

JACKSONVILLE AIRPORT AUTHORITY
AUDIT OF CONCESSIONAIRE AGREEMENTS WITH
SPECIALTY RETAIL SHOP AND
IN-TERMINAL ADVERTISING

REPORT #557

AUGUST 2, 2002

OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



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Report No.557

Honorable Members of the City Council
City of Jacksonville

Members of the Board of Directors
Jacksonville Airport Authority

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Jacksonville Municipal Code, we examined two concessionaire agreements (a Specialty Retail Store and an In-Terminal Advertising Agreement) from the Jacksonville Airport Authority. On October 1, 2001, the Jacksonville Port Authority (JPA) split into two entities, the Jacksonville Airport Authority (JAA) and the Jacksonville Seaport Authority. Concessionaires use space within the Airport Terminals and remit percentages of their gross revenues to the JAA. This payment is considered rent for the space they are utilizing. Concessionaires vary from retail to food service to advertising. For the fiscal year ended September 30, 2001, concession revenues accounted for approximately 29% of JAA's total operating revenues at \$10,881,586. Through May 31, 2002 the JAA has received \$6,962,312 from concessions or 28% of their total operating revenue. Monitoring concessionaire agreements is important to the JAA not only to maximize revenue, but also to ensure that the customers who travel through Jacksonville and visit the terminals have an overall pleasant experience with respect to shopping, food options and other amenities while traveling.

STATEMENT OF OBJECTIVES

The objectives of the audit were as follows:

1. To determine whether the Specialty Retail Shop Concession Agreement dated November 1, 1999 and the In-Terminal Advertising Concession Agreement dated June 1, 1999 are being complied with by both the vendors and the JAA.
2. To determine whether payments made to the JAA by the two concessionaires reviewed are in accordance with the applicable agreements and based on accurate gross monthly revenues as defined by the Agreements reviewed.

STATEMENT OF SCOPE

The audit scope for detailed testing for the Specialty Retail Agreement was June 2001, with January 2001 through December 2001 reviewed for the monthly reports and November 1999 to December 2000 for the Annual Financial Statement. For the In-Terminal Advertising Agreement, the audit scope for detailed testing was August 2001 and

October 2001, with January 2001 through November 2001 reviewed for the monthly reports and the 2000 calendar year for the Annual Financial Statement.

STATEMENT OF METHODOLOGY

The audit consisted of discussions and interviews with JAA employees in various departments (Purchasing, Finance, Business Development, and the DBE Office) as well as a review of contracts and files as necessary. Financial information was also reviewed and tested for accuracy. In some instances, the Concessionaire was asked to provide additional documentation per the audit clauses in each of the agreements.

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgements and conclusions regarding the organization, program, activity, or function under audit. This audit also included an assessment of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

AUDIT CONCLUSIONS

1. The Specialty Retail Shop Concession Agreement dated November 1, 1999 and the In-Terminal Advertising Concession Agreement dated June 1, 1999 are not being complied with by both the vendors and the JAA.
2. Payments made to the JAA by the two concessionaires reviewed are not in accordance with the applicable agreements and based on accurate gross monthly revenues as defined by the Agreements reviewed.

AUDIT OBJECTIVE #1

In order to determine if the two agreements reviewed are being complied with by both the vendors and the JAA, each of the agreements was reviewed noting the key provisions. Based on documentation in the files reviewed and discussions with personnel involved, the internal control weaknesses and findings related to this objective are detailed below.

INTERNAL CONTROL WEAKNESSES:

Internal Control Weakness #1

There is not a formal system in place at the Jacksonville Airport Authority for the monitoring of concessionaire agreements. Due to the fact that concessionaires are a material source of revenue to the JAA and that they interact with the traveling customer, all agreements should be reviewed for compliance on a periodic basis depending on the terms of the agreement.

Recommendation to Internal Control Weakness #1

The JAA should establish a formal system of monitoring concessionaire agreements. Items to be addressed within that system should include the following:

1. A designated point of contact or authorized representative at the JAA to which all correspondence should be directed and who is assigned to monitor the particular agreement should be identified.
2. A working file should be developed for each agreement containing:
 - Documentation of any changes in terms between the proposed agreement and the final agreement and how those changes were originated and decided upon (if applicable)
 - Key terms of the agreement (such as due dates for reports, hours of operations (if applicable), etc.
 - All correspondence with the concessionaire
 - Copies of bonds and insurance policies (ensuring that bonds are current should be the responsibility of the Finance Department and ensuring that insurance policies are current should be the responsibility of Risk Management)
 - Documentation of any meetings or relevant telephone conversations with the concessionaire
3. Comparisons should be performed by JAA staff to ensure that the revenues received and rates being charged are comparable to those at similar sized airports in Florida and nationwide. If prices are too low or business does not seem to be at an appropriate level based on these comparisons, the Business Development Department should be involved in determining what type of marketing efforts the concessionaire is going to implement to increase business.
4. A checklist should be developed for each agreement outlining the terms of the agreement that require some type of monitoring on JAA's part as documentation that the important terms of the contract are being complied with by the concessionaire.

