

**OFFICE OF THE CITY CONTROLLER**



**HOUSTON AIRPORT SYSTEM  
MARRIOTT/HOST INTERNATIONAL HOTEL  
CONTRACT COMPLIANCE AUDIT**

**Annise D. Parker, City Controller**

**Steve Schoonover, City Auditor**



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

ANNISE D. PARKER

October 29, 2008

The Honorable Bill White, Mayor  
City of Houston, Texas

SUBJECT: Houston Airport System - Marriott/Host International Hotel  
Contract Compliance Audit (Report No. 2009-18)

Dear Mayor White:

The City Controller's Office Audit Division has completed a contract compliance audit of the Houston Airport System's (HAS) concessionaire, Marriott/Host International Hotel (Marriott). The audit's objectives were to determine (1) whether revenues were reported and remitted to the City properly, accurately and timely according to contract terms, and (2) compliance with selected provisions of the contract between the City and Marriott.

The report, attached for your review, concludes that revenues are reported and remitted properly, accurately, timely, and Marriott is in compliance with the contract terms except for the findings presented in the body of the report. Draft copies of the matters contained in the report were provided to HAS management. The views of responsible officials as to actions being taken are appended to the report as Exhibit I.

We appreciate the cooperation extended to our auditors by the HAS and Marriott personnel during the course of the audit.

Respectfully submitted,

Annise D. Parker  
City Controller

xc: City Council Members  
Anthony Hall, Chief Administrative Officer  
Michael Moore, Chief of Staff, Mayor's Office  
Richard Vacar, Director, Houston Airport System  
Michelle Mitchell, Director, Finance Department  
Alfred Moran, Jr., Director, Administration and Regulatory Affairs Department

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## PURPOSE AND SCOPE

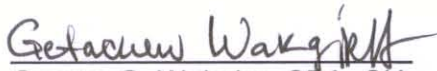
The Audit Division of the City (the City) of Houston Controller's Office has completed a contract compliance audit of the Houston Airport System's (HAS) concessionaire, Marriott/Host International Hotel (Marriott). Our objectives were to: (1) determine whether revenues were reported and remitted to the City properly, accurately, and timely according to contract terms, and (2) determine compliance with selected provisions of the contract between the City and Marriott.

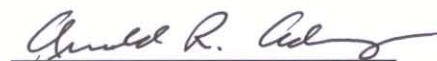
The audit covered activities from January 1, 2005 through June 30, 2007. The scope of our work did not constitute an evaluation of the overall internal control structure of the HAS. Instead, our examination was designed to determine compliance with selected provisions of the contract terms.

Management is responsible for establishing and maintaining a system of internal controls to ensure compliance with the terms of the contract as an integral part of their overall internal control structure. The objectives of a system are to provide management with reasonable, but not absolute, assurance that revenues are reported and remitted properly, accurately, timely, and in compliance with the contract terms.

## CONCLUSION

Based on the results of our audit, we conclude that revenues are reported and remitted properly, accurately, timely, and Marriott is in compliance with the contract terms except for the findings presented in the body of the report.

  
George G. Wakgira, CPA, CIA  
Auditor-in-charge

  
Arnold Adams, CFE, CIA  
Audit Manager

  
Steve Schoonover, CFE  
City Auditor

## INTRODUCTION

The Audit Division provided the requested assistance to the HAS related to the concessionaire contract between the City and Marriott in connection with the Original Lease Agreement dated January 1, 1969 (the Original Agreement), the Restated Lease Agreement dated January 16, 1980 (the Agreement), and Amendment No. 1 dated December 11, 1997 (Amendment) between the City and Marriott.

We obtained and reviewed the Agreement and the related Amendment in effect during 2005, 2006, and 2007 as well as related sections of the Original Agreement. We summarized the pertinent terms and conditions related to assessing whether the rental and other payments complied with the contract (see Appendix A).

