



City of Phoenix

Mission Statement

To improve the quality of life in Phoenix through efficient delivery of outstanding public services.

Project Team

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Project Number

1240074

This report can be made available in alternate format upon request.

**Aviation Department
T4 - Retail Concessions – Stellar Partners**

August 12, 2024

Report Highlights

Concession Payments

Concession payments were accurately reported based on our review of point of sale transactions, monthly reports, and audited financial statements.

Testing for Completeness

All transactions were accounted for in the En Route and Sonora stores. We noted a large gap in transaction numbers for one month for the Connections store that Stellar could not account for. The gaps were identified in their old point of sale system. They have changed systems and we did not identify any issues in the new system.

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Executive Summary

Purpose

We audited the retail concession contract with Stellar Partners at Sky Harbor International Airport, Terminal 4 (T4), to determine that concession rent payments were accurate, complete, and in compliance with contract provisions.

Background

In June 2017, the City of Phoenix Aviation Department (Aviation) entered into Retail Concession Lease Agreement No. 145872 with Avila Retail Development & Management LLC for the non-exclusive right to operate retail concessions at T4 of Sky Harbor International Airport (Sky Harbor). In February 2019, the lease was amended to change the contracting party name from Avila to Stellar Partners. HMSHost acquired Stellar in September 2019. In February 2023, Autogrill (HMSHost parent company) and Dufry (Hudson parent company) merged to become Avolta. For purposes of this audit, we will refer to the name of the leasee as Stellar.

This Stellar contract covers three stores at T4: Connections South 3 Concourse (Connections), Sonora Southwest Living (Sonora), and En Route. They also sublease space to Tumi. We did not audit the sublease arrangement. The contracts require Stellar to pay the greater of a Minimum Annual Guarantee (MAG) or percent rent (ranging from 12% to 16%, depending on type of merchandise sold). Total sales reported during the audit period (January 2022 through December 2023) were \$18.5 million and concession rent paid to Aviation was \$3.2 million.

	Total Sales
Connections	\$15,865,251
En Route	\$442,169
Sonora	\$977,920
Tumi	\$1,249,827
Total	\$18,535,167

Results in Brief

Concession revenue was accurately reported for the periods tested.

We ensured the detailed transaction reports (point of sale system reports, or POS) for the months tested agreed to the Gross Revenue Reports (GRR) submitted to Aviation. The reports for En Route and Sonora agreed with no exceptions. However, we noted

variances with Connections, and subsequently reviewed all 24 months for the Connections store. We noted small variances for 19 of the months. Stellar stated that they participate in a Marketing Allowance Program with the publishers. They receive a monthly incentive for promotions which they then include as revenue to Aviation. After taking this into account, Stellar's detailed reports agreed to the monthly reports submitted to Aviation with immaterial differences.

Stellar submitted annual accounting statements as required. For one month, the audited financial statement amount did not match the amount reported to Aviation on the Gross Revenue Reports. However, this error did not affect the amount owed to Aviation as the difference was accounted for during the annual true-up.

Stellar was required to submit an annual accounting statement by March 31 of each lease year. This statement must be prepared and audited by an independent Certified Public Accountant in accordance with Generally Accepted Auditing Standards.

Revenues reported on the GRRs agreed to Audited Statement of Revenues, except for October 2023. Aviation does not review the detailed transaction reports and compare them to the GRR. Per Stellar, this was the first month of the transition between Stellar and Hudson. One of the coding categories for the Connections store was missed when the monthly report was sent to Aviation. However, as an annual true-up was performed by the independent Certified Public Accountant, the correct amount was used during this process and there is no effect on the amount owed to Aviation.

All transactions were accounted for in the En Route and Sonora stores. However, we noted a large gap in transaction numbers for one month for the Connections store that Stellar could not account for.

We reviewed Stellar's detailed transaction reports for the four months tested to ensure all transactions had consecutively and sequentially numbered transactions, with no gaps. We did this test to confirm that Stellar reported all revenue transactions to Aviation. For En Route and Sonora, we noted very few transactions that Stellar could not account for.

For the Connections store, we noted a few small gaps for three of the months. However, for February 2022, there was a large gap (13,495 gaps) in the self-checkout register transactions. Stellar stated that the tickets for this gap were not available.

1 – Payments

Background

In accordance with Retail Concession Lease Agreement No. 145872, Stellar is required to:

- Monthly:
 - Submit Gross Revenue Reports (GRRs) detailing revenue for each concept.
 - Remit concession rent (1/12th of MAG, plus any additional percent rent due above the monthly MAG).
- Annually:
 - Submit audited statements of Gross Revenue and Percent Rent, prepared and audited by an Independent Certified Public Accountant, in accordance with Generally Accepted Auditing Standards.