Auditee's Response to Internal Control Weakness #1

The Authority is in the process of formalizing and improving its systems to monitor compliance of concessionaire agreements. Special care will be taken to address the fact that the JAA is now handling its own finance issues in house. We see this as an opportunity to benefit from internal efficiencies.

1. A designated point of contact in the Business Development Department will be identified as the responsible party on compliance, and a designated finance person will be identified as the liaison on these contracts.
2. Each contract will be briefed and a separate standardized summary sheet will be prepared. Key dates will be entered into both the Concessionaire Compliance employee's calendar and that of the finance liaison.

The working copy summary sheet will include all key terms of the agreement (due dates of reports, etc.)

-Correspondence for each concessionaire is included in a separate section of each lease agreement file. The file will be expanded to also include all memorandums of any meetings or relevant telephone calls. Again, dates will be placed on the calendar.

-Copies of bonds and insurance policies will be reviewed by the finance & risk management personnel to assure they are current.

3. Comparison of rates charged by other airports will be obtained periodically and shared with the finance liaison.

4. A checklist will be prepared, based on the information summarized in item 2 above and expanded to provide information necessary to monitor contract compliance.

-The above procedures will be used to improve communications between finance and business development.

Internal Control Weakness #2

Section 5.08 B of the current agreement with the In-terminal Advertising Concessionaire states that “Within ninety (90) days following the last day of each twelve (12) month period, the Concessionaire shall submit to the JPA a Financial Statement for the preceding year, reporting all business transacted by the Concessionaire . . .Such Financial Statement shall be certified by an independent Certified Public Accountant or by the Chief Financial Officer of the Concessionaire.” It does not appear to be in the best interest of the JAA to have a statement certified by the Chief Financial Officer of the concessionaire rather than an independent CPA.

Recommendation to Internal Control Weakness #2

Concession agreements should be individually analyzed as to whether allowing the Chief Financial Officer of the concessionaire to certify gross revenues is adequate protection for the JAA.

Auditee’s Response to Internal Control Weakness #2

- The JAA Interim Chief Financial Officer will evaluate the issue and report back to the Executive Director within 120 days.

Internal Control Weakness #3

The agreement with the In-terminal Advertising Concessionaire does not specify what time period should be reported in the Annual Financial Statement. In actual practice, the statement is on a calendar year basis.

Recommendation to Internal Control Weakness #3

Future concessionaire agreements should specify what time period should be reported in the Annual Financial Statement. In the case of partial years, a partial financial statement would be required, then a twelve month statement thereafter, and a partial statement again at the end of the contract term. In order to facilitate the preparation of the final contract, an item can be added to the proposer’s required documents to list their financial reporting period. In the draft agreement issued with the Request for Proposal, this article can state that the periods of the annual financial statements will be based on the concessionaire’s normal fiscal year, but will not be longer than one year.

Auditee’s Response to Internal Control Weakness #3

-Future concessionaire agreements will specify what time period should be reported in the annual financial statements as recommended. Efforts will be made to have the reported time frame consistent for like concessions.

Internal Control Weakness #4

Display cases located in the Jacksonville International Airport terminal do not have unique case identification numbers so that the location of a particular ad can be easily identified.

Recommendation to Internal Control Weakness #4

Each case or display should be assigned a unique number, which can be affixed in a non-conspicuous location on the case. This will allow better tracking of displays and facilitate the taking of physical inventories. This case ID should be listed on the Monthly Report submitted by the In-terminal Advertising Concessionaire in the description column.

Auditee's Response to Internal Control Weakness #4

-An inventory control system will be established to number and identify each display case. This display identification system will be used to provide a crosscheck with the monthly reports, which will include the case ID.

Internal Control Weakness #5

The monthly reports received from both concessionaires reviewed are not being date stamped by the Finance Department when received. The In-terminal advertising reports are due by the 20th of the month for the prior month and the Specialty Retail reports are due by the 15th of the month for the prior month.

Recommendation to Internal Control Weakness #5

Monthly Reports should be date stamped when received by the Finance Department. This will allow non-compliance to be documented and corrective action taken if required. Also, if late fees were to be applied, this date stamp would be necessary.

Auditee's Response to Internal Control Weakness #5

-The finance department will date stamp and initial all monthly reports received. They will then be provided to the Concessionaire Compliance employee.