We made inquiries to Marriott's Director of Finance and Accounting to determine Marriott's understanding of the lease terms and the procedures in place to ensure compliance with the Agreement.

## BACKGROUND

The City owns the Hotel. Host of Houston Limited, contracts with the City for its use. Marriott manages the Houston Airport Marriott Hotel. The Hotel has two towers: The North Tower, "Original Facilities", and the South Tower, that are collectively referred to as the "Existing Facilities."

Marriott subcontracts parking management to their valet company, Luxury Parking Services (LPS). Under the Agreement, LPS keeps 50% of all self-parking revenues and the City gets the remaining 50%. In addition, LPS pays the City, on a quarterly basis, a ground rental of \$ 0.15 per square foot for the 154,269 square feet of parking space. Marriott retains responsibility for reporting and remitting parking revenues to the City.

Marriott uses Property Management System (PMS) software to record daily room rental activity, restaurant and bar receipts, and space letting. Revenue is tracked for the South Tower separately from the North Tower. Marriott operates on a 28 day; 13 period fiscal year. Hotel rent is accrued monthly based on a 28 day period.

Under the Agreement, Marriott pays a base fee each month to the City. Marriott also prepares quarterly rent calculations and annual statements of actual hotel rent. All payments are supported by the PMS system reports with adjustments to calendar periods based on daily revenue reports.

## AUDIT PROCEDURES

- In order to test the accuracy of revenues included in hotel rent calculations, we reconciled the total annual room, food, beverage, and concession revenues on the Percentage and Minimum Rent Computation for the years ended 2005 and 2006 to the Statement of Gross Receipts prepared by Host of Houston Limited's independent auditors KPMG, for the respective years. No exceptions were noted.
- In addition, we recalculated the quarterly rent payments for the years 2005, 2006, and 2007 (through June 30, 2007), agreeing rent adjustments and cut-off adjustments to contract terms and daily gross revenue reports. It was noted that the 2005 and 2006 payments were

overstated by approximately \$3,399 and \$4,601; respectively, while the 2007 (through June 30, 2007) payments were understated by \$1,938, resulting in a net overpayment of \$6,062 for the audit scope period. These overpayments had already been identified by the HAS's Audit and Contract Compliance Office and were confirmed by us. This audit also identified the specific calculation errors that caused an overpayment of \$6,062 by Marriott. See Appendix B for a quarterly breakdown of rent due the City based on the above procedures.

- We agreed the revenue information used in hotel rent calculations with amounts reported internally from Marriott's general ledger system. We reconciled the total room, food, beverage, and concession revenues on the Percentage and Minimum Rent Computation for the years ended 2005, 2006, and 2007 (through June 30, 2007) to Marriott's internal financial statements for the periods tested. No exceptions were noted.
- In order to test the accuracy and completeness of information used in calculations of "Existing Facilities" and "Original Facilities" revenues, we randomly selected 30 days from 2005, 2006, and 2007 (through June 30, 2007) and reconciled the Daily Gross Revenue Report to the Room and Tax Posted Report and the Reservation Report Generator. In addition, the auditors scanned the Reservation Report Generator room numbers to verify that they were South Tower rooms. We compared the Reservation Report Generator to the Room and Tax Posted Report to test for reasonableness of South Tower room revenues. No significant differences were noted.
- In order to test the accuracy and completeness of supporting room revenue reports with amounts included in financial statements generated by Marriott's general ledger system, we randomly selected ten days from each year (2005, 2006, and 2007) and agreed the room revenue from the Room and Tax Posted Reports to the room revenue in Marriott's internal financial statements. Per discussion with Marriott's Management, and review of the detailed trial balance, the auditors noted that differences between the Room and Tax Posted Reports room revenue and Marriott's internal financial statements room revenue were due to rebates/discounts issued or other adjustments made after Room and Tax Posted Reports were prepared. No significant differences were noted.
- The auditors randomly selected a total of 18 days (6 days from each year) for 2005, 2006, and 2007 (through June 30, 2007) and reconciled the food and beverage totals reported on the daily receipts from the restaurants, bars, lounges, and the gift shop to the food and beverage totals reported on Marriott's internal financial statements. Sales taxes, added tips, charge tips, service charges, audio visual charges, and gift certificates were excluded from the food and beverage sales receipt totals. No significant differences were noted.
- The parking rent reported by Marriott was tested by selecting all of the parking accruals for 2005, 2006, and 2007 (through June 30, 2007) and comparing the revenue amounts to the weekly parking lot activity report prepared by LPS. Under the Agreement, parking percentage rentals are to be paid in arrears quarterly. However, the auditors noted that parking rentals were paid annually during the audit scope period. See Finding V.

