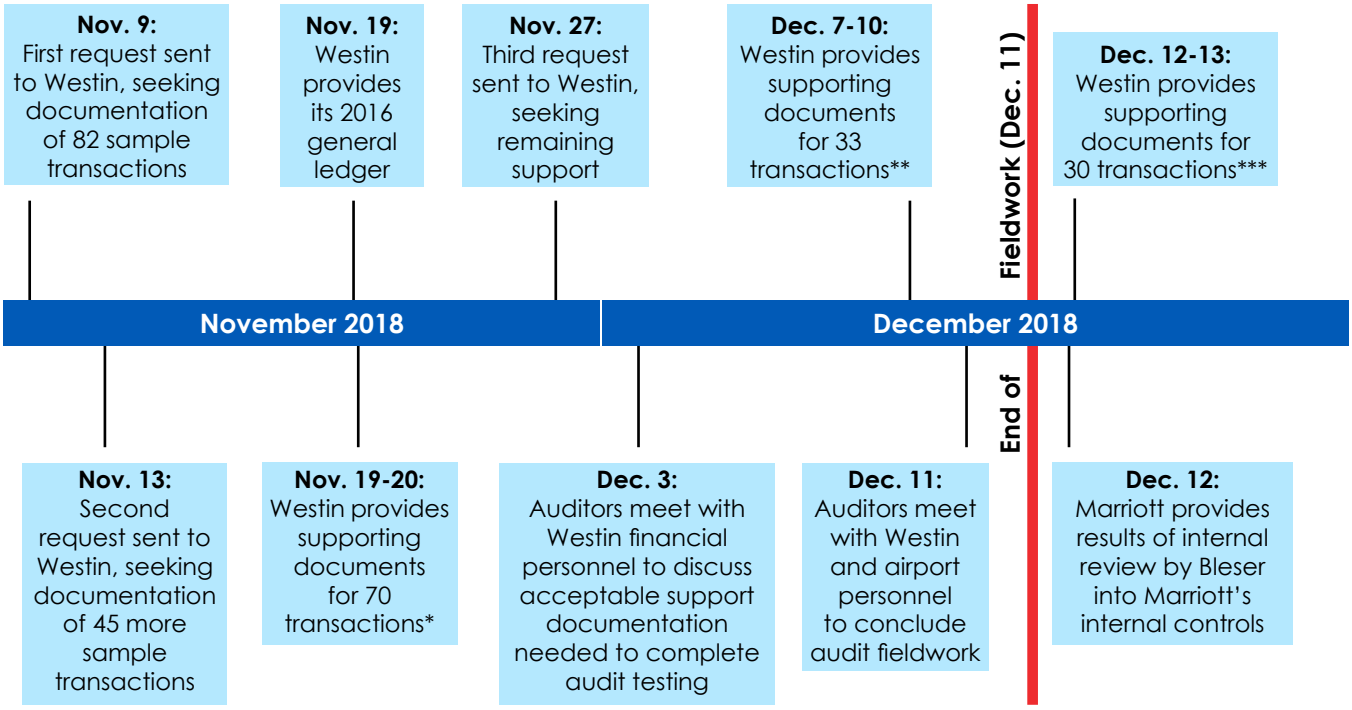
Because Marriott also considers hotel guest information proprietary, it provided only redacted copies of supporting documentation. Although we could see when a discount was applied, we could not verify whether discounts were appropriate. Specifically, we could not verify:

- The presence of guest membership status, which is required for guaranteed no-show refunds;
- The presence of guest membership and/or airline crew status required for room, food, and beverage discounts; and
- Commissions and/or discounts on group bookings that have minimum revenue requirements for rooms and food and beverage.

Westin's Delays in Providing Requested Documentation Caused Additional Audit Limitations

Aside from not providing documentation due to its perceived proprietary nature, Westin also did not provide in a timely manner documentation supporting financial transactions. Due to Westin's initial and subsequent delays, we were unable to fully validate sampled transactions. See Figure 2 on page 12 for a timeline outlining when we requested and received supporting documentation from Westin.

FIGURE 2. Westin's Delays in Providing Supporting Documentation



Source: Developed by audit team based on auditors' tracking of documentation requests in November and December of 2018.

Note: * Seven sample documents needed to be resent on November 20 due to Westin providing either incorrect or incomplete documentation on November 19.

** Fifteen supporting documents were the same as those previously provided on November 19-20. Westin also provided beverage inventory results from the third quarter, when auditors requested data from the second quarter.

*** Although fieldwork ended on December 11, auditors afforded Westin two more days—until December 13—to provide the remaining information. Of the documentation then provided on December 12-13, one supporting document was the same as one previously provided on November 19-20, and another could not be matched to any sample.

Further, Westin provided no support for 24 of 132 transactions (18 percent) included in our sample and provided incomplete, incorrect, or unrelated documentation for 72 of 132 transactions (55 percent). For example, on a report for overnight valet parking, there was one charge to a room for $39,798; the remaining valet charges were for $33. While, Westin acknowledged that the posting was an error and provided the following night's detail report showing the $39,798 charge was reversed, it did not provide detail for the true nature of the charge or evidence showing the correction in the general ledger.

Finally, because Westin subjectively chose to not provide some of the information we requested, the items we selected randomly could not be evaluated with statistical validity. Therefore, the results of our testing are relevant only to the specific items tested, as opposed to the entire population of financial transactions.

The Hotel Management Agreement Contains Language that Contradicts the Owner's Audit Rights and Counters City Charter

The hotel management agreement contains contradicting language regarding auditor access and proprietary information. In addition to the section providing the airport and the City rights to audit, as outlined above, the agreement contains definitions on books and records and proprietary information that allow Marriott to determine the form of presentation and use of any proprietary information in the operation of the hotel. For example, while the agreement indicates that the City or its designees and consultants shall have the right to audit the books and records of the hotel, the agreement's definition of "books and records" excludes proprietary information. The agreement defines "proprietary information" as the "rights of [Marriott and Westin] and its affiliates in and to the system for operating the hotel and other Westin hotels, including trademarks, materials (including manuals), reservations systems … hotel guest information, and all intellectual property rights therein or arising therefrom."

Marriott's withholding of information and documentation is contrary to the Auditor's authority as outlined in the City Charter.

Further, the agreement gives Marriott and Westin the exclusive right to determine the form of presentation and use of any proprietary information in the operation of the hotel, and it allows Marriott the right to require the City, the airport, or others to sign a confidentiality agreement as a condition of the disclosure and/or use of the information.

Marriott's refusal to provide information it deems proprietary inhibits the ability of auditors—as well as airport personnel charged with contract monitoring and asset management—to provide assurance that the hotel is in compliance with the hotel management agreement and that its internal control structure is designed and operating efficiently and effectively.

Additionally, the City is not able to validate the self-reported information provided by Marriott regarding customer satisfaction. If Westin does not adequately address guest concerns and complaints, the result could be decreased bookings and ultimately lost revenue to the City, which are counter to the operating standard defined in the agreement, as well as the airport's mission and vision. Further, the City is not able to validate the propriety and completeness of the self-reported revenue and expense information provided by the Westin, which could also result in lost revenue to the City, as well as leave the Westin and the City susceptible to fraud and abuse due to a weakened control environment. And finally, Marriott's withholding of information and documentation is contrary to the Auditor's authority as outlined in the City Charter, which states that the Auditor shall have access at all times

to all books, accounts, reports, vouchers, or other records.[17]

As a result, the agreement should be amended to provide the City and others charged with oversight access to proprietary information in order to ensure the Westin's self-reported information is accurate and complete. Future hotel management agreements should allow the same access to all documentation and information, regardless of proprietary nature.

Though Denver's hotel management agreement contains contradictory language regarding access to records, we found an example of a comparable agreement in another city that specifically allows the owner to have access to all financial and operational records deemed as proprietary. A draft of a hotel management agreement between the Greater Orlando Aviation Authority and Hyatt Corp. indicates that financial records shall be deemed proprietary to both operator and owner.