Findings related to the Specialty Retail Concessionaire

Finding #1

Certain contract language in the agreement with Specialty Retail Concessionaire is unclear or incomplete in order to determine compliance. Specifically, the following was noted:

1. Article V does not address the proper calculation of payments for partial months.
2. Section 5.03 regarding performance bonds does not address an escalator clause for years subsequent to the first year's requirement of a performance bond equivalent to 3 months rent.
3. Due to the split of the JPA subsequent to the signing of the agreement, the contact point for notices is no longer valid.

Contractual agreements should be written in a clear, concise manner in order for all parties to the contract to be able to fulfill their responsibilities.

Recommendation to Finding #1

We recommend that the Business Development Department of the JAA review current actions of the parties that differ from the contract terms listed in the findings above, and

prepare contract amendments as required. A letter can document minor administrative changes, such as addresses or titles, with a copy maintained in the contract file. All substantive changes to a contract should be formally agreed to by both parties and evidenced by a written contract amendment. This procedure protects both parties from misunderstandings.

Auditee's Response to Finding #1

-Items 1, 2, & 3 will be addressed in future agreements.

-Article V will address how calculations are made for partial months (Pro-rata # days/365).

-Section 5.03 will be expanded regarding performance bonds and escalator clauses after the first year.

-A letter will be used to document administrative changes and a copy maintained in the contract files.

-Contracts, when required, will be amended and formally agreed to by both parties, and documented.

Finding #2

Although the performance bond (which is a certificate of deposit) for the Specialty Retail Concessionaire includes both the names of Concessionaire and the Jacksonville Port Authority, it is not issued in "joint names" i.e. connected with "and". In addition, the Certificate should be modified to include the name of the Jacksonville Airport Authority instead of the JPA. Contract Section 5.03 regarding Performance Bonds, states "...At the sole discretion of JPA, in lieu of the Bond, Concessionaire may be allowed to post a cash deposit, a certificate of deposit issued in joint names of Concessionaire and JPA and endorsed to JPA..."

Recommendation to Finding #2

We recommend that the bond be reissued in joint names and the Jacksonville Port Authority name be changed to the Jacksonville Airport Authority.

Auditee's Response to Finding #2

All (new) performance bonds will be issued In the name of the Jacksonville Airport Authority and not the JPA. The standard contract section 5.03 will be amended to reflect this change

Finding #3

The Statement of Gross Revenues required to be submitted by the Specialty Retail Concessionaire for the first year of the lease (Nov. 1, 1999 --Oct. 31, 2000) was due to the JAA by Jan. 31, 2001. It was not received until March 26, 2001 after the Finance Department sent a letter on March 14, 2001. The additional payment due was billed on March 26, 2001 but not paid until May 10, 2001. The Statement must also be signed by a CPA, but was only signed by the President. (Note: The report submitted was for November 1, 1999 through December 31, 2000.) Section 5.06 B states that "Annually, within ninety (90) days after the end of each lease year, Concessionaire will submit a statement of Gross

Revenues for the preceding year, showing authorized deductions or exclusions. The statement is to be certified to be correct by a Certified Public Accountant (CPA). Any amounts due to the JAA are to be paid within thirty (30) days of billing.”

Recommendation to Finding #3

We recommend that the Business Development Department more closely monitor compliance by the concessionaire regarding the submission of required reports.

Auditee’s Response to Finding #3

The JAA will more closely monitor concessionaire’s submission of required reports. A system will be established to provide exception reporting. The Concessionaire Compliance employee and the finance liaison will place the required report dates on their master calendar. A checklist will be added to the file to reflect action taken.

Findings related to the In-Terminal Advertising Concessionaire

Finding #4

Language in the executed agreement with the In-Terminal Advertising Concessionaire differed with language in the draft agreement included in the RFP package sent out by the Purchasing Department. Concerning the deduction of bad debts from Gross Receipts, Section 5.01 of **draft** says “Bad debt losses shall not be deducted from Gross Receipts.” Section 1.06 of the **final agreement** says “Bad debt losses of up to 2.5% of Gross Receipts may be a deduction to Gross receipts only after Concessionaire has made prudent collection efforts.” Also, some additional language was added to the final agreement that was not present in the draft agreement. Additional language was added to Section 8.09- Performance Standards in the final contract that states: “It will be the intent of the JPA to exercise the renewal provided the Concessionaire’s performance be satisfactory and produce generally competitive advertising revenues...” This language relates to the renewal of a second five year term of the agreement. Firms reviewed the RFP documents and based decisions on whether or not to draft a proposal based on the requirements in the RFP. If the final agreement has terms that materially differ from what was presented in the RFP, the competitive nature of the RFP process could be compromised as firms made proposals based on terms that were not actually enforced.

Recommendation to Finding #4

We recommend that in the negotiation of future contracts, provisions set forth in the Request for Proposal (RFP) be the same provisions present in the final agreements. If there are material items that are requested to be changed by the firm awarded the proposal, a new RFP should be issued to include those material changes.

