

# COUNTY OF SACRAMENTO

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

## **INTERNAL AUDIT REPORT**

### **FOOD AND BEVERAGE CONCESSION AGREEMENTS – HOST INTERNATIONAL, INC. AGREED-UPON PROCEDURES**

#### **DEPARTMENT OF AIRPORTS**



**Audit Committee Submittal Date: 06/15/2023**

## **SUMMARY**

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### **Background**

County of Sacramento, Department of Airports (Airports) has Food and Beverage Concession Agreements (Agreements) with Host International, Inc. (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.

### **Engagement 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**

Based on our agreed-upon procedures performed, we noted a timing issue with the minimum annual guarantee and concerns related to internal controls.

Department of Finance  
Joyce Renison, Interim Director



Auditor-Controller Division  
Mark Aspesi  
Assistant Auditor-Controller

## County of Sacramento

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May 3, 2023

Ms. Cindy 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 Host International, 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 pages:

1. Inspected the Concessionaire's written policies and procedures for reporting of gross revenues and internal controls over accounting and administrative procedures pertaining to the recording of revenues.

Result: We did not note any exceptions from our review of Concessionaire's written policies and procedures.

2. Haphazardly selected a sample of 14 revenue transactions for October and March transactions for each agreement year and traced the transactions to supporting documentation.

Result: We noted reportable instances related to Concessionaire's record retention and reconciliations. See Finding #1 and #2 of ATT 5, *Findings and Recommendations*.

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.

Result: We did not note any exceptions from our review of Concessionaire's independent auditor's report.

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.

Result: We did not note any exceptions from our review of the revenue reports.

5. For sample month selected (October and March of each agreement period):
  - 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.
  - 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.

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

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.

Results: See ATT 1 through ATT 5 of this report.

This agreed-upon procedures engagement was conducted in accordance with the standards for attestation engagements contained in *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States. 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 ATT 5 *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,

JOYCE RENISON  
INTERIM DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu, C.P.A.  
Chief of Audits

Enclosures

ATT 1 - *Schedule of Gross Revenues*  
ATT 2 - *Schedule of Amounts Paid*  
ATT 3 - *Schedule of Minimum Annual Guarantee (MAG) - Terminal A*  
ATT 4 - *Schedule of Minimum Annual Guarantee (MAG) - Terminal B*  
ATT 5 - *Findings and Recommendations*

County of Sacramento  
 Department of Airports  
 Host International, Inc. - Food and Beverage Concession Agreements  
 Agreed-Upon Procedures  
 Schedule of Gross Revenues

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					
	Airports Reported Revenue (A)	Annual Settlement (B)	Airport Reported Revenue Adjusted (C) (A+B)	Gross Revenue Per Concessionaire (D)	Difference (E) (C-D)
From August 1, 2016 to July 31, 2017	\$ 986,854.34		986,854.34	986,854.00	\$ 0.34
From August 1, 2017 to July 31, 2018	891,409.59		891,409.59	891,410.00	(0.41)
From August 1, 2018 to July 31, 2019	1,005,760.21		1,005,760.21	1,005,760.00	0.21
<b>Total: Over Reported/(Under Reported)</b>					<b>\$ 0.14</b>

**Terminal B**

TOTAL OF ALL STORES					
	Airports Reported Revenue (A)	Annual Settlement (B)	Airport Reported Revenue Adjusted (C) (A+B)	Gross Revenue Per Concessionaire (D)	Difference (E) (C-D)
From November 1, 2016 to October 31, 2017	\$ 10,598,606.59		10,598,606.59	10,598,607.00	\$ (0.41)
From November 1, 2017 to October 31, 2018	12,268,471.69		12,268,471.69	12,268,472.00	\$ (0.31)
From November 1, 2018 to October 31, 2019	13,527,256.03		13,527,256.03	13,527,255.00	\$ 1.03
<b>Total: Over Reported/(Under Reported)</b>					<b>\$ 0.31</b>

