



# INTERNAL AUDIT REPORT

LIMITED CONTRACT COMPLIANCE  
AIRPORT TENANT MARKETING PROGRAM

JANUARY 2016 – DECEMBER 2018

ISSUE DATE: FEBRUARY 22, 2019

REPORT NO. 2019-01

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## EXECUTIVE SUMMARY

Internal Audit (IA) completed an audit of the Airport Tenant Marketing Program (Program) for the period January 1, 2016 through December 31, 2018. The objective of the audit was to assess compliance with provisions as reflected in the lease and concession agreements (Agreements). Specifically, the accuracy and completeness of fund contributions, internal controls over disbursements, and the existence of annual business plans.

The objective of the Program, as reflected in the 2018 Marketing Plan, is “to increase awareness for the Airport Dining and Retail (ADR) locations and promote brand identity for the entire ADR program.” The program is funded by the concessionaires at the Airport who contribute one half of one percent (0.5%) of monthly gross sales, not to exceed \$24,000 per agreement year. For leases signed in 2016 and beyond, the marketing fee is capped at \$30,000.

We concluded that disbursements support the promotion of concessions and marketing-related staff activities, as required per the Agreements. We also validated that fund assessments were materially complete and accurate. However, we identified one medium rated issue, which if implemented, will assure compliance with the Agreements, will improve how decisions are made, and will increase overall governance of the Program (see below):

1) The annual business plan outlining the objectives, budget, and evaluation methodology was not created in 2017, as required per the Agreements. Furthermore, budget approvals and documentation of key decisions were not consistently performed. With almost \$1.2 million in annual fund contributions, formal processes should be established to facilitate effective oversight and management of the Program.

This issue is discussed in more detail beginning on page six.

We extend our appreciation to Port management and staff for their assistance and cooperation during the audit.



Glenn Fernandes, CPA  
Director, Internal Audit

### Responsible Management Team

Dawn Hunter, Senior Manager, Airport Dining and Retail

Lance Lyttle, Managing Director Aviation

Jim Schone, Director, Aviation Business Development

## BACKGROUND

In 2005, the Port established a marketing program (Program) to promote the concessions at the Airport. The goal of the Program is to “reach” the active traveler at the most effective moments and locations throughout their travel window. The marketing approach is not designed to add clutter to an already complex messaging environment, but to use a simple and visible strategy that is intuitive and highly visible.

Each calendar year, the Port develops the Program’s annual business plan, objectives, evaluation methodology, and budget for the year based in part on an analysis of the effectiveness of the previous year’s Program.

The program is funded by the concessionaires at the Airport who contribute one half of one percent (0.5%) of monthly gross sales not to exceed \$24,000 per agreement year. The limit increased to \$30,000 for leases signed subsequent to January 2016. As of January 2016, intermediate kiosks joined the program contributing one quarter of one percent (0.25%) of monthly gross sales, but no more than \$15,000 per facility year.

All contributions to the Program may only be expended for the promotion of concessions and marketing related staff activities at the Airport and for no other purposes. These expenditures may include advertising, media placements, special events, promotional events, brochures, and catalogues.

The table below reflects actual contributions and expenditures for the years ended 2016, 2017, and 2018.

Description	2016	2017	2018
Tenant Marketing Assessment	\$1,151,978	\$1,158,873	\$1,145,614
Advertising	(327,185)	(323,144)	(547,449)
Personal Services	(163,013)	(192,934)	(211,253)
Other Contracted Services	(110,621)	(57,697)	(116,904)
Other	(25,118)	(29,195)	(22,179)
Difference	\$526,041	\$555,903	\$247,829

Data source: PeopleSoft Financials

## AUDIT SCOPE AND METHODOLOGY

We conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. 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.

The period audited was January 2016 through December 2018 and included the following procedures:

### Annual Business Plan

- Determined whether Port management had established an annual business plan that included an objective, evaluation methodology, and a budget for the calendar year.
- Assessed the accuracy of information contained in the annual budget.