We verified the accuracy of the reported gross revenue by agreeing a sample of GRRs to Stellar’s detailed transaction reports (point of sale system, or POS) reports, and audited statements of Gross Revenue and Percent Rent.

We judgmentally selected four months of sales for each store for testing. For each month, we verified:

- Detailed transaction reports (POS) agreed to the GRR submitted to Aviation.
- Detailed transaction reports had sequentially numbered transactions, with no gaps, to ensure all transactions were accounted for.
- GRR for months tested agreed to the audited statements.

Results

Concession revenue was accurately reported for the periods tested.

We ensured the detailed transaction reports (POS reports) for the months tested agreed to the GRRs submitted to Aviation. The reports for En Route and Sonora agreed with no exceptions. We found variances in amounts for Connections, we then reviewed all 24 months for the Connections store. We noted small variances for 19 of the months.

For February 2022, there was a timing issue for sales not captured in February which were then posted in May 2022. The other variances related to a Marketing Allowance Program with the content publishers. Stellar receives a monthly incentive for promotions which they then include as revenue reported to Aviation, although the revenue does not run through the POS. For the two-year period, the total received from this program was \$61,715. We requested documentation of this amount but did not

receive it. After making adjustments for this program, Stellar's detailed reports agreed to the monthly reports submitted to Aviation with immaterial differences.

Stellar submitted annual accounting statements as required. For one month, the audited financial statement amount did not match the amount reported to Aviation on the Gross Revenue Reports. However, this error was corrected and did not affect the amount due to Aviation.

Stellar is required to submit an annual accounting statement by March 31 of each lease year. This statement must be prepared and audited by an independent Certified Public Accountant in accordance with Generally Accepted Auditing Standards.

Reported revenues on the Gross Revenue Reports agreed to Audited statement of Revenues, except for October 2023. For October 2023, audited statement was \$102,546 greater than revenue reported to Aviation on the GRR. This difference was related to the Connections store.

Aviation does not review the detail transaction reports and compare them to the GRR. Per Stellar, this was the first month of the transition between Stellar and Hudson. One of the coding categories for the Connections store was missed when the monthly report was sent to Aviation. However, as an annual true-up was performed by the independent Certified Public Accountant, the correct amount was used during this process and there is no effect on the amount owed to Aviation.

All transactions were accounted for in the En Route and Sonora stores. We noted a large gap in transaction numbers for one month for the Connections store that Stellar could not account for, but that was in the old POS system, and we did not identify similar issues in the new POS system.

We reviewed Stellar's detailed transaction reports for the four months tested to ensure all transactions had consecutively and sequentially numbered transactions, with no gaps. We did this test to confirm that Stellar reported all revenue transactions to Aviation. For En Route and Sonora, we noted very few transactions that Stellar could not account for.

For the Connections store, we noted a few small gaps for three of the months. However, for February 2022, there was a large gap (13,495 gaps) in the self-checkout register transactions. We confirmed that these gaps were not the result of miscoded sales we had previously noted were later added to May 2022 transactions. Stellar stated that the tickets for this gap were not available. Stellar changed their POS system in October 2023 as part of the company merger. The gaps we noted were in the old POS system. We sampled December 2023 as part of our testing, and we did not identify any gaps in the new system.

Recommendations

None

Attachment A – Summary of Concession Rent Testing

Concessionaire / Concept	A POS = GRR	B GRR = Audited Statements	C Consecutive POS Transactions
Connections	21 of 24 months did not match	21 of 24 months did not match	No
En Route	✓*	✓*	✓
Sonora	✓*	✓*	✓

*Immaterial variances of no more than 0.1%.

GRR = Monthly Report submitted to Aviation

POS = Detailed Transaction Reports by Point of Sale system in each store

Scope, Methods, and Standards

Scope

We reviewed contract #145872 Stellar retail concession contracts for the period of January 2022 through December 2023.

The internal control components and underlying principles that are significant to the audit objectives are:

- Control Activities
 - Management should implement control activities through policies.
- Monitoring Activities
 - Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

Methods

We used the following methods to complete this audit:

- We verified that annual audited sales reports were submitted and agreed to the gross revenue reports and Stellar's detailed monthly transaction reports.
- We tested sampled detailed daily sales transactions for gaps and missing tickets.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Data Reliability

We assessed the reliability of Stellar's financial point of sales systems data by (1) comparing detailed transactional reports to Stellar's gross revenue reports, audited financial statements, and payments made by the City as tracked in the City's financial system, SAP. We determined that the data was sufficiently reliable for the purposes of this audit.

Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Any deficiencies in internal controls deemed to be insignificant to the

audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.