

# Metropolitan Nashville Airport Authority

## MEMORANDUM

**TO: Raul Regalado, President and CEO**

**CC: Monty Burgess, Executive Vice President and COO**  
**Stan Van Ostran, Vice President and CFO**  
**John Howard, Assistant Vice President of Properties and Business Development**  
**Tom Bibb, Director of Properties**  
**Rebecca Ramsey, Assistant Director of Properties**  
**Jami McLeod, Controller**

**FROM: Basil A. Dosunmu, Internal Auditor**

**DATE: April 6, 2011**

**SUBJ: Joint Marketing Fund Audit Report**

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### Background

In 2006, the Metropolitan Nashville Airport Authority (“Authority”) revised the Airport’s Concession Program and entered into Master Lease and Concession Agreement (“Agreement”) with the following entities:

- Host International, Inc. (“HMSHost”);
- Airport Management Services, LLC (“Hudson Group”);
- Delaware North Companies Travel Hospitality Services, Inc. (“DNC”);
- G Distributors, Inc. (“Graycliff”); and
- Edge 1 Cellular, L.P. (“I-Tech Xperience”).

The Agreements included the requirement for the establishment of a Joint Marketing Fund which would be used for the accumulation of funds contributed by the Concessionaires at the Airport to the Authority to be spent for the marketing and promotion of the overall Concession Program at the terminal or on any items or service that may enhance the overall passenger experience at the terminal related to concessions, as determined by the Authority.

Article IV, Concessionaire’s Obligations, Section 4.7 or 4.8 of the Master Lease and Concession Agreement, Marketing and Promotions, states that commencing on the Commencement Date,

Concessionaires shall contribute to the Joint Marketing Fund, on a monthly basis, an amount not to exceed three quarters of one percent (0.75%) of all Gross Receipts derived from Concession Operations within the Premises. The types of expenses that Authority may pay out of the Joint Marketing Fund shall include, without limitation, the following:

- a. Direct costs associated with marketing and promotional activities (including, without limitation, costs incurred for the purchase of marketing program creative materials, costs for special events and/or paid media);
- b. Costs associated with marketing program development and the day-to-day coordination of the marketing program;
- c. Costs for development and provision of shopping bags to promote Concession Operations;
- d. Secret shopping and other inspection programs with respect to Concession Operations;
- e. Directory signage within the Terminal relating to the Concession Locations at the Airport;
- f. The preparation of a full-color catalog featuring the Concession Operations, the Concession Locations and the products and services offered by Concession Operators, which may include coupons; and
- g. Other programs, such as brochures, common shopping bags, graphics, media promotions, pamphlets and public events, to promote sales through the Concession Program.

Authority shall maintain the Joint Marketing Fund in a separate account to be established for this purpose, and the Joint Marketing Fund shall not be commingled with any other funds of Authority. If actual Gross Receipts are not known at the time a Joint Marketing Fund contribution is due, Concessionaire shall make a contribution based upon an estimate of the monthly Gross Receipts, and the Joint Marketing Fund contributions due from Concessionaire shall be adjusted within thirty (30) days after the end of each six (6) month period so that Concessionaire's Joint Marketing Fund contributions are based on its actual Gross Receipts for such six (6) month period. Not later than one hundred (120) days following the end of each Lease Year, Authority shall report the total contributions to and the expenditures from the Joint Marketing Fund for such Lease Year to Concessionaire.

The following is a breakdown of the contributions into the Joint Marketing Fund by each Concessionaire through December 31, 2010.

<u>Concessionaire</u>	<u>Contribution Amount</u>
HMSHost	\$221,145
Hudson Group	249,958
DNC	137,792
Graycliff	884
	<u>\$609,779</u>

It should be noted that the Joint Marketing Fund is maintained in a separate bank and general ledger account and not commingled with other Authority funds.

Furthermore, the following is a breakdown of the expenses paid out of the Joint Marketing Fund from inception through December 31, 2010.

<u>Vendor</u>	<u>Expense Amount</u>
Nashville 360 TV Com	\$1,025
Insight Direct USA Inc	504
Donelson Hermitage Chamber of Commerce	2,000
Spirit Magazine	48,000
Devi Sanford Photography	750
Flash Mob	856
	<u>\$53,135</u>

The amount expended was to promote the overall Authority Concession Program and also to highlight specific Concessionaires.