The findings and recommendations noted during the performance of the audit procedures are presented in this report. The findings included in this report are the only matters that came to the auditors' attention, based on the procedures performed through August 21, 2008.

## **AUDIT BACKGROUNDS, FINDINGS, AND RECOMMENDATIONS**

### **I. QUARTERLY HOTEL RENT PAYMENT CALCULATIONS**

#### **BACKGROUND**

(1) The Original Agreement, Section 5.31 (a) states, "Lessee shall have the right to recoup, to the extent and in the manner hereinafter set forth, the amount, if any, by which the Aggregate Construction Cost is in excess of \$9,000,000.00 up to a total excess of not more than \$750,000.00 hereinafter referred to as Additional Recoupable Cost ...." According to the amortization schedule, the recoupment amounts for the excess aggregate construction costs in excess of \$9,000,000 for 2005, 2006, and 2007 were \$26,913.90, \$25,532.33, and \$24,150.76 respectively.

(2) The Original Agreement, Section 5.3 (a) states, "The Lessee shall have the right to recoup excess aggregate construction cost of up to \$1,500,000 in excess of \$7,500,000." According to the amortization schedule, the recoupment amounts for the excess aggregate construction costs in excess of \$7,500,000 for 2005, 2006, and 2007 were \$53,827.97, \$51,064.83, and \$48,301.69 respectively.

(3) The Original Agreement, Section 5.1 (a) 2 states, "...that the Minimum Annual Guarantee (MAG) payments for 2005, 2006, and 2007 were \$329,200, \$332,600, and \$337,200 respectively."

#### **FINDING**

(1) For the First Quarter 2005, rent calculations, \$28,295.48 was used instead of the correct amount of \$26,913.90 as a recoupment amount for the excess construction costs.

(2) For the First Quarter 2005, rent calculations, \$56,591.11 was used instead of the correct amount of \$53,827.97 as a recoupment amount for the excess construction costs.

(3) For the Second, Third, and Fourth Quarters 2005 rent calculations, \$332,600 was used instead of the correct amount of \$329,200 as MAG payments. In 2006, for all quarterly rent calculations, \$337,200 was used instead of \$332,600. Likewise, in 2007, for the First and Second Quarters, \$333,000 was used instead of the correct amount of \$337,200.

The cumulative effect for 2005 resulted in an overpayment of \$3,399, another overpayment of \$4,601 in 2006, and an underpayment of \$1,938 in 2007, for a total net overpayment amount of \$6,062 for the audit scope period. This audit confirmed the overpayment amount and also identified

the specific calculation errors that caused an overpayment of \$6,062 by Marriott (Appendix B).

## **RECOMMENDATION**

HAS should allow Marriott a credit of \$6,062, for overpayments of \$3,399 in 2005, \$4,601 in 2006, and an underpayment of \$1,938 through June 30, 2007.

## **II. VENDING MACHINE FOOD SALES REVENUE PAYMENTS**

### **BACKGROUND**

“Four Percent (4%) of all food sales (including all foods sold in the Hotel, whether in restaurants, room service, vending machines, or otherwise and all related services) and sales of non-alcoholic beverages other than in bars, lounges or private clubs in the Hotel, but excluding in-flight catering sales which may be handled under separate agreement as provided in Section 5.05 (d) hereof....” See the Agreement, Section 4.01 A (b) (ii).

