



# **Radisson Hotel Revenue Audit Report**

Issued by the  
Internal Audit Office  
December 22, 2011

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

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***EXECUTIVE SUMMARY***

The Internal Audit Office has concluded its audit of the “*Main Lease*” Agreement between the City of El Paso and Richard N. Azar in effect as of May 1, 1982 and the *Sublease Agreement* between Azar-Coleman Properties (Sublessor) and EP Hotel Partners L.P. (d/b/a Radisson Hotel) dated July 1, 1990. Based on the results of the audit, three (3) findings were identified.

Listed below is a summary of the findings identified in this report:

1. Radisson Hotel did not submit a Certified Gross Revenues Statement to the Airport as required by the “*Main Lease*” Agreement dated May 1, 1982 for Fiscal Year ending December 31, 2010.
2. Radisson Hotel did not perform a Year-End True-Up of reported revenues as required by the “*Main Lease*” Agreement dated May 1, 1982 to determine that revenues reported to the Airport are accurate as of the end of the Fiscal Year.
3. Radisson Hotel under reported revenues and underpaid the Airport by \$16,717.65 during Fiscal Year ending December 31, 2010.

For a detailed explanation of the findings please refer to the body of this Audit Report.

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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 requested an audit of the “*Main Lease*” Agreement between the City of El Paso and Richard N. Azar in effect as of May 1, 1982. In addition, the hotel property is subject to a *Sublease Agreement* between Azar-Coleman Properties (Sublessor) and EP Hotel Partners L.P. (d/b/a Radisson Hotel) dated July 1, 1990.

***AUDIT OBJECTIVES***

The objectives of this audit were to determine if the Radisson Hotel is adhering to the Lease and Operating Agreement terms and conditions as established in the “*Main Lease*” Agreement dated May 1, 1982, between the City of El Paso and Richard N. Azar, the subsequent amendments and the *Sublease Agreement* dated July 1, 1990, between Azar – Coleman Properties and EP Hotel Partners, L.P. (d/b/a Radisson Hotel).

***AUDIT SCOPE***

This is a limited scope audit and the time period covered is all transactions occurring during Fiscal Year 2010. The Radisson Hotel fiscal year is based on a calendar year from January 1<sup>st</sup> through December 31<sup>st</sup>.

***AUDIT METHODOLOGY***

To achieve our audit objectives we:

- Conducted interviews with El Paso International Airport (EPIA) administration;
- Conducted interviews with Radisson Hotel staff;
- Conducted an analysis of the lease agreement and the sublease;
- Reviewed monthly revenue reports;
- Obtained a copy of the *Certified Gross Revenue Statement* for the year ending December 31, 2010;
- Recalculated reported revenues;
- Performed tests of selected transactions; and,
- Reviewed other deliverables required to be submitted to the Airport by the lease agreement.

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.

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

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***FINDINGS***

The findings, which follow, relate to compliance and adherence to the terms and conditions of the “*Main Lease*” Agreement between the City of El Paso and Richard N. Azar in effect as of May 1, 1982. In addition, the hotel property is subject to a *Sublease Agreement* between Azar-Coleman Properties (Sublessor) and EP Hotel Partners L.P. (d/b/a Radisson Hotel) dated July 1, 1990.

**Finding 1**

**Certified Gross Revenues Statement**

Article V, Section C, Pages 12-15, of the “*Main Lease*” Agreement dated May 1, 1982 states that the lessee shall furnish annually to the Airport, within 90 days following the close of each fiscal year, a written statement by an independent Certified Public Accountant certifying all gross revenues and deductions in accordance to the terms of the lease agreement.

1. Radisson Hotel did not submit a Certified Gross Revenues Statement to the Airport when due for FY2010 as required per the “*Main Lease*” Agreement dated May 1, 1982.

The Airport received the Certified Gross Revenues Statement 188 calendar days past due. The Certified Gross Revenues Statement was due to the Airport by April 1, 2011. At the request of the Internal Audit Office, the Airport received a copy of the Certified Gross Revenues Statement on October 6, 2011. The Internal Audit Office received a copy of the Certified Gross Revenues Statement on October 7, 2011.

2. In addition, two different Certified Gross Revenues Statements were submitted by the Radisson Hotel to the Airport and subsequently to the Internal Audit Office.

The Radisson Hotel provided the Airport two different Certified Gross Revenue Statements dated on the same day, but certified by two separate Certified Public Accountants. The content of the first Statement dated July 11, 2011 as submitted to the Internal Audit Office did not certify gross revenues per the lease terms. The Internal Audit Office then received a second Statement from the Airport also dated July 11, 2011. The content of the second revenue report did satisfy the gross revenue certification requirements of the lease agreement.