In addition, for FY2011, the Authority has identified specific priorities for expenditures in the amount of approximately One Hundred Thirty Nine Thousand Five Hundred and 00/100 Dollars (\$139,500.00) to promote the Concession Program using different means including, but not limited to brochures, destination icon for connector, coupon program, commercial video, etc.

### Objectives

The objectives of the audit were as follows:

1. Determine each Concessionaire's contributions into the Joint Marketing Fund from inception of the fund.
2. Determine the Joint Marketing Fund is kept in a separate account.
3. Determine the usage of the Joint Marketing Fund and goals for future use.
4. Document and evaluate existing internal controls.

### Testing

In order to satisfy the audit objectives, the following tests were performed:

1. Determined the Concessionaires that were required to contribute to the Joint Marketing Fund.
2. Verified that some Concessionaires were contributing to the Joint Marketing Fund as required.
3. Obtained from Authority Accounts Receivable the monthly Joint Marketing Fund invoices and verified that the Joint Marketing Fund amount agreed to 0.75% of monthly gross receipts.
4. Compiled the amount contributed by each Concessionaire to the Joint Marketing Fund from the inception of the program.
5. Randomly selected 3 months invoices for detailed testing and performed the following:

- a. Reviewed each invoice for mathematical accuracy.
  - b. Determined that the invoices were prepared in accordance with the terms of the Agreement.
  - c. Tied amount per invoice to the amount reported and remitted to the Authority.
6. Verified the Authority was maintaining the Joint Marketing Fund in a separate account and not commingled with any Authority funds.
  7. Determined the usage of the Joint Marketing Fund by fiscal year.
  8. Determined the amount spent on the Airport Concession Program.
    - a. Determined the amount spent were not proportionate to the amount contributed by each Concessionaire.
  9. Determined the amount spent was in compliance with expenses that the Authority is permitted to pay out of the Joint Marketing Fund.
  10. Determined plans for future use of the Joint Marketing Fund.
  11. Through inquiry and observation, reviewed the existing internal controls in place.

## **Conclusion**

Based upon the audit, the following was determined with respect to the stated objectives:

1. The Authority approved DNC to suspend contributions to the Joint Marketing Fund for FY 2011 as noted in finding #1.
2. I-Tech Xperience has not made any contribution to the Joint Marketing Fund as noted in finding #2.
3. The Authority refunded a portion of Graycliff's Joint Marketing Fund contribution as noted in finding #3.

## **Finding #1**

### Observation

The Authority approved DNC to suspend contributions to the Joint Marketing Fund for FY 2011.

### Background

An objective of this audit was to verify that each Concessionaire is contributing to the Joint Marketing Fund as required.

Article IV, Concessionaire's Obligations, Section 4.8 of the Master Lease and Concession Agreement, Marketing and Promotions, states that commencing on the Commencement Date, January 31, 2009, Concessionaire shall contribute to the Joint Marketing Fund, on a monthly basis,

an amount not to exceed three quarters of one percent (0.75%) of all Gross Receipts derived from Concession Operations within the Premises.

Through audit testing it was determined that as of July 15, 2010, the Authority approved DNC to suspend contribution to the Joint Marketing Fund. The following is an analysis of the unpaid Joint Marketing Fund by DNC as of December 31, 2010:

<u>Period</u>	<u>Gross Revenues</u>
July 2010	\$837,590
August	756,241
September	774,514
October	839,050
November	749,366
December	766,100
Total Gross Revenue	<u>\$4,722,860</u>
Contractual Percentage Rate	<u>0.75%</u>
Calculated Percentage Payment Due	<u>\$35,421</u>
Marketing Fees paid by DNC	<u>-</u>
(Under)/Over payment	<u><u>(\$35,421)</u></u>

The Authority approved DNC’s request for relief from contribution to the Joint Marketing Fund in consideration of the additional capital expenditure needed to re-concept the Manchu Wok and Villa Pizza locations at the A/B rotunda into Popeye’s Chicken.

The Authority’s decision to approve suspension of DNC’s requirement to contribute to the Joint Marketing Fund is not consistent with the requirement of the Concessionaire’s Agreement.

Recommendation

The Authority’s Properties Department (“Properties”) should notify DNC to pay the Authority the outstanding Joint Marketing Fund contribution in the amount of \$35,421.