RECOMMENDATION 1.1

Amend Contract to Remove Proprietary Restrictions on Information – The airport's Revenue Management Division should work with the City Attorney's Office, including Airport Legal Services, to revise the hotel management agreement and remove language prohibiting the hotel owner—including airport and Auditor's Office personnel—from having access to proprietary financial and operational information, from conducting audits of the hotel, and from reviewing detailed audit results and recommendations issued by external audit firms.

Agency Response: Agree, Implementation Date – May 21, 2019

[17] City and County of Denver Charter § 5.2.1.a and § 5.2.1.c.

FINDING 2

Airport Management Has Not Clearly Defined Project Monitoring and Asset Management Roles and Responsibilities for the Hotel Management Agreement

While Denver International Airport has identified some departments responsible for providing oversight for the hotel management agreement, the roles related to project monitoring versus asset management are not clearly defined, and the airport has not documented specific and detailed policies related to either role.

The City contracted with Capital Hotel Management LLC to provide professional asset management services for the hotel, as there was a lack of City expertise in the hotel industry within airport management. Once the Director of Commercial Properties—formerly the Director of Hotel and Transit Center—was hired, the airport amended the CHM contract in April 2017 to extend the term to October 2019. The amendment included changes such as shifting authority for requesting work from CHM from the City's Manager of Aviation to the Director of Commercial Properties and amended the scope of work to be on a more "as needed" basis.

Despite these changes regarding asset management roles, the airport has not identified a specific contract monitor or administrator for the hotel management agreement.

Policies and Procedures for Overseeing the Hotel Management Agreement Lack Details to Ensure the Hotel's Operational and Financial Success

Standard operating procedures used by the airport's Revenue Management Division are high-level, and procedures used by both the Revenue Management and Finance divisions do not always contain clear and detailed steps for monitoring operational and financial performance of the Westin to ensure compliance with the hotel management agreement. For example, the procedures do not contain specific review processes, communication expectations between divisions, or defined responsibilities shared between departments responsible for monitoring compliance with the agreement.

Third-Party Contracts – Auditors found that while standard operating procedures for the asset manager state that all contracts will be reviewed annually, the Director of Commercial Properties neither has nor maintains a complete list of all Westin third-party contracts. Additionally, the agreement requires written approval of the airport manager—in this case the Director of Commercial Properties—for the

execution of any third-party leases, contracts, licenses, or agreements entered into by the hotel manager that either a) have a term in excess of one year, or less than one year but are automatically renewable; or b) have a total contract amount with the same vendor requiring annual payments in excess of $100,000. Without a complete list, the Director of Commercial Properties cannot ensure compliance with the airport's own standard operating procedures or with the agreement.

The airport is not conducting oversight activities to validate the hotel's self-reported financial information.

Validation of Self-Reported Financial Information, Reports, and Controls – The airport is not conducting oversight activities to validate the hotel's self-reported financial information—including a review of supporting documentation and of Marriott's corporate and site-specific standard operating procedures—to ensure transactions are allowable per the hotel management agreement, that revenues are accurately reported, and that Westin has strong internal controls for its finances. Through conversations with both the airport's Finance Division and with the Director of Commercial Properties, auditors noted discrepancies in the understanding each had of the other's roles and responsibilities.

For example, the Finance Division indicated that the Director of Commercial Properties should be conducting a detailed review of revenue and expense information provided by the Westin, such as the hotel management agreement fee taken from the City's hotel operating account by the Westin. However, we noted that neither the Finance Division nor the Director of Commercial Properties conducts oversight activities to validate the self-reported information provided by the hotel. In addition, both the Finance Division and the Director of Commercial Properties rely upon the other to review the detail behind financial reports and to validate the information provided by the Westin.

However, while the Director of Commercial Properties' duties include a review of significant variances month over month, as well as comparisons of market shares and of budget to actuals, and the Finance Division records revenue and expense information from Westin's monthly financial reports into Workday (the City's accounting system of record), neither are validating the self-reported information. Finally, neither the Finance Division nor the Director of Commercial Properties reviews Westin's internal control structure, including reviewing and ensuring implementation of Marriott's and Westin's documented policies and procedures.

By not performing activities to validate the self-reported financial information from the hotel, the airport was not aware of the following concerns with Westin's financial records, as noted in Finding 1:

- Incomplete documentation to support financial transactions;
- Supporting documentation for some transactions, such as

payroll, were not provided at all or not provided until after the audit fieldwork exit meeting; and

- Potentially unreasonable or improper expenses for the operation of a hotel based on the hotel management agreement and the City's Fiscal Accountability Rules (i.e., baseball tickets valued at $405 for a Westin employee's going-away party).[18]

We also noted that, following the transition from Starwood to Marriott financial systems, Marriott did not retain documentation on-site at the Westin for financial transactions that occurred prior to the merger. The hotel management agreement states that during the operating term, the Westin shall ensure books and records relating to the hotel are prepared and kept on-site at the hotel. In addition, all such information shall be retained and made available for inspection, audit, examination, and copying not less than three years after termination of the agreement.

The agreement entitles the Westin to reimburse itself from the hotel operating account for all reasonable direct out-of-pocket costs and expenses incurred in the ordinary course of managing the hotel. Additionally, the agreement requires Westin to maintain an internal control structure to provide assurance the hotel and hotel assets are safeguarded and that transactions are reasonable and supported.

A 2014 framework related to third-party oversight that was published by KPMG International Cooperative, a global network of independent member firms offering audit, tax, and advisory services, highlights the importance for institutions to "trust but verify." Specifically, KPMG states that "while institutions are permitted to outsource a variety of operations and activities, they may not outsource accountability for the activities performed on their behalf."[19]

Without proper oversight and validation of transactions and supporting documentation of Westin's self-reported financial information and its internal control structure, the airport cannot ensure the hotel is in compliance with the terms of the hotel management agreement and that reimbursements are allowable and properly supported. Further, the airport cannot ensure potential hotel revenues are not being lost due to a lack of financial and performance monitoring.

[18] City and County of Denver, Rule 7.1 – Propriety of Expenditures, Fiscal Accountability Rules (revised 2014). https://www.denvergov.org/content/dam/denvergov/Portals/344/documents/Fiscal_Rules/chapter_7_Expenditures/Rules/Rule_7_1_Propriety_of_Expenditures.pdf. Accessed December 6, 2018.

[19] KPMG International Cooperative. "The New Third-Party Oversight Framework: Trust but Verify" (2014). https://assets.kpmg/content/dam/kpmg/pdf/2016/05/the-new-third-party-oversight-framework-brochure.pdf. Accessed February 1, 2019.

Documentation of On-Site Inspections – The Director of Commercial Properties conducts periodic physical inspections of the Westin. However, results of the inspections and subsequent actions taken to resolve identified problems are not documented. Per the asset manager's standard operating procedures, physical inspections should include a review to ensure the premises are being properly maintained to expected standards. Additionally, the hotel management agreement states that the hotel is to be operated, serviced, and maintained to at least a level of service and quality to protect and preserve the asset.

Auditors conducted a scheduled walk-through of the Westin with the Director of Commercial Properties during an inspection of the hotel, and while the director stated an inspection had been conducted the week prior, we noted burnt-out lightbulbs, cracked tables and light fixtures, dirty light fixtures, and fabric stains and tears on chairs in the lobby. In a subsequent walk-through, we also noted the bathroom in the Westin's lobby was out of toilet paper and various items were strewn on the floor. The photos on the next page illustrate some of our observations from walk-throughs of the Westin.

We recognize that the photos may not be representative of the entire state of the hotel at all times; however, without proper documentation of the results and resolutions of on-site inspections, the airport cannot ensure the Westin is being sufficiently maintained to protect and preserve the asset and that issues noted in past inspections or by the auditors are being resolved.

The U.S. Government Accountability Office's Green Book states that documentation of the internal control system is necessary to retain organizational knowledge. In addition, Green Book standards say that management should document the internal control responsibilities of the organization. Policies should be documented in the appropriate level of detail to allow management to effectively monitor the control activity.[20]

KPMG cautions that risks exist with self-reported information, including revenues. Specifically, the cooperative states that the key concern is usually whether information is complete and accurate. To mitigate these risks, KMPG suggests that organizations should ensure there are processes to ensure reporting is accurately prepared and reviewed when received and that there are regular reviews and audits of information.[21] In 2015, KPMG estimated that as much as 70 percent of

[20] U.S. Government Accountability Office, GAO-14-704G § 3.10, 12.02, and 12.03, Standards for Internal Control in the Federal Government (2014). http://www.gao.gov/assets/670/665712.pdf. Accessed December 7, 2018.