Marriott received vending commissions of \$13,444, \$14,629, and approximately \$8,033 in 2005, 2006, and 2007 respectively.

### **FINDING**

The quarterly food and beverages revenues reported to the City do not include food sales from the vending machines located at Marriott.

The City is entitled to \$1,444 (4%) of the food sales from vending machines and/or commissions paid to Marriott during the audit scope period.

### **RECOMMENDATION**

HAS should take steps to ensure Marriott includes food sales or commissions from vending machine sales in their revenue calculations and subsequent payments to HAS. Further, HAS should recoup underpayments as a result of Marriott’s exclusion of the food sales or commissions from vending machines.

## **III. BUSINESS SERVICES CENTER CONCESSION RENTAL PAYMENTS**

### **BACKGROUND**

“Ten Percent (10%) of concession rentals and office rentals including all fixed, percentage, and other rentals received by Lessee for concession or office space.... The rental rates for any concession space operated by Lessee or rented or operated by a party affiliated with Lessee shall be deemed to be the amount received by Lessee as rental from such affiliated party, or at the average square foot rental rate paid by third parties to Lessee for concession or office space in the Hotel, computed annually on the basis of the average rentals paid in the proceeding [sic]



year, or the following square foot rentals, whichever is greater: 2005-2009 8.00.” See the Agreement, Section 4.01. A. (b) (iv).

Sales from the Business Services Center were \$29,328, \$34,235, and approximately \$20,003 for 2005, 2006, and 2007 respectively for the audit scope period.

## **FINDING**

The quarterly hotel rent payments do not include concession revenue for the Business Service Center rental office space operated by Marriott. Marriott generates revenues from printing, copying, fax, and internet services from the Business Service Center. The City loses concession rental payments based on the square footage occupied by the Business Service Center.

The City is entitled to \$8,357 (10%) of the sales generated by the Business Services Center during the audit scope period.

## **RECOMMENDATION**

HAS should take steps to ensure Marriott includes concession rental payment revenues based on square footage utilized by the Business Service Center in their revenue calculations and subsequent payments to HAS. Further, HAS should recoup underpayments as a result of Marriott’s exclusion of the concession rental payments from the Business Service Center.

## **IV. VALET PARKING SERVICES CONCESSION PAYMENTS**

### **BACKGROUND**

Lease Agreement, Section 4.01. A. (b) (iv). See **BACKGROUND** under **III** above.

Marriott currently receives 12% commission from Valet Parking Services gross revenues, less sales taxes, operated by its parking sub-contractor. Approximately \$230,000 was generated by the Parking Operator annually from its Valet Parking Services during the audit scope period.

Marriott received valet parking commissions of \$23,665.11, \$31,455.23, and \$13,853.49 in 2005, 2006, and 2007 respectively.

### **FINDING**

The City was not paid concession on the square footage utilized by the Valet Services or 10% of the commissions collected by Marriott during the audit scope period. Valet parking is not specifically excluded in the Agreement. The City loses concession rental payment revenue based on the square footage being utilized by the Valet Parking Services or 10% of the commissions collected during the audit scope period.

The City is entitled to \$6,897 (10%) of the valet parking commissions received by Marriott during the audit scope period.

#### **RECOMMENDATION**

Include concession rental payments based on square footage utilized by the Valet Parking Services or 10% of the commissions collected in the quarterly hotel rent payment calculations. Remit to the City underpayments in concession revenue since the inception of the Valet Parking Services contract with Luxury Parking Services.

### **V. PERCENTAGE PARKING RENTAL PAYMENTS**

#### **BACKGROUND**

The Agreement dated January 16, 1980, Article IV, Section 4.01 Paragraph B states, "The percentage [parking] rental shall be payable quarterly in arrears based on actual receipts."

#### **FINDING**

The Houston Airport Marriott is remitting the percentage parking rental payment on an annual basis instead of quarterly in arrears, as required in the Agreement.