Auditee’s Response to Finding #4

-Requests for Proposal (RFP) will include the same language as negotiated contracts. If any substantive changes are made beyond those contemplated by the RFP, a new RFP will be considered.

Finding #5

The monthly reports submitted by the In-Terminal Advertising Concessionaire do not contain all of the items required in Section 5.08A of the agreement. Specifically, the

reports from January 2001 through October 2001 did not contain the following required information:

- # of advertising locations available
- # of advertising locations sold
- # of advertising locations unsold and occupancy rate
- Year to date total capital investment in improvements

The agreement requires an 80% occupancy rate and \$250,000 of capital investment in the first three years. Without reporting this information, there is no way to know if these requirements are being met.

Recommendation to Finding #5

We recommend that the Business Development Department notify the In-Terminal Advertising Concessionaire of the reporting deficiencies and the noncompliance with agreement terms relating to the monthly reports.

Auditee's Response to Finding #5

-The JAA will notify the In-Terminal Concessionaire in writing of any reporting deficiencies and noncompliance with Section 5:08 A of the agreement. The Concessionaire Compliance employee will ensure that the deficiencies are addressed.

Finding #6

The In-Terminal Advertising Concessionaire did not comply with the audit provision of the agreement by providing the requested documentation in a timely manner. The JAA Internal Auditor made numerous requests for information from the Concessionaire starting on October 30, 2001. The requested information was not received from the Concessionaire until December 18, 2001. Section 5.08C of the Agreement states that "The JPA shall have the right, through its representative and at all reasonable times, to audit all of the records of the Concessionaire relating to business transacted at the Airport including, but not limited to, Gross Receipts. The Concessionaire, upon five (5) days prior written notice, shall make all such information available for such examination at the Airport."

Recommendation to Finding #6

The Concessionaire needs to be reminded of the time requirements related to audit requests. More action needs to be taken in the future from individuals higher in the JAA organization with Concessionaires that do not comply with the audit provision of the agreement. In addition, consideration should also be given to changing the language in future contracts relating to audits. Since concession agreements do not involve payments by the JAA to a concessionaire, there is little leverage to obtain cooperation in an audit, except for invoking a contract default, which is counter productive to the JAA. Also, the penalty for understating gross receipts refers to the cost of an audit, which may be difficult to determine for an internal audit. Other airports report that this understatement penalty is invoked at 3% rather than 5%. Since the primary reason for an audit is to determine if gross receipts are being reported to the JAA accurately, failure to cooperate with an audit may be construed to be an attempt to hide non reported gross receipts. An appropriate penalty might be assessing \$100 per day for each day beyond 30 days from the date the information was requested, which is the language used by many airports. As to the cost of

the audit, language could be added to say that in the case of an internal audit, the penalty would be based on the auditor's hourly salary times audit hours expended.

Auditee's Response to Finding #6

-On a contract by contract basis, consideration will be given to changing the language relating to audits and time requirements for obtaining information requested. Consideration will also be given to imposing a penalty after 30 days of date information requested. Any such revisions will be included in the RFP. If these changes are not incorporated, the Concessionaire Compliance employee will briefly note the reasons for such decision in the file.

Finding #7

Section 4.06 of the Request for Proposal (RFP) document sets out a mandatory 10% DBE participation for the In-Terminal Advertising concessionaire. However, this provision is not clearly stated in the final agreement between the Concessionaire and the Airport.

Recommendation to Finding #7

We recommend that any provision that is mandatory in the RFP be incorporated and clearly spelled out in the final agreement to ensure that all parties are aware of the requirements.

Auditee's Response to Finding #7

-The MBE/DBE manager will review, date and initial approval of any substitutions of firms to meet DBE goals.

Finding #8

There is no clear indication and no documentation could be located in the MBE/DBE file as to when the In-Terminal Advertising Concessionaire was allowed to substitute itself as a DBE firm in order to meet the required DBE goal of 10% for this project. By allowing the Concessionaire to substitute itself, 100% participation of a DBE firm was obtained. Per the RFP, a 10% MBE/DBE participation goal was established for this project. This goal was based on the concessionaire utilizing outside firms to meet this goal. Since the Concessionaire was having issues with some of the outside firms used, they decided to substitute themselves in order to achieve the 10% goal. This substitution requires approval from the MBE/DBE manager.

Recommendation to Finding #8

Files maintained by the Manager of DBE Programs should be complete and up to date and include approvals for substitutions of firms to meet the desired DBE goals.

Auditee's Response to Finding #8

-The MBE/DBE manager will review, date and initial approval of any substitutions of firms to meet DBE goals.

