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August 6, 2020

AUDITOR’S LETTER

In keeping with generally accepted government auditing standards and Auditor’s Office policy, as authorized by city ordinance, the Audit Services Division has a responsibility to monitor and follow up on audit recommendations to ensure city agencies address audit findings through appropriate corrective action and to aid us in planning future audits.

In our follow-up effort for the “Airport Security” audit report issued in September 2018, we determined Denver International Airport fully implemented most of the recommendations we made in the original audit report. Some risks associated with the audit team’s initial findings have not been fully mitigated. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure the airport takes appropriate corrective action.

The Highlights page in this report provides background and summary information about the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation. We have communicated separately with the airport about the status of additional recommendations we reported confidentially because of their sensitive nature.

I would like to express our sincere appreciation to the personnel at Denver International Airport who assisted us throughout the audit and the follow-up process. For any questions, please feel free to contact me at 720-913-5000.

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor
Airport Security
August 2020

Objective
The objective of this audit was to assess the effectiveness of Denver International Airport’s Security function as it relates to the badging and credentialing processes. In addition, we reviewed the management of the contract with HSS, Inc., for security guard services as well as financial controls for revenue collection.

Background
The Airport Security Section is an operational unit of the Airport Operations Department. Responsibilities for Airport Security include security badging and permitting, and security compliance and enforcement in conformance with U.S. Transportation Security Administration and other federal regulatory requirements. Airport Security is also responsible for oversight of the airport’s security guard services contract with HSS, Inc. The latest contract was executed between the City and HSS, Inc., in February 2018 with a three-year term for $115 million with an option to extend.

REPORT HIGHLIGHTS

Highlights from Original Audit
Our audit of Airport Security at Denver International Airport found that the airport’s controls were insufficient to ensure that all badge-related revenue was collected in a timely manner. Additionally, we found weaknesses in Airport Security’s oversight of their security guard services contract to ensure that the provider, HSS, Inc., was successfully complying with the contract’s terms.

We found that Airport Security did not have formal procedures documenting how all badge revenue is billed or a process to monitor the collection of badge revenue. Additionally, we determined that procedures were not in place for both Airport Security and the airport’s Finance Department to coordinate in order to ensure that the timely billing and collection of all badge revenue, including any accrued late fees or interest, was being completed.

Weaknesses in Airport Security’s oversight of the security services contract included a lack of formal documented procedures describing Airport Security’s contract monitoring activities, such as invoice review and reconciliation for billed security services, audits of vehicle mileage accrued while providing services, and billed paid time off for HSS security personnel. Additionally, we observed that Airport Security failed to ensure the contract terms addressed vehicle mileage reimbursement as intended. Therefore, approximately $2.3 million was paid between July 2011 and July 2017 before the contract was amended to identify these payments as allowable.

To improve timely collection of all badge-related revenue and ensure that the airport’s security guard services are provided by HSS in accordance with contract terms, we offered nine recommendations. Four recommendations were directed to the Director of Airport Security, three recommendations were directed to both the Director of Airport Security and Senior Vice President of Financial Management, and two recommendations were directed to the Senior Vice President of Financial Management.

FULY IMPLEMENTED | PARTIALLY IMPLEMENTED | NOT IMPLEMENTED

7 | 1 | 1
Aug. 6, 2020

Action Since Audit Report
Airport Security

9 recommendations proposed in September 2018

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While Denver International Airport has fully implemented seven recommendations made in the “Airport Security” audit report, one recommendation has yet to be acted upon and one recommendation is only partially implemented.

The airport took substantial actions to help mitigate most of the risks identified in the original audit; however, the two recommendations the airport has not fully implemented present some lingering risks. These include not calculating interest penalties to add to past-due customer account balances and not implementing customer billing reminders — both of which can help encourage the airport’s customers to make on-time payments to satisfy their accounts.
**Finding 1 | Denver International Airport Should Improve Its Oversight of Badging Revenue to Ensure Timely Processing, Reconciliation, and Payment**

**Recommendation 1.1**
Integration of Systems of Record – The Senior Vice President of Financial Management should coordinate with the Director of Airport Security to discuss streamlining the billing invoice process.

**AGENCY ACTION**
Original target date for completion: March 31, 2019

Staff within the airport’s Finance, Airport Security, and Business Technologies divisions are responsible for portions of the billing processes related to airport security. Based on their discussions, staff in the Finance and Airport Security divisions developed new procedures for these billing processes to include the responsibilities of Business Technologies staff.

With the airport’s transition to a new identity management system for badging activities beginning in May 2019, new requirements were included in Finance Division procedures in October 2019 and in Airport Security Division procedures in both March 2020 and May 2020. Therefore, we consider this recommendation fully implemented.

**Recommendation 1.2**
Process for Follow-Up – The Director of Airport Security should work with the Senior Vice President of Financial Management to develop a process to collaboratively reconcile and follow up on and collect overdue invoice revenues.

**AGENCY ACTION**
Original target date for completion: Nov. 30, 2019

As part of the procedure updates discussed in the agency action for Recommendation 1.1, roles and responsibilities for billing reconciliation processes and for collecting overdue invoices were developed and clearly defined by both the Airport Security and Finance divisions. These procedures established that Airport Security staff review monthly billing reports — generated by Business Technologies staff — for errors before sending this information to the Finance Division for additional reconciliation and billing.
to airport customers. Once airport customers are billed, the Finance Division is responsible for collecting overdue invoices. As such, we consider this recommendation fully implemented.

