

BIZ Committee





Audit Team

Denver International Airport Concessions Management Audit Issued February 2022

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Objective



- Assess whether Denver International Airport's concessions management approach is cost effective and fair.
- Compare concessions contracting practices to select other airports.

Scope



- Concessions contracting approach.
- Premium Value Concessions program.
- Contract hold-over period: January 1995 – August 2021.
- Program costs: January 2017 – December 2020.



Airport Concessions

146 locations

- 42 operated by individual concessionaires.
- 104 operated by 26 concessionaires that each had more than one location in the airport.



Airport Concessions: Purpose and Goals

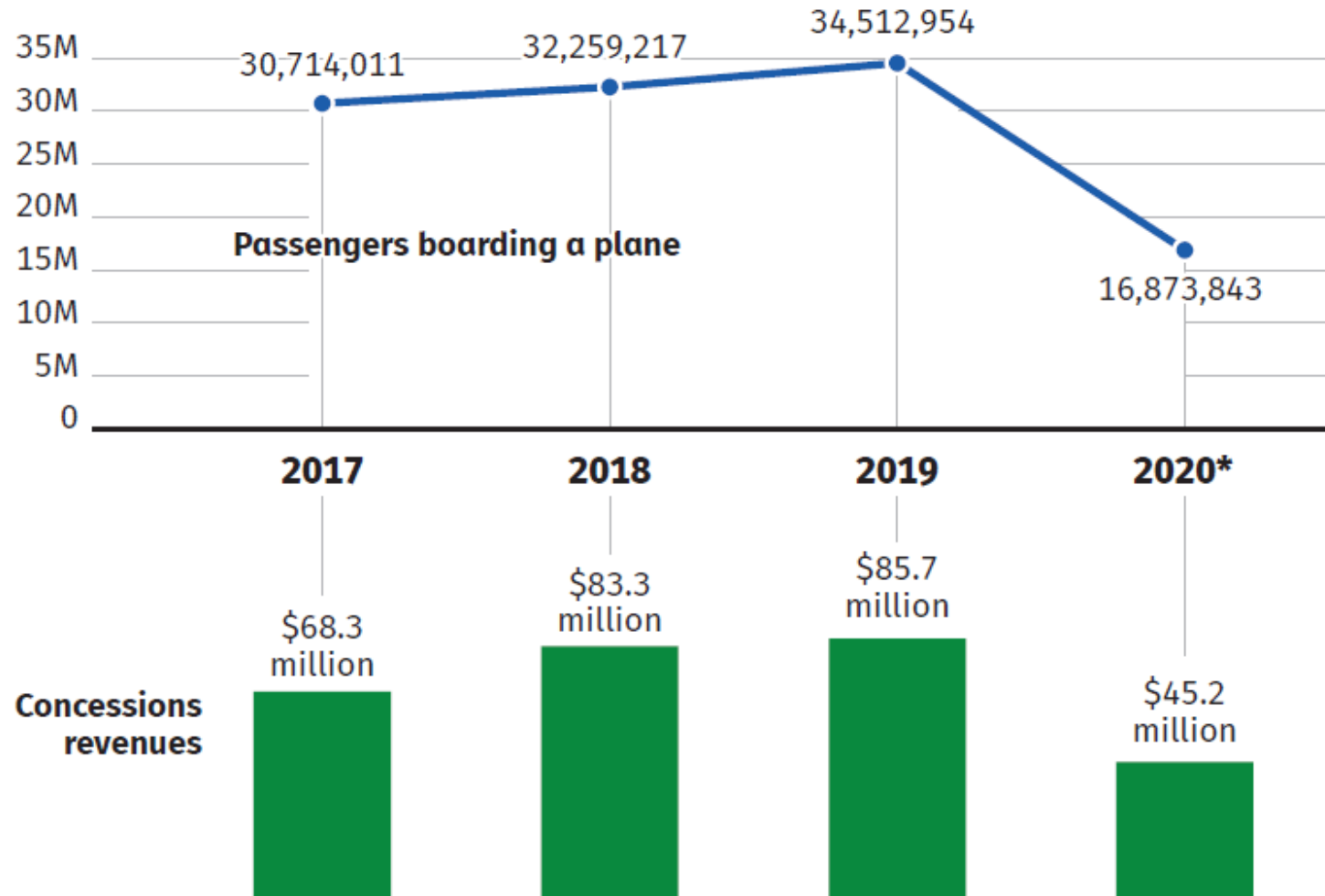
- Provide travelers with needed products and services.
- Maximize nonairline revenue.

