

COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE - AUDITOR-CONTROLLER DIVISION - INTERNAL AUDIT UNIT

INTERNAL AUDIT REPORT

FOOD AND BEVERAGE CONCESSION AGREEMENTS – SSP AMERICA AGREED-UPON PROCEDURES

DEPARTMENT OF AIRPORTS



Audit Committee Submittal Date: 03/25/2021

SUMMARY

Background

County of Sacramento, Department of Airports (Airports) has Food and Beverage Concession Agreements (Agreements) with SSP America (Concessionaire) to operate food and beverage concession at Sacramento International Airport (SMF). Pursuant to the section 3.09 of the Agreements, Airports requested Department of Finance (DOF) Internal Audit Unit (IAU) to perform these agreed-upon procedures to assist Airports verifying the Concessionaire's compliance with the Agreements.

Audit Objective

To assist Airports in evaluating the revenue reported and compliance by the Concessionaire per the Agreements for the periods of August 1, 2016 to July 31, 2019 for Terminal A and November 1, 2016 to October 31, 2019 for Terminal B.

Summary

We noted under reported revenues, underpayments of rent, common area maintenance and merchant association program fees, and non-compliance with minimum annual guarantee requirement. See Attachment I through V of the report.

Department of Finance

Ben Lamera
Director



Auditor-Controller Division

Joyce Renison
Assistant Auditor-Controller

County of Sacramento

February 18, 2021

Ms. Cynthia A. Nichol, Director
County of Sacramento Department of Airports
6900 Airport Boulevard
Sacramento, CA 95837

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Dear Ms. Nichol:

We have performed the procedures enumerated below and on the following pages over Sacramento International Airport concession operated by SSP America, Inc. (Concessionaire). The procedures were requested and agreed to by the County of Sacramento Department of Airports (Airports), solely to assist you in evaluating the revenue reported and compliance by the Concessionaire per Food and Beverage Concession Agreements (Agreements) for the periods of August 1, 2016 through July 31, 2019 for Terminal A and November 1, 2016 through October 31, 2019 for Terminal B.

The Concessionaire's management is responsible for compliance, accounting records and reporting of gross revenues in accordance with the Agreements. The sufficiency of these procedures is solely the responsibility of Airports' management. Consequently, we make no representation regarding the sufficiency of the procedures described below and on the next page either for the purpose for which this report has been requested or for any other purpose. This report is applicable solely to the Agreements referred above and is not intended to pertain to any other agreements of Airports or the Concessionaire.

The procedures we performed for Airports related to the Concessionaire's food and beverage concessions are summarized below and on the next page:

1. Inspected the Concessionaire maintains written policies and procedures for reporting of gross revenues and internal controls over accounting and administrative procedures pertaining to the recording of revenues. Identified controls used by the Concessionaire to record revenue for gross revenue reporting.

Finding: Based on our review of the Concessionaire's policies and procedures over recording and reporting of revenues to the Airports and inquiries to the Concessionaire's staff, we identified the following controls used by the Concessionaire to record and report gross revenue:

Control 1: The Concessionaire's restaurants use Point of Sale (POS) system and prices are fixed in POS. The programmed prices in the POS cannot be overridden by the restaurants' cashiers as they are set by corporate and the POS system does not allow them to be altered locally.

Control 2: Cash register voids and refunds are performed by an authorized employee other than the cashier for the transactions.

Control 3: Cash from the sales are reconciled to the cash register report by local management/administration daily and weekly.

Control 4: A reconciliation is performed each month between the third party payment processor reporting and the credit card settlements that are deposited in the bank account.

Control 5: A reconciliation is performed each month between the general ledger and related bank statements.

Control 6: The monthly revenue reports are prepared by the Concessionaire's assigned Regional Accountant and reviewed by the Concessionaire's Director of Accounting before payment/reporting is issued to Airports.