**Recommendation**

Airport Management and the Radisson Hotel should ensure that the Airport receives the Certified Gross Revenues Statement 90 days from the close of each Fiscal Year as required by the “*Main Lease*” Agreement dated May 1, 1982.

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**Management's Response**

In May 2010, the Airport Properties Division developed and began implementing a process to ensure that end of lease year financial reports are received as required by each hotel lease or concession agreement. Utilizing the trace date function in the Properties Database, Administrators enter a trace date 90 days before reports are due to prompt them to send a letter reminding the lessee of the due date of the report. If the report is not received by the due date, the Administrator will send a second letter advising of the report now being overdue and provides ten days for the lessee to provide the report. Typically, reports are received within the ten days so neither a second notice nor a demand for the report is required.

In the case of the Radisson report for the lease year ending December 31, 2010, the report was due on April 1, 2011. The following procedure illustrates the steps taken to secure the report. The assigned Administrator mailed a reminder letter on January 6, 2011. The report was not received as required and administrator followed up with overdue notice on April 18, 2011, which was received by lessee on April 20, 2011. Airport received their 2010 Financial Statement on May 27, 2011. After carefully reviewing the submission, the report was deemed to not meet the requirements of the lease and the lessee was notified via mail on June 2, 2011. The letter provided the lessee with 30 days to resubmit the report. On June 30, 2011, lessee's CPA faxed a more detailed profit and loss statement. Administrator advised tenant on July 7, 2011, that statement did not meet requirements. On July 11, 2011, Airport received the same a report with a letter from the CPA. After Properties and Accounting staff carefully reviewed and discussed the report received, the lessee was notified via mail on September 19, 2011, that the report did not meet the requirements and asked to resubmit. The administrator provided a more detailed request on what level of detail was needed in this communication. On October 6, 2011, a more detailed report that was certified was provided; however, after trying to use this report to complete the reconciliation, the administrator found that not enough detail existed to complete the work. On October 12, 2011, the administrator prepared a letter to advise lessee that the report submitted was still not detailed enough to meet the requirements of the lease and allow the completion of a reconciliation of revenue. In this letter, the administrator provided an example of a detailed report that met lease criteria as well as a copy of the section of the lease defining gross revenues as well as a very detailed explanation of the shortcomings of the third report submitted. On November 22, 2011, a fourth report in the format requested was submitted. Upon review and the administrator's attempt to reconcile the account using this report, it was discovered that the miscellaneous revenue reported was not netted. In other words, the lessee had not followed the instructions or definitions in the lease as to what constitutes miscellaneous revenue. On December 16, 2011, the administrator requested and received from the lessee's comptroller additional expenditure data to be able to complete the report. After faithfully trying to complete the reconciliation with the report provided and the financial statement and profit and loss statement provided, the administrator determined that a reconciliation could not be completed with he submitted report. Upon consultation with the Director of Aviation, it was decided to cease the attempts to reconcile the account and wait Internal Audit results and ensuing recommendations.

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**Responsible Party**

Properties Administrator (Administrative Analyst), Deputy Director of Aviation Administration (supervision), Director of Aviation (oversight)

**Implementation Date**

Currently implemented

**Finding 2**

**Year-End True Up Process**

Article V, Section C, Pages 12-15, of the “*Main Lease*” Agreement dated May 1, 1982 states that the lessee (i.e. Radisson Hotel) shall furnish annually to the Airport, within 90 days following the close of each fiscal year, a written statement by an independent Certified Public Accountant certifying all gross revenues and deductions in accordance to the terms of the lease agreement.

At the same time, the Radisson Hotel should present the Airport with a check for payment for any year-end amounts due over the monthly payments, if applicable. Therefore the contract requires a Year-End True-Up of reported revenues.

The Radisson Hotel did not perform a Year-End True-Up of reported revenues for fiscal year 2010 as required by the “*Main Lease*” Agreement dated May 1, 1982.

**Recommendation**

We recommend that Airport Management and the Radisson Hotel perform a Year-End True-Up of reported revenues as required by the “*Main Lease*” Agreement dated May 1, 1982.

**Management’s Response**

Please refer to response to Finding #1.

**Responsible Party**

Properties Administrator (Administrative Analyst), Deputy Director of Aviation Administration (supervision), Director of Aviation (oversight)

**Implementation Date**

Currently implemented

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**Finding 3**

**Under Reported Revenues**

Article V, Section C, Pages 12-15, of the “*Main Lease*” Agreement dated May 1, 1982 states that the lessee (i.e. Radisson Hotel) pay the Airport a percentage of gross revenues arising from four major revenue categories. The major revenue categories and percentages due are: 1) room rentals - 5%; 2) food sales – 2%; 3) alcoholic beverage sales – 4%; and 4) miscellaneous sales and services – 6%.