Concessions Program



- Competitive selection process.
- Typical Contract Terms:
 - Minimum annual guarantee.
 - Percent of sales.
 - Five to 15 years.
- Disadvantaged Business Enterprise Program.
- Ownership Concentration Policy:
 - 24% of total concessions space.
 - 15% of category space.

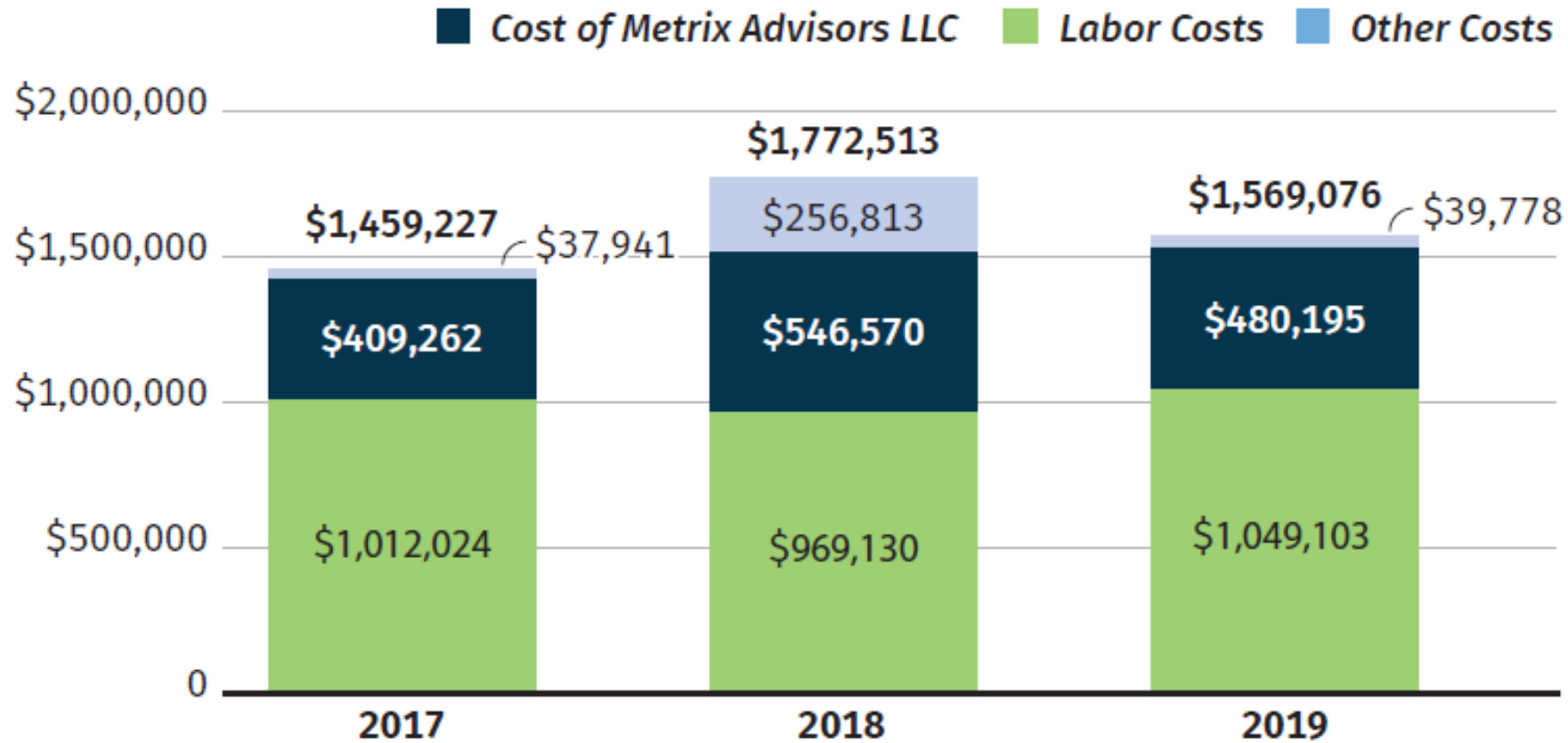
Concessions Revenues and Airport Passenger Levels



* Beginning in March 2020, the COVID-19 pandemic impacted overall passenger traffic and airline activity.

Source: Auditor's Office analysis of data from the 2020 Annual Comprehensive Financial Report.

Concessions Program Costs



Source: Auditor's Office analysis of data provided by Denver International Airport staff.



Parties Involved in Airport Concessions

- Commercial Operations Unit – concessions team.
- Airport Concessions Disadvantaged Business Enterprise Program managers.
- Airport contracts team.
- Airport legal staff.
- Airport internal auditors.



