



Internal Audit Report

Third-Party Management Services Agreement

for

World Trade Center (WTC) - Seattle

January 1, 2010 through December 31, 2011

Issue Date: February 5, 2013

Report No. 2013-01



Internal Audit Report
Third-Party Management Services Agreement for WTC-S
January 1, 2010 – December 31, 2011

Table of Contents

| | |
|---|---|
| Transmittal Letter | 3 |
| Executive Summary | 4 |
| Background | 5 |
| Highlights and Accomplishments | 5 |
| Audit Scope and Methodology | 6 |
| Conclusion | 7 |

Transmittal Letter

Audit Committee
Port of Seattle
Seattle, Washington

We have completed a third-party management services agreement audit of the World Trade Center Seattle. Columbia Hospitality, Inc. (CHI) manages this Facility on behalf of the Port of Seattle.

We examined information related to the period January 1, 2010, through December 31, 2011.

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.

We extend our appreciation to the CHI management and staff of the Real Estate Portfolio Management and Seaport Finance for their assistance and cooperation during the audit.



Joyce Kirangi, CPA, CGMA
Director, Internal Audit

Executive Summary

Audit Scope and Objectives The purpose of the audit was to determine whether:

1. Port management monitoring controls are adequate to ensure:
 - a. Billings are complete and accurate
 - b. Expenses are proper and in accordance with the agreement terms and conditions
2. Columbia Hospitality, Inc. complied with the agreement terms and conditions, as amended, related to :
 - a. Revenues
 - b. Expenses

We reviewed information for the period January 1, 2010 through December 31, 2011.

Background The Port of Seattle owns the World Trade Center Seattle (WTCS). The primary objective of the WTCS is to foster international trade and commerce, and to expose Seattle to international trade.

The WTCS building is located on Seattle's downtown waterfront. The fourth floor of the building contains conference rooms, as well as an executive and a private dining room. The sponsoring companies and their members have the privilege to use the Facility and its services for a fee. In addition, private catered events are also held at this Facility.

The Port has outsourced the day-to-day management of the WTCS to Columbia Hospitality Inc. The services include sales and marketing, member services, solicitation of memberships, food preparation services, and overall accounting services.

Audit Result Summary Port management monitoring controls are adequate to ensure compliance with the agreement. Additionally, Columbia Hospitality, Inc. materially complied with terms and conditions related to the agreement.



Internal Audit Report
Third-Party Management Services Agreement for WTC-S
January 1, 2010 – December 31, 2011

Background

The Port of Seattle owns the World Trade Center Seattle (WTCS). The Facility was developed under the Washington State authority of RCW 53.29 – Trade Center Act. The Port and the local private sector are the primary sponsors of the WTCS. The primary objective of the Facility is to foster international trade and commerce and to expose Seattle to international trade.

The WTCS building is located on Seattle's downtown waterfront. The fourth floor of the building contains conference rooms, as well as an executive and a private dining room. The sponsoring companies and their members have the privilege to use the Facility and its services for a fee. In addition, private catered events are also held at the Facility.

The Port has outsourced the day-to-day management of the WTCS to Columbia Hospitality Inc. (CHI). The services include sales and marketing, member services, solicitation of memberships, food preparation services, and overall accounting services. Revenue generated from the Facility is remitted to the Port daily.

The Port of Seattle is responsible for the costs of operating the Facility. The Port pays for all costs including repair and maintenance; utilities; insurance; legal and accounting services; and labor compensation related to CHI employees working at the Facility.

Financial Highlights

| | 2010 | 2011 |
|------------------------------------|-----------------|------------------|
| Revenue | | |
| Membership and other Club Services | \$365,079 | \$406,964 |
| Food and Beverage | 532,632 | 514,398 |
| Gross Revenue | 897,711 | 921,362 |
| Expense | | |
| Cost of Sales | 122,779 | 126,200 |
| Direct Expenses | 236,348 | 259,936 |
| Operating Expenses | 247,185 | 263,875 |
| Fixed Expenses | 5,984 | 5,657 |
| Management/Incentive Fees | 168,029 | 161,560 |
| Capital Reserve and Other | 21,185 | (7,871) |
| Net Income | \$96,201 | \$112,005 |

Data source: WTCS Consolidated Income Statement, 12/31/2011

Highlights and Accomplishments

During the course of the audit, we observed the following accomplishments in management monitoring:

- CHI submits a detailed annual budget for the Port's approval. The budget includes monthly budgeted amounts by detailed categories of revenue and expense types and the details of assumptions used in preparing the budget expenses.
- On a monthly basis, representatives from the Port's Real Estate and Seaport Finance & Budget departments meet with CHI management to review marketing, financial reports, and activities. These reports include, among other items:
 - Analysis of forecasted operating performance for two quarters and the fiscal year
 - A summary line item review of revenue & expenses vs. budgeted and an explanation of the variances; Port management approves the explanations provided
 - Approval of monthly expenses by the responsible Port management
 - A listing of monthly expenses from which a sample is selected for detailed review by the responsible Port management
 - Current financial statements
 - A sales and marketing report.

Audit Scope and Methodology

We utilized a risk-based audit approach from planning through testing. We gathered information through interviews, observations, and analytical reviews in order to obtain a complete understanding of the WTCS operation including its policies and procedures. We conducted an assessment of significant risks and identified controls established to mitigate those risks. We evaluated whether the established controls were functioning effectively, as intended.

We applied additional detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

1. To determine whether Port management monitoring controls are adequate to ensure (1) Billing are complete and accurate, and (2) Expenses are proper and in accordance with the terms and conditions of the agreement,
 - a. We reviewed the annual budget submissions to determine if they were timely and contained the required information
 - b. We did a risk-based re-performance of management's review of monthly expenses
 - c. We analyzed monthly and quarterly expenses for any significant variances to budgeted amounts as specified in the terms; we tested two months in 2010 and three months in 2011 for compliance with the agreement terms
2. To determine if CHI complied with the terms and conditions of the agreement, as amended, related to revenues and expenses,
 - a. We analyzed the financial statements for significant ratios, such as gross margin and department profit
 - b. We analyzed sponsorship revenues and records and tested a risk-based sample of ten sponsorships (25% of membership revenue) for proper recording

- c. We analyzed event records and tested a risk-based sample (companies with multiple events as more likely to receive a discount) of ten events for revenue completeness; we traced to supporting documentation, such as menu pricing, and to the general ledger
- d. We identified related party events and tested a risk-based sample of thirteen related-party events for the appropriateness of discounts
- e. We reconciled total payroll expenses from payroll registers for 2010 and 2011 to the general ledger; we tested selected accounts and reconciled to the payroll registers; we tested four pay periods in 2011 and reconciled to the reimbursements in the monthly reports
- f. We analyzed the detailed payroll records for the reasonableness of pay rates and hours charged
- g. We reviewed and reconciled six pay periods in 2011 with inter-company payroll transactions
- h. We analyzed payments for potential contractual relationships
- i. We reviewed monthly disbursements for nature, timing, and value; we tested risk-based samples of inter-company and other disbursements

Conclusion

Port management monitoring controls are adequate to ensure compliance with the agreement. Additionally, Columbia Hospitality, Inc. materially complied with terms and conditions related to the agreement.