

**Performance Audit:
Department of Aviation
Concessions Management Unit**

August 2016

City Auditor's Office

City of Atlanta

File #16.04



CITY OF ATLANTA

City Auditor's Office
Leslie Ward, City Auditor
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Performance Audit:

Department of Aviation Concessions Management Unit

What We Found

The airport has designed effective controls over financial reporting, and the controls seem to be working as intended. Although relying on concessionaires' self-reported revenue carries inherent risk, the airport's internal audits indicate compliance with revenue reporting requirements. The Department of Aviation's Internal Audit unit found underreporting amounting to about 0.2% in 151 audits of concessionaires conducted over 20 months.

Our review of leasehold, product categories, and bill rule information entered into the billing system for a random sample of 63 concession locations found that all information accurately reflected the concessionaire lease agreement terms and would therefore generate accurate bills based on gross receipts.

The concessions management unit had implemented best practices in four of five broad areas we identified in industry literature. These include periodic meetings with concessionaires, marketing the concessions program, conducting physical inspections, and incorporating customer satisfaction into compliance monitoring. The unit did not maintain complete and comprehensive files for each concessionaire.

We observed the unit's quality assurance inspection process. Consistent with best practices, the compliance team made unscheduled visits and used concession observation forms to document periodic inspections that included detailed observation and evaluation of facility appearance, customer service, merchandise and product quality, and food or safety/sanitation. Due to understaffing, however, the unit conducted no inspections between April and August 2015 and performed no open and closed assessments during 2015 to assess whether concessionaires were complying with approved hours of operation.

While the unit conducted physical inspections consistent with best practices, it did not, at the time of our audit, assess compliance with approved products or prices. We noted prices that appeared to exceed the standard of street plus 10% in 12 of 22 items that we reviewed.

Why We Did This Audit

We undertook this audit because terminal concessions are a significant source of airport revenue, and the department relies on concessionaires' self-reported gross receipts to calculate amounts due for rent, which carries inherent risks.

What We Recommended

To improve recordkeeping and ensure files contain accurate, up-to-date, retrievable information, the director of the concessions management unit should:

- Establish policies and procedures for maintaining up-to-date concessionaire files using summary sheets and ticklers to ensure complete and comprehensive files.
- Work with Atlanta Information Management to transition to electronic performance monitoring with reporting and GPS capabilities.

To ensure that the concessions management unit has the resources necessary to monitor concessionaires' compliance with lease agreement terms, the airport general manager should:

- Ensure the compliance team maintains adequate staffing to consistently conduct quality assurance reviews.
- Monitor the performance of the third party group responsible for pricing analysis and market basket studies to ensure that concessionaires comply with pricing policy.

For more information regarding this report, please use the "contact" link on our website at www.atlaudit.org

Management Responses to Audit Recommendations

Summary of Management Responses

Recommendation #1:	We recommend the director of concessions management unit establish policies and procedures for maintaining up to date files for concessionaires using summary sheets and ticklers to ensure complete and comprehensive files.	
Response & Proposed Action:	DOA Concessions created and filled a Concessions Contract Specialist position on December 17, 2015. The duties of this position include tracking lease agreements through the system; maintaining permanent file on each lease agreement; ensuring Performance Bond and Insurance documents on each lease agreement are current; maintaining tickler file on lease expirations and notification due dates; scheduling semi-annual performance meeting with Prime Concessionaires and documenting minutes; updating bond and insurance documents in propworks. The Concessions Compliance Team will continue to perform monthly store inspections, review merchandising plans, and monitor concessions store openings/closings. Results of these actions will be documented and placed in the applicable office file. The Concessions Team will also conduct a complete review of office files to ensure documents and correspondences are placed in the appropriate file.	Agree
Timeframe:	Q2 FY2017	
Recommendation #2:	We recommend the director of concessions management unit work with AIM to transition to electronic performance monitoring with reporting and GPS capabilities.	
Response & Proposed Action:	DOA Concessions is working with AIM and P,D&E to transition from paper performance reports to electronic reports	Agree
Timeframe:	Q2 FY 2017	
Recommendation #3:	We recommend the airport manager ensure the compliance team maintains adequate staffing to consistently conduct quality assurance reviews.	
Response & Proposed Action:	As of this date, 10 positions were filled (with one specialist promoted to manager) and paperwork to fill the two vacant position has been submitted to HR.	Agree
Timeframe:	Q2 FY2017	
Recommendation #4:	We recommend the airport general manager monitor the performance of the third party group responsible for pricing analysis and market basket studies to ensure that concessionaires comply with pricing policy.	
Response & Proposed Action:	A contract with Evaluation System for Personnel, Inc. (ESP) has now been executed and the company will conduct 200-300 Mystery Shops and one to 25 Market Basket evaluations per month.	Agree
Timeframe:	Q1 FY2017	



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AUDIT COMMITTEE

Marion Cameron, CPA, Chair

Cheryl Allen, PhD, CPA

Daniel Ebersole

August 15, 2016

Honorable Mayor and Members of the City Council:

This audit focuses on whether the airport is managing operations to ensure that concessionaires comply with airport lease agreements and that revenue is accurately reported, recorded, and collected. Terminal concessions are a significant source of airport revenue. In fiscal year 2015, about 350 concessionaires reported over \$556 million in gross receipts, generating over \$102 million in airport revenue. Concessionaires pay the city a percentage of their annual gross revenues derived from operations at the airport or a minimum annual guaranteed amount, whichever is greater. We did not review solicitation or award of concession agreements in this audit.

