



**OFFICE OF THE CITY AUDITOR**  
**COLORADO SPRINGS, COLORADO**

# 13-19 ARAMARK Contract Review

**October 2013**



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### **Purpose**

The purpose of this audit was to evaluate whether the City of Colorado Springs and ARAMARK Sports and Entertainment (ARAMARK) were abiding by the terms of the contract for services for the Pikes Peak Recreation Corridor concession operations. Our review included tests to verify contract compliance, including site visits.

### **Highlights**

We concluded that ARAMARK and the City were in material compliance with the terms of the contract.

- We noted ARAMARK had not completed \$50,000 of improvements to the Pikes Peak Summit House facilities required per the contract. ARAMARK and City personnel indicated the City was to make these improvements, which were in progress at the time of our review. However, ARAMARK had not reimbursed the City, and changes in contract terms were not documented by change orders or amendments.
- The contract did not require visitor feedback on facility cleanliness, and contract terms did not link contract payments or incentives to visitor experience.

Pikes Peak is the most visited mountain in North America and the second most visited mountain in the world behind Japan's Mount Fuji, with approximately 500,000 visitors each year. The contract under review was between the City and ARAMARK for the term January 2008 through December 31, 2014. This included three concession locations: the Summit House, Crystal Reservoir, and the Glenn Cove Inn. ARAMARK personnel reported that in 2012, the Pikes Peak Recreation Corridor concessions

*(Continued on page 2)*

### **Management Response**

City Management agreed with our recommendations. ARAMARK partially agreed with the recommendations. Detailed responses can be found in the attached report.

### **Recommendations:**

1. Any changes to the contract terms should be documented through change orders or contract amendments. Additionally, the City should seek reimbursement for a capital project required under the contract not completed by ARAMARK.

2. When the contract expires in 2014, the new contract should require the concessionaire to report operational data to the City. Additionally, the City should consider requiring the concessionaire to provide a gross receipts statement.

3. We recommend City Management consider adding to the new contract a formal mechanism to obtain customer feedback and link contract payments or incentives to visitor experience. Additionally, the City should consider a formal process for monitoring facility cleanliness by conducting field inspections with results linked to contract payments or incentives.

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*(Highlights continued from page 1)*

generated approximately \$4.3 million in gross receipts. Under the terms of the contract, the City collected \$1.1 million in 2012 commissions.



# Office of the City Auditor Public Report

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Date: October 30, 2013

To: President King, President Pro-Tem Bennett, and Members of City Council

Re: 13-19 ARAMARK Contract Review

We performed an audit of the concession contract between ARAMARK Sports and Entertainment Services (ARAMARK) and the City of Colorado Springs for the Pikes Peak Recreation Corridor. The purpose of this audit was to evaluate whether the City of Colorado Springs and ARAMARK were abiding by the terms of the contract. Our review included tests to verify contract compliance including site visits. The audit focused on the period January 1, 2012, through December 31, 2012.

We concluded that the City and ARAMARK were in material compliance with contract requirements. We identified three observations and have listed our recommendations for each. They are included in the attached report.

As always, feel free to contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Denny L. Nester".

Denny L. Nester, MBA CPA CIA CGFM CFE CGAP  
City Auditor

Cc: Steve Bach, Mayor

Jack Glavan, Manager, Pikes Peak America's Mountain

Sandy Elliott, Senior Analyst, Pikes Peak America's Mountain

Mike Kavanagh, General Manager, Colorado Springs ARAMARK Sports and Entertainment Services

Karen Palus, Director, Parks, Recreation, and Cultural Services

Kim King, Manager, Parks, Recreation and Cultural Services

Laura Neumann, Chief of Staff

Kara Skinner, Chief Financial Officer



# Office of the City Auditor

## ARAMARK Contract Review

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## REPORT DETAILS

### PURPOSE AND SCOPE

ARAMARK Sports and Entertainment Services provided concession services for Pikes Peak facilities at three locations on Pikes Peak, known collectively as the Pikes Peak Recreation Corridor. The purpose of this audit was to evaluate whether the City of Colorado Springs and ARAMARK were abiding by the terms of the contract for services for the Pikes Peak Recreation Corridor concession operations. Our review included tests to verify contract compliance including site visits.

