



# CITY OF SAN ANTONIO

P.O. Box 839966  
SAN ANTONIO TEXAS 78283-3966

October 27, 2015

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Mayor

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Councilman, District 1

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Councilwoman, District 3

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**Joe Krier**  
Councilman, District 9

**Mike Gallagher**  
Councilman, District 10

SUBJECT: Audit Report of Aviation Department Airport Concession Contracts

Mayor and Council Members:

We are pleased to send you the final report of the Audit of Aviation Department Airport Concession Contracts. This audit began in January 2015 and concluded with an exit meeting with department management in September 2015. Management's verbatim response is included in Appendix B of the report. The Aviation Department management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

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

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Carlos Contreras, Assistant City Manager

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Tom Nichta, Audit Committee Member

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**CITY OF SAN ANTONIO**  
**OFFICE OF THE CITY AUDITOR**



Audit of Aviation Department

Airport Concession Contracts

Project No. AU15-001

October 27, 2015

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

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## Executive Summary

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As part of our annual Audit Plan approved by City Council, we conducted an audit of the Aviation Department, focusing on Concession Contracts. The audit objective and conclusion follow:

### **Are Aviation concessions properly managed in accordance with contract terms?**

Overall, internal controls need improvement to ensure the City's airport concession contracts are properly managed and are in compliance with key contractual terms.

Aviation Concession Management has made recent improvements to their processes; however, we identified the following control deficiencies:

- Lack of consistent monitoring for key contract terms such as preventative maintenance, inspections and fiscal reviews.
- Support that would serve as evidence of compliance with contract terms was not on file or did not exist.
- Standard, written procedures do not exist for the contract monitoring processes.

Aviation management agreed with the audit findings and has begun to develop positive action plans to address them. Their verbatim response is in Appendix B on page 9.

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## Background

The Aviation Concession Management department manages operations at both the San Antonio International Airport (SAT) and Stinson Municipal Airport (Stinson), which serves over 8 million passengers on over 13 airlines annually and partners with operators of light aircraft, individuals, and private aviation companies, respectively. SAT is home to approximately 44 various concessionaires, including retail, food, beverage, and business services establishments. Stinson currently does not have any active concessionaires. Concessionaires are authorized to conduct business and lease concession spaces at the airport through individual concession contracts with the City.

According to each concession agreement, the concessionaire must report gross sales to the City on a monthly basis, and pay the City rent revenue. Revenue consists of the greater of a Minimum Annual Guaranteed (MAG) Rent or a Percentage Rent based on a percentage of the concessionaire's gross sales, as outlined in the contract. In FY2014, concessionaires reported approximately \$43.6 million in gross sales and paid the City approximately \$7 million in rent revenue.

The following table lists each concessionaire at both airports and their reported gross sales and rent revenue for fiscal year 2014:

Concessionaire	Gross Sales <sup>1</sup>	Rent Revenue <sup>2</sup>
AIClear ( <i>security checkpoint services</i> )	\$375,351.03	\$40,710.86
Bernard McGraw's Creole Kitchen ( <i>Stinson Airport</i> )	\$14,057.74	\$3,970.05
Best Buy Express	\$465,650.69	\$39,505.10
Blimpie Subs	\$806,835.82	\$99,286.05
Bon Du Monde	\$505,643.54	\$61,748.42
Brookstone Stores, Inc.	\$1,286,225.74	\$136,686.77
Charley's Grilled Subs	\$1,018,198.82	\$122,183.83
Chase Bank ATM Services	\$93,444.00	\$180,000.00
City Tours	\$1,788,700.28	\$274,512.69
Clear Channel	\$876,321.28	\$722,690.87
Custom Food Group/Canteen	\$123,098.79	\$14,436.21
Dunkin Donuts	\$1,268,829.61	\$126,076.35
Firkin Alamo Alehouse & Gourmet Burger Bar	\$768,464.77	\$116,674.08
Generations Federal Credit Union	\$36,614.00	\$20,645.60
Gervin's Sports Bar	\$1,591,290.93	\$287,806.41
Goodfellows Shoeshine ( <i>2 locations</i> )	\$202,530.98	\$24,303.71
Green Beans Coffee Company, Inc.	\$451,968.35	\$97,226.70
HMS Host International ( <i>7 locations</i> ) <sup>3</sup>	\$8,233,291.51	\$1,032,626.40
InMotion Entertainment ( <i>2 locations</i> )	\$2,039,483.50	\$253,086.83

<sup>1</sup> Gross sales data was obtained from revenue reports provided by Aviation Department

<sup>2</sup> Rent Revenue data was obtained from SAP.