Finding #9

Copies of contracts between the In-Terminal Advertising Concessionaire and the advertisers sent to the JAA Internal Auditor from the Concessionaire were often incomplete and sometimes not legible. In several instances it was not possible to match

the contract to the Monthly Report since most contracts do not show the client number (on some contracts it is penciled in). There are some client numbers that are not listed, which may be contracts that were never finalized or expired prior to the audit period. On the contract form there is a section for entry of a percentage increase of rates and charges. On many contracts this area is blank, on others it has been lined through or figures changed with no initials of the parties to the contract. In some instances it is unclear what the effective date of an increase should be, especially on contracts where the start date of the contract is unclear (one contract reads 12/15/00 or sooner). Additional terms are hand written in various parts of the contract form, again not initialed by the parties. Reference is made to attached schedules or riders, which were not provided by the Concessionaire. Display rates are not entered in a consistent format. Sometimes the charges that are allowed to be deducted from the display rate (phone charges and brochures) are shown deducted from the rate with no notation, on other contracts the display rate is shown as “net”, and on others it can only be assumed what is deducted from the rate. The amount of the security deposit is not always for twice the monthly display rate, as is preprinted on the form. Some of the contracts sent by the Concessionaire were expired. In some instances the revenues shown on the Monthly Reports after the expiration date are for the same amount as the previous contract, in other instances it is for a higher amount. The term of some contracts has been changed by lining through and writing a different term, usually with no initials of the parties. Section 8.03 of the agreement between the Concessionaire and JAA states that “a fully executed copy of each advertising contract shall be submitted to the Vice President and . . . shall specify the following:

1. Name, address and phone number of the Advertiser
2. Commencement date and termination date of the advertising contract
3. Whether the contract is new or a renewal
4. Number of displays and their respective locations
5. Types of displays
6. Rates per month per advertising display
7. Any agency fee paid
8. Any other miscellaneous charges related to the contract, including telephone line charges, installation charges, maintenance charges, etc.”

Recommendation to Finding #9

The Business Development Department needs to ensure that each contract received from the Concessionaire is complete. In addition, the client number should be included next to the Advertiser Name. Also, if the display name is different than the advertiser’s name, this should be noted. All blanks must be filled in with figures, zeros, or N/A notations. Any changes to contract terms must be initialed by both parties. JAA must be notified in advance if a contract is going to be cancelled or terminated prior to the contract term with the reason for the action. This would allow JAA to determine if the cancellation is in accordance with the terms of the contract and whether the advertiser might be terminating the contract due to dissatisfaction with the performance of the Concessionaire. It may be possible for JAA staff to prevent the loss of the revenue by meeting with the advertiser to resolve issues.

Auditee’s Response to Finding #9

-All advertising contracts will be reviewed by the Business Development Department at the time they are received to determine they are complete. Each advertising contract will

include a client number and be complete. A unique numbering system will be developed. Any changes to contract term will be approved by both parties and documented.

AUDIT OBJECTIVE #2

In order to determine if payments made to the JAA by the two concessionaires reviewed are in accordance with the applicable agreements and based on accurate gross monthly revenues as defined by the agreements, monthly reports submitted by each of the concessionaires were reviewed as well as applicable supporting documentation where necessary to substantiate the amounts reported. The findings and internal control weaknesses relating to this objective are detailed below.

Findings related to the Specialty Retail Concessionaire

Finding #10

Deficiencies in organizational and procedural controls were found in the review of revenue reporting of the Specialty Retail Concessionaire. Deficiencies in *organizational controls* were found as follows:

- The store manager is responsible for ringing up sales, authorizing returns, preparing the close out sheet and making the bank deposit. There is little or no separation of duties for the key elements of sales processing.
- The bookkeeper for the Concessionaire does not currently review the daily reports, cash register tapes, monthly sales tax return or the Monthly Report of Gross Revenue submitted to the JAA.

Deficiencies in *procedural controls* were found as follows:

- Although store-operating procedures for processing sales are adequate, there are no written procedures on other activities such as processing layaways, credit card settlement, or the retaining of supporting documentation.

Deficiencies in *control through records*:

- There is no accountability for the cash register “Z” tapes that have an automatically generated sequential number. The store manager was not aware there was a numbering system for the tapes. For the month of June 2001, there were seven (7) “Z” tape numbers missing, with five (5) numbers missing between June 25 and June 26. This is a serious control deficiency since cash sales could be rung up by a cashier, a “Z” tape run and then discarded and no record would be left except on the master cash register tape. However, this tape is not removed each day and it appears no one is comparing the master tape on a regular basis. There would be an inventory shortage, but this could be manipulated by filing a theft report.
- No detailed information is kept of returns, such as name of customer, item description, etc. The store employee could ring in a fraudulent return and the theft would not be discovered until a physical inventory would show a shortage. The dollar value of returns for June 2001 was \$142; however, this lack of control could result in very high losses.
- Credit card settlement password is taped to the desk.