[21] KPMG International Cooperative. "Forensic Focus: "Managing Contract Compliance Risk – A Data Analytical Approach" (2018). https://assets.kpmg/content/dam/kpmg/ca/pdf/2018/03/contract-compliance.pdf. Accessed February 4, 2019.

WESTIN LOBBY: FURNITURE DAMAGE

During a walk-through of the Westin in October 2018, auditors observed a chair and a table in the lobby that were damaged. Fabric was tearing from the chair cushion, and the table's edge was chipped. (Photos by Audit Services Division)

WESTIN LOBBY BATHROOM: UNSTOCKED AND UNKEMPT

During another walk-through of the Westin in November 2018, auditors also observed that the bathroom in the lobby was out of toilet paper and garbage was strewn on the floor. (Photos by Audit Services Division)

self-reporting by business partners or vendors was inaccurate, based on more than 1,000 previous engagements conducted by its contract compliance services.[22]

Additionally, the City's Executive Order 8 dealing with contracts indicates the initiating authority of a contract should establish and implement policies and procedures for monitoring the contract, including identifying a specific person to be accountable for the department or agency's contract monitoring responsibilities and to monitor performance under the contract. The responsible party should also document contract monitoring and deliverables associated with monitoring.[23]

Because the City's guidance for contract monitoring does not indicate how monitoring should occur, we researched best practices related to contract oversight. For example, the State of Colorado Procurement Manual provides an example of the state's contract administration procedures to include:[24]

- Administrative responsibilities—such as monitoring vendor performance, monitoring and approving payments, and conducting financial reviews and audits during the contract term;
- Comparing invoiced rates and charges with contract provisions;
- Ensuring vendor performance is accurately reported; and
- Reviewing invoices and expenditures to ensure supporting documents adequately support transactions.

In addition, the City of San Antonio Finance Department's Procurement Policy and Procedures Manual provides an example of a City best practice and outlines specific guidance related to contract monitoring, including:[25]

- All monitoring efforts should be documented as to the issues, observations, and final outcomes;
- A complete record of all monitoring activities should be maintained in the contract file;
- Fiscal reviews should be conducted—including verifying that both expenses submitted for reimbursement and revenues received to the City are accurate; and

[22] KPMG International Cooperative. "Contract Compliance Advisory" (2015). https://home.kpmg/content/dam/kpmg/pdf/2015/05/Contract-Compliance-Advisory.pdf. Accessed February 4, 2019.

[23] Exec. Order No. 8, City and County of Denver (2011). https://www.denvergov.org/content/dam/denvergov/Portals/executiveorders/8-Contracts-Other-Written-Instruments-CCD.pdf. Accessed September 21, 2018.

[24] Colorado Department of Personnel and Administration, "State of Colorado Procurement Manual" (2010). https://www.colorado.gov/pacific/sites/default/files/Procurement_Manual.pdf. Accessed February 4, 2019.

[25] "City of San Antonio Procurement Policy and Procedures Manual" (revised August 2013), City of San Antonio, Texas.

- On-site reviews, either scheduled or unscheduled, should be conducted.

The Airport Lacks Appropriate Segregation of Duties for Requesting and Approving Work from Capital Hotel Management

The process for requesting work from Capital Hotel Management, the airport hotel's asset management firm, does not include an appropriate segregation of duties. Specifically, the Director of Commercial Properties not only is requesting the work, but they are also reviewing supporting documentation for invoices, such as meal reimbursements, and approving final reimbursement to CHM.

Upon review of expenses reimbursed to CHM, auditors identified potentially unallowable costs both reviewed and approved by the Director of Commercial Properties. For example, the Director of Commercial Properties reviewed and approved reimbursements for their own meals, for costs associated with staff rates not outlined in the CHM contract, and for transportation costs following the opening of the Westin that were not included in post-hotel opening estimates. Specifically, the City continued to pay transportation reimbursements to CHM following the Westin's opening, even though CHM projected it would not incur any transportation costs after the hotel opened.

In addition, the CHM contract does not outline an hourly rate for Chief Financial Officer, Senior Vice President, and Senior Associate services, yet the City paid a rate for these services.[26] We also found discrepancies between when the City was billed for and paid the hourly rate versus the airport's fixed-fee hourly rate. Prior to the hotel's opening, fixed fees of $22,500 per month were paid to CHM. However, the fees paid were switched to hourly fees following the opening of the hotel. Finally, we noted that meal receipts were not itemized with information such as the nature and purpose of the transaction, attendees, and items purchased.

Green Book standards also indicate that segregation of duties reduces the risk of error, misuse, or fraud.[27] Additionally, management should separate responsibilities for authorizing transactions, processing and recording them, and reviewing so that no one individual controls all key aspects of an event. Further, the City's Fiscal Accountability Rules

[26] The airport paid $375 an hour for Chief Financial Officer services, $350 an hour for Senior Vice President services, and $300 an hour for Senior Associate services—none of which were included in the contract.

[27] U.S. Government Accountability Office, GAO-14-704G § 10.03, Standards for Internal Control in the Federal Government (2014). http://www.gao.gov/assets/670/665712.pdf. Accessed December 7, 2018.

Without a proper segregation of duties and standards for financial supporting documentation, the airport cannot ensure that all reimbursements to Capital Hotel Management are allowable and supported.

mirror the Green Book in requiring segregation of duties.[28] The City rules say functions should be divided so that no one person has control over an entire process or fiscal activity and that supporting documentation should include the nature and purpose of the transaction and provide a clear picture of the transaction.[29] Finally, City Fiscal Accountability Rules regarding the propriety of expenditures provide guidelines for City employees to determine if an expense may provide a valid benefit to the City without providing personal benefit to an employee or creating the appearance of personal benefit.[30] Without a proper segregation of duties and standards for financial supporting documentation, the airport cannot ensure that all reimbursements to CHM are allowable and supported.

The Airport Has Not Defined and Documented Processes for Comprehensively Monitoring the Financial Performance of the Westin

During the audit, auditors learned of the opening of the Gaylord Rockies Resort, also a Marriott hotel, in December 2018 near the airport and the Westin. We inquired with airport personnel to determine the impact and the airport's plan to mitigate any potential revenue loss from the competition. Airport personnel stated and provided limited documentation that indicated Westin planned to partner with the Gaylord to book overflow from large conventions being held at the Gaylord. Additionally, the Director of Commercial Properties advised Westin to renew partnerships with airline crews for 2019.

In addition, we inquired with airport officials to determine if a comprehensive return-on-investment analysis had been conducted on the Westin and found that it had not since prior to the opening of the hotel. We later learned that the airport conducts some ongoing activities to monitor the financial performance of the hotel. For example, the airport's Director of Commercial Properties provided a market-study analysis conducted by PKF Consulting in 2012, which provided projections of market performance based on assumptions and estimations prior to the Westin's opening. We were also provided with an analysis conducted by the airport's Finance Division focusing on revenues received to-date compared to the 2012 PKF market study.

[28] City and County of Denver, Rule 2.4 – Separation and Rotation of Duties, Fiscal Accountability Rules (revised 2008). https://www.denvergov.org/content/dam/denvergov/Portals/344/documents/Fiscal_Rules/chapter_2_Internal_Controls/Rules/Rule_2_4_Sep_and_Rotation_of_Duties.pdf. Accessed December 6, 2018.

[29] City and County of Denver, Rule 2.5 – Supporting Documentation, Fiscal Accountability Rules (revised 2013). https://www.denvergov.org/content/dam/denvergov/Portals/344/documents/Fiscal_Rules/chapter_2_Internal_Controls/Rules/Rule_2_5_Spt_Documentation.pdf. Accessed December 6, 2018.