### BACKGROUND

The City entered into a contract with ARAMARK in 1992 to provide concession services for the Pikes Peak recreation corridor. The original 10-year contract was amended to include the Crystal Reservoir concession area. That agreement expired on December 31, 2002, and a five year extension was executed. The concession contract was re-solicited and awarded to ARAMARK in January 2008 and is effective through December 31, 2014. At the end of this contract term, the City has the option to renew the contract for an additional six year term. If extended, the contract calls for an additional \$2.0 million payment to be made with annual installments over the 6 years.

In 2012, Pikes Peak Recreation Corridor concessions generated approximately \$4.3 million in gross receipts, of which the City collected \$1.1 million in commissions. According to the contract, annual guaranteed payments to the City were \$1.0 million. In addition the contract allowed variable compensation payments to the City for gross revenues exceeding \$4.0 million annually. We noted that from 2008 to 2012, annual gross receipts did not go above \$4.4 million.

ARAMARK is a privately held multinational corporation based in Philadelphia, Pennsylvania. They provide services such as facilities management and food services for several industries. Under the contract, ARAMARK provided concession and retail services for all three locations of the PPRC.

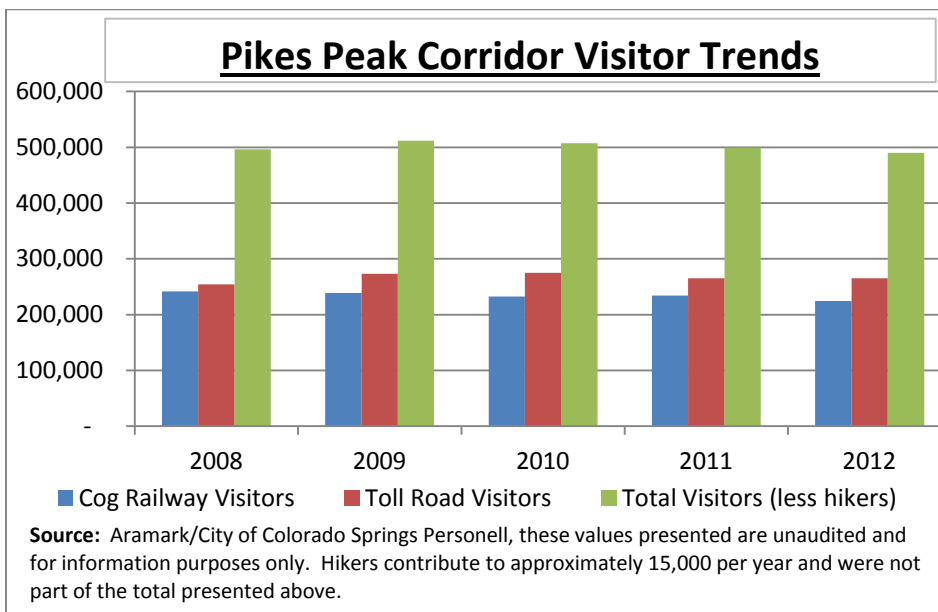
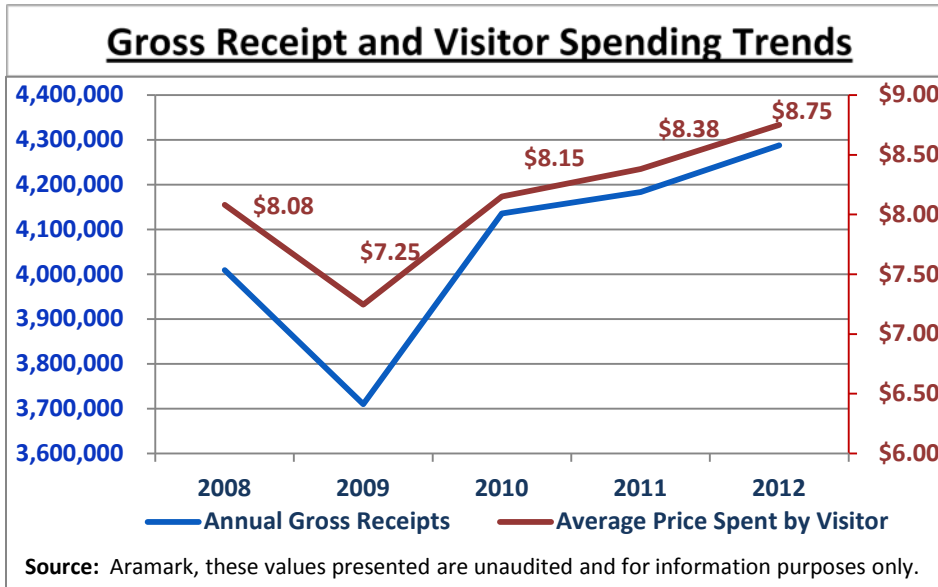
The agreement also required ARAMARK to perform the following:

- Provide access to trained emergency medical technicians at the Summit House
- Make \$500,000 in capital improvements which includes architectural, equipment, and labor costs
- Comply with insurance and bond requirements

Pikes Peak is the most visited mountain in North America and the second most visited mountain in the world behind Japan's Mount Fuji. Pikes Peak forms a stunning backdrop for Colorado Springs and the Garden of the Gods. At an altitude of 14,115 feet above sea level, Pikes Peak is the 31st highest peak out of 54 Colorado peaks.



Approximately a half million people reach the federally owned and City operated Summit House every year by the Pikes Peak Highway or by taking the Pikes Peak Cog Railway. The 20-mile Pikes Peak Highway is open year round, weather permitting. The Pikes Peak Barr Trail offers the greatest base-to-summit elevation gain in the state at 7,800 feet. About 15,000 people a year attempt to climb Pikes Peak on foot. The trail begins at the base of Pikes Peak in Manitou Springs. The 8.9 mile Cog Railway typically operates year-round with limited winter service. The following data on receipts and visitor trends was obtained from ARAMARK and is presented as background information.





## Office of the City Auditor **ARAMARK Contract Review**

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### CONCLUSION

We conclude that overall, ARAMARK and the City were operating in material compliance with the terms and conditions of the contract. During the course of our audit, we identified three observations and have listed our recommendations for each.





**OBSERVATIONS, RECOMMENDATIONS AND RESPONSES**

**OBSERVATION 1 –ARAMARK DID NOT COMPLETE A REQUIRED CAPITAL IMPROVEMENT PROJECT**

Our audit fieldwork included a site observation in May 2013 for locations served by ARAMARK in the concessionaire agreement. We noted during this observation that capital improvements per “Exhibit D: Capital Improvements Timeline” of the agreement, had not been completed for the Pikes Peak Summit House restroom facilities. The capital improvements were in progress at the time of our review.

Although the contract required ARAMARK to complete this facility upgrade at a cost of \$50,000, ARAMARK and City personnel indicated the City was to complete the improvements. Contract change orders or amendments were not issued to document this change or to reimburse the City for costs incurred to complete the project.

**AUDITOR’S RECOMMENDATION**

The City should keep detailed documentation of the cost of materials and labor and seek reimbursement from ARAMARK where appropriate.

Any future changes to the contract should be documented through change orders or contract amendments.

**COLORADO SPRINGS CITY MANAGEMENT RESPONSE**

We agree with this recommendation. The City will pursue contract amendments or change orders during the term of the contract and document any future changes to the contract. The City is seeking reimbursement from ARAMARK for the 2013 Summit House Renovations completed by the City and is currently in discussion with ARAMARK.

**ARAMARK MANAGEMENT RESPONSE**

We partially agree with this recommendation. We agree that change orders were not properly documented when ARAMARK capital was used for the renovation of the kitchen floor and dishroom. We have agreed with the City to expend the remaining contractual capital and reimburse the City for work done in the restroom renovation.



**OBSERVATION 2 – THE CONCESSIONAIRE WAS NOT REQUIRED TO PROVIDE OPERATIONS DATA TO CITY ADMINISTRATION**

The current contract did not require the concessionaire to supply a profit and loss schedule or a gross receipts statement to City Administration. The contract was based on a fixed payment unless gross receipts reached the threshold of \$4.0 million annually. The profit and loss statement and gross receipts would assist City Administration in contract administration and oversight.

Additionally, ARAMARK was not required to report customer counts, number of customers, average price spent by customer, and other business trend data. Useful data could include: survey responses, number of customers, average price spent by customer, and a profit and loss schedule.