2. Haphazardly selected a sample of July and October of each agreement year for Control 4 and 5, two transactions for two days for each selected month for Control 2, and two days for each selected months for Control 3 for each Agreement and traced the transactions to supporting documentation and for evidence of the procedures described in the Procedure #1 on page one of this report.

Finding: Control 1 is a system control that could not be tested for our engagement period. For Control 6, we noted that SSP uses SAP system for posting of its revenues and payments to the Airports and confirmed that the payment (to Airports) documents were parked by the Regional Accountant and approved by the Accounting Director without exception. In addition, we did not note any exceptions from testing of Controls 2 through 5.

3. Reviewed the Concessionaire's independent auditor's report for each agreement year and compared gross revenues reported to the Airports to the gross revenues reported in the audit report. Investigated any discrepancies.

Finding: We noted a discrepancy in the amount of \$13,593.80 for the agreement period of August 1, 2018 to July 2019 for Terminal A. The gross revenue reported to Airports by the Concessionaire was \$11,243,624.75 and the gross revenue per audit report was \$11,257,218.55. This discrepancy resulted in total underpayment

in the amount of \$1,592.09 to Airports by the Concessionaire during this period. See Attachment I and II of this report. However, the gross revenues per the Concessionaire's supporting documentation agreed with the reviewed amount.

4. For each month in the period:

- a. Obtained the gross revenue report, as provided by the Airports, and traced the gross revenue reported to the Concessionaire's general ledger. Investigated any discrepancies.
- b. Recalculated the rent, common area maintenance (CAM) charge and merchant association program (MAP) fees based on the gross revenue for the month and agreements.
- c. Verified that minimum annual guarantee (MAG) is accurately calculated and that the greater of MAG or the percentage based rent was reported to the Airports.

Finding: We noted that the Concession under paid the Airports by \$3,114.64 as results of under reported revenues, underpayments of rent, CAM and MAP, and non-compliance with the MAG requirement. See the details of discrepancies in the Attachment I for revenues, II for rent, CAM and MAG payments, III and IV for MAG.

5. For sample month selected (July and October of each agreement year):

- a. Inspected the general ledger detail for the revenue accounts for the month. Identified adjustments made to reduce the gross revenue to verify that the adjustments were allowed per the Agreements by tracing the adjustments to supporting documentation on a sample basis.

Finding: Based on our procedures, we did not note any adjustments to reduce the gross revenue; therefore, we did not perform sample testing.

- b. We attempted to select two days per each selected month using appropriate sampling methodology, and compare total gross revenues to daily cash register and inventory sold to inventory list.

Finding: We were not able to perform this procedure as auditable information was not provided by the Concessionaire. However, we tested the Concessionaire's internal control process of the reconciliation between cash from daily sales and daily cash register balance (testing of Control 3 as described on page 2 of this report) and noted no exceptions.

6. Prepared a schedule identifying the total gross revenue of the period, the required concession payment based on the agreement, the amount actually paid and the amount over/(under) paid.

Finding: See Attachments I through IV of this report.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not perform, an audit or examination or review, the objectives of which would be the expression of an opinion or conclusion, on the Concessionaire's financial statements or schedules, internal controls, compliance with the Agreements, or the results of the agreed-upon procedures. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Airports' responses to the findings identified during our audit are described in Attachment V, *Findings and Recommendations*. We did not perform procedures to validate Airports' management responses to the findings and, accordingly, we do not express an opinion on the responses to the findings.

This report is intended solely for the information and use of the Sacramento County Board of Supervisors, those charged with governance, Sacramento County Audit Committee, Airports, and the Concessionaire's management. It is not intended to be, and should not be, used by anyone other than these specified parties. However, this restriction is not intended to limit distribution of this report, which is a matter of public record.

