



# **Wyndham Hotel Revenue Audit Report**

Issued by the  
Internal Audit Office  
August 31, 2009

**City of El Paso  
Internal Audit Office  
Wyndham Hotel Revenue Audit**

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***EXECUTIVE SUMMARY***

The Internal Audit Office has concluded its audit of the *Restated and Amended Lease Agreement* between the City of El Paso and Spokane Equities in effect as of September 29, 1987. Spokane Equities is the parent company of the Wyndham Hotel operating on Airport property. Based on the results of the audit, three (3) findings were identified.

Listed below is a summary of the three (3) findings identified in this report:

1. Spokane Equities over reported revenues and overpaid the Airport by \$18,486.54 during contract year ending December 31, 2008.
2. Spokane Equities did not provide Certified Financial Statements to the Airport as required by the Hotel Lease Agreement for contract year ending December 31, 2008.
3. Spokane Equities does not perform a year-end true-up of reported revenues as required by the Hotel Lease Agreement to determine that revenues reported to the Airport are accurate as of the end of the contract year.

For a detailed explanation of each of the findings please refer to the appropriate finding contained in the body of this Audit Report.

**City of El Paso  
Internal Audit Office  
Wyndham Hotel Revenue Audit**

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***BACKGROUND***

El Paso International Airport Management has instituted a process to review contract compliance of businesses operating as concessionaires or providing management services within Airport owned property. The Airport Director has requested an audit of the *Restated and Amended Lease Agreement* in effect as of September 29, 1987 between the City of El Paso and Spokane Equities (who operates the Wyndham Hotel).

The Wyndham Hotel is one of several full service hotels within the Airport property that provides lodging accommodations, restaurant and lounge services, and meeting rooms, including a swimming pool with a waterslide.

The current lease agreement between the City of El Paso and Spokane Equities has been in effect since September 29, 1987 continuing through June 30, 2034 with a 30-year extension option. Initially, the lease agreement under review was for the operation of a Hilton hotel which had been in operation at the Airport since October 1, 1958. On January 1, 2007, Spokane Equities changed franchise affiliation to the Wyndham Worldwide group. As of that date, the hotel operated under the lease agreement as the Wyndham El Paso Airport Hotel and Water Park.

***AUDIT OBJECTIVES***

The objectives of this audit are to determine if the Wyndham Hotel is adhering to the lease agreement terms and conditions as agreed to on the *Restated and Amended Lease Agreement* dated September 29, 1987.

***AUDIT SCOPE***

This is a limited scope audit and the time period covered is all transactions from January 1, 2008 through the present. The Wyndham's fiscal year is based on a calendar year from January 1<sup>st</sup> through December 31<sup>st</sup>.

During the completion of this audit, we encountered two limitations on access to records. During the month of January 2008, the Wyndham Hotel suffered a computer infrastructure failure which caused the loss of electronic revenue data for this month. Wyndham staff reconstructed the data to their best of their abilities and there is a possibility that revenues were not properly recorded. In addition, due to security issues expressed by Wyndham Hotel management in providing electronic data which may have contained customer names and credit card information, we could not recalculate monthly and year-end figures reported to the Airport from the electronic revenue data. We conducted alternate audit procedures which allowed us to complete our audit objectives.

**City of El Paso  
Internal Audit Office  
Wyndham Hotel Revenue Audit**

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***AUDIT METHODOLOGY***

To achieve our audit objectives we conducted interviews with El Paso International Airport (EPIA) administration; conducted interviews with Wyndham Hotel staff; conducted an analysis of the management agreement; researched Texas State law and city ordinances relating to local hotel occupancy tax exemptions; obtained copies of profit and loss statements; recalculated reported revenues; performed tests of selected transactions; reviewed monthly revenue reports; and performed review of local hotel occupancy tax exemption documentation.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

***FINDINGS***

The findings, which follow, relate to compliance and adherence to the terms and conditions of the management agreement in effect as of September 29, 1987.

**Finding 1**

Spokane Equities over reported revenues and overpaid the Airport by \$18,486.54 during FY2008. The net overpayment of \$18,486.54 represents approximately 4.61% of the \$400,967.14 in payments made to the Airport in FY2008.