Properties should ensure that all Concessionaire required to contribute to the Joint Marketing Fund are complying with the requirement.

Management Response

*With respect to the aforementioned approval to suspend DNC’s contribution to the Joint Marketing Fund in deference to their investment in re-concepting Manchu Wok and Villa Pizza, Properties will not be requesting DNC refund the*

*suspended contribution amount. Both parties agreed during project negotiations that the contributions would be suspended for the entire FY 2011 period. A memorandum addressing this understanding is on file. Formal documentation of this understanding in the form of a Letter of Notification is pending till execution of a sublease between DNC and Transfare confirming the re-concepting of the location. This same benefit will also be extended to the other concessionaires that make contributions to the Joint Marketing Fund.*

## **Finding #2**

### Observation

I-Tech Xperience has not made any contribution to the Joint Marketing Fund.

### Background

An objective of this audit was to verify that each Concessionaire is contributing to the Joint Marketing Fund as required.

Article IV, Concessionaire's Obligations, Section 4.7 of the Master Lease and Concession Agreement, Marketing and Promotions, states that commencing on the Commencement Date, February 5, 2010, Concessionaire shall contribute to the Joint Marketing Fund, on a monthly basis, an amount not to exceed three quarters of one percent (0.75%) of all Gross Receipts derived from Concession Operations within the Premises.

It was determined through audit testing that I-Tech Xperience has not contributed to the Joint Marketing Fund since I-Tech Xperience's commencement date of February 5, 2010. The following is an analysis of the outstanding Joint Marketing Fund due from I-Tech Xperience as of December 31, 2010:

<u>Period</u>	<u>Gross Revenues</u>
February 2010	\$44,065
March	66,359
April	70,736
May	74,356
June	73,344
July	75,581
August	68,584
September	66,002
October	64,024
November	59,478
December	57,976
Total Gross Revenue	<u>\$720,505</u>
Contractual Percentage Rate	<u>0.75%</u>
Calculated Percentage Payment Due	<u>\$5,404</u>
Marketing Fees paid by I-Tech Xperience	-
(Under)/Over payment	<u><u>(\$5,404)</u></u>

### Recommendation

Properties should notify I-Tech Xperience of the need to pay to the Authority the outstanding Joint Marketing Fund in the amount of \$5,404. Going forward, the Authority's Finance Department ("Finance") should invoice I-Tech Xperience on a monthly basis the Joint Marketing Fund due.

### Management Response

*Properties has notified I-Tech of this amount due and has further notified Finance to include this in the monthly invoicing for I-Tech.*

### **Finding #3**

#### Observation

The Authority refunded a portion of Graycliff's Joint Marketing Fund contribution.

#### Background

An objective of this audit was to verify that each Concessionaire is contributing to the Joint Marketing Fund as required.

As earlier stated, Graycliff is required to contribute to the Joint Marketing Fund. Graycliff started contributing to the Joint Marketing Fund after Graycliff's commencement date of January 31, 2009, as required. The following is the breakdown of the amounts contributed by Graycliff into the Joint Marketing Fund:

<u>Period</u>	<u>Contribution</u> <u>Amount</u>
FY2009	\$591
FY2010	3,098
FY2011	1,800
	<u>\$5,489</u>

Through Audit testing, it was determined that Graycliff's Joint Marketing contribution in the amount of Four Thousand Six Hundred Five and 51/100 Dollars (\$4,605.51), representing contributions from its inception, January 31, 2009, through September 30, 2010, were reimbursed.

As confirmed by Properties, the Concession Committee agreed to reimburse a portion of Graycliff's \$33,316.67 expenditure in producing a video by Visual Revenue New York to communicate the location of the smoking lounges to the Airport customers. The directional video created is aired in the hold rooms Airport Channel directing customers to the smoking lounges in the terminal.

The Concession Committee's guidelines for managing Joint Marketing Fund reimbursement are not properly defined.

Recommendation

The Authority should clarify the guidelines for managing Joint Marketing Fund disbursements before implementation and the guideline should be applied consistently to all Concessionaires required to contribute to the Joint Marketing Fund.

Management Response

*The Authority is developing a Process that will define guidelines for disbursements of Joint Marketing Finds in accordance with the provisions identified in the Concession Agreements which will be applied consistently to all Concessionaires that contribute to the Joint Marketing Fund which is scheduled to be completed by June 30, 2011.*