The Audit Committee has reviewed this report and is releasing it in accordance with Article 2, Chapter 6 of the City Charter. We appreciate the courtesy and cooperation of city staff throughout the audit. The team for this project was Micheal Jones and Nia Young.

Leslie Ward
City Auditor

Marion Cameron
Chair, Audit Committee

Department of Aviation Concessions Management Unit

Table of Contents

Introduction	1
Background.....	1
Audit Objectives	4
Scope and Methodology.....	4
Findings and Analysis	7
Airport Controls over Concessionaires’ Self-Reported Revenue Appear to Be Effective.....	7
Information Loaded Into Propworks Ensures Accurate Billing	7
Aviation Internal Audit Found Little Underreporting of Gross Revenue	9
Concessions Management Unit Follows Most Best Practices, but Could Strengthen Recordkeeping and Quality Assessments.....	11
Recommendations.....	19

List of Exhibits

Exhibit 1 Concessions Management Unit Organizational Chart	2
Exhibit 2 Airport Terminal Concessions Revenue FY 2007-2015	3
Exhibit 3 Revenue per Enplanement	4
Exhibit 4 Concessionaire Financial Reporting Flowchart.....	8
Exhibit 5 Example of Billing Rules Loaded into Propworks	9
Exhibit 6 Over- and Underreported Concessionaire Gross Receipts Identified in Internal Audits.....	9
Exhibit 7 Revenue Audits Conducted by Annual Gross Receipts	10
Exhibit 8 Concessions Management Unit Practices Compared With Industry Recommended Practices	11
Exhibit 9 Example of Marketing Brochure from Airport.....	14
Exhibit 10 Pictures of Observations during Concourse Walkthrough	15
Exhibit 11 Menu Pricing Analysis	16
Exhibit 12 Quality Assessment Reviews CY 2015.....	17

Introduction

We undertook this audit because terminal concessions are a significant source of airport revenue, and the department relies on concessionaires' self-reported gross receipts to calculate amounts due for rent, which carries inherent risks. In fiscal year 2015, about 350 concessionaires reported over \$556 million in gross receipts, generating over \$102 million in airport revenue. This audit focuses on whether the airport is managing operations to ensure that concessionaires comply with airport lease agreements and that revenue is accurately reported, recorded, and collected.

Background

The airport currently contracts with 36 prime concessionaires to operate 325 locations, which include concessions for food and beverage, retail, and services. Concession lease agreements outline provisions prime concessionaires and their sub-concessionaires must abide by while leasing and operating space in the airport terminals. The lease agreements specify space assignments, reporting requirements, and operational requirements such as allowable products, pricing, staffing, and hours of operation.

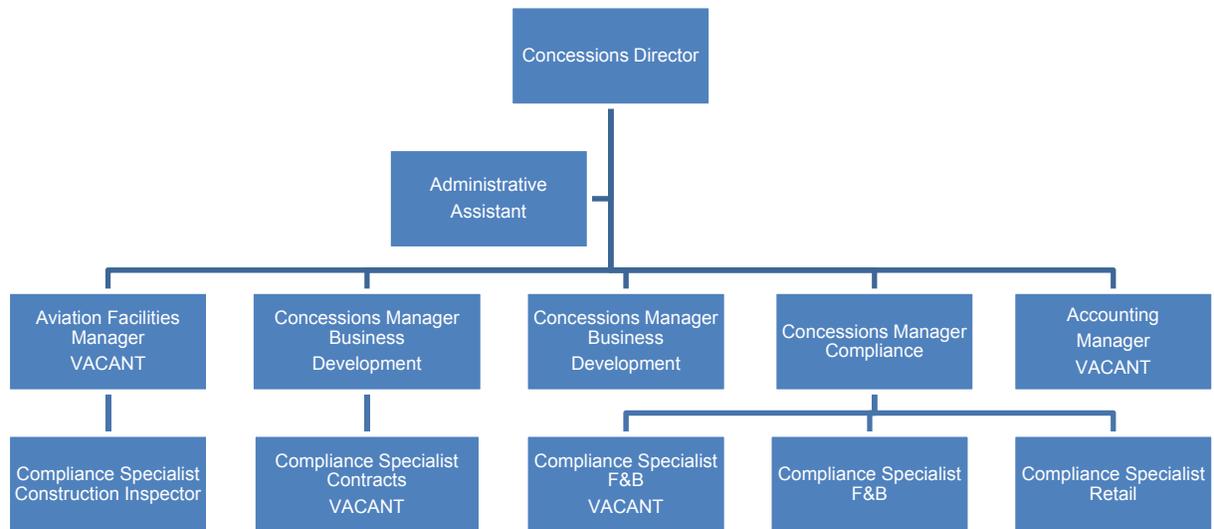
Generally, provisions in the concessionaire agreements outline what products and services to sell, what prices to charge, and which hours to operate. Minimum hours of operation are established for concessionaires based on the first and last flights on the concourses. Concessionaires must request approval for all proposed changes to products, services, or prices.

The lease agreements require concessionaires to pay the city a percentage of their annual gross revenues derived from operations at the airport or a minimum annual guaranteed amount, whichever is greater. A concessionaire's initial financial offer establishes the baseline for the minimum annual guarantee. The minimum annual guarantee is then adjusted in each subsequent year during the terms of the lease agreement to equal the higher of the previous year's guarantee or 85% of the total rent owed during the previous year. Lease agreements also require concessionaires to pay monthly marketing fees of 0.5% of gross revenue.