Deficiencies in *control through reports* were found as follows:

- There are no summary reports run each month using the capabilities of the cash register. Total sales are calculated manually by the store manager and are not compared to a report generated from the cash register. There is no independent review of the DR-15 or the Monthly Report of Gross Revenues submitted to the JAA or comparison made to cash register tapes.
- Summary reports of deductions from sales (returns and transfers) are not prepared each month with documentation attached and reviewed by someone other than the store manager for excessive amounts.

Recommendation to Finding #10

Although it is not unusual for a small retail store to lack sophisticated revenue controls, this store generates a significant amount of sales. Therefore, the owner and the JAA should be concerned if controls are deficient. Although many of the recommended controls might not prevent employee misappropriation, they would increase the likelihood of prompt detection and corrective action. Since the store does not have enough employees to separate revenue-processing duties, outside independent review of transactions is imperative. Changes in procedures, some of which are listed below, will increase the ability of an independent reviewer to determine if discrepancies have occurred. The Concessionaire should require its bookkeeper or someone other than the store manager to review transactions and cash register tapes. At a minimum, random audits should be conducted by the Concessionaire of returns, layaways and sales shipped out of state. The Concessionaire should prepare a complete written store procedure manual, one section for cashiers and another for store manager functions. Since there has been a great deal of turnover of employees, this would also facilitate the training of new cashiers and ensure continuity of operations if the store manager were to change. Use of standardized forms to document transactions would improve controls and facilitate reviews of transactions. All "Z" tapes must be accounted for. We recommend a line be added to the Close Out Sheet to write in the "Z" tape number(s). Any blank "Z" tapes should also be attached to the Close Out Sheet. A form should be developed for returns, listing the name of the customer, address, phone number, and description of item(s). This form should be attached to the Close Out Sheet for the date of return. A review of the specifications for the Concessionaire's cash register indicates that the register has the capability of producing several management reports that would increase the level of control on cash register transactions, simplify the preparation and improve the accuracy of reports made by the store manager and greatly improve audit capabilities. For example, a sales by day report for 31 days can be run, period to date financial reports and other management tools to analyze store operations.

Auditee's Response to Finding #10

-The Specialty Retail Concessionaire owner/manager will be made aware of the findings and recommendations to improve the store revenue controls. The JAA will note in such document that the inability to identify store revenue with certainty is a breach of their obligations, and must be corrected. Store revenue information will be monitored by the Concessionaire Compliance employee and the finance liaison to ensure adequate protection of revenues.

Finding #11

The Florida Sales and Use Tax Return Forms DR-15 used as a basis to report gross revenues to the JAA were incorrect. A comparison between the cash register “Z” tapes showing all sales for June 2001 and the Form DR-15 reporting sales to the State showed discrepancies between the two. After reviewing the guidelines published by the Department of Revenue, we concluded that the concessionaire had not properly completed the DR-15.

Recommendation to Finding #11

The Concessionaire was immediately notified of the discrepancies so that corrective action could be taken on future DR-15 forms. We recommend that the JAA request the concessionaire to provide corrected gross revenue amounts to the JAA for the 2001 calendar year in order to determine any potential underpayment of rent.

Auditee’s Response to Finding #11

-The JAA, through its Concessionaire Compliance employee will obtain corrected gross revenue amounts for the 2001 calendar year from the concessionaire and will work with legal counsel as necessary. Copies of the corrected gross amounts will be provided to the finance liaison.

Finding #12

Rent payments to JAA were understated for the 2001 calendar year by \$9,023.56. This could potentially be slightly greater based on the errors found in the DR-15 forms. The store manager uses the Gross Sales reported on the DR-15 less transfers and outside sales to arrive at the Gross Revenue figure reported to the JAA. Because the deductions for transfers and outside sales are not allowed by the Concessionaire agreement, and because of the error in reporting on the DR-15, we recalculated the gross revenues that should have been reported to the JAA for the month of June 2001 and found unreported revenues of \$8,235.26. This resulted in an additional \$969.26 owed to the JAA. Because of the June 2001 discrepancy, a comparison between the Gross Sales reported on the Florida Sales and Use Tax Form DR-15 and the Gross Revenues reported on the monthly reports to JAA for the entire 2001 calendar year was performed. This comparison showed unreported revenues of \$76,665.74 resulting in additional rent owed to the JAA of \$9,023.56.

Recommendation to Finding #12

The practice of ringing up sales for other stores or activities through the Jacksonville International Airport cash register should not be allowed. Even if better tracking was in place to identify these types of sales, the potential for abuse is too great. The amount reported to the JAA as Gross Revenues should be the sum of taxable sales plus tax exempt sales, as evidenced on the Florida Sales and Use Tax Form DR-15 and supported by the cash register “Z” tapes for the month. We also recommend that the JAA invoice the vendor for the \$9,023.56 owed subject to any further adjustment as a result of any corrected Gross Revenue amounts on the DR-15’s.