Finding 1

**Denver International Airport Allows
Some Concessionaires to Bypass the
Competitive Selection Process**



Premium Value Concessions Program

- The program allows some concessionaires to bypass the competitive selection process.
- The airport pays an outside firm a significant amount of money to administer the program.
- The program's rules are confusing and difficult to follow.

Premium Value Concessions Program, continued



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Concessionaires are evaluated on:

- Operational criteria.
- Financial criteria.
- Customer service.

Executive Order No. 8



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Contracts must be competitively bid absent special circumstances:

- Emergencies
- Goods or services are available only from a single source
- When standardized equipment or continuity of service is required
- And some other specific situations

Premium Value Concessions Program, continued



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Effects:

- The airport may be missing out on potential revenue.
- The Premium Value Concessions program is unfair and inequitable.
- Small or local businesses may have difficulty competing against concessionaires that consistently earn the program benefit.



Lack of Program Evaluation

The airport claims the program offers several benefits, such as:

- Objectively evaluating eligible concessionaires.
- Rewarding top performers.
- Encouraging revenue growth.
- Attracting and retaining airlines.

But the airport never evaluated whether the program actually provides any of these benefits.



Why the Program Is Unnecessary

- Operating at the airport is an excellent business opportunity with built-in, guaranteed foot traffic.
- Denver International Airport is the:
 - Third-busiest airport in the United States.
 - Eighth-busiest in the world.
- The program rewards only top performers already at the airport.



Outside Program Administrator

Metrix Advisors LLC has administered the airport's Premium Value Concessions program since 2012.

- Paid about \$500,000 annually.
- Amounts to about 31% of all concessions program costs.

Outside Program Administrator, continued



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Almost all concessionaires are required to participate in the program.

- 1% of their gross sales go into the Joint Marketing Fund.
- The fund pays for Metrix Advisors and concessions marketing.

Outside Program Administrator, continued



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- Airport staff had not considered whether to administer the program in-house.
- In-house administration could save the airport money.



Lack of Clarity in Program Rule

Problems with the rule governing the Premium Value Concessions Program:

- No clearly defined terms.
- Unclear language.
- No formulas or explanations to calculate amounts.

Lack of Clarity in Program Rule, continued



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As a result:

- The rule is difficult to follow.
- Concessionaires' scores could be miscalculated.



Cause of Finding 1

The airport has never evaluated the effectiveness of the Premium Value Concessions program.

A 2014 audit recommendation to periodically assess the program's effectiveness was not implemented.



Conclusion of Finding 1

- The airport spends significant money on the Premium Value Concessions program without any proven benefit.
- The program allows certain vendors to circumvent a competitive selection process in violation of a city executive order.