The concessionaire pays one-twelfth of the minimum annual guarantee on the first day of the month and by the tenth day of the month must report actual gross receipts received during the previous month, along with the calculation of percentage rent and a payment of the additional rent owed, if any.

Under the direction of the Department of Aviation’s general manager, the concessions management unit ensures compliance with concessionaires’ lease agreements. The unit comprises four sections: facilities, business development, compliance, and accounting. Exhibit 1 shows a breakdown of the unit’s 12 authorized positions from fiscal year 2016: a director, five managers, five specialists and an administrative assistant. Four positions were vacant for most of the year, according to the concessions director.

Exhibit 1 Concessions Management Unit Organizational Chart



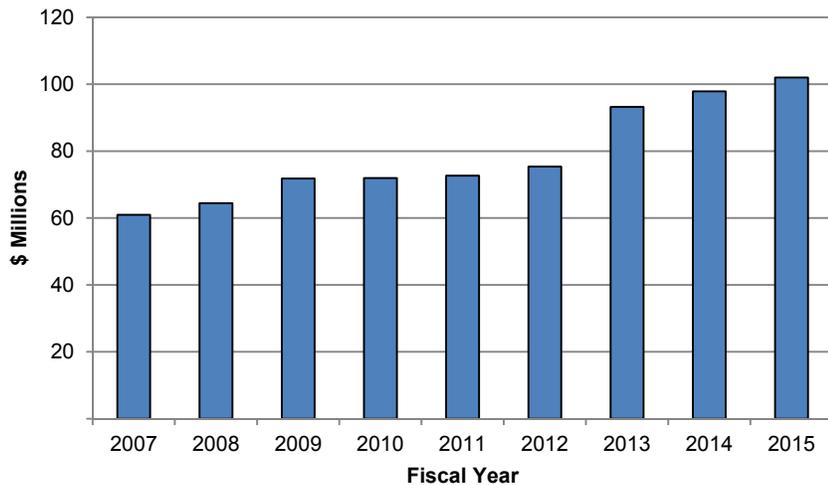
Source: Organizational Chart provided by unit (December 2015)

The lease agreements require concessionaires to comply with concessions compliance standards established by the aviation general manager. The Concessions Compliance Manual, last updated in 2010, outlines expected customer service standards for all concessions employees, facility and maintenance standards for concessions locations, as well as operations and security standards. According to the manual, the unit conducts periodic observations to evaluate the level of customer service and makes recommendations to correct concerns. Inspections include detailed observations of facility appearance, customer service, product quality, and food

safety. The manual describes an evaluation rubric to assign scores in order to ensure all concessions locations meet or exceed customer service standards.

The airport earned over \$102 million from accrued rent revenue in fiscal year 2015. Exhibit 2 shows terminal concessions revenue since fiscal year 2007. The city opened the Maynard Jackson International Terminal in May 2012.

Exhibit 2 Airport Terminal Concessions Revenue FY 2007-2015



Source: Department of Aviation Comprehensive Annual Financial Report FY 2014 and Concessions Monthly Business Report FY 2015

Hartsfield-Jackson Atlanta International Airport generated approximately \$9.00-\$10.00 revenue per enplanement in fiscal years 2014 and 2015 and in the first quarter of 2016 (see Exhibit 3). Most of the revenue was generated from food and beverage sales. Revenue per enplanement is an airport industry performance measure that indicates how much on average a departing passenger spends in the terminal before boarding a flight. The average revenue per enplanement for the top 25 large international airports was \$12.00-\$13.00 during calendar years 2013 through 2015, according to Airport Revenue News. Consistent with the Airport Revenue News measure, our calculation of revenue per enplanement excludes revenue derived from services and currency exchange.

Exhibit 3 Revenue per Enplanement

	FY2014	FY2015	Q1 2016
Food and Beverage	\$5.74	\$6.22	\$6.32
Specialty retail	\$2.15	\$2.04	\$2.00
News/Gifts	\$0.83	\$0.85	\$0.84
Duty/Free	\$0.69	\$0.71	\$0.62
Total	\$9.41	\$9.82	\$9.78

Source: Concessions Monthly Business Reports provided by the unit

The department uses Propworks to manage its leases, generate invoices, and record revenue. Propworks captures financial and nonfinancial data for each contractual agreement.

Audit Objectives

This report addresses the following objectives:

- Has the Department of Aviation implemented controls to ensure that terminal concession revenue is accurately recorded, reported, and collected consistent with lease agreements?
- Are concessions management unit practices to ensure that concessionaires comply with lease agreement terms consistent with industry-recommended practices?

Scope and Methodology

We conducted this audit in accordance with generally accepted government auditing standards. Our analysis of operating data and revenues mostly focuses on calendar year 2015, the most recent full year for which data were available. We did not review the process for soliciting proposals and awarding concessionaire contracts.

Our audit methods included:

- Interviewing management and line personnel to understand standard operating procedures and departmental practices
- Observing conditions and procedures at concession locations on the terminal airport concourses
- Reviewing department standard operating procedures

- Selecting a sample of concessionaires based on dollar amount proportionate to size to determine if required data fields were accurate in Propworks
- Comparing menu item prices at three food and beverage locations to determine if concessionaires are complying with the street plus 10% provision of their lease agreements
- Researching industry best practices for airport concessions and comparing airport current practices

Generally accepted government auditing 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.

