
CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR



Follow-Up Audit of the Aviation Department

Concession Contracts

Project No. AU17-F01

September 12, 2017

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted a follow-up audit of the action plans made in the Audit of the Aviation Department Airport Concession Contracts dated October 27, 2015. The objective for this follow-up audit is:

Determine if Aviation Concession Management successfully implemented action plans to address prior audit recommendations noted in the initial audit.

The Aviation Concession Management department has established effective controls to ensure compliance with key terms of the Concession contracts. While the department has not fully implemented the Property Management Information System (“PMIS”), they did implement manual controls to ensure concessions were properly managed according to key contract terms. Specifically:

- Reviews are conducted to ensure that rent fees (i.e. Minimum Annual Guarantee (MAG) and Percentage Rent)¹ and insurance/indemnity coverage are accurate.
- A process was also established to ensure receipt of concessionaire reports, such as gross receipts and annual statements.
- Maintenance and safety inspections for concessionaire premises are taking place on a regular basis.

We did note one area where improvement is still needed with regard to ensuring compliance with the City’s Street Pricing Policy.² Reviews are not being conducted to ensure concessionaire prices are fair and comparable to off-airport prices.

Aviation Department Management agreed with the audit findings and has developed positive action plans to address them. Management’s verbatim response is in Appendix B on page 7.

¹ According to each concession agreement, the concessionaire pays the City rent revenue. Revenue consists of the greater of a Minimum Annual Guarantee (MAG) rent, or a Percentage Rent based on a percentage of the concessionaire’s gross monthly sales, as outlined by the contract.

² In order to promote fair and reasonable prices in airport concession programs and to produce a greater volume of sales. The City’s Street Pricing Policy requires specific pricing criteria for all concession agreements at the Airport. It requires that prices charged at the Airport will be comparable to off-airport prices.

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Background

On October 27, 2015, the Office of the City Auditor completed an audit of the Aviation Department Airport Concession Contracts. The objective of the audit was as follows:

Are Aviation concessions properly managed in accordance with contract terms?

The Office of the City Auditor provided recommendations to assist in providing assurance that concession contracts are properly managed and in compliance with key contractual terms as follows:

- Develop a Contract Administration Plan (CAP) for all contracts to ensure that essential tasks are performed, periodic reviews and monitoring are completed, and that essential support documentation is maintained. Additionally, the Bond and Insurance Checklists provided in the Procurement Policy and Procedures Manual should be used.
- Implement a control to provide assurance that all concessionaires are accurately self-reporting their gross sales by enforcing contract terms requiring concessionaires to provide annual statements that certify all gross sales have been accurately reported to the City. Additionally, ensure that random audits of concessionaires' gross receipts are periodically performed.
- Develop written procedures for standard processes for MAG changes per lease years, and reconciliation/true-up of trash and Common Area Maintenance (CAM) fees. The procedures should address variances and interpretations of terms among the different contracts. Additionally, implement a process to ensure that delinquent fees are consistently collected.
- Ensure documented support exists that would serve as evidence of a review to ensure accuracy of the rent revenue and fees billed on a periodic basis. The support should include evidence of a documented reconciliation of the amount reported on Fiscal's spreadsheet to the amount recorded in SAP's general ledger.

Aviation Department management agreed with the recommendations and developed action plans to address them.

Audit Scope and Methodology

The audit scope was limited to the recommendations and corrective action plans made in the original report for the time frame from fiscal years 2016 and 2017.

Audit methodology included interviewing Aviation personnel to obtain an understanding of newly implemented controls and processes for monitoring compliance with key contract terms for concessions.

We reviewed updated policies and procedures, the contract monitoring checklist, fiscal worksheets for MAG and Percentage Rent payments and other fees. Additionally, we reviewed department audits and evidence of inspections for premises occupied by concessionaires.

We relied on computer-processed data in SAP to validate percentage rent payments, CAM and trash payments and late fees. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this follow up audit in accordance with generally accepted government auditing standards. Those standards require that 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Management's Action Plans and Status

Contract Monitoring

Management's Action Plans:

1. The Concession's Division staff is working on a standard monitoring process to include a check list showing due dates for each contract requirement. Supporting documents will also be maintained and will be reviewed periodically. Additionally, the department is in the final negotiation stage of purchasing a Property Management Information System ("PMIS") that will track contract information and provide reports with key dates and fiscal amounts.
2. Concessions Division staff will monitor all concession agreements to ensure that annual statements and certified audits are submitted on time as required by the concession agreements. PMIS will provide reminders of due dates. The Aviation Compliance Division will perform random audits of the concessionaire's gross receipts compare to reports submitted to Aviation.
3. The Concession Division developed a process to track dates for each concession that requires a MAG change. The Fiscal Operations staff will monitor MAG changes per lease year. In addition, trash and CAM fees will be reconciled annually and adjustments made as appropriate. PMIS will provide reminders of dates and automatic updates to MAGs. Written procedures for managing accounts receivable have been implemented to ensure that collection efforts and late fees are consistently applied.
4. The Fiscal Operations Division staff implemented changes to the existing procedures to confirm that the monthly rent and fees are accurately recorded based on the concessionaire's monthly reports. PMIS will provide property and revenue management with the ability to track and report information. Additionally, Fiscal Operations will reconcile all rent and fees.