**Recommendation 1.3**

**Overdue Invoice Revenues** – The Senior Vice President of Financial Management should ensure that past-due payments for badging invoices will be investigated and payment sought.

**AGENCY ACTION**

*Original target date for completion: Nov. 30, 2019*

The airport’s Finance Division focuses on collecting overall outstanding customer account balances, including those for badging invoices, and it prioritizes reviewing them based on balances over 90 days past due. Based on a review of monthly aging reports showing outstanding balances for all airport customers, Finance Division staff contact customers to collect any past-due payments.

We reviewed the December 2019 monthly aging report and evaluated the collections processes initiated by Finance Division staff to collect past-due payments from two randomly selected airport customers. We found Finance Division staff contacted both customers and provided reports that included a list of outstanding invoices, such as badging invoices, along with an overall balance owed to obtain past-due payments. Therefore, based on the airport’s collection efforts, we consider this recommendation fully implemented.

**Recommendation 1.4**

**Late Payment Fees and Interest Penalties** – The Senior Vice President of Financial Management should institute late payment fees and interest charges for payments received after the due date.

**AGENCY ACTION**

*Original target date for completion: Dec. 31, 2018*

Based on initial discussions the airport’s Finance Division had with consultants for the airport’s current financial system, Workday, the Finance Division determined Workday could not calculate interest penalties for late payments. Therefore, we consider this recommendation not implemented.
Workday was updated in March 2020 to help address this issue. However, because other airport divisions use another system called PropWorks, management decided to use PropWorks instead of Workday for the process of calculating interest penalties. The interest charge process will be included as part of an initiative to transition all billing and customer payment processes into PropWorks by the end of 2020. As a result of this delay, the airport is not currently collecting interest penalties for late payments. Therefore, we consider this recommendation not implemented.

**Recommendation 1.5**

**Billing Reminders** – The Senior Vice President of Financial Management should coordinate billing reminders to incentivize vendors to pay their invoices on time.

**AGENCY ACTION**

**Original target date for completion: Nov. 30, 2018**

As part of transitioning the billing and customer payment processes to PropWorks that we discussed in the agency action for Recommendation 1.4, the Finance Division will establish a customer statement process to help ensure airport customers make payments in a timely manner. Although there is not currently a process to send automatic billing reminders to all customers to help ensure invoices are paid on time, Finance Division staff follow up with customers based on the amount of time payments are late and the size of outstanding balances, as discussed in the agency action for Recommendation 1.3.

Because the airport is not currently sending billing reminders to all customers, we consider this recommendation partially implemented.

**Recommendation 1.6**

**Indirect Billing Operating Instruction** – The Director of Airport Security should develop an operating instruction to identify the roles and responsibilities of Airport Security and Finance for the indirect billing invoice and reconciliation process.

**AGENCY ACTION**

**Original target date for completion: Nov. 30, 2018**

The Airport Security Division implemented procedures in October 2018.
that clearly defined roles and responsibilities for both the Airport Security Division and the Finance Division for billing and reconciliation processes. Additionally, because of the airport's transition to a new identity management system in May 2019, Airport Security staff made additional updates to this operating instruction in March 2020 and May 2020. Therefore, we consider this recommendation fully implemented.
Finding 2 | Airport Security Could Improve Oversight of the Security Guard Contract

Recommendation 2.1 | Contract Compliance Operating Instruction – The Director of Airport Security should develop an operating instruction for procedures to monitor HSS’ compliance with the contract terms.

- **AGENCY ACTION**
  
  **Original target date for completion: Nov. 30, 2018**

  In their original response to this recommendation, Airport Security staff agreed only to implement procedures limited to ensuring HSS’ compliance with contract terms related to invoices for payment of security services provided, not all contract terms for these services.

  We determined Airport Security developed and implemented an operating instruction in December 2018 that included procedures to help ensure HSS’ submitted invoices met contract requirements. These procedures were updated again in March 2020 to expand on the detail for review steps to help ensure the accuracy of invoices before the airport pays HSS for security services provided. As such, we consider this recommendation fully implemented.

Recommendation 2.2 | Contract Amendment with Payment Terms – When an allowable expense agreed to by both parties is found to be missing from future legal contracts, the Director of Airport Security should immediately issue an amendment to include the missing payment terms, and it should be back dated to the start of the contract period.

- **AGENCY ACTION**
  
  **Original target date for completion: The agency said at the time of the original audit in September 2018 that this was already completed.**

  Beginning in July 2017, the airport’s contract with HSS was amended to included vehicle mileage as a reimbursable expense. This provision was carried forward in the current contract with HSS, in effect from February 2018 through February 2021.
Because the Airport Security Division agreed to ensure a similar mistake does not occur in future contracts for security services and because there is no additional action required based on this recommendation, we consider Recommendation 2.2 fully implemented.

Recommendation 2.3

Regular Review of Paid Time Off – The Director of Airport Security should establish a recurring audit of the contractor’s accrual and billing of paid time off to ensure compliance with the contract terms.

AGENCY ACTION

Original target date for completion: Nov. 30, 2018

The Airport Security Division established a process to conduct audits of paid time off by reviewing these hours accrued and billed for 50 HSS employees on a quarterly basis.

We reviewed audit documentation for the last two quarters of 2019 and found Airport Security staff did conduct paid-time-off audits to review and reconcile these hours for 50 HSS employees each quarter, as recommended. Therefore, we consider this recommendation fully implemented.
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.