Findings and Analysis

Airport Controls over Concessionaires' Self-Reported Revenue Appear to Be Effective

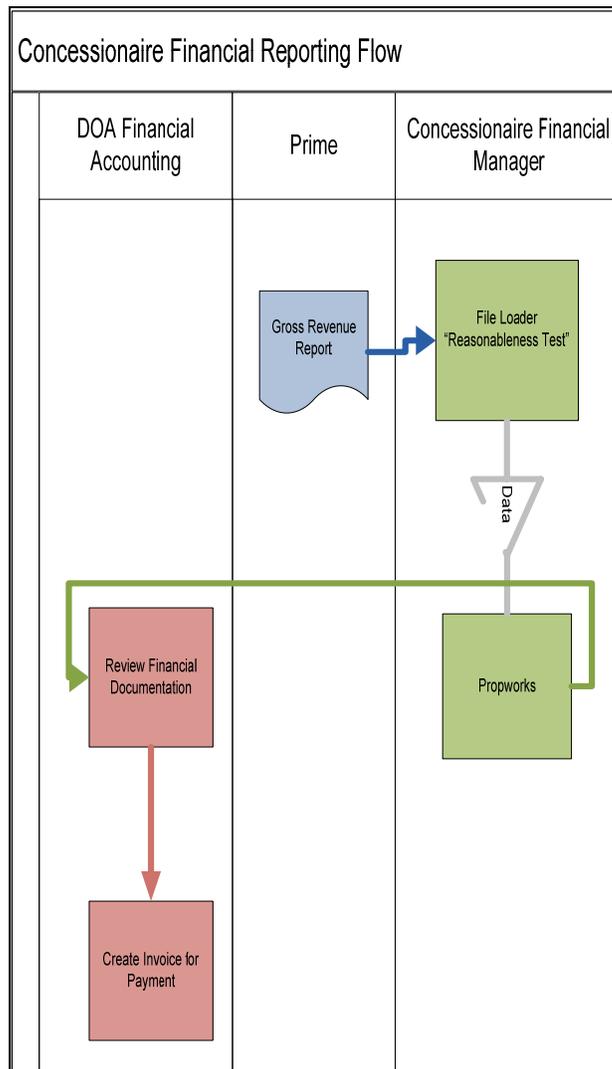
The airport has designed effective controls over financial reporting and the controls seem to be working as intended. Although relying on concessionaires' self-reported revenue carries inherent risk, the airport's internal audits indicate compliance with revenue reporting requirements. The Department of Aviation's Internal Audit Unit conducted concessionaire revenue audits between September 2013 and April 2015 that covered the equivalent of 23% of the total gross receipts reported and found underreporting amounting to about 0.2%. Further, our review of leasehold, product categories, and bill rule information entered into Propworks for a random sample of 63 concession locations found that all information accurately reflected the concessionaire lease agreement terms and would therefore generate accurate bills based on gross receipts.

Information Loaded Into Propworks Ensures Accurate Billing

Concessionaires send monthly reports of gross revenue to the concessions management unit. The unit's accounting manager reviews the report for reasonableness and, if no problems are identified, uploads the electronic file into Propworks. The accounting manager contacts the prime concessionaire and requests either correction or additional supporting documentation in cases where the manager identifies a potential problem. The Department of Aviation's Business and Finance Accounting Unit reviews the data and generates an invoice in Propworks using pre-loaded billing terms including billing rules, product categories, and unit charges. Exhibit 4 illustrates the process flow and Exhibit 5 shows an example of the billing rules.

We reviewed Propworks entries for a random sample of 63 concessionaire locations selected proportionate to the amount of annual revenue generated. Our sample covered 5% of concession locations in the terminals that accounted for \$96.5 million in gross receipts in 2015 and included 25 of 36 prime concessionaires.

Exhibit 4 Concessionaire Financial Reporting Flowchart



Source: Developed by audit staff based on walkthroughs of financial reporting procedures and staff interviews (March 2016)

Our review showed information entered into Propworks to ensure accurate billing matched the concessionaire lease agreements for all 63 sampled locations. Product categories and rent percentages matched provisions outlined in each contract. We noted some missing or out-of-date information in fields unrelated to billing rules.

Exhibit 5 Example of Billing Rules Loaded into Propworks

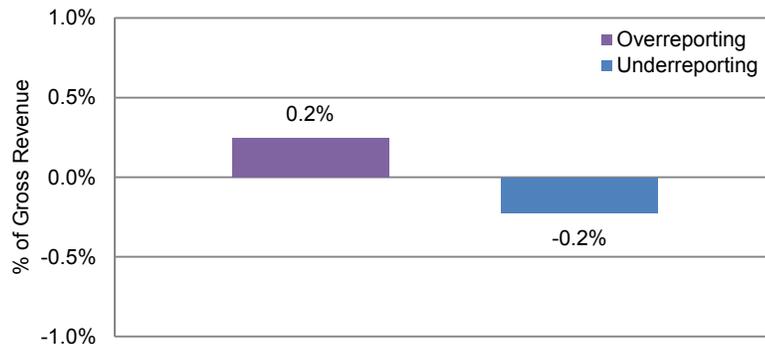
Rule Category	Rule Type	Product Cate...	Product Type	Effective ...	Expirati...	Unit Charge	UOM	Number U...
CONPCTMON	RETAIL	RETL	E BOOKS	09/06/2008	08/31/2020	0.15000		
CONPCTMON	RETAIL	RETL	E NEWS	09/06/2008	08/31/2020	0.15000		
CONPCTMON	RETAIL	RETL	ELECTRONIC	09/01/2008	08/31/2020	0.07000		
CONPCTMON	RETAIL	RETL	ENTERTAIN	09/06/2008	08/31/2020	0.18000		
CONPCTMON	RETAIL	RETL	GIFT	09/06/2008	08/31/2020	0.14000		
CONPCTMON	RETAIL	RETL	NEWS	09/01/2008	08/31/2020	0.20000		
CONPCTMON	RETAIL	RETL	REG GIFT	09/01/2008	08/31/2020	0.17000		
CONPCTMON	RETAIL	RETL	TRAVEL	09/01/2008	08/31/2020	0.14000		
CONPCTMON	RETAIL	RETL	WOMEN\MEN	09/01/2008	08/31/2020	0.18000		
MARKETING	MRKTG	MRKT	ADD'L REV	09/01/2008	08/31/2020	0.00500		
MARKETING	MRKTG	MRKT	MRKTG FEE	09/06/2008	08/31/2020	0.00500		