The City is losing the opportunity to use the quarterly percentage parking rental money or the interest income, estimated at \$338 per quarter that could have been earned in interest on the money if the payments had been made according to the Agreement.

#### **RECOMMENDATION**

We recommend that the HAS management request Marriott to remit the percentage parking rental quarterly, in arrears based on actual receipts as required in the Agreement.

### **VI. QUARTERLY PARKING RENTAL PAYMENTS**

#### **BACKGROUND**

The Agreement dated January 16, 1980, Article IV, Section 4.01 Paragraph B states, "The annual rental....shall be payable quarterly in advance on the first day of each quarter."

#### **FINDING**

Based on detailed analyses of the parking annual rental payments and discussions with key personnel, the auditors noted the third quarterly payment of the 2005 annual parking rental for \$5,785 was not paid. This fact was communicated to management which concurred with the auditors' finding.

#### **RECOMMENDATION**

We recommend that management inform Marriott of the missing annual rental payment and request a payment for the third quarter of 2005.

## VII. SUBMISSION OF REQUIRED DOCUMENTS AND ANNUAL REPORTS

### BACKGROUND

The Agreement, Section 8.06, Annual Inspections states, "Lessee agrees that it will cause an annual inspection of the Leased Premises to be made and that it will file with the Director immediately following each such inspection a certificate signed by two (2) of its representatives, one of whom shall be a vice president of Host International, Inc., or of a general partner of Lessee, certifying that the Leased Premises have been maintained, repaired and preserved and are being operated in conformity with this Article."

Section 6.08 (b) states, "...Lessee shall, within ninety (90) days after the end of each calendar year, submit a written report setting forth the status of all Ad Valorem taxes on the above referred to leasehold estates with the City Attorney of City."

Section 4.05 states, "Within ninety (90) days after the end of each calendar year, Lessee shall furnish to the City a financial statement presenting the results of its operations at Marriott with respect to gross revenues and receipts of the items referred to in Section 4.01A (a) including an audited balance sheet and a statement of profit and loss of Lessee certified by an independent certified public accountant or firm of independent certified public accountants."

### FINDING

Annual inspection certificates were not submitted to the HAS, as required by the Agreement, for 2005 and 2006.

The status of all Ad Valorem taxes was not submitted to the City of Houston Attorney, as required by the Agreement, for 2005 and 2006.

Annual financial statements that include balance sheets were not submitted by Marriott to the HAS, as required by the Agreement, for 2005 and 2006. The only audited statement submitted to the HAS by Marriott is the Statement of Gross Receipts for 2005 and 2006.

### RECOMMENDATION

We recommend that HAS management emphasize to Marriott that it is necessary for Marriott to submit to HAS the following required documents and reports annually:

- (1) A signed annual inspection certificate
- (2) The status of all Ad Valorem taxes to the City of Houston Attorney
- (3) Audited annual financial statements that include balance sheets.

SUMMARY OF MARRIOTT HOTEL LEASE AGREEMENT

The following represents a summary of the Original Lease Agreement dated January 1, 1969 (the Original Agreement), the Restated Lease Agreement dated January 16, 1980 (the Agreement), and Amendment No. 1 dated December 11, 1997 between the City and Marriott.

**Scope:** Leased premises include the land, hotel facilities, hotel parking lot, and easements at the George Bush Intercontinental Airport Houston.

**Term:** Date the City adopted the ordinance authorizing the issuance and sale of the 1979 Bond Series, as defined in the Special Facilities Lease, until October 30, 2019 [Section 3.03 the Agreement].

**Authorized Business:** Lessee can operate the following activities [Section 5.05 - the Agreement]:

Hotel	Barber shops	Health clubs
Coffee shops	Book shops	Flower shops
Restaurants	Bank facilities	Office rental use
Gift shops	Bars	Other businesses as
Drug, sundries, and news facilities	Apparel shops	approved by the director
Beauty shops	Liquor stores	

**Standards of Price and Quality:** Charges for the above services and merchandise shall be competitive with those offered in comparable establishments in the City [Section 6.02 - the Agreement].