[30] City and County of Denver, Rule 7.1 – Propriety of Expenditures, Fiscal Accountability Rules (revised 2014). https://www.denvergov.org/content/dam/denvergov/Portals/344/documents/Fiscal_Rules/chapter_7_Expenditures/Rules/Rule_7_1_Propriety_of_Expenditures.pdf. Accessed December 6, 2018.

Additionally, the Director of Commercial Properties' standard operating procedures include reviewing various reports and Westin-determined "key performance indicators."[31] However, these procedures do not include details related to these reviews, including documentation. The Finance Division's standard operating procedures do not contain specific steps for monitoring financial performance.

As stated above, the hotel management agreement defines the operating standard of the Westin to be at a level sufficient to protect the asset and ensure financial success. According to its financial statements, the Westin has consistently exceeded revenue goals outlined in the hotel management agreement, so the benefit of formally identifying and documenting these monitoring activities might have been overlooked.

However, the hotel could benefit from standardizing these comprehensive analyses to ensure the Westin continues to be a good investment and to provide insight for airport officials to make informed decisions regarding the construction of future airport hotels.

RECOMMENDATION 2.1

Establish Specific Contract Monitoring Roles and Responsibilities – The Director of Commercial Properties should establish and document specific roles and responsibilities related to contract monitoring. Roles and responsibilities should be approved by the Senior Vice President of Airline and Commercial Affairs and should include, but not be limited to:

- Monitoring and documenting compliance with all performance terms outlined in the hotel management agreement to ensure the safeguarding of the City's asset;
- Managing the contract with Capital Hotel Management LLC, or other third-party contracts associated with the hotel management agreement, and ensuring proper documentation of scopes of work and fees, per the City's Fiscal Accountability Rules; and
- Ensuring proper approval is provided to all necessary Westin service contracts, per the hotel management agreement.

Agency Response: Agree, Implementation Date – May 21, 2019

[31] "Key performance indicators" enable organizations to use timely and relevant information to drive action-oriented decision-making and to have a consistent view of actual performance across the business.

RECOMMENDATION 2.2

Establish Specific Financial Monitoring Roles and Responsibilities – The Director of Commercial Properties and Senior Vice President of Financial Management should establish and document specific financial roles and responsibilities related to the hotel management agreement. Roles and responsibilities should include, but not be limited to: Monitoring and documenting compliance with all financial terms outlined in the hotel management agreement to include periodic review of supporting documentation of financial transactions for accuracy, allowability, and completeness, per the hotel management agreement.

Agency Response: Agree, Implementation Date – May 21, 2019

RECOMMENDATION 2.3

Develop and Document Policies and Procedures for Each Monitoring Role – Following implementation of Recommendations 2.1 and 2.2, the Director of Commercial Properties, Senior Vice President of Airline and Commercial Affairs, and Senior Vice President of Financial Management should develop documented policies and procedures for each role responsible for monitoring the hotel management agreement and managing the asset. The policies and procedures should include, but not be limited to:

- Identification of responsible parties for monitoring the hotel management agreement;
- Communication of expectations between parties and management involved in monitoring the hotel management agreement;
- Specific and detailed steps for ensuring compliance with the hotel management agreement, safeguarding the City's asset, and managing the contract with Capital Hotel Management LLC or other third-party contracts;
- Specific time frames or deadlines for process steps;
- Documentation of expectations for monitoring activities; and
- A review process to ensure contract monitoring, asset management, and financial monitoring is occurring and that an appropriate segregation of duties exists and is in accordance with Fiscal Accountability Rules.

Agency Response: Agree, Implementation Date – May 21, 2019

RECOMMENDATION 2.4

Allowable Reimbursements to Capital Hotel Management LLC – The Senior Vice President of Airline and Commercial Affairs should ensure that reimbursements to Capital Hotel Management LLC, or other third-party contractors, include only allowable expenses and that supporting documentation meets the requirements of Fiscal Accountability Rules.

Agency Response: Agree, Implementation Date – May 21, 2019

RECOMMENDATION 2.5

Document On-Site Inspections and Subsequent Resolutions – The Director of Commercial Properties and other individuals conducting inspections of the Westin should document all results and resolutions from each inspection. This documentation should be retained to provide assurance of the safeguarding of the asset and of appropriate actions taken by Westin staff.

Agency Response: Agree, Implementation Date – May 21, 2019

RECOMMENDATION 2.6

Identify a Comprehensive Methodology for Monitoring Financial Performance – The Senior Vice President of Airline and Commercial Affairs and Senior Vice President of Finance should identify appropriate methodologies, such as an internal rate-of-return analysis and a review of key performance indicators, for conducting comprehensive financial performance-monitoring activities.

Agency Response: Agree, Implementation Date – Implemented

RECOMMENDATION 2.7

Develop Financial Performance-Monitoring Procedures – Following implementation of Recommendation 2.6, the Senior Vice President of Airline and Commercial Affairs and Senior Vice President of Finance should ensure procedures for conducting financial performance-monitoring activities are developed. The procedures should include the methodologies to be used, the frequency for each monitoring activity, and documentation and reporting requirements for results.

Agency Response: Agree, Implementation Date – March 21, 2019

RECOMMENDATION 2.8

Conduct Financial Performance-Monitoring Activities – Following implementation of Recommendation 2.7, the Senior Vice President of Airline and Commercial Affairs and Senior Vice President of Finance should ensure that comprehensive financial performance-monitoring activities are conducted in accordance with identified procedures.

Agency Response: Agree, Implementation Date – Implemented

The Airport May Be Spending Money on Unnecessary External Resources to Monitor the Hotel Management Agreement

In addition to the lack of clearly identified roles and responsibilities, auditors identified potentially duplicative efforts between work conducted by Capital Hotel Management and the Director of Commercial Properties' job duties and performance goals.

Specifically, we found potentially unnecessary outsourcing costs associated with paying a third-party contractor, such as CHM, to negotiate, hire, and monitor other third-party contractors to perform external and internal audits and reviews of the Westin. We also identified a lack of compliance with City documentation requirements regarding expense reimbursements and requests for work. Finally, even though the City owns the Westin, the City may not receive detailed results of all third-party audits due to a nondisclosure agreement in place between CHM, the airport on behalf of the City, and each audit firm.

Potential Duplication of Efforts and Unnecessary Outsourcing Costs – As previously mentioned, the airport contracted with CHM to provide professional asset management services for the Westin prior to the hiring of the Director of Commercial Properties. The job duties for the

Based on the supporting documentation we received from airport personnel, the airport paid $47,013 to CHM for work that could be considered duplicative.

Director of Commercial Properties were informally expanded to include asset management roles and responsibilities in an effort to save the City money. The contract with CHM was subsequently amended in April 2017. The amendment stated that the consultant will provide task-based professional services relating to the operation of the hotel. Written task orders shall be issued by the director.

Auditors compared the job duties and performance goals of the Director of Commercial Properties and the scope of work outlined in the CHM addendum, as well as documentation provided by the airport during the audit such as unofficial task orders, and noted possible duplication in responsibilities and work performed. Specifically, we noted potential duplication of efforts related to forecasting, benchmarking, revenue and performance optimization, conducting market analysis and evaluating the possibility of future airport development, and budget and revenue performance and planning. We reviewed invoices paid to CHM from January 2016, when the Director of Commercial Properties was hired, to September 2018. Prior to the CHM addendum of April 2017, we calculated that the airport paid a total of $308,725 to CHM for asset management work. After the addendum, we calculated that the airport paid $85,089 to CHM for task-based asset management services.

Based on our review of invoices paid to CHM for the $85,089, as well as the supporting documentation provided by the airport, we found that the airport paid $47,013 to CHM between April 2017 and September 2018 for work that could be considered duplicative with the Director of Commercial Properties' roles and responsibilities.

CHM also identified, negotiated with, hired, and monitored other third-party contractors to perform external and internal audits and reviews of the Westin. We discovered that the City, through CHM, paid for two separate efforts.

First, CHM contracted with Bleser and Associates to conduct a review of the Westin's internal controls to confirm proper processes, strength, and oversight of the control environment. The City, through CHM, paid $5,000—including expenses to CHM for managing the contract, while hotel charges were also to be comped.