### Disbursements

- Selected 20 disbursements (5 in 2016; 5 in 2017; 10 in 2018) and performed the following procedures:
  - Determined whether they supported the promotion of concessions and marketing related activities
  - Verified that they were coded correctly
  - Validated that they were approved by an authorized individual
  - Agreed the payments to the invoices
- Evaluated internal controls of the disbursements process.

### Contributions

- Judgmentally selected 12 concessionaires and validated that one half of one percent (0.5%) of gross revenue was billed.
- Selected two kiosks and validated that one quarter of one percent (0.25%) of gross revenue was billed.
- Validated that the marketing fee did not exceed the marketing cap.

## SCHEDULE OF FINDINGS AND RECOMMENDATIONS

### 1) RATING: MEDIUM

The annual business plan outlining the objectives, budget, and evaluation methodology was not created in 2017, as required per the Agreements. Furthermore, budget approvals and documentation of key decisions were not consistently performed. With almost \$1.2 million in annual fund contributions, formal processes should be established to facilitate effective oversight and management of the Program.

1) The Port is required to develop and establish an annual business plan. The plan includes objectives, evaluation methodology, and budget based in part on an analysis of the effectiveness of each year's Program. The plan is designed to promote the concessions at the Airport. However, in 2017, a plan was not developed. Additionally, the 2018 plan understated total commitments by \$47,500.

2) Although a Marketing Advisory Group (Group) had been organized, processes to facilitate agreed upon and transparent decision making had not been established. For example, representatives from retail, food and beverage, and kiosks had not been identified, the Group did not formally approve the budget or the annual business plan, and minutes to evidence approval and other key decisions were not regularly documented.

3) The 2018 Marketing Plan indicated that the contribution limit was increased from \$24,000 to \$30,000 for concession leases signed subsequent to January 2016 despite budget surpluses of \$592,000 and \$1.375 million in 2016 and 2018, respectively.

### Recommendations

To facilitate effective oversight and use of marketing funds, we recommend formally establishing roles, responsibilities, and protocols. These elements could be captured in a Marketing Program Charter as the primary governing document that defines how frequently the Advisory group meets, how ideas are explored and discussed, and who has authority to make key decisions.

### Management Response/Action

Airport Dining and Retail (ADR) Program staff agrees with the findings that the Marketing Advisory Group (Group) did not meet on a regular basis prior to 2018 and did not have an approved budget or a set of agreed governing principles. In June 2018, ADR Staff met with all ADR tenants regarding the Tenant Marketing Fund. The tenants decided that all tenants who pay into the Tenant Marketing Fund should have a voice in the Group. The tenants were then provided with the draft budget and operating standards. This Group met again on September 6, and October 11, 2018. After each meeting, ADR staff emailed the meeting minutes to the members of the Group for their approval. In addition, some decisions were made by the members of the Group via email as agreed upon in the initial meeting in June. In the future, all meetings will follow the process agreed upon by the Group.

## APPENDIX A: RISK RATINGS

Findings identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance or reputational impact the issue identified has on the Port. Items deemed “Low Risk” will be considered “Exit Items” and will not be brought to the final report.

Rating	Financial	Internal Controls	Compliance	Public	Port Commission/ Management
<b>HIGH</b>	Large financial impact  Remiss in responsibilities of being a custodian of public trust	Missing, or inadequate key internal controls	Noncompliance with applicable Federal, State, and Local Laws, or Port Policies	High probability for external audit issues and/or negative public perception	Important  Requires immediate attention
<b>MEDIUM</b>	Moderate financial impact	Partial controls  Not adequate to identify noncompliance or misappropriation timely	Inconsistent compliance with Federal, State, and Local Laws, or Port Policies	Potential for external audit issues and/or negative public perception	Relatively important  May or may not require immediate attention
<b>LOW/ Exit Items</b>	Low financial impact	Internal controls in place but not consistently efficient or effective  Implementing/enhancing controls could prevent future problems	Generally complies with Federal, State and Local Laws or Port Policies, but some minor discrepancies exist	Low probability for external audit issues and/or negative public perception	Lower significance  May not require immediate attention
<b>Efficiency Opportunity</b>	An efficiency opportunity is where controls are functioning as intended; however, a modification would make the process more efficient				