Audit of Aviation Department Airport Concession Contracts

Marcy's Business and Travel Center	\$398,876.94	\$31,399.99
Natalie's Candy Jar	\$448,647.21	\$67,297.04
R Sala Bebida Botana Bar & Starbucks	\$1,649,291.14	\$229,767.52
Raising Cane's Chicken Fingers	\$1,217,740.96	\$164,381.49
Rosario's Mexican Café y Cantina	\$1,704,821.83	\$232,016.15
San Antonio Express News & Texas Monthly News (6 locations)	\$7,155,199.53	\$1,457,682.60
Sbarro's	\$508,892.73	\$73,829.13
Smarte Carte, Inc.	\$161,288.90	\$32,464.68
Starbucks & Simply Books	\$2,581,907.04	\$370,651.01
Stars of San Antonio (2 locations)	\$2,877,584.19	\$154,497.44
Throttle Back Grill (Stinson Airport)	\$2,218.73	\$112.00
UETA Duty Free	\$2,156,643.57	\$447,990.29
Vino Volo	\$833,362.07	\$83,336.16
	<b>\$43,642,476.22</b>	<b>\$6,999,602.43</b>

<sup>3</sup> HMS Host International is a prime concessionaire who oversees the operations of multiple locations, including Auntie Anne's Pretzels, La Gloria, Fruteria, Mission City Ice House, Famous Famiglia Pizzeria, Steak 'n Shake, and La Tapenade.

## Audit Scope and Methodology

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Our audit scope included all contract agreements for airport concessionaires in effect during fiscal year 2014 and revenue generated from concessionaires from October 2013 through January 2015. Our population consisted of 32 contracts for 44 concessionaires at the San Antonio International Airport and 2 contracts for 2 concessionaires at the Stinson Municipal Airport.

We interviewed management and key staff from Aviation to obtain an understanding of how the concession contracts are monitored and how payments are processed. We used the contract terms and COSA Procurement Policy and Procedures Manual as criteria for our test work.

To determine compliance with key terms of the contracts, we reviewed concessionaires' documents on file such as insurance policies, bond requirements, letters of credit, permitted use lists, and annual statements. Additionally, to determine if the City collected and processed revenue appropriately, we verified concessionaires' self reported gross sales by examining concessionaires' state sales tax returns.

We relied on computer-processed data in SAP, the City's accounting system, to review contractual terms and payments received from concessionaires. 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 performance 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 audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

## Audit Results and Recommendations

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### Inadequate Contract Monitoring

The Aviation Department does not have effective monitoring controls in place to ensure compliance with several key contractual terms outlined in the contracts for airport concessionaires. Additionally, written procedures do not exist to document processes for contract monitoring.

Consequently, we identified the following deficiencies:

**A. Collateral** (tested the total population of 34 contracts)

1. The surety bond/cashier's check had insufficient coverage amounts totaling \$271,000 for three contracts at the time of our testing. The contract states a surety bond in an amount not less than 50% of the MAG shall be delivered to the City as a payment and performance guarantee.

Additionally, a surety bond on file for one contract had been expired for 7 months. During our audit, an updated bond document was requested from the concessionaire and the support was subsequently provided to us.

**B. Insurance** (tested the total population of 34 contracts)

1. Several insurance documents were not on file at the time of our testing and had to be requested from the concessionaires in order to confirm sufficient insurance coverage. We were ultimately able to confirm coverage for all but two contracts. We also identified an insurance certificate that had the wrong address listed for the property being covered.
2. Insurance endorsements showing the City as an additional insured did not exist for 30 contracts. According to Risk Management guidelines, the City must have the actual endorsement on file to ensure adequate coverage.