County of Sacramento  
 Department of Airports  
 Host International, 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

<b>Terminal A</b>						
<b>TOTAL OF ALL STORES</b>						
	Rent Recalculated per Concessionaire's Gross Revenue (A)	CAM <sup>(1)</sup> Recalculated per Concessionaire's Gross Revenue (B)	MAP <sup>(2)</sup> 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	\$ 90,287.00	2,960.56	2,960.56	96,208.12	96,208.07	\$ (0.05)
From August 1, 2017 to July 31, 2018	125,914.00	2,674.23	2,674.23	131,262.46	133,093.92	1,831.46
From August 1, 2018 to July 31, 2019	138,414.00	3,017.28	3,017.28	144,448.56	145,450.36	1,001.80
<b>Total Over Paid</b>						<b>\$ 2,833.21</b>

<b>Terminal B</b>						
<b>TOTAL OF ALL STORES</b>						
	Rent Recalculated per Concessionaire's Gross Revenue (A)	CAM <sup>(1)</sup> Recalculated per Concessionaire's Gross Revenue (B)	MAP <sup>(2)</sup> 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	\$ 1,379,028.00	38,192.55	31,795.82	1,449,016.37	1,449,016.36	\$ (0.01)
From November 1, 2017 to October 31, 2018	1,604,798.00	45,381.27	36,805.42	1,686,984.69	1,686,984.68	(0.01)
From November 1, 2018 to October 31, 2019	1,777,528.00	49,713.26	40,581.77	1,867,823.03	1,867,823.03	-
<b>Total Under Paid</b>						<b>\$ (0.02)</b>

<sup>(1)</sup> Common Area Maintenance

<sup>(2)</sup> Merchant Association Program

**Grand Total Over Paid: \$ 2,833.19**

County of Sacramento  
 Department of Airports  
 Host International, 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

<b>TOTAL OF ALL STORES</b>			
	<b>MAG Paid to Airports (A)</b>	<b>MAG Due (B)</b>	<b>Over / (Under) (C) (A-B)</b>
<b>From August 1, 2016 to July 31, 2017</b>			
August	\$ 3,517.68	5,486.23	\$ (1,968.55)
September	3,517.68	5,486.23	(1,968.55)
October	3,517.68	5,486.23	(1,968.55)
November	5,486.23	5,486.23	-
December	5,486.23	5,486.23	-
January	5,486.23	5,486.23	-
February	5,486.23	5,486.23	-
March	5,486.23	5,486.23	-
April	5,486.23	5,486.23	-
May	5,486.23	5,486.23	-
June	5,486.23	5,486.23	-
July	3,517.68	5,486.23	(1,968.55)
<b>Total</b>	<b>\$ 57,960.56</b>	<b>65,834.76</b>	<b>\$ (7,874.20)</b>
<b>From August 1, 2017 to July 31, 2018</b>			
August	\$ 5,486.23	5,975.92	\$ (489.69)
September	5,486.23	5,975.92	(489.69)
October	5,486.23	5,975.92	(489.69)
November	5,486.23	5,975.92	(489.69)
December	5,975.92	5,975.92	-
January	5,975.92	5,975.92	-
February	5,975.92	5,975.92	-
March	5,975.92	5,975.92	-
April	5,975.92	5,975.92	-
May	5,975.92	5,975.92	-
June	5,975.92	5,975.92	-
July	5,486.23	5,975.92	(489.69)
<b>Total</b>	<b>\$ 69,262.59</b>	<b>71,711.04</b>	<b>\$ (2,448.45)</b>
<b>From August 1, 2018 to July 31, 2019</b>			
August	\$ 5,975.92	5,486.23	\$ 489.69
September	5,975.92	5,486.23	489.69
October	5,975.92	5,486.23	489.69
November	5,975.92	5,486.23	489.69
December	5,975.92	5,486.23	489.69
January	5,486.23	5,486.23	-
February	5,486.23	5,486.23	-
March	5,486.23	5,486.23	-
April	5,486.23	5,486.23	-
May	5,486.23	5,486.23	-
June	5,486.23	5,486.23	-
July	5,975.92	5,486.23	489.69
<b>Total</b>	<b>\$ 68,772.90</b>	<b>65,834.76</b>	<b>\$ 2,938.14</b>