**AUDITOR’S RECOMMENDATION**

When the contract expires in 2014, the City should ensure the new contract includes requirements to provide operations data to the City. Additionally, a certified gross receipts statement should be considered if the annual commission is based on a percentage of gross receipts.

**COLORADO SPRINGS CITY MANAGEMENT RESPONSE**

We agree with this recommendation. The City plans to negotiate reporting requirements including operational data and certified gross receipts during the contract renewal in 2014.

**ARAMARK MANAGEMENT RESPONSE**

We partially agree with this recommendation. Since the contract terms are based on gross receipts a “Statement of Gross Receipts” should be and will be provided. Since ARAMARK is a privately held corporation and the contract is not based on profits we don’t believe ARAMARK should be required to provide a P&L Statement.



**OBSERVATION 3 – VISITOR EXPERIENCE WAS NOT LINKED TO CONTRACT PAYMENT TERMS**

- The City did not have a formal process in place to monitor facility cleanliness or survey visitor feedback on facility cleanliness.
- The contract did not include a mechanism for financial penalty or incentives related to facility maintenance standards.

During our review, we completed a field observation to the Summit House in May 2013. Only one physical observation was conducted. However, we observed that the Summit House facility did not appear to meet contract maintenance standards. Floors and restrooms were not clean and the restroom supplies were not stocked.

Exhibit B of the contract specified general maintenance standards. These standards included requirements that floors were swept or vacuumed daily, and that restrooms were clean and stocked throughout the day.

While we understand the Summit House receives heavy traffic during the day, especially during the summer months, compliance with maintenance standards is necessary to ensure an enjoyable experience for visitors.

**AUDITOR'S RECOMMENDATION**

We recommend that the contract include a formal mechanism to obtain customer feedback and link contract payments or incentives to visitor experience.

The City should consider whether contract administration should develop a formal process that incorporates staff field inspections with results linked to contract payments or incentives.

**COLORADO SPRINGS CITY MANAGEMENT RESPONSE**

We agree with this recommendation. The City plans to negotiate a formal mechanism for customer feedback and City facility staff will perform formal inspections as part of their annual performance plans. The City will evaluate contract payments and incentives relative to customer feedback during the contract re-solicitation process.

**ARAMARK MANAGEMENT RESPONSE**

We partially agree with this recommendation. We do agree that there are times that the Summit House is not as clean as it should be but with only one visitation/inspection it can't be concluded that this is the norm. Due to the subjective nature of inspections and the many extenuating circumstances we don't feel that inspections should have any financial implications.

# CITY COUNCIL'S OFFICE OF THE CITY AUDITOR

## COLORADO SPRINGS, COLORADO

### **About our Office**

The mission of the Office of the City Auditor is to provide City Council with an independent, objective and comprehensive auditing program for operations of the City. Our auditing program includes:

- Evaluating the adequacy of financial controls, records and operations
- Evaluating the effectiveness and efficiency of organizational operations
- Providing Council, management and employees objective analysis, appraisals, and recommendations for improving systems and activities

The Office of the City Auditor is responsible for auditing the systems used by the City of Colorado Springs and its enterprises, including Colorado Springs Utilities. We perform a variety of audits for these entities, including financial audits, performance audits, contract audits, construction audits, and information system audits. We also perform follow-up on a periodic basis to monitor and ensure management actions have been effectively implemented.

### **Authorization and Organizational Placement**

Our audits are conducted under the authority of Chapter 1, Article 2, Part 7 of the Colorado Springs City Code, and more specifically parts 703, 705 and 706 of the Code. The Office of the City Auditor is structured in a manner to provide organizational independence from the entities it audits. This independence is accomplished by the City Auditor being appointed by and reporting directly to the City Council.

### **Audit Standards**

The audit was conducted in a manner that meets or exceeds the International Standards for the Professional Practice of Internal Auditing, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors, with the exception of the requirements under standards 1312 and 1321 to obtain an external quality assurance review once every five years. We do not believe this non-compliance impacted the quality of our audit.

The audit included interviews with appropriate personnel and such tests of records and other supporting documentation as deemed necessary in the circumstances. We reviewed the internal control structure and compliance tests. Sufficient competent evidential matter was gathered to support our conclusions.