**C. Maintenance/Inspections**

1. Safety and maintenance inspections of all SAT concessionaire's premises have not been performed by Aviation personnel since 2013. A process does not exist to request the concessionaire's comprehensive preventative maintenance program that outlines everything they are responsible for maintaining as well as evidence to show current adherence to the program with submission of paid invoices, per contract terms.
2. A monitoring process does not exist to ensure that concessionaires have obtained current health permits and that they are posted within the concessionaire's premises (food and beverage only). A valid permit

issued by the regulatory authority must be obtained and displayed to operate a food establishment.

3. A monitoring process does not exist to ensure concessionaire's prices are in compliance with the City's Street Pricing Policy. The policy promotes fair and reasonable prices and is designed to produce a greater volume of sales in airport concession programs. Additionally, it requires prices charged at the airport be comparable to off-airport prices. Our review identified that current price sheets were not on file for any of the concessionaires. Consequently, we identified four out of 10 concessionaires we sampled had increased their prices, when compared to the approved original price list, but were not submitted to concession management for review and approval.

#### **D. Fiscal Review**

1. A process does not exist to determine if the MAG needs to be adjusted for each lease year, as required by some of the contracts. Our testing identified 5 out of 15 concessionaires whose MAGs had not been recalculated to determine if they needed adjustment; one out of the five required adjusting the MAG to be lower.
2. A process does not exist to ensure the amount being invoiced to each concessionaire for CAM (common area maintenance) and trash fees is accurate. As a result, the City is invoicing incorrectly and has misstated revenue for both fees. We conducted a reconciliation which identified that Fiscal overcharged concessionaires by approximately \$9,096 each month.
3. To ensure the accuracy of concessionaire's monthly self-reported gross sales, the department relies on an annual review that should take place by independent CPAs. We identified the following issues with this process:
  - Evidence that concessionaire's annual statements are reviewed by an independent CPA did not exist for 5 of 13 concessionaires reviewed.
  - One concessionaire's CPA who signed their annual statements also has a 5% ownership in the company which questions their independence.

The contract terms require each concessionaire to provide a written statement signed by an officer of the Company and audited by an independent CPA showing details of the gross receipts made by the concessionaire during the preceding lease year.

4. Fiscal staff is not consistently charging late fees to concessionaires who are delinquent with their rent payments. Our testing identified 20% of sampled payments from concessionaires were late and not assessed a late fee, totaling approximately \$1,145 over an average of 17 months of payments. Lease agreements require tenants to pay late fees when

account balances are more than 15 days past due. Most agreements include a 10% interest rate for late fees. Charging late fees provides an incentive for tenants to remit payments on time.

5. A reconciliation of revenue recorded in SAP against revenue recorded in Fiscal's spreadsheet to ensure revenue was accurately recorded on the financial statements was not being documented. Consequently, we could not determine if the reconciliation was conducted regularly and that variances (if applicable) were justified and/or being followed up on.
6. Random audits were not performed by the Aviation Compliance Office for FY2014. The audits serve as a key control to ensure compliance with the contract terms relating to records retention of original sales records. Contract terms state all original sales records shall be preserved by concessionaire for a period of five years past the contract ending.

Per the City's Procurement Policy and Procedures Manual, Section 7.3, the department should develop and maintain a Contract Administration Plan which highlights the monitoring tasks to perform and the frequency of actions to be taken. The manual also provides a bond checklist and an insurance checklist to be used by the reviewer.

Without a standard process in place for monitoring of contracts, detection of issues and non-compliance with contract terms may not be identified in a timely manner which could cause financial and operational risk to the City. Likewise, without standard procedures in place for reviewing the fiscal processes, the risk of lost revenue or misstated revenue increases.

### **Recommendations**

The Aviation Director should:

1. Develop a 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.
2. Implement a control to provide assurance that concessionaires are accurately self reporting their gross sales. Specifically:
  - Enforce contract terms requiring concessionaires to provide annual statements that certify all gross sales have been accurately reported to the City.
  - Ensure that random audits of concessionaire's gross receipts are performed periodically.

3. Develop written procedures for standard processes for MAG changes per lease years, and reconciliation/true-up of trash and 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.
4. 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.