Source: Screenshot from Propworks system February 2016

Aviation Internal Audit Found Little Underreporting of Gross Revenue

Although the department’s internal audit unit identified 52 cases of underreported gross revenue, the underreporting amounted to about 0.2% of the total amount gross receipts subjected to audit (see Exhibit 6). Auditors recommended payment of the adjusted amounts due and followed up on resolution. Internal audit reviewed \$205 million in gross receipts in audits of 151 concessionaires conducted over 20 months, equivalent to 23% of gross receipts generated over the period. The audits also identified over-reported gross receipts amounting to 0.2% of the total. About 30% of the audits identified no deficiencies related to revenue reporting.

Exhibit 6 Over- and Underreported Concessionaire Gross Receipts Identified in Internal Audits



Source: Concessionaire revenue audits completed between September 2013 and April 2015

The largest single instance of underreported gross receipts was \$160,814, representing 35% of the total underreported in the 151 audits. In the case of underpayment in excess of 2% of the total annual amount, the lease agreement requires the concessionaire to repay the city with monthly interest and to reimburse the city for audit costs.

The largest single instance of over-reported gross receipts was \$258,945, representing 51% of the total over reported in the 151 audits. The over-reporting occurred because the concessionaire recorded revenue using a fiscal monthly reporting method known as 4-4-5 reporting instead of the airport standard monthly reporting. The Department of Aviation corrects overpayments by issuing rent credits.

Aviation’s internal audit unit plans to continue to perform concessionaire revenue audits. The department solicited proposals for concession audit services on September 2, 2015. The contract for this solicitation was awarded on January 28, 2016. The scope of service includes:

- validating six months of gross receipts
- determining the accuracy of concession fees
- evaluating the adequacy of gross receipts reporting controls
- evaluating concessionaires’ compliance related to reporting gross receipts, fee calculations, and remitting concession fees to DOA as per the concessions lease agreements

About two-thirds of the revenue audits we reviewed were conducted by contract auditors. Audit coverage focused on locations with higher gross revenues (see Exhibit 7).

Exhibit 7 Revenue Audits Conducted by Annual Gross Receipts

Gross Revenues	Total Locations	Audited Locations	Percent Audited
>\$10 million	5	4	80%
\$2 million to \$10 million	82	63	77%
\$1 million to \$2 million	85	55	65%
\$200,001 to \$1 million	116	27	23%
Up to \$200,000	37	2	5%

Source: Concessionaire revenue audits completed between September 2013 and April 2015

Concessions Management Unit Follows Most Best Practices, but Could Strengthen Recordkeeping and Quality Assessments

The concessions management unit has implemented best practices in four of five broad areas we identified in industry literature. These include periodic meetings with concessionaires; marketing the concessions program; conducting physical inspections and incorporating customer satisfaction into compliance monitoring. The unit did not maintain complete and comprehensive files for each concessionaire (see Exhibit 8).

While the unit conducts physical inspections consistent with best practices, it does not currently assess compliance with approved products or prices. We noted prices that appeared to exceed the street plus 10% standard in 12 of 22 items that we reviewed. Also, in 100 internal audits of concessionaires that reviewed products and pricing, auditors found 51 instances of unapproved products offered, products offered that exceeded the approved price, or no approved price list was available. While the unit's policies and procedures state that it will conduct quality assessment reviews, the unit conducted no reviews between April and August 2015 due to understaffing; 15 of 325 retail and food and beverage concession locations were not assessed at all in 2015. Nor was the unit conducting opening and closing inspections to ensure compliance with hours of operation and other requirements.

We recommend the unit ensure the compliance team maintains adequate staffing to consistently conduct quality assurance reviews.

Exhibit 8 Concessions Management Unit Practices Compared With Industry Recommended Practices

Concessionaire Management Recommended Practices	Yes	No
Maintain complete and comprehensive files for each concessionaire		X
Periodic meetings between the airport concession manager and the concession operators (Interaction with Concessions)	X	
Marketing the concessions program	X	
Physical Inspections	X	
Customer Satisfaction	X	

Source: Airport Cooperative Research Program, Resource Manual for Airport In-Terminal Concessions, 2011, and auditor's analysis.