**Hotel Parking Fees:** Lessee may provide free parking to room renters, may allow up to 3 hours of free parking for other customers, and may have 50 spaces available for use at will [Section 6.04 (a) - the Agreement].

**Hotel Rent:** Greater of A, B, or C [Section 4.01 - the Agreement]

- A) Minimum annual rent (\$1,560,000 for 2005, 2006, and 2007)  
 or the excess of Aggregate Percentage Rentals over Ad Valorem Tax Credits

Houston Airport System  
Marriott/Host International Hotel  
Contract Compliance Audit

Revenues:	
Rooms	7%
Food	4%
Beverage	5%
Concession	10%

Less:	
City Ad Valorem	100%
Other Ad Valorem	36%

B) Actual revenues from "Original Facilities" under the Original Agreement Section 5.1

Revenues:	
Rooms	36%
Food	8%
Beverage	15%
Concession	10%

Plus:	
Base Rent	\$329,200 - 2005 \$332,600 - 2006 \$337,200 - 2007
Other	\$10,000 per year

Less:	
Annual Exclusion	\$875,000 for 2005, 2006, and 2007
Recoupment of excess construction costs	
Interest on unamortized recoupable costs	

C) 50% of actual revenues from "Existing Facilities" under the Original Agreement Section 5.1

Revenues:	
Rooms	36%
Food	8%
Beverage	15%
Concession	10%

Plus:	
Base Rent	\$329,200 - 2005 \$332,600 - 2006 \$337,200 - 2007
Other	\$10,000 per year

Less:

Annual Exclusion \$875,000 for 2005, 2006, and 2007

Recoupment of excess construction costs

Interest on unamortized recoupable costs

Additionally, the lessee agrees to pay all operation and maintenance expenses and ad valorem taxes or other property taxes on the leased premises [Section 4.03 - the Agreement].

**Ground Rent:** In addition to any sums payable as hotel rent, lessee shall pay ground rent of \$47,338.56 in 2005 & 2006, and \$57,200.76 in 2007. A monthly ground rent of \$3,944.88 was payable in 2005 & 2006 and \$4,766.73 in 2007, in advance each month.

**Parking Rent:** Parking rent was to be paid at \$0.15 per square foot of parking area for 2005, 2006, and 2007, and 50% of the gross self-parking revenues [Section 4.01 (B) - the Agreement]. The parking ground rental of \$5,785.09 was payable in advance at the beginning of each quarter while the percentage rental was payable quarterly in arrears based on actual receipts.

**Financial Statement Audit:** Marriott is required to furnish the City, within 90 days after the end of each calendar year, a financial statement presenting the results of its operations at the Houston Airport Marriott Hotel with respect to gross revenues and receipts, including an audited balance sheet, and a statement of profit and loss of Lessee certified to by an independent certified public accountant or firm of independent certified accountants [Section 4.05 - the Agreement].

**SCHEDULE OF HOTEL RENT BY QUARTER**

<b>Quarter</b>	<b>Recomputed Hotel Rental Amounts</b>	<b>Hotel Rental Amounts Remitted by Marriott</b>	<b>Overpayment (Underpayment)</b>
2005 First Quarter	\$453,127	\$452,170	\$(957)
2005 Second Quarter	369,993	372,518	2,525
2005 Third Quarter	373,898	374,683	785
2005 Fourth Quarter	635,849	636,895	1,046
2006 First Quarter	583,066	584,128	1,062
2006 Second Quarter	466,822	467,883	1,061
2006 Third Quarter	351,432	352,494	1,062
2006 Fourth Quarter	642,554	643,970	1,416
2007 First Quarter	699,266	698,297	(969)
2007 Second Quarter	600,993	600,024	(969)
<b>Total</b>	<b>\$5,177,000</b>	<b>\$5,183,062</b>	<b>\$6,062</b>

# EXHIBIT I

## CITY OF HOUSTON

### INTEROFFICE CORRESPONDENCE

**TO:** Annise D. Parker  
City Controller

**FROM:** Director of Aviation  
Houston Airport System

**DATE:** October 17, 2008

**SUBJECT:** Contract Compliance Audit  
Marriott/Host International Hotel

We have reviewed the draft report regarding the Contract Compliance Audit related to the Marriott / Host International Hotel.

