
CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Audit of Aviation Department

Concession Contracts

Project No. AU22-002

August 22, 2022

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

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Aviation Department, specifically the contracts of the concessionaires. The audit objective, conclusions, and recommendation follow:

Determine if Aviation concessions are properly managed in accordance with contract terms.

Aviation concessions are properly managed in accordance with contract terms. Aviation has effective controls over the Minimum Annual Guarantee (MAG) and percentage rent payments process. Contract reporting requirements were in compliance and concessionaire Annual Statements were submitted as applicable. In addition, Insurance Certificates are sufficient and in compliance with contract terms. Finally, concessionaire fees such as utilities, trash removal and office space were paid in accordance with contract terms.

We make no recommendations to Aviation Department; consequently, no management responses are required. Management's Acknowledgement of these results is in Appendix B on page 5.

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Background

The Aviation Concession Management division manages concession operations at the San Antonio International Airport (SAT), which serves over 8 million passengers on over 13 airlines annually and partners with operators of light aircraft, individuals, and private aviation companies. SAT has approximately 54 various concessionaires, including retail, food, beverage, and business services establishments.

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 FY2020, concessionaires reported approximately \$25.8 million in gross sales and paid the City approximately \$4.7 million in rent revenue. In FY2021, concessionaires reported approximately \$32.7 million in gross sales and paid the City approximately \$5.4 million in rent revenue.

The following table lists the top ten concessionaire’s at San Antonio International Airport and their reported gross sales and rent revenue for fiscal years 2020 and 2021:

Concessionaire	Fiscal Year 2020		Fiscal Year 2021	
	Gross Sales	Rent Revenue	Gross Sales	Rent Revenue
World Duty Free (Hudson)	\$5,898,541.49	\$1,140,212.79	\$7,332,341.63	\$1,424,374.99
HMS Host - Prime	\$6,291,817.91	\$882,118.95	\$6,807,583.54	\$872,198.30
Lamar Advertising	\$1,490,027.31	\$855,740.60	\$906,484.50	\$520,385.73
Duty Free (International / UETA)	\$891,925.35	\$291,666.67	\$1,534,920.24	\$345,491.51
AI Clear	\$1,964,057.37	\$196,405.74	\$2,436,767.59	\$243,676.76
Paradies Lagardere Prime	\$1,251,330.10	\$179,790.88	\$5,444,869.51	\$794,647.89
RSala Bebida / Starbucks				
HMS Host	\$1,290,367.56	\$164,165.85	\$1,075,444.70	\$158,895.25
Rosario's Cantina				
HMS Host	\$1,205,932.59	\$155,590.32	\$1,444,436.63	\$198,087.61
HDS & Partners - Stars of San Antonio	\$630,037.35	\$107,106.35	\$806,839.64	\$137,162.74
Edwin Enterprises (Charley's)	\$760,838.94	\$91,300.67	\$603,806.70	\$79,046.89
Total	\$21,674,875.97	\$4,064,098.82	\$28,393,494.68	\$4,773,967.67

Audit Scope and Methodology

The audit scope included all concessionaires excluding rental car agreements. The audit period was from October 2019 through December 2021.

We interviewed Aviation management, fiscal and compliance staff and obtained an understanding of the billing process and contract monitoring. Specifically, we reviewed how they calculate and bill for the Minimum Annual Guarantee (MAG) and percentage rent payments to concessionaires. Testing criteria included the contracts each concessionaire had with the City of San Antonio.

We assessed internal controls relevant to the audit objective. As part of our testing procedures, we examined the following areas:

- Accuracy, approval and support of MAG or percentage rent payments
- Adequacy of Insurance Certificates
- Completeness of Audited Annual Statements
- Accuracy and adequate support of contract fees.

We relied on computer-processed data in SAP to validate the accuracy and approval of billing and payments to concessionaires. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included verifying invoiced amounts agreed to payments made in SAP. 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 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.

Audit Results and Recommendation

Aviation concessions are managed in accordance with contract terms. Aviation has effective controls over the Minimum Annual Guarantee (MAG) and percentage rent payments process. We reviewed MAG and percentage rent payments for four months from six concessionaires. We determined that the billing and payments for the four months were accurate and properly supported and recorded in SAP.

We reviewed six concessionaire contract reporting requirements and determined that all six were in compliance and submitted their Annual Statements as applicable. In addition, we reviewed concessionaire fees such as utilities, trash removal and office space and determined they were paid in accordance with contract terms. Finally, Insurance Certificates were sufficient and in compliance with contract terms.

Appendix A – Staff Acknowledgement

Gabe Trevino, CISA, Audit Manager
Danny Zuniga, CPA, CIA, Auditor in Charge
Loretta Faxlanger, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO
SAN ANTONIO TEXAS 78283-3968

August 11, 2022

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

RE: Management's Acknowledgement of its Review of Audit of Aviation Concession Contracts

Aviation Department has reviewed the audit report and provided its comments to the auditors. As there are no recommendations for management, no management responses are required.

Aviation Department:

Fully Agrees

Does Not Agree (provide detailed comments)

Sincerely,



Jesus H. Saenz, Jr.
Director of Airports
Aviation Department

8/11/22
Date



Jeff Coyle
Assistant City Manager
City Manager's Office

8/11/22
Date