Status: Implemented

Processes and internal controls were established to assure effective contract monitoring. The Aviation department performs reviews to ensure that rent fees (i.e. Minimum Annual Guarantee (MAG) and Percentage Rent) and insurance/indemnity coverages are accurate. Additionally, the department is working on implementing the PMIS system that will track key contract term

information such as dates and fiscal amounts. During the audit, it was communicated that “go live” was scheduled for October 2017.

Fiscal Operations is tracking monthly percentage of rent and fees due on a spreadsheet and verifies the concessionaire’s calculations on their monthly gross receipts report. Additionally, they established a Receivables Collection Procedures fee schedule outlining procedures for assessing late fees for monthly gross receivables reports and monthly payments that are not received timely from concessionaires. The staff also performs annual reviews to ensure the CAM and trash fees invoiced to concessionaires are accurate.

Aviation Compliance implemented an audit process to review concessionaire reports such as gross receipts and receipt of concessionaire’s audited financial statements. Issues identified during the audits are reported to the Aviation Concession division and the concessionaire.

Maintenance and safety inspections for concessionaire premises are taking place on a regular basis to ensure compliance with the concessionaire’s comprehensive preventative maintenance program.

To verify the effectiveness of Aviation’s contract monitoring process, we reviewed source documents for accuracy. We reviewed the percentage rent reported on the concessionaire monthly reports and compared them to Fiscal Operations’ spreadsheet and to the amount entered in SAP and found no exceptions.

In addition, we obtained support for maintenance and safety inspections conducted and noted that inspections are being conducted on food/beverage concessionaires. We also reviewed and verified the accuracy of MAG calculations and adjustments in SAP to the contract terms.

We reviewed completed audit documentation with no exception. Audits are taking place on a regular basis and issues are being reported to both Aviation Concession management and Concessionaire management.

We performed a reconciliation of the Year End FY2017 Concessions Trash Analysis and found the analysis to be accurate. To determine if late fees were assessed, we reviewed payments received in SAP and found late fees were assessed according to the fee schedule.

One area that still needs improvement is monitoring compliance with the City’s Street Pricing Policy. Reviews are not being conducted to ensure concessionaire prices were fair and comparable to off-airport prices.

The City requires specific pricing criteria in all concessions agreements at the Airport. In general, the City seeks to promote fair and reasonable prices in airport concessions programs. The street pricing policy is also designed to

produce a greater volume of sales, thereby reflecting the City's objective to provide higher customer service and optimization of financial returns.

Updated Recommendation

The Aviation Director should implement and document monitoring procedures to ensure prices charged by concessionaires are comparable to off-airport prices.

Appendix A – Staff Acknowledgement

Sandra Paiz, CFE, Audit Manager
Amy Barnes, CFE, CGAP, Auditor in Charge
Holly Williams, CISA, CRISC, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

August 2, 2017

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
San Antonio, Texas

RE: Management's Acknowledgment and Corrective Action Plan for the Follow-Up Audit of Aviation Concession Contracts.

- ☒ Fully Agree (provide detailed comments)
- ☐ Agree Except For (provide detailed comments)
- ☐ Do Not Agree (provide detailed comments)


The Aviation Department has reviewed the audit report and has developed the Corrective Action Plan below for the corresponding report recommendation.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	Lack of compliance with the City's Street Pricing Policy The Aviation Director should implement and document monitoring procedures to ensure prices charged by concessionaires are comparable to off-airport prices.	4-5	Accept	Steven Milburn, Properties & Concessions Manager	08/11/17

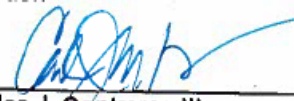
Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p>Action plan:</p> <p>We fully agree with the finding; however, moving forward it is the intent of the Aviation Department to amend this policy on all upcoming concession agreements to allow for pricing above street value, to the amount commensurate with the relatively high cost of operation the airport system sustains.</p> <p>With respect to those agreements that contain this provision, until such time an amendment is approved eliminating this policy, the Aviation Concessions Office will ensure that it is in compliance with the policy.</p> <p>Upon notification of non-compliance with the Street Pricing Policy, Concession staff was immediately redirected to complete lists of existing items for sale from the retail, food and beverage and newsstand concessionaires comparing their pricing structure with 4-5 analogous local venues.</p> <p>While the list is complete, the analysis as to compliance with the Street Pricing Policy is currently being undertaken and shall be completed by August 11, 2017.</p> <p>Moving forward, and until such time as the agreements are amended, the Street Pricing Policy will be upheld and addressed on a quarterly basis as to help prevent spontaneous unauthorized price increases.</p>				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,


 Russell J. Handy
 Director
 Aviation

8/7/17
 Date


 Carlos J. Contreras III
 Assistant City Manager
 City Manager's Office

9/1/17
 Date