

# Internal Audit Briefing

**Presented to the Port of Seattle  
Audit Committee and Tay Yoshitani, CEO**

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# Agenda

- **Audit Report**

1. Lease and Concession Audits

- Host International
- Seattle Restaurant Associates
- Dilettante Chocolates, Inc.
- Massage Bar, Inc.

2. Operational Audits

- Central Processing System
  - None
- Comprehensive Operational Audit /Departmental Audit
  - None
- Limited Operational Audit
  - Federal Inspection Services (FIS) Revenue
  - Small Federal Grants Administration
  - Follow-up Review of Port Fleet Operations
- 3<sup>rd</sup> Party Audit
  - None

- **Briefing/Updates**

- None

## Background

HMS Host operates a food and beverage concession at Sea-Tac International Airport and formerly operated a Duty-Free concession until August of 2011.

The concession agreements state that a specific percentage of gross receipts are to be paid to the Port. The concession fee percentage depends on the category of the revenue, such as non-branded food and beverage, branded food and beverage, alcohol, advertising, and merchandise.

Concession Received (in thousands)			
	2009	2010	2011
<b>Food &amp; Beverage Agreement (#435)</b>	<b>\$4,513</b>	<b>\$4,785</b>	<b>\$5,095</b>
Branded Food	\$2,466	\$2,591	\$3,050
Non-Branded Food	\$930	\$976	\$805
Alcohol	\$1,020	\$1,097	\$1,093
Merchandise	\$97	\$121	\$147
<b>Duty Free Agreement (#436)</b>	<b>\$1,486</b>	<b>\$1,926</b>	<b>\$1,210</b>
Advertising	\$7	\$17	\$11
Duty Free and Tax Paid	\$1,479	\$1,909	\$1,199
<b>Total</b>	<b>\$5,999</b>	<b>\$6,711</b>	<b>\$6,305</b>

## Audit Objectives

The purpose of the audit was to determine whether:

1. The reported concession revenue is complete, properly calculated, and remitted timely.
2. The lessee complied with significant provisions of the lease and concession agreement.

The scope of our audit covered a three-year period from January 1, 2009 through December 31, 2011.

## Audit Result

- HMS Host did not properly report the concession owed to the Port. Specifically, certain concession amounts were reported at the lower branded food and beverage concession rate when the gross receipts did not meet the criteria defined by the agreement. In addition, HMS Host did not provide the auditor with the requested accounting records and did not provide documents in a reasonable timeframe.

❖ Three Findings

## Audit Result Continued

1. HMS Host did not use the correct concession rate, resulting in an additional \$635,704 owed to the port.

### Audit Recommendation

- Seek recovery of \$635,704 in underpaid concession fees, late charges, and interest.
- Review agreement years prior to the audit period, to determine compliance with the Branded Food definition, and seek recovery, as appropriate.
- Seek recovery of \$34,029 in audit costs, in accordance the lease agreement.
- Strengthen internal controls over the determination of Branded Food eligibility.
- Work with HMS Host to ensure that all receipts subject to the concession fee are accurately reported.

## Audit Result Continued

2. Host did not provide adequate documentation to support gross sales, as required by the agreement.

### Audit Recommendation

- Seek recovery of \$5,788 in underpaid concession fees, late charges, and interest.
- Work with the lessee to ensure compliance with record keeping requirements.

## Audit Result Continued

3. Host did not transmit accounting records and other requested documents in a timely manner.

### Audit Recommendation

- Work with the Lessee to ensure compliance with the transmittal of accounting records for audit purposes.



## Background

Seattle Restaurant Associates (SRA) is a joint venture between HMS Host and Uwajimaya. HMS Host is the agreement's managing partner. SRA operates or oversees ten unique food and beverage concessions for Seattle-Tacoma International Airport (STIA), with a focus on regional brands and nationally recognized chains.

Under the terms of the agreement, SRA agreed to pay either a Minimum Annual Guarantee (MAG) or percentage fees (ranging from 14% to 18%) of their gross receipts, whichever is higher.

Concession Category	Rate	2009	2010	2011
Food & Beverage Sales	14%	\$4,521,394	\$4,306,984	\$4,552,635
Branded Food & Beverage Sales	12%	6,031,557	6,034,610	6,346,805
Alcoholic Beverage Sales	18%	3,465,210	3,337,565	3,557,223
Souvenir Merchandise	27%	0	0	0
Advertising Revenue	15%	0	0	0
<b>TOTAL</b>		<b>\$14,018,161</b>	<b>\$13,679,159</b>	<b>\$14,456,663</b>

Data Source: Seattle Restaurant Associates PeopleSoft Financials, CPA-Audited Reports for 2009-2011.

Data Notes: <sup>1</sup>Gross Sales Receipts are rounded to the nearest dollar.

## Audit Objectives

The purpose of the audit was to determine whether:

1. The reported concession revenue is complete, properly calculated, and remitted timely.
2. The lessee complied with significant provisions of the lease and concession agreement.