Sincerely,

BEN LAMERA
DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu, C.P.A.
Audit Manager

Enclosures

Attachment I: *Schedule of Gross Revenues*
Attachment II: *Schedule of Amounts Paid*
Attachment III: *Schedule of Minimum Annual Guarantee (MAG) - Terminal A*
Attachment IV: *Schedule of Minimum Annual Guarantee (MAG - Terminal B*
Attachment V: *Findings and Recommendations*

County of Sacramento
 Department of Airports
 SSP America, Inc. - Food and Beverage Concession Agreements
 Agreed-Upon Procedures
 Schedule of Amounts Paid

For the Period of August 1, 2016 through July 31, 2019 - Terminal A

For the Period of November 1, 2016 through October 31, 2019 - Terminal B

Terminal A

TOTAL OF ALL STORES						
	Rent Recalculated per Concessionaire's Gross Revenue (A)	CAM ⁽¹⁾ Recalculated per Concessionaire's Gross Revenue (B)	MAP ⁽²⁾ Recalculated per Concessionaire's Gross Revenue (C)	Total Due Per General Ledger (D)	Total Paid to Airports (E)	Difference Over/ (Under) (F)
				(A + B + C)		(E - D)
From August 1, 2016 to July 31, 2017	\$ 1,151,045.39	31,274.28	31,274.28	1,213,593.95	1,213,373.65	\$ (220.30)
From August 1, 2017 to July 31, 2018	1,108,604.36	30,209.31	30,209.31	1,169,022.98	1,169,022.98	
From August 1, 2018 to July 31, 2019	1,252,883.86	33,771.66	33,771.66	1,320,427.18	1,318,835.09	(1,592.09)
Total Under Paid						\$ (1,812.39)

Terminal B

TOTAL OF ALL STORES						
	Rent Recalculated per Concessionaire's Gross Revenue (A)	CAM ⁽¹⁾ Recalculated per Concessionaire's Gross Revenue (B)	MAP ⁽²⁾ Recalculated per Concessionaire's Gross Revenue (C)	Total Due Per General Ledger (D)	Total Paid to Airports (E)	Difference Over/ (Under) (F)
				(A + B + C)		(E - D)
From November 1, 2016 to October 31, 2017	\$ 1,387,351.22	48,623.69	30,796.10	1,466,771.01	1,465,468.76	\$ (1,302.25)
From November 1, 2017 to October 31, 2018	1,578,001.40	54,917.27	34,842.34	1,667,761.01	1,667,761.01	
From November 1, 2018 to October 31, 2019	1,759,932.58	59,788.64	38,202.20	1,857,923.42	1,857,923.42	
Total Under Paid						\$ (1,302.25)

(1) Common Area Maintenance

(2) Merchant Association Program

Grand Total Under Paid: \$ (3,114.64)

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 Department of Airports
 SSP America, Inc. - Food and Beverage Concession Agreements
 Agreed-Upon Procedures
 Schedule of Minimum Annual Guarantee (MAG) - Terminal A
 For the Period of August 1, 2016 through July 31, 2019

TOTAL OF ALL STORES			
	MAG Paid to Airports (A)	MAG Due (B)	Over / (Under) (C)
			(A-B)
From August 1, 2016 to July 31, 2017			
August	\$ 53,769.63	72,486.80	\$ (18,717.17)
September	53,769.63	72,486.80	(18,717.17)
October	53,769.63	72,486.80	(18,717.17)
November	53,769.63	72,486.80	(18,717.17)
December	53,769.63	72,486.80	(18,717.17)
January	53,769.63	72,486.80	(18,717.17)
February	53,769.63	72,486.80	(18,717.17)
March	53,769.63	72,486.80	(18,717.17)
April	53,769.63	72,486.80	(18,717.17)
May	53,769.63	72,486.80	(18,717.17)
June	53,769.63	72,486.80	(18,717.17)
July	53,769.63	72,486.80	(18,717.17)
Total	\$ 645,235.56	869,841.60	\$ (224,606.04)
From August 1, 2017 to July 31, 2018			
August	\$ 53,769.63	81,516.77	\$ (27,747.14)
September	53,769.63	81,516.77	(27,747.14)
October	72,486.80	81,516.77	(9,029.97)
November	72,486.80	81,516.77	(9,029.97)
December	72,486.80	81,516.77	(9,029.97)
January	72,486.80	81,516.77	(9,029.97)
February	81,516.77	81,516.77	
March	81,516.77	81,516.77	
April	81,516.77	81,516.77	
May	81,516.77	81,516.77	
June	81,516.77	81,516.77	
July	81,516.77	81,516.77	
Total	\$ 886,587.08	978,201.24	\$ (91,614.16)
From August 1, 2018 to July 31, 2019			
August	\$ 81,516.77	78,526.10	\$ 2,990.67
September	81,516.77	78,526.10	2,990.67
October	81,516.77	78,526.10	2,990.67
November	81,516.77	78,526.10	2,990.67
December	81,516.77	78,526.10	2,990.67
January	81,516.77	78,526.10	2,990.67
February	81,516.77	78,526.10	2,990.67
March	81,516.77	78,526.10	2,990.67
April	81,516.77	78,526.10	2,990.67
May	81,516.77	78,526.10	2,990.67
June	78,526.10	78,526.10	
July	78,526.10	78,526.10	
Total	\$ 972,219.90	942,313.20	\$ 29,906.70

