



## Internal Audit Report

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Federal Inspection Services Revenue

Limited Scope Operational Audit

January 1, 2011 – December 31, 2012

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Report No. 2013-17

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## Transmittal Letter

Audit Committee  
Port of Seattle  
Seattle, Washington

We have completed an audit of Federal Inspection Services Revenue.

We reviewed information relating to a two-year period from January 1, 2011 – December 31, 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 Operations and Customer Service department for their assistance and cooperation during the audit.



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## Executive Summary

**Audit Scope and 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 the period from January 1, 2011 through December 31, 2012.

**Background** Deplaned 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 1/12<sup>th</sup> of a flat annual fee and a per deplaned passenger fee, both of which are adjusted annually. The Business Development and Management department records the number of deplaned international passengers in a recently implemented custom-developed Port system and transmits that information to Finance & Accounting. In turn, that department processes that information in Prop Works and PeopleSoft and invoices the airlines.

There are currently some 14 international airlines servicing Sea-Tac and over a million deplaned passengers clearing FIS. Revenue was \$5.1 million and \$4.4 million for 2011 and 2012 respectively.

**Audit Result Summary** Management controls are adequate to provide reasonable assurance that Federal Inspection Services revenue is accurate and complete.

## Background

Enplaned and deplaned international passengers account for almost 10 percent of passenger traffic at Sea-Tac International Airport. International passenger traffic is growing more rapidly than domestic traffic and is a strategic initiative, part of the Century Agenda. There are currently some 14 international airlines servicing Sea-Tac.

Per the Signatory Lease Operating Agreement (SLOA), international airlines self-report monthly the number of deplaned passengers that are required to clear Federal Inspection Services, a division of Homeland Security of the Federal government. Airline crews are not subject to FIS fees and international passengers en route to Sea-Tac clearing FIS at Canadian airports are not subject to local FIS fees. Airlines are billed monthly for a 1/12<sup>th</sup> of an annual fee and a per deplaned passenger fee. The Business Development and Management department records the number of deplaned international passengers in a recently implemented custom-developed Port system and transmits that information to Accounting and Financial Reporting (AFR). In turn, AFR processes that information in PeopleSoft and invoices the airlines monthly.

The table below summarizes FIS revenues and deplaned passenger counts by airline for the audit period.

(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>

Source: PROPWorks

\*includes both the annual and per-passenger fees

## Audit Scope and Methodology

We reviewed information for the period from January 1, 2011 - December 31, 2012. We utilized a risk-based audit approach from planning to testing. We gathered information through document reviews, interviews, observations, and analytical procedures, in order to obtain a complete understanding of operations related to FIS revenue. We assessed significant risks and identified controls to mitigate those risks. We evaluated whether the controls were functioning as intended.

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

1. Completeness and Accuracy of Reported Revenue

- Toured and observed operations at international arrivals and FIS clearing areas during flight arrivals
- With the assistance of Aviation Planning, we analyzed and compared data reported by international airlines:
  - To Homeland Security records on each flight, which is summarized daily by Aviation Operations and recorded in a database.
  - To US Department of Transportation data for all FIS reporting airlines, which is collated by a third party, and reconciled all of 2011 and 2012 records to their monthly self-reported FIS numbers to the Port.
- Observed the processing of the reported data by Aviation Business Development & Management and Accounting & Financial Reporting (AFR)

## Conclusion

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