Following are the Houston Airport System management responses to audit findings I, II, III, IV, V, VI, & VII.

#### **I. Quarterly Hotel Rent Payments not Calculated Correctly**

##### **Audit Finding:**

(1) For the First Quarter 2005, rent calculations, \$28,295.48 was used instead of the correct amount of \$26,913.90 as a recoupment amount for the excess construction costs.

(2) For the First Quarter 2005, rent calculations, \$56,591.11 was used instead of the correct amount of \$53,827.97 as a recoupment amount for the excess construction costs.

(3) For the Second, Third, and Fourth Quarters 2005 rent calculations, \$332,600 was used instead of the correct amount of \$329,200 as MAG payments. In 2006, for all quarterly rent calculations, \$337,200 was used instead of \$332,600. Likewise, in 2007, for the First and Second Quarters, \$333,000 was used instead of the correct amount of \$337,200.

The cumulative effect for 2005 resulted in an overpayment of \$3,399, another overpayment of \$4,601 in 2006, and an underpayment of \$1,938 in 2007, for a total net overpayment amount of \$6,062 for the audit scope period. This audit confirmed the overpayment amount and also identified the specific calculation errors that caused an overpayment of \$6,062 by Marriott.

##### **Audit Recommendation:**

HAS should allow Marriott a credit of \$6,062, for overpayments of \$3,399 in 2005, \$4,601 in 2006, and an underpayment of \$1,938 through June 30, 2007.

##### **Management Response:**

We are working with the Marriott to reconcile the exact amount of the overpayment. When this is complete, the proper credit will be given on the next payment.

*Views of Responsible  
Officials*



# EXHIBIT I

Annise D. Parker  
City Controller

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October 17, 2008

## II. Vending Machine Food Sales Revenue Neither Calculated nor Paid

### Audit Finding:

The quarterly food and beverages revenues reported to the City do not include food sales from the vending machines located at Marriott. The City is entitled to \$1,444 (4%) of the food sales from vending machines and/or commissions paid to Marriott during the audit scope period.

### Audit Recommendation:

HAS should take steps to ensure Marriott includes food sales or commissions from vending machine sales in their revenue calculations and subsequent payments to HAS. Further, HAS should recoup underpayments as a result of Marriott's exclusion of the food sales or commissions from vending machines.

### Management Response:

Marriott agreed vending machine commissions should have been included in the Hotel Rent computation. We are working with the Marriott to reconcile the exact amount due for the audit period and subsequent periods. When this is complete, the adjustment will be included on the next payment.

## III. Business Services Center Concession Rental Payments Neither Calculated or Paid

### Audit Finding:

The quarterly hotel rent payments do not include concession revenue for the Business Service Center rental office space operated by Marriott. Marriott generates revenues from printing, copying, fax, and internet services from the Business Service Center. The City loses concession rental payments based on the square footage occupied by the Business Service Center.

The City is entitled to \$8,357 (10%) of the sales generated by the Business Services Center during the audit scope period.

### Audit Recommendation:

HAS should take steps to ensure Marriott includes concession rental payment revenues based on square footage utilized by the Business Service Center in their revenue calculations and subsequent payments to HAS. Further, HAS should recoup underpayments as a result of Marriott's exclusion of the concession rental payments from the Business Service Center.

### Management Response:

Marriott agreed Business Center commissions should have been included in the Hotel Rent computation. We are working with Marriott to reconcile the exact amount due for the audit period and subsequent periods. When this is complete, the adjustment will be included on the next payment.