The scope of our audit covered a three-year period from January 1, 2009 through December 31, 2011.

## Audit Result

- Seattle Restaurant Associates (SRA) materially complied with the terms of the Lease and Concession agreement, with two exceptions: we identified a minor revenue discrepancy for one of the subtenants, and SRA did not provide requested documents in a reasonable time frame as required by the agreement. See Schedule of Findings and Recommendations in the audit report.

❖ Two Findings

## Audit Result Continued

1. SRA did not provide adequate documentation to support gross sales, as required by the agreement.

### Audit Recommendation

- Seek recovery of \$1,703 in underpaid concession fees, late charges, and interest.
- Work with the lessee to ensure compliance with record keeping requirements and compliance with audit requirements.

## Audit Result Continued

2. SRA did not transmit accounting records and other requested documents in a timely manner.

### Audit Recommendation

- Work with SRA to ensure compliance with the transmittal of accounting records for audit purposes.

## Background

International passengers are required to clear US Customs and Immigration by Federal Inspection Services, a division of Homeland Security of the Federal government. Per the Signatory Lease Operating Agreement (SLOA), international airlines self-report monthly the number of deplaned international passengers to the Port. The airlines are billed monthly a 1/12th of a flat annual fee and a per deplaned passenger fee.

(in thousands)	2011		2012	
	FIS Revenue*	Passenger Count	FIS Revenue*	Passenger Count
Delta	\$1,308	308	\$1,139	350
Horizon	583	132	432	126
British Airways	425	94	360	104
United Airlines	311	66	269	75
Lufthansa	335	72	259	72
Others	2,184	440	1,909	500
<b>Total</b>	<b>\$5,146</b>	<b>1,112</b>	<b>\$4,368</b>	<b>1,227</b>

\*includes both the annual and per-passenger fees

## Audit Objectives

The purpose of the audit was to determine whether:

1. Management controls are adequate to provide reasonable assurance that Federal Inspection Services (FIS) revenue is accurate and complete.

The scope of our audit covered a three-year period from January 1, 2011 through December 31, 2012.

## Audit Result

- Management controls are adequate to provide reasonable assurance that Federal Inspection Services revenue is accurate and complete.
- ❖ No Findings



## Background

The scope of our audit covered the period January 1, 2011 - December 31, 2012. We focused on federal grants below \$100,000 and smaller Port departments that charge less than significant costs to federal grants and which may not have been audited in the past.

Description	2011	2012
Total Federal Expenditures	\$22,713,762	\$27,751,934
Total Audited Federal Expenditures	\$20,496,443	\$25,522,201
Total Unaudited Grants (including the grants under \$100,000)	\$2,217,319	\$2,229,733
Total Grants Under \$100,000 (included in unaudited)	\$173,798	\$226,426

Source: Schedules of Expenditures of Federal Awards (SEFA)

## Audit Objectives

The purpose of the audit was to determine whether:

1. There are adequate policies and procedures to guide the administration of smaller grants.
2. The administrators of the smaller grants are provided adequate training in federal grant requirements.
3. Costs for smaller grant-funded projects are properly estimated prior to grant application, to ensure that requested federal funding is maximized and Port funding is minimized.
4. Controls over receipt of federal funds are adequate.

## Audit Result

- The policies and procedures that guide the administration of smaller grants are adequate. Training provided to the administrators of smaller grants is adequate. Costs of smaller grant-funded projects are properly estimated prior to grant application. Controls over receipt of federal funds are adequate.

❖ No Findings

## Background

In September 2011, Internal Audit completed a limited operational audit of the Port's fleet maintenance operations (Audit Report No. 2011-16) with the following conclusion:

“The fleet maintenance shops have adequate controls to ensure maintenance operations are efficient, effective, and in compliance with internal policies and procedures. However, we identified two significant issues related to the monitoring and oversight of fleet management activities.”

We issued two audit findings:

1. **Maximo Software (IBM) for Fleet Maintenance Is Not Used At Optimal Capacity:** The Port's fleet management software, Maximo, was not utilized effectively to manage fleet, particularly with identifying fleet assets.
2. **Certain Requirements of the Fleet Management Policy Are Not Being Met: Executive Policy 17:** The Port's fleet policy requirements for the use of fleet assets were not being consistently tracked and met among the various groups utilizing assigned and pool vehicles.

## Audit Objectives

The purpose of the audit was to determine the status of the prior audit's findings and recommendations:

1. Management has implemented recommendations to ensure optimal use of Maximo.
2. The requirements of Executive Policy 17 (as revised by management) are being met.

We reviewed information for the period October 1, 2011 – June 30, 2013

## Audit Result

- Management has implemented the recommendations to ensure optimal use of Maximo, and continues to pursue process improvements. Management is in process of ensuring that the requirements of the recently amended EX-17 are being met.
- ❖ No Findings