



# **PARADIES – EL PASO, LLC AUDIT REPORT A2013-15**

Issued by the  
Internal Audit Office  
November 27, 2013

**City of El Paso  
Internal Audit Office  
Paradies – El Paso, LLC Audit A2013-15**

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***EXECUTIVE SUMMARY***

The Internal Audit Office has concluded its audit of the “*Lease and Concession Agreement*” between the City of El Paso and Paradies – El Paso, LLC. The Agreement is dated December 22, 2006 and the First Amendment to the Agreement is dated May 11, 2011. Based on the results of the audit, we can provide reasonable assurance that Paradies – El Paso, LLC is in compliance with the operating terms and conditions of their Lease and Concession Agreement with the City of El Paso. For more detail on the areas under review please refer to the Finding section of this report.

***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 Aviation Director requested an audit of the “*Lease and Concession Agreement*” between the City of El Paso and Paradies – El Paso, LLC in effect as of December 22, 2006. The First Amendment to the Agreement is dated May 11, 2011.

Paradies is a national concessionaire which operates in 75 airports in the U.S. and Canada. The contract which included the development and operation of eight concessions at the El Paso International Airport was competitively bid and expires upon the 10<sup>th</sup> Lease Year of the Primary Term which is the year 2020.

***AUDIT OBJECTIVES***

The objectives of this audit were to determine if Paradies – El Paso, LLC is adhering to the operating terms and conditions as established in the “*Lease and Concession Agreement*” dated December 22, 2006 and the First Amendment dated May 11, 2011.

***AUDIT SCOPE***

This is a limited scope audit and the time period covered are all transactions occurring during the Year ended July 31, 2012. The Fiscal Year for Paradies – El Paso, LLC at the El Paso International Airport is August 1 to July 31.

***AUDIT METHODOLOGY***

To achieve our audit objectives we:

- Conducted interviews with El Paso International Airport (EPIA) administration;
- Conducted interviews with Paradies – El Paso, LLC staff;
- Conducted an analysis of the Lease and Concession Agreement and subsequent amendment;
- Reviewed monthly revenue reports;
- Reviewed a copy of the *Certified Public Accountant’s Statement of Revenues*;
- Recalculated reported revenues;
- Performed tests of selected transactions; and,
- Reviewed other deliverables required by the Lease and Concession Agreement.

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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.

***FINDINGS***

The findings, which follow, relate to compliance and adherence to the terms and conditions of the “*Lease and Concession Agreement*” between the City of El Paso and Paradies – El Paso, LLC in effect as of December 22, 2006 and the First Amendment dated May 11, 2011.

**Finding 1**

Following a detailed review of the following areas:

- Minimum monthly payments.
- Insurance and Indemnification requirements.
- Accurate gross receipts reporting.
- Accurate percentage rental payments.
- Initial investment requirements.
- Shop presentation.

We can provide reasonable assurance that Paradies – El Paso, LLC is in compliance with their “*Lease and Concession Agreement*” with the City of El Paso dated December 22, 2006 and the First Amendment dated May 11, 2011.

**Recommendation**

Continue to monitor Paradies - El Paso, LLC for compliance with the terms and condition of the “*Lease and Concession Agreement*” dated December 22, 2006 and the First Amendment dated May 11, 2011.

**Management’s Response**

None required.

**Responsible Parties**

**Implementation Date**

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***INHERENT LIMITATIONS***

Because of the inherent limitations of Paradies – El Paso, LLC’s procedures and controls, subjective interpretation of the “*Lease and Concession 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 Paradies – El Paso, LLC’s procedures may become non-compliant due to changes in conditions or that the degree of compliance with the “*Lease and Concession Agreement*” between the City of El Paso and Paradies – El Paso, LLC dated December 22, 2006 and subsequent amendments may deteriorate.

***CONCLUSION***

We have concluded work on the audit objectives of the Paradies – El Paso, LLC Audit. In accordance with Generally Accepted Government Auditing Standards we are required to conclude on whether the Paradies – El Paso, LLC met the objectives of this audit.

Paradies – El Paso, LLC is meeting the terms and conditions of the “*Lease and Concession Agreement*” in the following areas:

- The minimum monthly payments and the storage and support rental payments were received in full and in a timely manner 100% of the time for the fiscal year ending July 31, 2012.
- Insurance and Indemnification requirements are being maintained.
- Paradies – El Paso, LLC is accurately reporting Gross Receipts and Percentage Revenues to the El Paso International Airport in a timely manner and providing a year end Certified Revenue Statement.
- Paradies – El Paso, LLC met and exceeded the Initial Investment agreed to regarding the concession build outs.
- The Shops are clean and well kept.

We can provide reasonable assurance that Paradies – El Paso, LLC is in compliance with the Terms and Conditions of the area reviewed regarding the “*Lease and Concession Agreement*” dated December 22, 2006 and the First Amendment dated May 11, 2011. Adherence to the Agreement Terms and Conditions is critical to a mutually successful business relationship.

We wish to thank the Paradies – El Paso, LLC’s 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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Chief Internal Auditor

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