Subsequently, CHM contracted with RubinBrown LLP to audit the Westin's 2017 financial statements. The cost of the RubinBrown audit was $44,000, plus CHM's expenses for monitoring the external audit.

As mentioned in Finding 1, when we finally received the results of the Bleser review, we identified concerns over the quality of review conducted by Bleser. Additionally, as of December 17, 2018, Marriott's legal team had not indicated whether the Auditor's Office would

be privy to the results of the RubinBrown effort upon its completion. According to airport management, the Director of Commercial Properties will be responsible for monitoring the Westin's response to the report recommendations from both Bleser and RubinBrown.

While the Director of Commercial Properties has outlined an informal plan for ensuring the Westin addresses recommendations, this process is not formally documented and does not indicate under what circumstances other airport divisions, such as Finance or Internal Audit, will be consulted for their expertise. Despite the airport receiving the Bleser report in August 2018, a comprehensive action plan has not been finalized between Westin and the airport for responding to findings and recommendations.

When reviewing the airport's process for requesting work from CHM, we found that requests were often conducted by email or telephone. Further, the Director of Commercial Properties discusses work being requested from CHM in weekly one-on-one meetings with the Senior Vice President of Airline and Commercial Affairs. The airport has not documented formal policies and procedures for requesting, reviewing, and approving work from CHM.

The City's Executive Order 8, related to contracting practices, indicates that work related to an on-call contract, such as the CHM amended contract, is typically commenced by written task order or work order and should include the scope of work or services and the price determined by rates or costs agreed to in the contract.[32] Additionally, while the hotel management agreement allows the City, as the owner, to retain a consultant for express purposes, such as when predetermined revenue goals are not being met, it does not require the retention of one. Finally, as the only requirement for an auditor included in the hotel management agreement is that it be a nationally or regionally recognized firm of independent certified public accountants, airport personnel should not have had to leverage CHM to locate either Bleser or RubinBrown.

Without an appropriate request, review, and approval process that includes the scope of work requested, the airport cannot ensure it is paying CHM for work that is both necessary and not duplicative of existing airport personnel's job responsibilities. The City could further save money by not contracting with CHM and instead using internal resources with audit or hospitality industry expertise, such as the airport's Internal Audit Division and the Director of Commercial Properties, to locate and contract with an independent certified public accounting firm. Further, without a formalized management response and

[32] Exec. Order No. 8, City and County of Denver (2011). https://www.denvergov.org/content/dam/denvergov/Portals/executiveorders/8-Contracts-Other-Written-Instruments-CCD.pdf. Accessed September 21, 2018.

monitoring process in place, the airport may not be able to ensure Westin is responding effectively to recommendations made by external auditors.

RECOMMENDATION 2.9

Formalize and Document Task Order Process – The Senior Vice President of Airline and Commercial Affairs should establish a documented process for utilizing formal task orders for requesting work from Capital Hotel Management LLC and other contracted entities charged with providing contract monitoring or asset management services. Task orders should clearly state, at a minimum, the terms and conditions, as well as an estimate of time and costs associated with the task.

Agency Response: Agree, Implementation Date – May 21, 2019

RECOMMENDATION 2.10

Establish Task Order Review and Approval Process – Following implementation of Recommendation 2.9, the Senior Vice President of Airline and Commercial Affairs should establish a process for reviewing and approving task orders to ensure work being requested is necessary and not duplicative of the roles and responsibilities of airport personnel charged with managing the hotel management agreement.

Agency Response: Agree, Implementation Date – May 21, 2019

RECOMMENDATION 2.11

Utilize Existing City Resources – The Director of Commercial Properties should leverage existing City resources for identifying and contracting with independent certified public accounting firms or other external auditors to conduct audits and reviews of Marriott's corporate and site-specific internal control structure and financial statements.

Agency Response: Agree, Implementation Date – May 21, 2019

RECOMMENDATIONS

1.1 **Amend Contract to Remove Proprietary Restrictions on Information** – The airport's Revenue Management Division should work with the City Attorney's Office, including Airport Legal Services, to revise the hotel management agreement and remove language prohibiting the hotel owner—including airport and Auditor's Office personnel—from having access to proprietary financial and operational information, from conducting audits of the hotel, and from reviewing detailed audit results and recommendations issued by external audit firms.

Agency Response: Agree, Implementation Date – May 21, 2019

Agency Narrative: DEN management will initiate discussions to negotiate changes to the Hotel Management Agreement (HMA) regarding handling of Proprietary Materials as identified in this recommendation. The discussions will involve the City's attorney assigned to the Auditor's Office to more fully explain the need for this change to Marriott International. Although DEN management will initiate these discussions, it should be noted that Marriott International will have to agree to any changes requested in a Hotel Management Agreement amendment. In the event that Marriott International does not agree to the changes recommended by this audit, DEN cannot, at this time, ensure complete implementation of this recommendation.

2.1 **Establish Specific Contract Monitoring Roles and Responsibilities** – The Director of Commercial Properties should establish and document specific roles and responsibilities related to contract monitoring. Roles and responsibilities should be approved by the Senior Vice President of Airline and Commercial Affairs and should include, but not be limited to:

- Monitoring and documenting compliance with all performance terms outlined in the hotel management agreement to ensure the safeguarding of the City's asset;
- Managing the contract with Capital Hotel Management LLC, or other third-party contracts associated with the hotel management agreement, and ensuring proper documentation of scopes of work and fees, per the City's Fiscal Accountability Rules; and
- Ensuring proper approval is provided to all necessary Westin service contracts, per the hotel management agreement.

Agency Response: Agree, Implementation Date – May 21, 2019

Agency Narrative: DEN agrees the Director of Commercial Properties and the Senior Vice President of Airline and Commercial Affairs will document roles and responsibilities as they relate to compliance monitoring of the Capital Hotel Management, L.L.C. (CHM) contract or other related contracts associated with the hotel management agreement.

2.2 **Establish Specific Financial Monitoring Roles and Responsibilities** – The Director of Commercial Properties and Senior Vice President of Financial Management should establish and document specific financial roles and responsibilities related to the hotel management agreement. Roles and responsibilities should include, but not be limited to: Monitoring and documenting

compliance with all financial terms outlined in the hotel management agreement to include periodic review of supporting documentation of financial transactions for accuracy, allowability, and completeness, per the hotel management agreement.

Agency Response: Agree, Implementation Date – May 21, 2019

Agency Narrative: DEN uses a risk-based approach as it relates to periodic review of financial transactions incurred under the Hotel Management Agreement. DEN has established several monitoring tools to track the performance of the Westin DIA under the hotel management agreement. DEN agrees to formally define and document each role and associated responsibilities as they relate to the financial terms of the hotel management agreement.

2.3 **Develop and Document Policies and Procedures for Each Monitoring Role** – Following implementation of Recommendations 2.1 and 2.2, the Director of Commercial Properties, Senior Vice President of Airline and Commercial Affairs, and Senior Vice President of Financial Management should develop documented policies and procedures for each role responsible for monitoring the hotel management agreement and managing the asset. The policies and procedures should include, but not be limited to:

- Identification of responsible parties for monitoring the hotel management agreement;
- Communication of expectations between parties and management involved in monitoring the hotel management agreement;
- Specific and detailed steps for ensuring compliance with the hotel management agreement, safeguarding the City's asset, and managing the contract with Capital Hotel Management LLC or other third-party contracts;
- Specific time frames or deadlines for process steps;
- Documentation of expectations for monitoring activities; and
- A review process to ensure contract monitoring, asset management, and financial monitoring is occurring and that an appropriate segregation of duties exists and is in accordance with Fiscal Accountability Rules.

Agency Response: Agree, Implementation Date – May 21, 2019

Agency Narrative: DEN uses a risk-based approach as it relates to periodic review of financial transactions incurred under the Hotel Management Agreement. Also, the Director of Commercial Properties, the Senior Vice President of Airline and Commercial Affairs, and the Senior Vice President of Financial Management will continue to work together on documenting roles and responsibilities as they relate to compliance monitoring of the Capital Hotel Management, L.L.C. (CHM) contract or other related contracts associated with the hotel management agreement as well as financial terms of the hotel management agreement.