Unit should maintain complete and comprehensive files for each concessionaire. The Airport Cooperative Research Program recommends staff maintain complete and comprehensive files for each concessionaire for ease of reference. Some prime concessionaires have individual correspondence relating to more than one concession agreement, in which case the Airport Cooperative Research Program recommends maintaining copies in each separate concession file. Best practices also recommend establishing responsibility for managing the files. Currently files related to a concessionaire's financial reporting are in one office, while files related to the same concessionaire's operational compliance are in another office. The unit also stores some completed compliance checklists electronically on a local drive, but 9% were duplicates or unidentifiable based on incomplete or unclear fields. Proper file maintenance avoids correcting erroneous information or rebuilding files that are not up to date. The Airport Cooperative Research Program notes that restoring compromised files requires more effort than maintaining them in good order in the first place.

According to research, tickler files of important dates and concession agreement summaries of most frequently referenced information are important parts of a comprehensive file and critical to the unit's function. Some members of the unit rely on personal email calendars for important date reminders, while others rely on familiarity and personal recall of dates and details. The tickler function for dates is available in the Propworks systems.

The unit currently uses a manual paper process to document its quality assurance reviews. Compliance staff fills out paper forms, which are printed and stored in binders with other documents. Staff began discussion with AIM (Atlanta Information Management) in November 2015 to discuss transitioning to electronic reporting. According to AIM, the electronic process will have a dashboard with real time components to track assigned locations as well as report capabilities. The compliance manager will also be able to populate location assignments and export data to customize business reports for management. AIM identified time as a constraint to completing the project due to limited staff and project prioritization.

Unit conducts periodic meetings between the airport concession manager and the concession operators. The Airport Cooperative Research Program recommends periodic meetings between the concession manager and concession operators to discuss performance and upcoming events. These interactions serve as open

communication to discuss matters that may affect concession operations, to pose and answer questions, and to address other topics of interest. We observed one of the unit's monthly concessionaire meetings. Unit representatives presented information and answered questions. Consistent with recommended practices, the unit distributed an agenda with discussion topics and the next meeting date. We observed concessionaires providing feedback and asking questions not only about concessionaire related issues, but also about the airport in general. Also consistent with best practices, the unit holds a similar but separate meeting for the primes.

The unit director reported to concessionaires that the state of concessionaires was "very good;" based on increased revenue per enplanement. The director also asked concessionaires to review their leases, specifically related to the process for approving prices and products, and noted that adding items or changing prices requires prior approval. The director stated that lack of prior approval would result in immediate removal of unapproved products and further action if necessary.

Hartsfield-Jackson recognized in industry publication for concessions marketing. Best practice encourages a marketing program and suggests a marketing fund from fees paid by concessionaires. The lease agreements provide for a marketing fee of 0.5% of gross receipts separate from rent payments to assist with the airport's marketing program. In 2013, an Airports Council International - North America benchmarking survey showed the top five items airports spent marketing funds on included in-terminal advertising (monitors), marketing materials preparation/printing/distribution, customer service training, shopper service (mystery shoppers), and social media. An industry publication recognized Hartsfield-Jackson's marketing as a good example of concessionaire marketing (see Exhibit 9). The brochure presents an overview of concessions by category and presents location maps by concourse. At the time of publication, the brochure was available for viewing on the airport website and could be viewed by persons online while in the airport or downloaded as a portable document file.

Exhibit 9 Example of Marketing Brochure from Airport

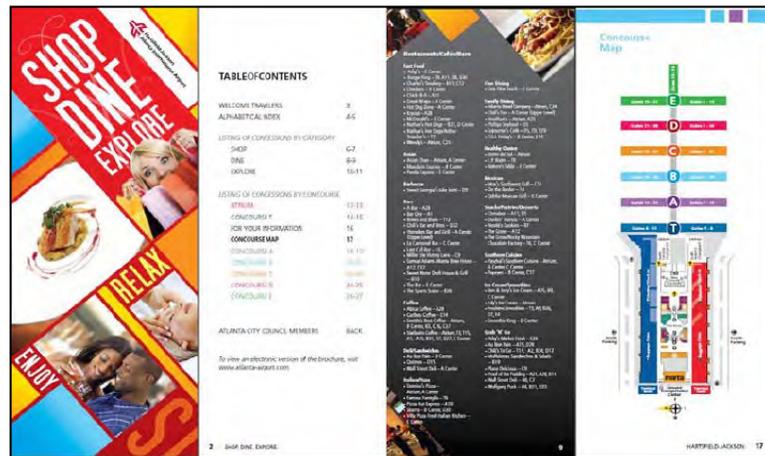


Figure 13-2. Example of a concession brochure (Hartsfield-Jackson Atlanta International Airport).

Source: Airport Cooperative Research Program, Resource Manual for Airport In-Terminal Concessions, 2011, p. 204.

Inspection process is mostly consistent with recommended practices. Best practices recommend periodic, thorough inspections of facilities. Inspections may occur with little or no advance notice or may be prearranged as long as the concession manager sees the operation “as is.” We observed the unit’s quality assurance inspection process. Consistent with best practices, the compliance team made unscheduled visits and used concession observation forms to document periodic inspections that include detailed observation and evaluation of facility appearance, customer service, merchandise and product quality, and food or safety/sanitation.

Compliance staff conducted inspections with the concessionaire manager or designated employee, who was able to explain operations, answer questions, and provide access to all operational areas. We observed that compliance staff was knowledgeable about the inspection process. Inspectors noted noncompliance with facility appearance in three locations, including gaps in the ceiling and burned out light bulbs. All of the facilities complied with other requirements. Concessionaire staff labeled food properly, stored cold and hot foods at the appropriate temperatures, and followed TSA-required provisions. Knives, for example, were tethered to the tables (see Exhibit 10). Products were well-stocked and presented consistently with concessionaire standards. We also observed compliance staff reviewing inspection results with the concessionaire manager and providing feedback and direction.