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 Agreed-Upon Procedures
 Schedule of Minimum Annual Guarantee (MAG) - Terminal B
 For the Period of November 1, 2016 through October 31, 2019

TOTAL OF ALL STORES			
	MAG Paid to Airports (A)	MAG Due (B)	Over / (Under) (C) (A-B)
From November 1, 2016 to October 31, 2017			
November	\$ 86,441.65	86,441.65	\$
December	86,441.65	86,441.65	
January	86,441.65	86,441.65	
February	86,441.65	86,441.65	
March	86,441.65	86,441.65	
April	86,441.65	86,441.65	
May	86,441.65	86,441.65	
June	86,441.65	86,441.65	
July	86,441.65	86,441.65	
August	86,441.65	86,441.65	
September	86,441.65	86,441.65	
October	86,441.65	86,441.65	
Total	\$ 1,037,299.80	1,037,299.80	\$
From November 1, 2017 to October 31, 2018			
November	\$ 86,441.65	98,178.47	\$ (11,736.82)
December	86,441.65	98,178.47	(11,736.82)
January	86,441.65	98,178.47	(11,736.82)
February	86,441.65	98,178.47	(11,736.82)
March	86,441.65	98,178.47	(11,736.82)
April	86,441.65	98,178.47	(11,736.82)
May	86,441.65	98,178.47	(11,736.82)
June	86,441.65	98,178.47	(11,736.82)
July	86,441.65	98,178.47	(11,736.82)
August	86,441.65	98,178.47	(11,736.82)
September	86,441.65	98,178.47	(11,736.82)
October	86,441.65	98,178.47	(11,736.82)
Total	\$ 1,037,299.80	1,178,141.64	\$ (140,841.84)
From November 1, 2018 to October 31, 2019			
November	98,178.47	111,775.08	\$ (13,596.61)
December	98,178.47	111,775.08	(13,596.61)
January	98,178.47	111,775.08	(13,596.61)
February	98,178.47	111,775.08	(13,596.61)
March	98,178.47	111,775.08	(13,596.61)
April	98,178.47	111,775.08	(13,596.61)
May	98,178.47	111,775.08	(13,596.61)
June	98,178.47	111,775.08	(13,596.61)
July	98,178.47	111,775.08	(13,596.61)
August	111,775.08	111,775.08	
September	111,775.08	111,775.08	
October	111,775.08	111,775.08	
Total	1,218,931.47	1,341,300.96	\$ (122,369.49)

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 Findings and Recommendations
 For the Period of August 1, 2016 through July 31, 2019 - Terminal A
 For the Period of November 1, 2016 through October 31, 2019 - Terminal B

1. Reporting Errors

Condition

During our procedures, we noted some errors on SSP America, Inc. (Concessionaire)'s reported revenues and calculation of percentage rent.

