



# Internal Audit Report

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Lease & Concession Audit

Massage Bar, Inc.

July 1, 2009 – June 30, 2012

Issue Date: October 1, 2013  
Report No. 2013-15

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## Transmittal Letter

Audit Committee  
Port of Seattle  
Seattle, Washington

We have completed an audit of Massage Bar, Inc. We reviewed information relating to a three-year period from July 1, 2009 through June 30, 2012.

We conducted the audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. 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 management and staff of Aviation Business Development and Accounting and Financial Reporting for their assistance and cooperation during the audit.



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Director, Internal Audit

Audit Team:

Margaret Songtantaruk, Internal Auditor  
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Responsible Management Team:

Deanna Zachrisson, Mgr. Concessions Management  
James Schone, Dir. AV Business Development

## Executive Summary

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

1. The reported concession fees were complete, properly calculated, and remitted timely to the Port of Seattle.
2. The Port and lessee complied with provisions of the Lease and Concession Agreement, as amended.

The scope of our audit covered the period from July 1, 2009 through June 30, 2012.

**Agreement Terms** The terms of the agreement require a Minimum Monthly Guarantee (MMG) of 85% of the total amount paid to the Port in the previous agreement year and additional percentage fees, provided the fee is higher than the monthly MMG payment. These percentage fees range from 12% to 14% on massage services and 15% on product sales.

The MMG is payable in advance, on or before the first day of each month. The percentage fee is due on or before the 15<sup>th</sup> of each month for the preceding month. The agreement provides for a one-time late fee of 5% of the past due amount and accrued interest charges of 18% per annum from the date due until paid.

**Audit Result Summary** Massage Bar, Inc. materially complied with the provisions of the Lease and Concession agreement. The reported concession fees were complete, properly calculated, and remitted timely to the Port.

## Background

Massage Bar, Inc. is recognized as a pioneer and leader in airport seated massages and wellness services. Including Seattle-Tacoma International Airport (STIA) locations in the North Satellite and C Concourses, Massage Bar operates at seven other airports. Massage Bar is headquartered in Green Lake, Washington.

The terms of the agreement require a Minimum Monthly Guarantee (MMG) of 85% of the total amount paid to the Port in the previous agreement year and additional percentage fees, provided the fee is higher than the MMG payment. These percentage fees range from 12% to 14% on massage services and 15% on product sales.

The MMG is payable in advance, on or before the first day of each month. The percentage fee is due on or before the 15<sup>th</sup> of each month for the preceding month. The agreement provides for a one-time late fee of 5% of the past due amount and accrued interest charges of 18% per annum from the date due until paid

The following are the only agreed-upon deductions to concession revenues in the agreement:

- Refunds of unacceptable or unsatisfactory goods or services to the extent such refund was actually granted and adjustment actually made.
- Discounts actually granted.
- Tax imposed or collected on behalf of a taxing authority.

Below are the financial highlights for the last three fiscal years:

### Massage Bar, Inc. Concession Fees Paid to the Port of Seattle

*Broken-out by location and category, July 1, 2009 – June 30, 2012\**

Service/Location	2010	2011	2012
<b>Massages:</b>			
- Concourse C	\$ 180,656	\$ 193,395	\$ 195,985
- North Satellite	3,837	30,865	44,005
<b>Product Sales:</b>			
- Concourse C	3,340	4,008	4,118
- North Satellite	661	888	964
<b>Grand Total</b>	<b>\$ 188,494</b>	<b>\$ 229,156</b>	<b>\$ 245,072</b>

Data Source: Port of Seattle PeopleSoft Financials

Data Note:\* The Agreement Year Ends on June 30<sup>th</sup>

## Audit Scope and Methodology

We reviewed information for the period from July 1, 2009 through June 30, 2012. We utilized a risk-based audit approach from planning to testing phase. We gathered information through research, interviews, observations, and analytical reviews, in order to obtain a complete understanding of the Massage Bar lease and concession agreement.

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

A) Timely Payment:

We reviewed the payment records to determine whether the lessee complied with the due date requirement.

B) Liability Insurance:

We reviewed the certificates of insurance and determined whether insurance coverage was maintained current and in compliance with the terms of the lease agreement.

C) Minimum Monthly Guarantee (MMG):

We re-calculated MMG amounts to determine accuracy and compliance with the lease agreement.

D) Surety Bond:

We determined whether the Surety Bond was calculated correctly in compliance with the lease agreement.

E) Concession Revenue:

We interviewed Massage Bar personnel about policies and procedures over cash receipts, accounting, and reporting. We also reviewed lessee's financial records including point-of-sale data, general ledger, bank records, and daily tally sheet reconciliation, as well as the reported revenues to the Port. We selected sales information from the following months for detailed testing procedures:

- December 2009
- January, February, and March 2010
- September 2011
- May 2012

We agreed the revenue from the point-of-sale to the general ledger, to deposit records, to daily tally sheet reconciliation, and to the revenues Massage Bar reported to the Port.

## Conclusion

Massage Bar, Inc. materially complied with the provisions of the Lease and Concession agreement. The reported concession fees were complete, properly calculated, and remitted timely to the Port.