Exhibit 10 Pictures of Observations during Concourse Walkthrough



Source: Concourse walkthrough, February 2016

The inspection does not check that concessionaires are selling at approved prices or approved products. As of March 2016, the unit did not assess compliance with product and pricing requirements. Concessionaires submit products and prices for approval with the initial agreement. Concessions management staff then relies on other concessionaires to monitor their competition's prices or their own personal recall of prices to know whether prices have changed. Of the 100 concessionaire revenue audits that reviewed products and pricing, audit reports identified 20 unapproved product items and 17 unapproved prices. The concessions management unit had no approved price lists available for 14 of the locations in order to make a determination.

All concessionaires must comply with the airport pricing policy outlined in their lease agreements. The airport uses two pricing standards: street plus 10% and same store pricing. For any operation where the concessionaire operates the same or a similar store in the metropolitan Atlanta area, the aviation general manager has the right to use prices at those stores as the primary basis for airport prices—this is same store pricing. Under street plus 10%, the aviation general manager may conduct a pricing survey of at least three and up to six metropolitan Atlanta area same store or similar store locations. The concessionaire's price on any specific item or service may not exceed the average price of those locations plus an additional 10%.

We compared prices we observed during our walkthrough of the terminal concourse to the same or similar stores in Atlanta. Twelve of the 22 items we checked had prices more than 10% higher than the local price, with the difference ranging from a 14% increase to a 67% increase at the airport (see Exhibit 11). The concessions

management unit was unable to provide the approved prices for these locations. The unit has solicited proposals for a third party vendor to manage and operate a market basket pricing service to monitor pricing compliance at the airport.

Exhibit 11 Menu Pricing Analysis

Restaurant	Item	Local Price	Airport Price	% Increase
Restaurant 1	Dynamite Shrimp	\$10.95	\$11.25	3.0%
Restaurant 1	Chilean Sea Bass	\$26.95	\$27.75	3.0%
Restaurant 3	Steak Entrees (L)	\$9.69	\$9.99	3.0%
Restaurant 1	Crab Wontons	\$7.50	\$7.95	6.0%
Restaurant 1	Egg Drop Soup (Bowl)	\$7.50	\$7.95	6.0%
Restaurant 1	Wonton Soup (Bowl)	\$7.50	\$7.95	6.0%
Restaurant 1	Pork Dumpling (6)	\$7.95	\$8.50	7.0%
Restaurant 1	Shrimp Dumpling	\$9.50	\$10.15	7.0%
Restaurant 1	Veg Spring Rolls (4)	\$7.95	\$8.50	7.0%
Restaurant 1	Shrimp/Melon	\$17.50	\$18.95	8.0%
Restaurant 1	Kung Pao-Shrimp	\$17.50	\$18.95	8.0%
Restaurant 2	Combo #2	\$9.44	\$10.79	14.3%
Restaurant 2	Combo #1	\$8.36	\$9.59	14.7%
Restaurant 3	Chicken Entrée (L)	\$8.69	\$9.99	15.0%
Restaurant 2	Combo #5 (#6 at ATL)	\$9.57	\$11.09	15.9%
Restaurant 2	Combo #6 (#4 at ATL)	\$6.76	\$7.99	18.2%
Restaurant 2	Combo #7 (#5 at ATL)	\$7.54	\$9.09	20.6%
Restaurant 3	Asian Chopped Chicken Salad	\$7.49	\$9.29	24.0%
Restaurant 3	2 Veg Spring Roll	\$3.79	\$5.69	50.0%
Restaurant 3	Pork Egg Rolls	\$3.79	\$5.69	50.0%
Restaurant 3	Spicy Tuna Roll (8)	\$6.99	\$10.99	57.0%
Restaurant 3	Edamame (L)	\$2.99	\$4.99	67.0%

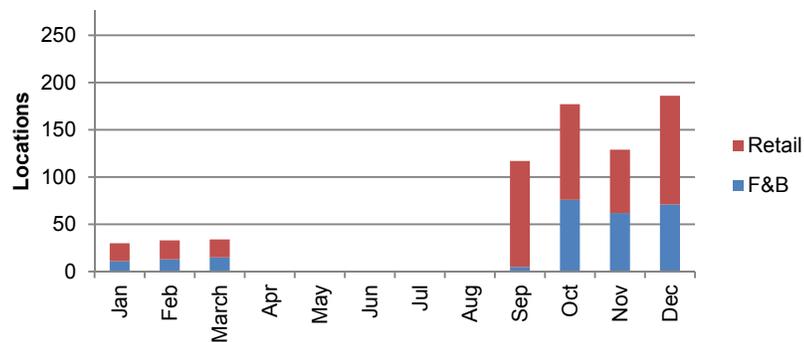
Source: Menus observed during walkthrough February 2016 and comparison menus available online

Unit should monitor performance consistently. Although Airport Cooperative Research makes no recommendation regarding inspection frequency, compliance staff conducted no inspections for five months in 2015 (April through August); 5% of locations were not inspected at all during the year and 23% of locations were inspected only once (see Exhibit 12). Staff stated they did not perform inspections due to understaffing. The compliance team has positions for four staff: one for retail locations, two for food and beverage locations, and a manager. At one point, staff was down to one compliance member. Recent hiring in the unit allowed for the

increase in inspections from September to December. The compliance team’s new goal for food and beverage locations is to conduct an inspection for each location at least every other month.