Criteria

The Concessionaire should report all gross revenues and accurately calculate percentage rent in accordance with Food and Beverage Concession Agreements (Agreements).

Cause

These appeared to be human errors.

Effect

As a result of errors on of the Concessionaire's reported revenues and calculation of percentage rent, percentage rent, Common Area Maintenance (CAM) and Merchant Association Program (MAP) were under paid to County of Sacramento Department of Airports (Airports) by the Concessionaire as following:

Terminal A

	Rent	CAM	MAP	Total
From August 1, 2016 to July 31, 2017	\$ 220.30			\$ 220.30
From August 1, 2018 to July 31, 2019	1,510.51	40.79	40.79	1,592.09
Total Under Paid	\$ 1,730.81	40.79	40.79	\$ 1,812.39

Terminal B

	Rent	CAM	MAP	Total
From November 1, 2016 to October 31, 2017	\$ 1,302.25			\$ 1,302.25
Total Under Paid	\$ 1,302.25			\$ 1,302.25

Grand Total Under Paid: \$ 3,114.64

Recommendation

We recommend the Concessionaire's management thoroughly review its revenue report and payment calculation in accordance with its policies and procedures before submitting the report to Airports. We also recommend the Concessionaire pay under

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paid percentage rent, CAM and MAP in the amount of \$3,114.64 to Airports. See Attachment I. *Schedule of Gross Revenues* and II. *Schedule of Amounts Paid*.

Airports' Management Response

The underpayment of \$3,114.64 was reduced by \$1,593.89 per Invoice #2009167967, billed on September 22, 2020 as a result of the annual reconciliation for Terminal B for the period from August 1, 2018 to July 31, 2019. Airports will issue a one-time invoice to recover the remaining underpayment of \$1,520.75.

Airports concur with the County Auditor's recommendation that the Concessionaire's management thoroughly review its revenue report and payment calculation in accordance with the procedures before submitting the report to Airports.

Concessionaire's Management Response

No responses were provided by the Concessionaire's management.

2. Timing of Minimum Annual Guarantee (MAG) Payment

Condition

Based on our procedures, MAG was accurately calculated and the greater of the second Agreement Year MAG or the 85% of preceding agreement year's rent reported to the Airports for both Terminal A and B. However, the timing of MAG payments from the Concessionaire to Airports was not compliant with the Agreements resulting in under or over payments of MAG for Agreement Years end July 2017, 2018, and 2019 for Terminal A and Agreement Years ended October 2018 and 2019 for Terminal B.

Criteria

According to Section 2.03 of the Agreements, MAG should be paid in 12 equal monthly payments during each Agreement Year, in advance, on or before the first day of each full calendar month, without prior notice or demand.

Cause

MAG was not calculated timely.

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Effect

The Concessionaire was not compliant with the Agreements resulting in under or over payment of MAG for Agreement Years end July 2017, 2018, and 2019 for Terminal A and Agreement Years ended October 2018 and 2019 for Terminal B. See Attachment III. *Schedule of Minimum Annual Guarantee (MAG) - Terminal A* and IV. *Schedule of Minimum Annual Guarantee (MAG) - Terminal B* of this report.

Recommendation

We recommend the Concessionaire calculate the MAG timely each Agreement Year and pay the monthly MAG, in advance, on or before the first day of each full calendar month, without prior notice or demand to be compliant with the food and beverage concession agreements with Airports.

Airports' Management Response

Airports recently changed the period of MAG calculation per 2021 Agreement Amendments, that the MAG for each Agreement Year shall be set at eighty-five percent (85%) of the actual Rent due for the preceding twelve (12) month period May 1 through April 30. Airports' Accounting staff can calculate the new MAG for the succeeding Agreement Year July 1 through June 30, therefore our current process will address finding #2. The MAG is subject to adjustment upon completion of the Annual Reconciliation between SSP's Audited Reports and Airports' record.

Concessionaire's Management Response

No responses were provided by the Concessionaire's management.