2.4 **Allowable Reimbursements to Capital Hotel Management LLC** – The Senior Vice President of Airline and Commercial Affairs should ensure that reimbursements to Capital Hotel Management LLC, or other third-party contractors, include only allowable expenses and that supporting documentation meets the requirements of Fiscal Accountability Rules.

Agency Response: Agree, Implementation Date – May 21, 2019

Agency Narrative: As of September 2017, DEN implemented, at the direction of the Controller's Office, Workday as the financial system of record. As a result of this implementation of the city-wide financial system platform, vendor and contractor reimbursement payments are processed in accordance with Workday's approval workflow, which includes the City's approval requirements. In addition to the workflow approvals in Workday the Director of Commercial Properties will outline an internal approval process that ensure review and payment of third-party contract invoices meet Fiscal Accountability guidelines.

2.5 **Document On-Site Inspections and Subsequent Resolutions** – The Director of Commercial Properties and other individuals conducting inspections of the Westin should document all results and resolutions from each inspection. This documentation should be retained to provide assurance of the safeguarding of the asset and of appropriate actions taken by Westin staff.

Agency Response: Agree, Implementation Date – May 21, 2019

Agency Narrative: The Director of Commercial Properties shall create a template to formally document the items noted needing attention during walkthroughs. Additionally, the resolution of any items noted as requiring attention will be documented. Standard Operating Procedures will be updated to include more details regarding this process.

2.6 **Identify a Comprehensive Methodology for Monitoring Financial Performance** – The Senior Vice President of Airline and Commercial Affairs and Senior Vice President of Finance should identify appropriate methodologies, such as an internal rate-of-return analysis and a review of key performance indicators, for conducting comprehensive financial performance-monitoring activities.

Agency Response: Agree, Implementation Date – Implemented

Agency Narrative: DEN management has already identified and implemented appropriate methodologies for conducting financial performance monitoring. Financial performance monitoring methodologies are currently in place and have been performed regularly since the operations of the Westin DIA commenced. DEN management will continue to utilize the existing suite of methodologies for monitoring the financial performance of the Westin DIA and will enhance or adjust the tools within the suite of methodologies as situations warrant.

2.7 **Develop Financial Performance-Monitoring Procedures** – Following implementation of Recommendation 2.6, the Senior Vice President of Airline and Commercial Affairs and Senior Vice President of Finance should ensure procedures for conducting financial performance-monitoring activities are developed. The procedures should include the methodologies to be used, the frequency for each monitoring activity, and documentation and reporting requirements for results.

Agency Response: Agree, Implementation Date – March 21, 2019

Agency Narrative: DEN management has already identified and implemented appropriate methodologies for conducting financial performance monitoring. Financial performance

monitoring methodologies outlined in the procedures are currently in place and have been performed regularly since the operations of the Westin DIA commenced. DEN management will evaluate existing procedures for monitoring financial performance of the Westin DIA and adjust those procedures as additional tools are added to the suite of monitoring tools.

2.8 **Conduct Financial Performance-Monitoring Activities** – Following implementation of Recommendation 2.7, the Senior Vice President of Airline and Commercial Affairs and Senior Vice President of Finance should ensure that comprehensive financial performance-monitoring activities are conducted in accordance with identified procedures.

Agency Response: Agree, Implementation Date – Implemented

Agency Narrative: DEN management has already identified and implemented appropriate methodologies for conducting financial performance monitoring. Financial performance monitoring methodologies are currently in place and have been performed regularly since the operations of the Westin DIA commenced. DEN management will continue to conduct these monitoring activities over the financial performance of the Westin DIA utilizing an existing suite of methodologies. In addition, DEN management will ensure assigned DEN staff follow the procedures as written or as they are modified from time to time.

2.9 **Formalize and Document Task Order Process** – The Senior Vice President of Airline and Commercial Affairs should establish a documented process for utilizing formal task orders for requesting work from Capital Hotel Management LLC and other contracted entities charged with providing contract monitoring or asset management services. Task orders should clearly state, at a minimum, the terms and conditions, as well as an estimate of time and costs associated with the task.

Agency Response: Agree, Implementation Date – May 21, 2019

Agency Narrative: Senior Vice President of Airline and Commercial Affairs will establish and document a formal task order process for requesting work to be performed under the Capital Hotel Management contract with DEN.

2.10 **Establish Task Order Review and Approval Process** – Following implementation of Recommendation 2.9, the Senior Vice President of Airline and Commercial Affairs should establish a process for reviewing and approving task orders to ensure work being requested is necessary and not duplicative of the roles and responsibilities of airport personnel charged with managing the hotel management agreement.

Agency Response: Agree, Implementation Date – May 21, 2019

Agency Narrative: As part of the process of establishing the formal task order process for requesting work performed under the Capital Hotel Management contract, the Senior Vice President of Airline and Commercial Affairs will establish review and approval process for each task order and verify the request is not duplicative work.

2.11 **Utilize Existing City Resources** – The Director of Commercial Properties should leverage existing City resources for identifying and contracting with independent certified public accounting

firms or other external auditors to conduct audits and reviews of Marriott's corporate and site-specific internal control structure and financial statements.

Agency Response: Agree, Implementation Date – May 21, 2019

Agency Narrative: The Hotel Management Agreement contains certain requirements that define an outside audit firm be utilized to conduct financial audits and DEN management will continue to follow these requirements. If City resources have the specialized expertise to provide required services, the Director of Commercial Properties will work with the identified resources to complete specifically defined work. For example, now that a hospitality specific audit scope has been defined, future financial audits of the Westin DIA can be requested and scoped internally. We will also leverage existing City resources to follow up on outside financial audit action items to ensure Westin DIA compliance with agreed-upon actions.

AGENCY RESPONSE TO AUDIT RECOMMENDATIONS

February 12, 2019

Auditor Timothy M. 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 Denver International Airport Westin Hotel Revenue.

This memorandum provides a written response for each reportable condition noted in the Auditor's Report final draft that was sent to us on January 22, 2019. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING 1
Denial of Access to Data Prevents Auditors from Evaluating Marriott's and Westin's Operation of the Westin or Providing Assurance That Both Are in Compliance with the Hotel Management Agreement

RECOMMENDATION 1.1
The airport's Revenue Management Division should work with the City Attorney's Office, including Airport Legal Services, to revise the hotel management agreement and remove language prohibiting the hotel owner—including airport and Auditor's Office personnel—from having access to proprietary financial and operational information, from conducting audits of the hotel, and from reviewing detailed audit results and recommendations issued by external audit firms.

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	May 21, 2019	Stacey Nichols, 303-342-2587

DENVER

Denver International Airport 8500 Peña Boulevard | Denver, CO 80249-6340 (303) 342-2000 | www.flydenver.com

Narrative for Recommendation 1.1

DEN management will initiate discussions to negotiate changes to the Hotel Management Agreement (HMA) regarding handling of Proprietary Materials as identified in this recommendation. The discussions will involve the City's attorney assigned to the Auditor's Office to more fully explain the need for this change to Marriott International. Although DEN management will initiate these discussions, it should be noted that Marriott International will have to agree to any changes requested in a Hotel Management Agreement amendment. In the event that Marriott International does not agree to the changes recommended by this audit, DEN cannot, at this time, ensure complete implementation of this recommendation,

AUDIT FINDING 2
Airport Management Has Not Clearly Defined Project Monitoring and Asset Management Roles and Responsibilities for the Hotel Management Agreement

RECOMMENDATION 2.1
The Director of Commercial Properties should establish and document specific roles and responsibilities related to contract monitoring. Roles and responsibilities should be approved by the Senior Vice President of Airline and Commercial Affairs and should include, but not be limited to:

- Monitoring and documenting compliance with all performance terms outlined in the hotel management agreement to ensure the safeguarding of the City's asset;
- Managing the contract with Capital Hotel Management LLC, or other third-party contracts associated with the hotel management agreement, and ensuring proper documentation of scopes of work and fees, per the City's Fiscal Accountability Rules; and
- Ensuring proper approval is provided to all necessary Westin service contracts, per the hotel management agreement.