County of Sacramento  
 Department of Airports  
 Host International, Inc. - Food and Beverage Concession Agreements  
 Agreed-Upon Procedures  
 Schedule of Minimum Annual Guarantee (MAG) - Terminal B  
 For the Period of November 1, 2016 through October 31, 2019

<b>TOTAL OF ALL STORES</b>			
	<b>MAG Paid to Airports (A)</b>	<b>MAG Due (B)</b>	<b>Over / (Under) (C)</b>
			<b>(A-B)</b>
<b>From November 1, 2016 to October 31, 2017</b>			
November	\$ 80,228.24	88,009.86	\$ (7,781.62)
December	80,228.24	88,009.86	(7,781.62)
January	80,228.24	88,009.86	(7,781.62)
February	80,228.24	88,009.86	(7,781.62)
March	80,228.24	88,009.86	(7,781.62)
April	80,228.24	88,009.86	(7,781.62)
May	88,009.86	88,009.86	-
June	88,009.86	88,009.86	-
July	80,228.24	88,009.86	(7,781.62)
August	80,228.24	88,009.86	(7,781.62)
September	80,228.24	88,009.86	(7,781.62)
October	80,228.24	88,009.86	(7,781.62)
<b>Total</b>	<b>\$ 978,302.12</b>	<b>1,056,118.32</b>	<b>\$ (77,816.20)</b>
<b>From November 1, 2017 to October 31, 2018</b>			
November	\$ 88,009.86	97,681.14	\$ (9,671.28)
December	\$ 88,009.86	97,681.14	(9,671.28)
January	\$ 88,009.86	97,681.14	(9,671.28)
February	\$ 88,009.86	97,681.14	(9,671.28)
March	\$ 88,009.86	97,681.14	(9,671.28)
April	\$ 88,009.86	97,681.14	(9,671.28)
May	\$ 88,009.86	97,681.14	(9,671.28)
June	\$ 88,009.86	97,681.14	(9,671.28)
July	\$ 88,009.86	97,681.14	(9,671.28)
August	\$ 88,009.86	97,681.14	(9,671.28)
September	\$ 88,009.86	97,681.14	(9,671.28)
October	\$ 88,009.86	97,681.14	(9,671.28)
<b>Total</b>	<b>\$ 1,056,118.32</b>	<b>1,172,173.68</b>	<b>\$ (116,055.36)</b>
<b>From November 1, 2018 to October 31, 2019</b>			
November	97,681.14	113,673.19	\$ (15,992.05)
December	97,681.14	113,673.19	(15,992.05)
January	97,681.14	113,673.19	(15,992.05)
February	97,681.14	113,673.19	(15,992.05)
March	97,681.14	113,673.19	(15,992.05)
April	97,681.14	113,673.19	(15,992.05)
May	97,681.14	113,673.19	(15,992.05)
June	97,681.14	113,673.19	(15,992.05)
July	88,009.86	113,673.19	(25,663.33)
August	97,681.14	113,673.19	(15,992.05)
September	97,681.14	113,673.19	(15,992.05)
October	97,681.14	113,673.19	(15,992.05)
<b>Total</b>	<b>1,162,502.40</b>	<b>1,364,078.28</b>	<b>\$ (201,575.88)</b>

County of Sacramento  
Department of Airports  
Host International, Inc. - Food and Beverage Concession Agreements  
Agreed-Upon Procedures  
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. Internal Controls - Record Retention

### Condition

During our procedures, we noted that Host International, Inc.'s (Concessionaire) supporting documents for voided and refunded transactions were only kept for 90 days. We also noted that the Concessionaire's cash count reconciliations were kept at the individual locations and not sent to corporate and were unavailable for review. Therefore, we were not able to inspect supporting documents for voided and refunded transactions and cash count reconciliations.