Recommendation 1.1

Discontinue the Premium Value Concessions Program

Agency Response: Agree

Implementation Date: Aug. 31, 2022



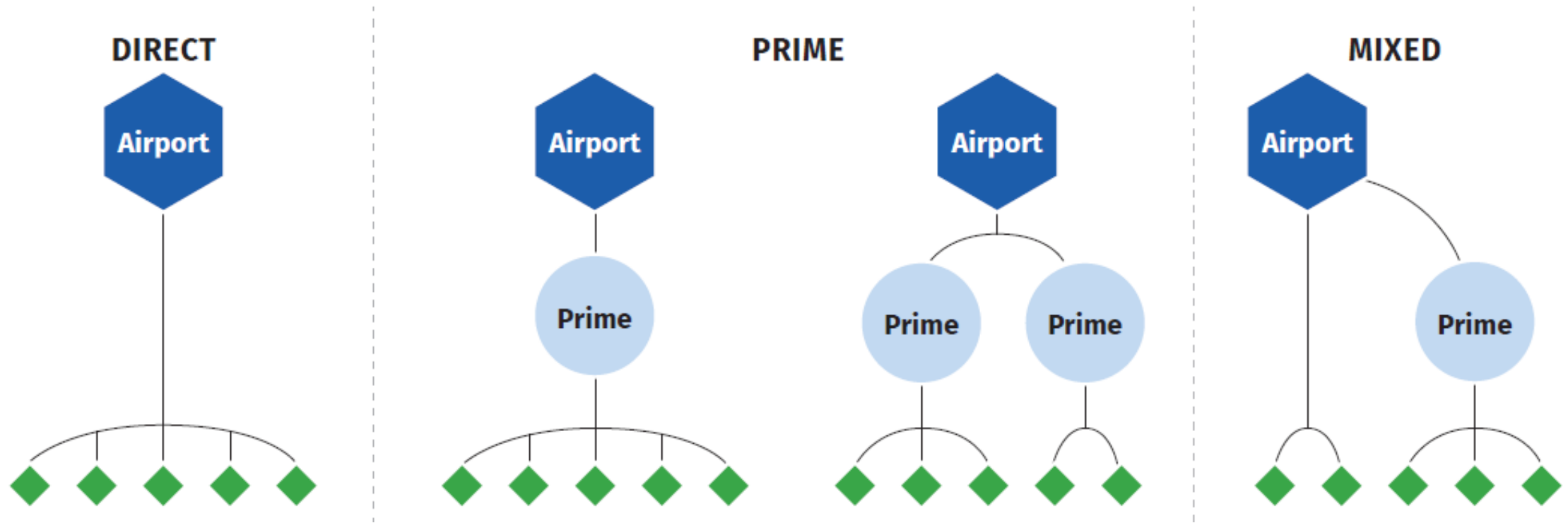
Finding 2

Denver International Airport Has Not Evaluated Whether It Uses the Optimal Contracting Approach for Its Overall Concessions Program

Major Types of Concessions Contracting Approaches



◆ *Concessionaire*



Source: Auditor's Office analysis based on federal guidance.

Concessions Master Plan



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- Developed in 2019.
- Forecasts passenger demands and needs.
- Does not include the optimal mix of prime concessionaire contracts versus direct contracts.



Federal guidance

Airports should decide which contracting approach offers the best outcome, based on factors such as:

- Financial considerations.
- Customer service.
- Local business participation.

Prime Concessionaires vs. Direct Contracts



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- Denver's airport uses a mixed contracting approach, although it uses direct contracts in most situations.
- A mixed approach is typical — based on other, comparable U.S. airports we spoke with.



Cause of Finding 2

Airport staff have not revisited their concessionaire contracting approach since the airport opened in 1995 — over 25 years ago.



Recommendation 2.1

Perform a Cost-Benefit Analysis

Agency Response: Agree

Implementation Date: July 31, 2022



Recommendation 2.2

Update the Concessions Master Plan

Agency Response: Agree

Implementation Date: Aug. 15, 2022



Finding 3

**Some of Denver International Airport's
Concessions Contracting Practices
Are Unfair**



Two Areas of Concern

- Contracts are held over after expiration.
- Scoresheets are not retained.



Subfinding 1: Held-over Contracts

The Airport Allows Some Concessionaires to Remain Years after Their Contracts Expire