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	May 21, 2019	Stacey Nichols, 303-342-2587

Narrative for Recommendation 2.1

DEN agrees the Director of Commercial Properties and the Senior Vice President of Airline and Commercial Affairs will document roles and responsibilities as they relate to compliance monitoring of the Capital Hotel Management, L.L.C. (CHM) contract or other related contracts associated with the hotel management agreement.

RECOMMENDATION 2.2
The Director of Commercial Properties and Senior Vice President of Financial Management should establish and document specific financial roles and responsibilities

related to the hotel management agreement. Roles and responsibilities should include, but not be limited to: Monitoring and documenting compliance with all financial terms outlined in the hotel management agreement to include periodic review of supporting documentation of financial transactions for accuracy, allowability, and completeness, per the hotel management agreement.		
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	May 21, 2019	Stacey Nichols, 303-342-2587

Narrative for Recommendation 2.2
DEN uses a risk-based approach as it relates to periodic review of financial transactions incurred under the Hotel Management Agreement. DEN has established several monitoring tools to track the performance of the Westin DIA under the hotel management agreement. DEN agrees to formally define and document each role and associated responsibilities as they relate to the financial terms of the hotel management agreement.

RECOMMENDATION 2.3
Following implementation of Recommendations 2.1 and 2.2, the Director of Commercial Properties, Senior Vice President of Airline and Commercial Affairs, and Senior Vice President of Financial Management should develop documented policies and procedures for each role responsible for monitoring the hotel management agreement and managing the asset. The policies and procedures should include, but not be limited to:

- Identification of responsible parties for monitoring the hotel management agreement;
- Communication of expectations between parties and management involved in monitoring the hotel management agreement;
- Specific and detailed steps for ensuring compliance with the hotel management agreement, safeguarding the City's asset, and managing the contract with Capital Hotel Management LLC or other third-party contracts;
- Specific time frames or deadlines for process steps;
- Documentation of expectations for monitoring activities; and
- A review process to ensure contract monitoring, asset management, and financial monitoring is occurring and that an appropriate segregation of duties exists and is in accordance with Fiscal Accountability Rules.

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	May 21, 2019	Stacey Nichols, 303-342-2587;

Narrative for Recommendation 2.3
DEN uses a risk-based approach as it relates to periodic review of financial transactions incurred under the Hotel Management Agreement. Also, the Director of Commercial Properties, the Senior Vice President of Airline and Commercial Affairs, and the Senior Vice President of Financial Management will continue to work together on documenting roles and responsibilities as they relate to compliance monitoring of the Capital Hotel Management, L.L.C. (CHM) contract or other related contracts associated with the hotel management agreement as well as financial terms of the hotel management agreement.

RECOMMENDATION 2.4
The Senior Vice President of Airline and Commercial Affairs should ensure that reimbursements to Capital Hotel Management LLC, or other third-party contractors, include only allowable expenses and that supporting documentation meets the requirements of Fiscal Accountability Rules.

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	May 21, 2019	Stacey Nichols, 303-342-2587

Narrative for Recommendation 2.4
As of September 2017, DEN implemented, at the direction of the Controller's Office, Workday as the financial system of record. As a result of this implementation of the city-wide financial system platform, vendor and contractor reimbursement payments are processed in accordance with Workday's approval workflow, which includes the City's approval requirements. In addition to the workflow approvals in Workday the Director of Commercial Properties will outline an internal approval process that ensure review and payment of third-party contract invoices meet Fiscal Accountability guidelines.

RECOMMENDATION 2.5
The Director of Commercial Properties and other individuals conducting inspections of the Westin should document all results and resolutions from each inspection. This documentation should be retained to provide assurance of the safeguarding of the asset and of appropriate actions taken by Westin staff.

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	May 21, 2019	Stacey Nichols, 303-342-2587

Narrative for Recommendation 2.5
The Director of Commercial Properties shall create a template to formally document the items noted needing attention during walkthroughs. Additionally, the resolution of any items noted as requiring attention will be documented. Standard Operating Procedures will be updated to include more details regarding this process.

RECOMMENDATION 2.6 The Senior Vice President of Airline and Commercial Affairs and Senior Vice President of Finance should identify appropriate methodologies, such as internal rate-of-return analysis and a review of key performance indicators, for conducting comprehensive financial performance-monitoring activities.		
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	Implemented	Stacey Nichols, 303-342-2587

Narrative for Recommendation 2.6
DEN management has already identified and implemented appropriate methodologies for conducting financial performance monitoring. Financial performance monitoring methodologies are currently in place and have been performed regularly since the operations of the Westin DIA commenced. DEN management will continue to utilize the existing suite of methodologies for monitoring the financial performance of the Westin DIA and will enhance or adjust the tools within the suite of methodologies as situations warrant.

RECOMMENDATION 2.7 Following implementation of Recommendation 2.6, the Senior Vice President of Airline and Commercial Affairs and Senior Vice President of Finance should ensure procedures for conducting financial performance-monitoring activities are developed. The procedures should include the methodologies to be used, the frequency for each monitoring activity, and documentation and reporting requirements for results.		
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	March 21, 2019	Stacey Nichols, 303-342-2587

Narrative for Recommendation 2.7
DEN management has already identified and implemented appropriate methodologies for conducting financial performance monitoring. Financial performance monitoring methodologies outlined in the procedures are currently in place and have been performed regularly since the operations of the Westin DIA commenced. DEN management will evaluate existing procedures for monitoring financial performance of the Westin DIA and adjust those procedures as additional tools are added to the suite of monitoring tools.

RECOMMENDATION 2.8 Following implementation of Recommendation 2.7, the Senior Vice President of Airline and Commercial Affairs and Senior Vice President of Finance should ensure that comprehensive financial performance-monitoring activities are conducted in accordance with identified procedures.		
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	Implemented	Stacey Nichols, 303-342-2587

Narrative for Recommendation 2.8
DEN management has already identified and implemented appropriate methodologies for conducting financial performance monitoring. Financial performance monitoring methodologies are currently in place and have been performed regularly since the operations of the Westin DIA commenced. DEN management will continue to conduct these monitoring activities over the financial performance of the Westin DIA utilizing an existing suite of methodologies. In addition, DEN management will ensure assigned DEN staff follow the procedures as written or as they are modified from time to time.

RECOMMENDATION 2.9 The Senior Vice President of Airline and Commercial Affairs should establish a documented process for utilizing formal task orders for requesting work from Capital Hotel Management LLC and other contracted entities charged with providing contract monitoring or asset management services. Task orders should clearly state, at a minimum, the terms and conditions, as well as an estimate of time and costs associated with the task.		
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	May 21, 2019	George Karayiannakis, 303-342-2418

Narrative for Recommendation 2.9
Senior Vice President of Airline and Commercial Affairs will establish and document a formal task order process for requesting work to be performed under the Capital Hotel Management contract with DEN.

RECOMMENDATION 2.10 Following implementation of Recommendation 2.9, the Senior Vice President of Airline and Commercial Affairs should establish a process for reviewing and approving task orders to ensure work being requested is necessary and not duplicative of the roles and responsibilities of airport personnel charged with managing the hotel management agreement.		
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	May 21, 2019	George Karayiannakis, 303-342-2418

Narrative for Recommendation 2.10
As part of the process of establishing the formal task order process for requesting work performed under the Capital Hotel Management contract, the Senior Vice President of Airline and Commercial Affairs will establish review and approval process for each task order and verify the request is not duplicative work.

RECOMMENDATION 2.11 The Director of Commercial Properties should leverage existing City resources for identifying and contracting with independent certified public accounting firms or other external auditors to conduct audits and reviews of Marriott's corporate and site-specific internal control structure and financial statements.		
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	May 21, 2019	Stacey Nichols, 303-342-2587

Narrative for Recommendation 2.11
The Hotel Management Agreement contains certain requirements that define an outside audit firm be utilized to conduct financial audits and DEN management will continue to follow these requirements. If City resources have the specialized expertise to provide required services, the Director of Commercial Properties will work with the identified resources to complete specifically defined work. For example, now that a hospitality specific audit scope has been defined, future financial audits of the Westin DIA can be requested and scoped internally. We will also leverage existing City resources to follow up on outside financial audit action items to ensure Westin DIA compliance with agreed-upon actions.