### Criteria

The Agreements record retention section, 3.50 for Terminal A and 3.51 for Terminal B states, "*Concessionaire shall keep available, for a period of three (3) years after each Agreement year of operation, the books and records of account of Concessionaire for such year...*"

### Effect

The condition noted results in non-compliance with the Agreements and the Department of Airports (Airports) not being able to verify supporting documents related to revenue for the Agreements.

### Recommendation

We recommend Airports follow up with Host's compliance with the Agreements record retention policy and maintain records for the required time period.

### Airports' Management Response

We concur with the recommendation that Host International, Inc. should comply with the record retention policy, per sections 3.50 and 3.51 for Terminal A and Terminal B, respectively. We will discuss with the Airports' Properties section to communicate this recommendation with Host International, Inc.

### Concessionaire's Management Response

Per our Policy and Procedures, companywide, we only keep these support for 3 months. It's not feasible for our company to retain for more than three months due to the volume and size of our company and unfortunately, our system is not designed to accommodate individual leases.

County of Sacramento  
Department of Airports  
Host International, Inc. - Food and Beverage Concession Agreements  
Agreed-Upon Procedures  
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

## 2. Internal Control - Reconciliations

### Condition

During our procedures, we noted that five out of seven credit card reconciliations were missing reviewer signatures and dates. We also noted that seven out of seven bank reconciliations were missing preparer and reviewer signatures and dates.

### Criteria

Reconciliations should be signed off and dated by preparers and approvers to indicate they were completed timely.

### Effect

Not reviewing reconciliations can lead to errors in the reconciliation not being caught. Please see Finding #3.

### Recommendation

We recommend Airports follow up with Host to confirm that procedures are in place to review reconciliations.

### Airports' Management Response

We concur with the recommendation that Host International, Inc. should have procedures in place for preparing and reviewing the reconciliations. The Department of Airports will request for a copy of their procedures.

### Concessionaire's Management Response

During the period being audited, reconciliations were not printed. Excel files were shared with supervisors and kept electronically.

## 3. Timing of Minimum Annual Guarantee (MAG) Payment

### Condition

Based on our procedures, we did not note any exceptions regarding the Concessionaire's calculation 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 overpayments of MAG for all 2017, 2018, and 2019 Agreements for Terminal A and Terminal B. See ATT 3 - *Schedule of Minimum Annual Guarantee*

County of Sacramento  
Department of Airports  
Host International, Inc. - Food and Beverage Concession Agreements  
Agreed-Upon Procedures  
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

(MAG) - Terminal A and ATT 4 - Schedule of Minimum Annual Guarantee (MAG) – Terminal B for over and under MAG payments. However, the Concessionaire paid all of the 2017, 2018, and 2019 unpaid balances in the subsequent 2018, 2019, and 2020 periods as catch up payments to Airports.

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.

Effect

The Concessionaire was not compliant with the Agreements resulting in under or overpayment of MAG for 2017, 2018, and 2019 Agreements for Terminal A and Terminal B. See ATT 3 - Schedule of Minimum Annual Guarantee (MAG) - Terminal A and ATT 4 - Schedule of Minimum Annual Guarantee (MAG) - Terminal B of this report.

Recommendation

Airports should have 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

The Department of Airports has changed the period of MAG calculations, 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. The 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 #3. The MAG is subject to adjustment upon completion of the Annual Reconciliation between Host International, Inc.'s Audited Reports and Airports' records.

Concessionaire's Management Response

No response was provided for this finding by the Concessionaire's management.