*Views of Responsible  
Officials*

## EXHIBIT I

Annise D. Parker  
City Controller

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October 17, 2008

### IV. Valet Parking Services Concession Not Paid

#### **Audit Finding:**

The City was not paid concession on the square footage utilized by the Valet Services or 10% of the commissions collected by Marriott during the audit scope period. Valet parking is not specifically excluded in the Agreement. The City loses concession rental payment revenue based on the square footage being utilized by the Valet Parking Services or 10% of the commissions collected during the audit scope period.

The City is entitled to \$6,897 (10%) of the valet parking commissions received by Marriott during the audit scope period.

#### **Audit Recommendation:**

Include concession rental payments based on square footage utilized by the Valet Parking Services or 10% of the commissions collected in the quarterly hotel rent payment calculations. Remit to the City underpayments in concession revenue since the inception of the Valet Parking Services contract with Luxury Parking Services.

#### **Management Response:**

Marriott agreed Valet Parking square footage and concessions should have been included in the Hotel Rent computation. We are working with Marriott to reconcile the exact amount due for the audit period and subsequent periods. When this is complete, the adjustment will be included on the next payment.

### V. Percentage Parking Rentals not Paid per the Contract

#### **Audit Finding:**

The Houston Airport Marriott is remitting the percentage parking rental payment on an annual basis, instead of quarterly in advance, as required in the Agreement.

The City is losing the opportunity to use the quarterly percentage parking rental money or the interest income, estimated at \$338 per quarter that could have been earned in interest on the money if the payments had been made according to the Agreement.

#### **Audit Recommendation:**

We recommend that the HAS management request Marriott to remit the percentage parking rental quarterly, in arrears based on actual receipts as required in the Agreement.

#### **Management Response:**

HAS advised Marriott the contract required percentage parking rental payments to be made quarterly in May, 2007, after the end of the audit period. Marriott has complied with contract requirements since that time.

*Views of Responsible  
Officials*

## EXHIBIT I

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City Controller

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### VI. Missing Quarterly Parking Rental Payment

#### **Audit Finding:**

Based on detailed analyses of the parking annual rental payments and discussions with key personnel, the auditors noted the third quarterly payment of the 2005 annual parking rental for \$5,785 was not paid. This fact was communicated to management which concurred with the auditors' finding.

#### **Audit Recommendation:**

We recommend that management inform Marriott of the missing annual rental payment and request a payment for the third quarter of 2005.

#### **Management Response:**

Marriott has been informed of the missing payment and has agreed to make the missed payment.

### VII. Required Documents and Annual Reports not Being Submitted

#### **Audit Finding:**

Annual inspection certificates were not submitted to the HAS, as required by the Agreement, for 2005 and 2006.

The status of all Ad Valorem taxes was not submitted to the City of Houston Attorney, as required by the Agreement, for 2005 and 2006.

Annual financial statements that include balance sheets were not submitted by Marriott to HAS, as required by the Agreement, for 2005 and 2006. The only audited statement submitted to the HAS by Marriott is the Statement of Gross Receipts for 2005 and 2006.

#### **Audit Recommendation:**

We recommend that HAS management emphasize to Marriott that it is necessary for Marriott to submit to HAS the following required documents and reports annually:

- (1) A signed annual inspection certificate
- (2) The status of all Ad Valorem taxes to the City of Houston Attorney
- (3) Audited annual financial statements that include balance sheets.

#### **Management Response:**

Marriott has been advised in writing of the importance of sending the three required documents annually. Marriott has agreed to comply.

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City Controller

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HAS is also updating our procedures and checklists to ensure all revenue is reported and paid correctly and that the hotel is in compliance with all contract requirements.

We appreciate the thoroughness and professionalism of the audit team that conducted this audit.



Richard M. Vacar

RMV: sf

cc: David Arthur

**Views of Responsible  
Officials**