<b>Revenue Category</b>	<b>Amount Over/(Under) Reported</b>
Banquet Room Rental	\$11,651.00
Room Sales	\$6,627.90
Banquet Equipment Rental	\$245.43
Guest Laundry	\$58.61
Misc. Variances (net)	\$8.56
Phone Revenue	\$6.00
Beverage Sales	(\$83.01)
Food Sales	(\$27.95)
<b>TOTAL</b>	<b>\$18,486.54</b>

Spokane Equities (Wyndham Hotel's parent company) relies on a manual reporting system to capture revenues and expenses. The manual process of recording revenues can lead to input errors which occurred with the overpayment of banquet room rentals in the month of February 2008. Also, timing differences involving the reporting of monthly revenues to the Airport and the receipt of invoices from vendors has led to reporting differences.

**City of El Paso  
Internal Audit Office  
Wyndham Hotel Revenue Audit**

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**Recommendation**

We recommend that Airport Management and appropriate Spokane Equities personnel determine the process for the reimbursement of the \$18,486.54 over payment.

**Management's Response**

The Airport is reviewing the information provided by Internal Audit and will coordinate the refund of the amount's overpaid with the Management of the Wyndham.

**Responsible Party**

Cecilia Bertolli, Administrative Services Manager

**Implementation Date**

10/09/2009

**City of El Paso  
Internal Audit Office  
Wyndham Hotel Revenue Audit**

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**Finding 2**

Spokane Equities did not provide a year-end Financial Statement certified by a Certified Public Accountant to the Airport within 30 days of the fiscal year ending December 31, 2008 as required by the Hotel Lease Agreement.

The *Restated and Amended Lease Agreement* dated September 29, 1987, section 3.01.05 outlines the deliverables by the lessee (i.e. Spokane Equities). It states that within 30-days of the close of each lease year the lessee will provide the Airport with a certified year-end financial statement by a Certified Public Accountant showing all gross revenues and deductions allowed according to the contract.

Spokane Equities provided a preliminary draft of audited Financial Statements after a request was made by the Internal Audit Office.

**Recommendation**

We recommend that Airport Management ensure that Spokane Equities provide a year-end Financial Statement to the Airport certified by a Certified Public Accountant within 30-days of the end of each fiscal year as required by the Hotel Lease Agreement.

**Management's Response**

Management recognizes that it is difficult to produce certified financial statements within a month's time frame after the close of the tenant's fiscal year. We will review what documents other concession contracts are submitting and address through a letter to Wyndham and other concession contract as needed.

**Responsible Party**

Monica Vera, Airport Program Coordinator

**Implementation Date**

10/09/2009

**City of El Paso  
Internal Audit Office  
Wyndham Hotel Revenue Audit**

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**Finding 3**

Spokane Equities does not perform a year-end true-up of reported revenues as required by the Hotel Lease Agreement. A year-end true-up of reported revenues for contract year ending December 31, 2008 would have uncovered a net overpayment of \$18,486.54.

Section 3.01.05 of the *Restated and Amended Lease Agreement* dated September 29, 1987 outlines the deliverables by the lessee (i.e. Spokane Equities). It states that within 30-days of the close of each lease year the lessee will provide the Airport with a certified year-end Financial Statement showing all gross revenues and deductions allowed according to the contract. At this same time, Spokane Equities should present the Airport with a check for payment for any year-end amounts due over the monthly payments, if applicable.

**Recommendation**

We recommend that Airport Management ensure Spokane Equities performs a year-end true-up of reported revenues as required by the Hotel Lease Agreement.

**Management's Response**

The Airport will use the Properties database to track due dates on any reporting requirement and send notifications to our concessionaires.

**Responsible Party**

Monica Vera

**Implementation Date**

10/09/2009

**City of El Paso  
Internal Audit Office  
Wyndham Hotel Revenue Audit**

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***INHERENT LIMITATIONS***

Because of the inherent limitations of lessee procedures and controls, subjective interpretation of the contract, errors or irregularities may occur and not be detected. Also, projections of compliance with terms and conditions to future periods are subject to the risk that lessee procedures may become non-compliant due to changes in conditions or that the degree of compliance with the Hotel Lease Agreement may deteriorate.

***CONCLUSION***

Based on the results of this audit, we can provide reasonable assurance that Spokane Equities is adequately adhering to the terms and conditions of the *Restated and Amended Lease Agreement* between the City of El Paso and Spokane Equities in effect as of September 29, 1987.

We wish to thank the Wyndham Hotel management and staff for their assistance and numerous courtesies extended during the completion of this audit.

Signature on File  
Edmundo S. Calderón, CIA, CGAP  
Chief Internal Auditor

Signature on File  
Miguel Montiel, CIA, CGAP  
Auditor

**Distribution:**

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