## **Appendix A – Staff Acknowledgement**

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Sandra Paiz, CFE, Audit Manager  
Holly Williams, CISA, CRISC, Auditor in Charge  
Reina Sandoval, Auditor

## Appendix B – Management Response



### CITY OF SAN ANTONIO

P.O. Box 839966  
SAN ANTONIO TEXAS 78283-3966

October 14, 2015

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

RE: Management's Corrective Action Plan for the Airport Concession Contracts Audit

The Aviation Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	<p><b>Inadequate Contract Monitoring</b></p> <p>The Aviation Director should:</p> <p>Develop a 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.</p>	6	Accept	Raymond Perales, Concessions Manager	November 30, 2015

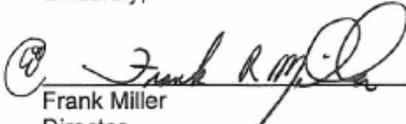
Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><b>Action plan:</b> The concession division staff is currently working on a standard monitoring process (CAP) that is maintained in an electronic workbook with monitoring worksheet sections. Each worksheet section will include a check list showing due date for each contract requirement. Supporting documents will also be maintained for each contract requirement.</p> <p>This will include periodic reviews and maintenance of supporting documents. Additionally, the department is in the final negotiation stage of purchasing a Property Management Information System ("PMIS") that will track this information and provide ticklers and reports of upcoming deadlines, end dates, and required amounts in escalations, etc.</p>				
2	<p>The Aviation Director should:</p> <p>Implement a control to provide assurance that concessionaires are accurately self reporting their gross sales. Specifically:</p> <ul style="list-style-type: none"> <li>o Enforce contract terms requiring concessionaires to provide annual statements that certify all gross sales have been accurately reported to the City.</li> <li>o Ensure that random audits of concessionaire's gross receipts are performed periodically.</li> </ul>	6	Accept	Raymond Perales, Concessions Manager; Rod Rodriguez, Compliance Manager	Ongoing
	<p><b>Action plan:</b></p> <p>In FY 15 Concession division staff completed a comprehensive review of all concessions agreements to ensure that annual statements and audits were completed. This review included conducting a reconciliation of all reported revenue against actual collections and where necessary, adjustments were made. Concessions division staff will continue to monitor all concession agreements to ensure that annual statements and that certified audits are submitted on time as required in the concession agreements. This monitoring is done by maintaining a checklist of when annual statements and audits due and when received. Once implemented, the PMIS will be able to provide ticklers of upcoming due dates and send reminders.</p> <p>The Aviation Compliance division will perform random audits of the concessionaire's gross receipts compared to reports submitted to Aviation.</p>				

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
3	<p>The Aviation Director should:</p> <p>Develop written procedures for standard processes for MAG changes per lease years, and reconciliation/true-up of trash and 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.</p>	7	Accept	Raymond Perales, Concessions Manager; Virginia Cobarrubias, Department Fiscal Administrator	November 30, 2015
<p><b>Action plan:</b></p> <p>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. The Concession division and the Fiscal Operations currently meet once a month to review and verify if any changes need to be performed. Once implemented, the PMIS will be able to provide ticklers of upcoming dates to change MAGs or if the amounts are predetermined in the contract, then PMIS will automatically reset the MAG.</p> <p>We are currently performing a reconciliation of the trash and CAM fees and this will be done annually and if necessary adjustments will be charged or credited to the concessionaires, as appropriate.</p> <p>Written procedures for managing accounts receivable have been implemented to ensure that collection efforts and late fees are consistently applied.</p>					
4	<p>The Aviation Director should:</p> <p>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.</p>	7	Accept	Virginia Cobarrubias, Department Fiscal Administrator	September 30, 2015

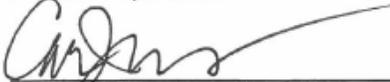
Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><b>Action plan:</b>                      The Fiscal Operations division staff implemented changes to the existing procedures to confirm that the monthly rent and fees are accurately recorded based on the concessionaire's monthly reports. The Fiscal Operations division staff will also compare the amounts reported by the concessionaires to the Fiscal spreadsheet and then to SAP and will make corrections as necessary. In addition, the Aviation department is currently in the process of procuring a PMIS. The system will include lease agreements, concession sales management, billing/invoicing/AR, and statistics. The system shall provide property and revenue management with the goal of keeping all information in one system and the ability to track and report information easily.</p>				

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

Sincerely,

  
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 Frank Miller  
 Director  
 Aviation Department

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 Date 10/15/15

  
 \_\_\_\_\_  
 Carlos Contreras  
 Assistant City Manager  
 City Manager's Office

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 Date 10/16/15