The Radisson Hotel under reported revenues and underpaid the Airport by \$16,717.65 during FY2010. The Radisson Hotel underpaid percentage rental fees by \$14,763.62 plus an additional \$1,954.03 is due in interest charges.

Revenue Category	Amount (Over)/Under Paid	Interest Due To/(From) Airport	Totals Due To/(From) Airport
Room Rentals*	\$4,674.75	\$647.07	\$5,321.82
Food Sales**	\$7,176.84	\$934.96	\$8,111.80
Beverage Sales	(\$16.92)	(\$1.81)	(\$18.73)
Miscellaneous Sales***	\$2,928.95	\$373.81	\$3,302.76
<b>TOTALS</b>	<b>\$14,763.62</b>	<b>\$1,954.03</b>	<b>\$16,717.65</b>

The cutoff date used for calculating interest fees was October 6, 2011 as this was the date that the Airport received the Certified Gross Revenues Statement from the Radisson Hotel for the Fiscal Year Ended December 31, 2010.

\* Room Rentals, includes revenue categories *Banquet Room Rental* and *Smoking Fees*.

\*\* Food Sales, includes revenue categories *Banquet Food and Beverage*, *Banquet Service Charge*, *Restaurant Service Charge*, *Restaurant Adjustment* and *In Room Bottled Water Sales*.

\*\*\* Miscellaneous Sales, includes revenue categories *Phone (Net)*, *Guest Laundry (Net)*, *Misc. Banquet Set Up Fee*, *Misc. Banquet Amenities*, *Misc. Banquet Audio Visual*, *Fax and Copy Services*, *Vending* and *Miscellaneous*.

**Recommendation**

Airport Management and the Radisson Hotel should ensure the proper payment and interest charges due are paid to the City of El Paso’s International Airport.

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**Management's Response**

In addition to the steps taken as outlined in Response to Finding #1, administrator will work with the lessee to begin submitting a more detailed monthly report of revenues as required by the lease. This is geared to help the lessee report revenues as well as exemptions claimed as defined in the lease. If revenues and exemptions are tracked and reports in a more detailed manner on a monthly basis, in turn, this would help in reporting revenues at the end of the year.

**Responsible Party**

Properties Administrator (Administrative Analyst), Deputy Director of Aviation Administration (supervision), Director of Aviation (oversight)

**Implementation Date**

February 28, 2012 – this is the due date for the January 2012 revenues report due from the lessee.

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***INHERENT LIMITATIONS***

Because of the inherent limitations of Radisson Hotel’s procedures and controls, subjective interpretation of the lease agreement, 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 the hotel’s procedures may become non-compliant due to changes in conditions or that the degree of compliance with the “*Main Lease*” Agreement between the City of El Paso and Richard N. Azar in effect as of May 1, 1982 and the *Sublease Agreement* between Azar-Coleman Properties (Sublessor) and EP Hotel Partners L.P. (d/b/a Radisson Hotel) dated July 1, 1990, may deteriorate.

***CONCLUSION***

We have concluded work on the audit objectives of the Radisson Hotel Revenue Audit. In accordance with Generally Accepted Government Auditing Standards we are required to conclude on whether the Radisson Hotel Revenue Audit met the objectives of this audit.

We have determined that the Radisson Hotel is partially adhering to the Terms and Conditions of “*Main Lease*” Agreement between the City of El Paso and Richard N. Azar dated May 1, 1982 and the “*Sublease Agreement*” between Azar-Coleman Properties (Sublessor) and EP Hotel Partners L.P. (d/b/a Radisson Hotel) dated July 1, 1990.

This Audit Report identifies 3 areas of non-compliance by the Radisson Hotel. They are as follows:

1. Failure to provide a written statement by a Certified Public Accountant certifying all gross revenues and deductions for Fiscal Year 2010 within 90 days following the close of Fiscal Year 2010.
2. Not completing a Year-End True-Up of reported revenues for Fiscal Year 2010 as required by the “*Main Lease*” Agreement dated May 1, 1982.
3. Under paying the correct percentage of Gross Revenue to the Airport in the amount of \$16,717.65 for Fiscal Year 2010, which consists of \$14,763.62 in percentage rental fees and \$1,954.03 in interest.

Airport Management should work with the Radisson Hotel to address the contract requirements described in this Audit Report and ensure deliverables are provided when due. Adherence to the Lease Terms and Conditions is critical to a mutually successful business relationship.

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

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*Signature on File*  
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*Signature on File*  
Daryl Olson  
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