According to the unit, inadequate staffing was also the reason the unit did not perform open and closed assessments during 2015. Best practices recommend the unit should visit concessions at opening and closing times on a regular basis to determine whether concessionaires are complying with approved hours of operation.

Exhibit 12 Quality Assessment Reviews CY 2015



Source: Compilation of quality assessment review scores, CY 2015

Unit and airport procedures emphasize customer satisfaction. A 2013 Airports Council International - North America concessions benchmarking survey identified a variety of customer satisfaction/monitoring programs for concessionaires in use at airports. The most common included frequent meetings with concessionaires, website feedback, and customer comment cards. The airport’s compliance manual calls for guest relations to forward all complaints relating to concessions to the concessions compliance office, which is to respond to the customer and forward the customer complaint to the respective concessionaire within three business days of receipt. The concessionaire must respond to all customer complaints within three business days and forward a copy of all correspondence to the concessions compliance office. Guest relations also receives customer comment cards and provides customer service training for all concessionaire employees.

Recommendations

To improve recordkeeping and ensure files contain accurate, up-to-date, retrievable information, the director of the concessions management unit should:

1. Establish policies and procedures for maintaining up-to-date files for concessionaires using summary sheets and ticklers to ensure complete and comprehensive files
2. Work with AIM to transition to electronic performance monitoring with reporting and GPS capabilities

To ensure that the Concessions Management Unit has the resources necessary to monitor concessionaires' compliance with lease agreement terms, the airport general manager should:

3. Ensure the compliance team maintains adequate staffing to consistently conduct quality assurance reviews
4. Monitor the performance of the third party group responsible for that pricing analysis and market basket studies to ensure that concessionaires comply with pricing policy.

Appendix: Management Review and Response to Audit Recommendations

Report # 16.04	Report Title: Airport Concession Oversight	Date: Jun 2016
Recommendation Responses		
Rec. # 1	We recommend the director of concessions management unit establish policies and procedures for maintaining up to date files for concessionaires using summary sheets and ticklers to ensure complete and comprehensive files.	Agree
<p><u>Proposed Action:</u> DOA Concessions created and filled a Concessions Contract Specialist position on December 17, 2015. The duties of this position include tracking lease agreements through the system; maintaining permanent file on each lease agreement; ensuring Performance Bond and Insurance documents on each lease agreement are current; maintaining tickler file on lease expirations and notification due dates; scheduling semi-annual performance meeting with Prime Concessionaires and documenting minutes; updating bond and insurance documents in propworks. The Concessions Compliance Team will continue to perform monthly store inspections, review merchandising plans, and monitor concessions store openings/closings. Results of these actions will be documented and placed in the applicable office file. The Concessions Team will also conduct a complete review of office files to ensure documents and correspondences are placed in the appropriate file.</p> <p><u>Implementation Timeframe:</u> Q2 FY2017</p> <p><u>Comments:</u> The assigned Contract Specialist has reviewed all concessionaires' files and is taking the necessary action to update the files. A suspense system has been developed to monitor those documents that have expiration dates.</p> <p><u>Responsible Person:</u> Director of Concessions</p>		
Rec. # 2	We recommend the director of concessions management unit work with AIM to transition to electronic performance monitoring with reporting and GPS capabilities	Agree
<p><u>Proposed Action:</u> DOA Concessions is working with AIM and PD&E to transition from paper performance reports to electronic reports.</p> <p><u>Implementation Timeframe:</u> Q2 FY 2017</p> <p><u>Comments:</u> PD&E has outsourced the creation of a electronic reporting system. They have loaned DOA Concessions one tablet to use while the system is being developed and validated. Once the system is online, it should reduce the time it currently takes to document the inspection of a concession location by eliminating redundancy. DOA Concessions will purchase four new tablets to use in this project.</p> <p><u>Responsible Person:</u> Director of Concessions</p>		

Rec. # 3	We recommend the airport manager ensure the compliance team maintains adequate staffing to consistently conduct quality assurance reviews	Agree
<p><u>Proposed Action:</u> As of this date, 10 positions were filled (with one specialist promoted to manager) and paperwork to fill the two vacant position have been submitted to HR.</p> <p><u>Implementation Timeframe:</u> Q2 FY2017</p> <p><u>Comments:</u> At the time of the audit, DOA Concessions had eight of the 12 authorized positions filled. Of the eight assigned personnel, four had been assigned to the unit less than 6 months. Each assigned person will continue to update their job knowledge by participating in educational opportunities; reading professional publications; maintaining professional networks; and participating in professional organizations.</p> <p><u>Responsible Person:</u> Director of Concessions</p>		
Rec. # 4	We recommend the airport general manager monitor the performance of the third party group responsible for the pricing analysis and market basket studies to ensure that concessionaires comply with pricing policy.	Agree
<p><u>Proposed Action:</u> A contract with Evaluation System for Personnel, Inc. (ESP) has now been executed and the company will conduct 200-300 Mystery Shops and one to 25 Market Basket evaluations per month.</p> <p><u>Implementation Timeframe:</u> Q1 FY2017</p> <p><u>Comments:</u> From 2008 to 2016, DOA Concessions did not have an agreement with a third party group to monitor pricing and market basket studies. During these eight years, all work related to pricing and market basket was done in house with limited assigned personnel.</p> <p><u>Responsible Person:</u> Director of Concessions</p>		