Auditee’s Response to Finding #12

-The JAA will require the concessionaire to provide a revised process which either eliminates this practice or modifies the process to address your concern. We will invoice the vendor for the identified amount, requested that the vendor either pay the amount or provide a definite document showing the lack of entitlement. We expect to resolve these issues within 90 days

Findings related to the In-Terminal Advertising Concessionaire

Finding #13

Although the In-Terminal Advertising Concessionaire has made the minimum annual guarantee payments each year and the revenues generated are greater than what was generated in the past for in-terminal advertising, the Concessionaire’s payments to the Jacksonville Airport Authority since the inception of the agreement have not been at the level indicated in the proposal. In addition, no correspondence could be located indicating that the JAA questioned the Concessionaire on why the revenues were not coming in as expected. Listed below are the proposed revenues from the proposal and the corresponding actual revenues per JAA:

Time Period	Proposed Revenue	Actual Revenues	Difference
<i>Year 1</i> (Sept. 1999-Aug.2000)	\$488,467	\$316,414	\$172,052
<i>Year 2</i> (Sept. 2000-Aug. 2001)	\$498,236	\$381,255	\$116,981
<i>Year 3</i> (Sept. 2001-Aug. 2002, but only numbers through May are available)	\$508,201	\$385,020 (Projected based on monthly average of \$32,085 through May 2002)	\$123,181

Recommendation to Finding #13

We recommend that JAA actively pursue the reasons why the actual revenues generated by the In-Terminal Advertising Concessionaire are not at the proposed level to determine what actions can be taken to increase the revenue.

Auditee’s Response to Finding #13

-The following advertising programs proposed were not approved which caused the decrease in actual revenue:

- Information and Reservation Center
- “Experience Jacksonville” Welcome Soffit
- Outdoor Displays
- Suspended Sculpture Displays
- Courtyard Study “The mixing box”

The Business Development Department will continue to explore opportunities to increase revenue with the concessionaire. The contract will be reviewed quarterly by the Concessionaire Compliance employee who will follow up with the Advertising Agency in writing on any deviation from the projected revenues. The financial liaison will be copied on such communications.

Finding #14

A physical inventory was performed by the JAA Internal Auditor on October 31, 2001 that did not agree with the detailed monthly report submitted by the Concessionaire listing advertisements in effect for the month. There were 14 displays that could not be matched to the monthly report and 11 reported displays that were not found in the terminal. A few of these mismatches could be the result of inability to match names of advertisers to the display.

Recommendation to Finding #14

Physical inventory of displays must be taken at the end of each month by the Business Development Department staff and compared to the monthly report received from the Concessionaire. If a display's company name is different than the client (name on advertising contract), the Concessionaire should put the display name in parenthesis on the Monthly Report. We recommend that the In-Terminal Advertising Concessionaire be notified of the discrepancies noted between the inventory and monthly report and provide explanations as to the reason for the discrepancies.

Auditee's Response to Finding #14

-The Concessionaire Compliance employee will notify the In-Terminal Advertising Concessionaire of discrepancies noted. We will check with the Florida Corporate records and determine the proper corporate entity, and then ensure that the paperwork reflects that entity. We will continue monthly physical inventories. Discrepancies noted will be communicated to the Concessionaire for correction or clarification.

Finding #15

A review of monthly reports for January 2001 through November 2001 indicates that there are substantial discrepancies in the gross revenues reported to the JAA by the In-Terminal Advertising Concessionaire. Per monthly reports sent from the Concessionaire, there were two clients that were included on monthly reports for a total of 17 months whose contracts had expired. There were also six clients whose contracts were still in effect, but did not show up on the monthly report for a total of 19 months. Per Section 5.08 of the agreement, "the Concessionaire shall submit to the JPA a true and correct statement of the Concessionaire's Gross Receipts for Advertising at the Airport during the preceding calendar month."

Recommendation to Finding #15

The only way the JAA can verify that it is receiving accurate revenues from the Concessionaire is to maintain copies of all current contracts in a file, receive new contracts in a timely manner, and require the Concessionaire to advise when advertisers have provided notice of intent to cancel their contracts. The Business Development Department must prepare a spreadsheet each month listing the revenue that should be received, then verify each account's gross revenue on the Monthly Report submitted by the Concessionaire. Based on the numerous errors discovered on the 2001 monthly reports, **it is imperative that a reconciliation be completed every month.**

Auditee's Response to Finding #15

- The Financial Liaison will prepare such a spreadsheet and will copy the Concessionaire Compliance employee. The JAA will retain copies of all new Advertising Concessionaire contracts in an orderly system and will calendar key dates. A system will be established to facilitate monthly reconciliation of contract revenue received and expected per contract. The JAA currently obtains copies of all advertising concessionaire contracts and will continue to do so.