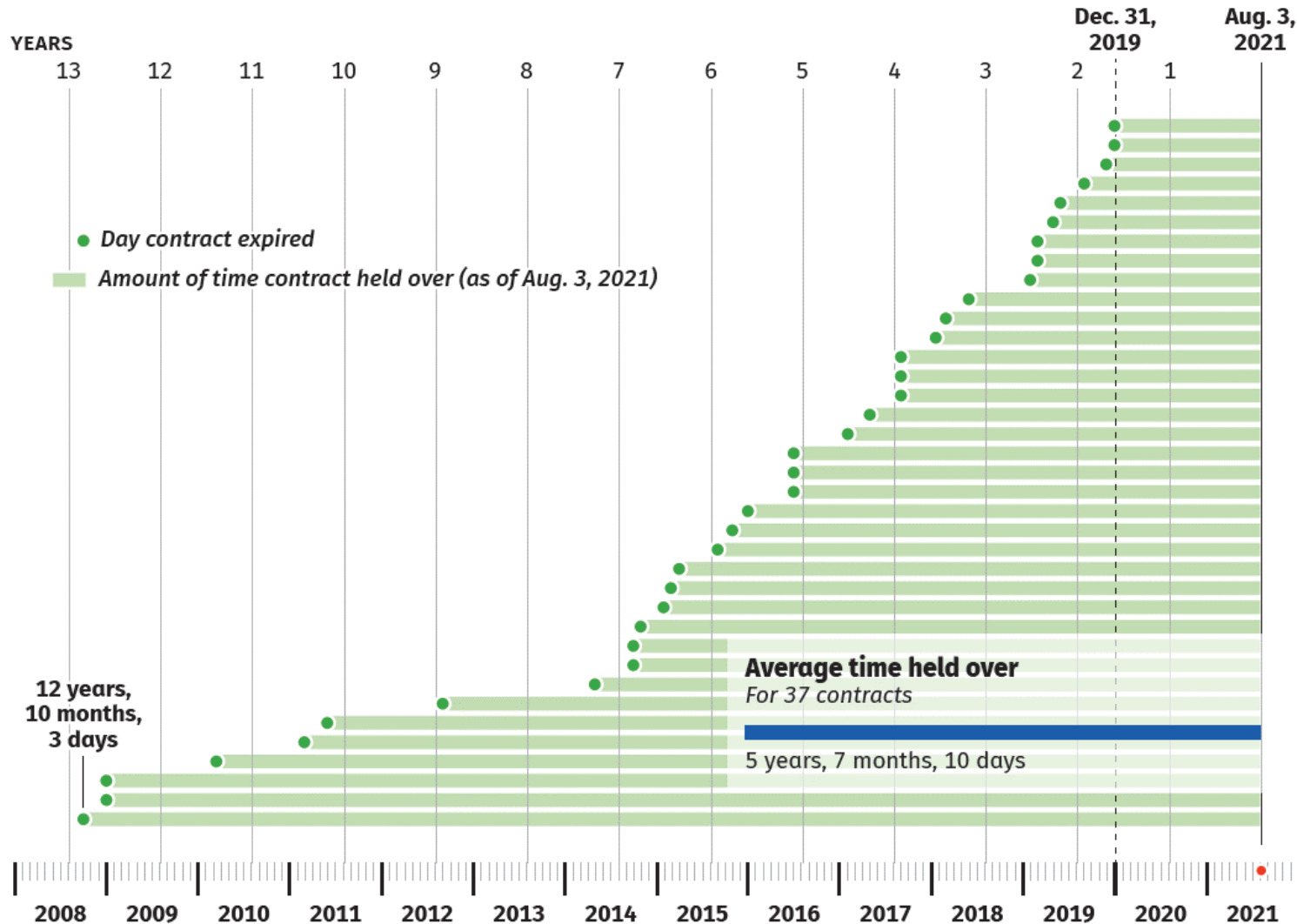
Held-over Contracts, continued

All contracts have a holdover provision, with no time limit.

The airport allows holdovers:

- When a location is not included in the master plan.
- For continuity of operations.

Amount of Time Denver Airport Concessionaires Were Held Over, among Concessionaires Operating as of August 2021



Source: Auditor's Office analysis of the airport's data.

Held-over Contracts, continued



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We judgmentally selected five held-over contracts.

- Some had reasonable justifications to hold over such as delayed airport construction.
- Others had no justification.

Held-over Contracts, continued



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Executive Order No. 8 requires:

- City agencies to justify contracts longer than three to five years.
- Contracts to be competitively bid.

Federal guidance says competitive bidding is beneficial.

Held-over Contracts, continued



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Causes:

- The airport did not prioritize competitive selection.
- It has a lengthy master planning process.

Held-over Contracts, continued



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Held-over contracts create inequity.

- Some concessionaires get holdovers.
- Others must compete.



Recommendation 3.1

Review Held-over Contracts

Agency Response: Agree

Implementation Date: May 30, 2022



Recommendation 3.2

Establish and Enforce Holdover Policy

Agency Response: Agree

Implementation Date: April 15, 2022



Subfinding 2: Scoresheet Retention

The Airport Is Not Transparent with Its Scoring Process When Selecting Concessionaires



Scoresheet Retention, continued

- A selection panel evaluates potential concessionaires.
- But the selection panel's scores are destroyed once the contract is signed.



Scoresheet Retention, continued

Cause:

The airport claims this allows more objective scoring and that destroying score sheets may deter lawsuits.

Comparison of Certain Concessions Contracting Processes at Denver International Airport with Selected Other U.S. Airports



● Process in place ○ Process not in place ✕ No response provided

	San Francisco International Airport	Houston Airport System	Minneapolis-St. Paul International Airport	McCarran International Airport in Las Vegas	Denver International Airport
Has an Airport Disadvantaged Business Enterprise Program	●	●	●	●	●
Has a concentration-of-ownership policy	●	○	○	○	●
Uses a contract selection panel	●	●	●	●	●
Uses selection criteria	●	●	●	●	●
Retains selection panel members' individual score sheets	●	✕	○	○	○
Retains the summary selection panel score sheet	●	✕	●	●	○
Encourages local businesses' participation	●	●	●	●	●

Source: Auditor's Office analysis.



Scoresheet Retention, continued

The airport is:

- Not being transparent.
- Inconsistent with Colorado Open Records Law, which says all public records shall be open for inspection.



Scoresheet Retention, continued

The city's records retention schedule says purchasing documents must be retained for seven years.



Scoresheet Retention, continued

Because of the lack of transparency, the airport risks:

- Its reputation.
- The appearance of corruption.
- Potential lawsuits.



Recommendation 3.3

Revise Airport Procedures for Records Retention

Agency Response: Agree

Implementation Date: Dec. 1, 2021



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