Please contact George Karayiannakis (303) 342-2418 with any questions.

Sincerely,

Patrick Heck
Executive Vice President

cc: Valerie Walling, Deputy Auditor, CPA, CMC®
Sonia Montano, CGAP, CRMA, Audit Supervisor
Dawn Wiseman, CRMA, Audit Manager

OBJECTIVE

The audit had three objectives: 1) To determine whether Denver International Airport's Revenue Management and Finance divisions had effective controls in place to ensure revenues and expenses reported by Westin were reasonable and in compliance with the hotel management agreement; 2) To verify that the airport's Director of Commercial Properties was effectively reviewing performance management contract terms to ensure Westin was optimizing revenue; and 3) To demonstrate that the airport's Director of Commercial Properties was verifying that Westin's employees were aware of and effectively implementing internal controls.

SCOPE

The scope of the audit was an assessment of Denver International Airport's Revenue Management and Finance divisions' oversight of the hotel management agreement between the City and County of Denver and the Westin. Specifically, we aimed to determine the level of review being conducted over Westin's financial transactions and performance and employee management between January 1, 2016, through June 30, 2018.

According to generally accepted government auditing standards, "auditors should report any significant constraints imposed on the audit approach by information limitations or scope impairments, including denials or excessive delays of access to certain records or individuals."[33] During the audit, we encountered significant constraints involving the ability of our office to obtain or thoroughly document details of Marriott's policies and procedures supporting its internal control environment, to review any documentation supporting employee training and compliance with Marriott's training requirements, and to review the results of detailed customer service satisfaction surveys to identify thematic elements.

Additionally, we encountered significant delays in being able to obtain or review on-site sufficient and appropriate evidence for financial transactions—particularly those related to employee payroll and benefits or that included guest information pertaining to memberships and discounts. Further, despite our efforts to clarify the type of supporting documentation we required for transactional testing purposes, Westin financial personnel continued to send insufficient documentation and provided most of the documentation two days after our fieldwork exit meeting with airport officials. Finally, only after that fieldwork exit meeting was Marriott was willing to provide the full results of an internal audit on Marriott's internal controls, a review that was paid for by the City through a contracted asset manager.

The limitations impeded our ability to offer conclusions on Marriott's and Westin's internal control structure and to verify whether the City and the Westin were in compliance with the hotel management agreement.

[33] U.S. Government Accountability Office, GAO-12-331G, Government Auditing Standards (2011). https://www.gao.gov/assets/590/587281.pdf. Accessed December 27, 2018.

METHODOLOGY

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

- Interviewing the following individuals:
  - Personnel from the airport's Revenue Management and Finance divisions
  - Westin's General Manager
  - Personnel from Westin's Finance Division
- Reviewing the following criteria:
  - The hotel management agreement between the City and the Westin
  - The section of City Charter specific to the Auditor's authority
  - The City's Executive Order 8, related to contracting procedures
  - The City's Fiscal Accountability Rules specific to separation and rotation of duties, supporting documentation, and proprietary expenditures
  - The airport's internal policies and procedures related to asset management and financial oversight of the hotel management agreement
  - The job duties and 2018 performance goals of the airport's Director of Hotel and Transit Center
  - The U.S. Government Accountability Office's Standards for Internal Control in the Federal Government
  - The contract and contract addendum between Capital Hotel Management LLC, (CHM) and the City
  - A hotel management agreement between the Greater Orlando Aviation Authority and Hyatt Corporation
  - The City of San Antonio Finance Department's Procurement Policy and Procedures Manual
- Analyzing the following:
  - Westin's financial reports, such as the chart of accounts, cash flow statement, general ledger and profit and loss statement
  - The airport's Finance and Revenue Management divisions' policies and procedures related to overseeing the hotel management agreement, including any established performance goals
  - The airport's Director of Commercial Properties' processes for requesting work from CHM, reviewing supporting documentation and invoices, and approving reimbursement
  - The airport's Director of Hotel and Transit Center job duties and performance goals in comparison with the CHM scope of work
  - A selection of City contract monitor job descriptions in comparison with the airport's Director of Hotel and Transit Center job description
  - The airport's meeting agenda and owner presentation for June 2018
  - Westin's 2018 business plan

- Marriott's conversion tables between the Starwood and Marriott financial, point-of-sale, and hotel management systems
- Westin's inventory reconciliation report for the second quarter of 2018
- The flow of information between Marriott's financial systems
- Marriott's supporting documentation for financial transactions included in our testing sample
- The flow of funds from Marriott to the City, as outlined in the hotel management agreement
- The management fee paid to the Westin from the City
- Westin's 2017 budget in comparison to the hotel management agreement requirements for the budget and operating plan
- Westin's 2016 and 2017 budgets in comparison to 2016 and 2017 actuals
- Marriott's existing hotel pricing tool
- Westin average monthly rates in comparison with market-average daily rates for April 2017 through June 2018
- Westin daily rates in comparison with the Gaylord Rockies Resort daily rates for February 2019
- Marriott's process for responding to negative online and customer reviews
- The nondisclosure agreement between Marriott, the airport, and RubinBrown LLP
- The scope of work for two CHM contracts for an audit and a review of the Westin by RubinBrown LLP and Bleser and Associates
- The results of an internal control review conducted by Bleser and Associates
- Invoices and supporting documentation for two reimbursements to CHM for June 2016 and January 2018
  - These months were selected based upon contract terms and dollar amount.
- Westin's employee engagement survey results for 2017-2018
- Various methodologies for conducting a return-on-investment analysis, such as internal rate of return

- Performing sampling and testing against reviewed criteria for the following:
  - A random sample of 40 revenue items and 42 expense items, and a sample of 46 judgmental transactions
    - The total population of expense transactions was 10,656. A discovery sampling method was used with a critical error rate of 6 percent and a confidence level of 91.5 percent. Based on these criteria, a final random sample of 40 expense transactions was selected, using a stratified approach based on five expense categories and the proportion of transactions within each category as compared to the total population.
    - The total population of revenue transactions was 5,054. A discovery sampling method was used with a critical error rate of 6 percent and a confidence level of 90 percent. Based on these criteria, a final random sample of 42 revenue transactions was selected, using a stratified approach based on three revenue categories and the proportion of transactions within each category as compared to the total population.
    - A judgmental sample of 50 transactions was selected. Forty-seven items were selected based on terms included in the hotel management agreement (e.g., transactions related to the management fee, owner's expense, and relocation fees), as well as

high-dollar transactions and transactions in departments not expected to be at the Westin (e.g., golf club house and spa leisure). Three additional items were selected from transactions that occurred prior to the accounting system conversion to test and ensure that the supporting detail from the prior system was still available.

  - All negative online reviews (471 out of 3,685 total reviews) from January 1, 2016, through June 30, 2018 from Facebook.com, Hotels.com, Tripadvisor.com, Expedia.com, Marriott.com, and Booking.com in comparison to criteria provided by the airport's Director of Commercial Properties[34]

- Conducting a walk-through of the Westin with the Director of Commercial Properties
- Observing the following:
  - The airport Director of Transit Center's process for reviewing the hotel's operating plan and budget
  - The airport Finance Division's process for entering Westin's monthly journal entry into the City's financial system, Workday
  - A selection of Marriott's corporate and site-specific policies and procedures, as well as employee handbook, while on-site at the Westin and under the supervision of Westin financial personnel

[34] As outlined in an email, Marriott's expectation is that a property responds to all TripAdvisor, Expedia.com, Google.com, and Hotels.com surveys that are rated 3 or below within 48 hours. The property is expected to respond to all Booking.com surveys that are rated 8 or below within 48 hours. Auditors were not able to compare this information to Marriott's policies, which were considered proprietary.

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.

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 citizen 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 of Denver. Our work is performed on behalf of everyone who cares about the City, including its residents, workers, and decision-makers.