Finding #16

We noted several discrepancies or questionable items related to the deduction of agency fees from gross receipts resulting in a \$2,851.53 loss of revenue to the JAA. The JAA auditor attempted to verify the agency commissions, with the following results:

- (1) After discussion with one of the agencies, information was obtained that the agency pays the Concessionaire the advertising display fees a quarter in advance, after receiving an invoice. In this instance, the invoice sent to the agency was for the total revenue due from the client, with no agency fee deduction. Since the accounting department at the agency did not have a copy of the contract, they did not realize that they had overpaid by 15% for 4 quarters. Discussions with the Concessionaire have been ongoing by the agency for a year trying to recover the overpayment. They indicated they did not want to withhold the overpayment from a future payment since the Concessionaire might remove the client's advertising and this was a major account for the agency. The overpayment amounts to \$3,033. The Concessionaire deducted the agency commission from each monthly report they sent to JAA during the period. Therefore the Concessionaire has not only had the overpayment from the agency for over a year, but has also received the benefit by deducting it from the JAA monthly revenues. **Note:** The Concessionaire issued a refund to the agency in December 2001, thus there was no net underpayment to the JAA.
- (2) For another account, the auditor was unable to locate the advertising agency listed on the commission report. A phone call to the advertiser was placed by the auditor. The bookkeeper indicated that the agency listed is one of the companies owned by the same corporation as the advertiser. Therefore, the agency fee is actually paid to the advertiser, although through another company of the corporation. This results in the advertiser receiving a discounted rate, and a loss of revenue to the JAA.
- (3) The auditor spoke with the media manager for an advertising agency listed on the commission report. He checked the records for the agency and found that they had not used that Concessionaire for at least two years. The advertiser was then contacted by the auditor to determine if they use an agency or pay revenue directly to the Concessionaire. The advertiser has an in-house advertising agency that is part of the corporation. This agency creates the artwork, prepares displays, etc. The 15% commission is deducted from gross revenues before payment is made to the Concessionaire. The gross revenue reported was confirmed by the agency.

For items (2) and (3) above, the loss of revenue to JAA by allowing the use of in-house agencies was \$2,851.53. Section 1.06 of the agreement states "Gross Receipts shall be

reduced by . . . any agency fees paid by the Concessionaire to a recognized agent or agency; however, said agency fee shall be limited to no more than fifteen percent (15%) of the amount paid for Advertising and said fee must appear on the Advertising contract;” However, the agreement does not define what the term “recognized” agency means.

Recommendation to Finding #16

We recommend that agency discounts only be allowed for agencies that are external to the advertiser. If an amendment cannot be done to the current agreement with the Concessionaire for future contracts, it should be considered for the second five-year term if approved by the JAA. In addition, agency commissions should be submitted in detailed format with the Monthly Report and should be compared to the contracts. Random audits should be done with the agencies to confirm that commissions were actually paid by the Concessionaire.

Auditee’s Response to Finding #16

-In future agreements, JAA will better define Agency fees, including or excluding subsidiaries, and related corporations as is appropriate with the particular contract. Consideration will be given to defining the term “recognized agency in the standard contract, Section 1.06

We appreciate the opportunity to use the audit services performed by JAA staff and have relied on their expertise and auditing capabilities in this report.

Respectfully Submitted,

Robert O. Johnson, CPA
Council Auditor

Audit Performed by:

Richard Dillard, CPA, Jacksonville Airport Authority

Fran Lowe, Jacksonville Airport Authority

Allison Luker, Council Auditor’s Office

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Office of Council Auditor

August 2, 2002

Robert O. Johnson, CPA
Council Auditor
City of Jacksonville
116 West Duval Street
Suite 200, St. James Building
Jacksonville, Florida 32202

Re: Responses to Council Audit Report No. 557

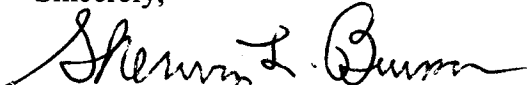
Dear Mr. Johnson:

Enclosed are the Jacksonville Airport Authority's (JAA) responses to your Audit Report No. 557 for both the Specialty Shop Concession and the In-Terminal Advertising Agreements dated November 1, 1999, for the period January 2001 through December 2001. We appreciate your including our responses under each of the recommendations in your report.

As stated in your report prior to October 1, 2001, the JAA was a part of the Jacksonville Port Authority and shared certain systems and services. On October 2001, (last three (3) months of your audit period) the JAA became a separate independent Authority. Accordingly, the JAA is in the process of formalizing and improving its systems.

We view your report as being constructive and will use these various findings and recommendations in the process of improving our procedures.

Sincerely,


Sherwin L. Burman
Interim Chief Financial Officer

SLB/yp
Enclosure