



Internal Audit Report

Lease & Concession Audit

Taste, Inc. (dba Vino Volo)

May 1, 2010 – September 30, 2012

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Transmittal Letter

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of the lease and concession agreement with Taste, Inc. (dba Vino Volo).

We reviewed information relating to the lease and concession agreement from May 1, 2010 – September 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 staff of Aviation Business Development and Accounting and Financial Reporting 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. 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 the period from May 1, 2010 – September 30, 2012.

Background Taste, Inc. (dba Vino Volo) operates a location in the central terminal at the Sea-Tac Airport. Its product line consists of wines from around the world, sold by the bottle, glass or tasting flights; lunch, dinner, and small-plates; and wine-related merchandise, books, and magazines.

Vino Volo entered into the current lease and concession agreement with the Port of Seattle on April 17, 2006, for a 10-year term ending April 30, 2016.

The agreement provides for a specific concession based on gross receipts at the rate of 11%. There are provisions for finance charges and interest if payments are not received within a ten-day grace period.

Audit Result Summary Concession revenue reported by Vino Volo was complete, calculated properly, and remitted timely, except for overpayment of the concession fee (Finding 1). Vino Volo complied with significant provisions of the lease and concession agreement.

Background

Taste, Inc. (dba Vino Volo) was founded in 2004 in San Francisco, which continues to be the location of its headquarters. The first Vino Volo location was established in September 2005 at Washington, D.C.'s Dulles International Airport. To date, Vino Volo has opened 22 locations across North America, primarily in 10 major airports.

The Vino Volo product line consists of wines from around the world, sold by the bottle, glass or tasting flights; lunch, dinner, and small-plates; and wine-related merchandise, books, and magazines. At Sea-Tac Airport, Vino Volo is located in the Central Terminal Marketplace. It is open daily from 7 a.m. to 11 p.m.

Vino Volo entered into its first lease and concession agreement with the Port of Seattle on April 17, 2006, for a 10-year term ending April 30, 2016.

The lease and concession agreement states that the Minimum Annual Guarantee (MAG) payments are due on the first of each month. The MAG is calculated on 90% of the prior agreement year's gross receipts, at a concession rate of 11%. The monthly concession fee, based on the prior month's gross receipts, is due on the 15th of the following month, along with a statement of actual gross receipts for the previous month. A late fee of 5% may be assessed if payments are not received within a ten-day grace period. Interest of 18% may also be assessed on late payments.

The table below summarizes the concession revenue received from Vino Volo for the period May 1, 2010 - September 30, 2012.

Key Financials for Vino Volo Lease & Concession Agreement	
<i>Audit Period May 1, 2010 - September 30, 2012</i>	
Gross Receipts	\$ 3,976,695
Concession Payments	\$ 437,436
Data Source: Vino Volo's CFO-Certified Annual Financial Reports	

Audit Scope and Methodology

We reviewed information for the period from May 1, 2010 to September 30, 2012. We utilized a risk-based audit approach from planning to testing. We gathered information through research, interviews, observations, and analytical reviews, in order to obtain a complete understanding of the Vino Volo lease and concession agreement.

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

1. Reported concession revenue is complete, properly calculated, and remitted timely.
 - We reviewed lessee's financial records including point-of-sale data, general ledger, bank records, and Washington State Combined Excise Tax Return records and the reported

revenues to the Port. We selected sales from one month for testing procedures. We traced the revenue from the point-of-sale to the general ledger to deposit records to tax records and to the revenues Vino Volo reported to the Port.

- We reviewed the Port's records to determine whether the rent and concession payments were received on time. In the event that payments were received later than the ten-day grace period allowed in the agreement, we calculated the expected interest and finance charges, if not previously assessed.

2. The lessee complied with significant provisions of the lease and concession agreement.

- We identified the insurance coverage required by the agreement for the audit period and determined whether the lessee had obtained sufficient coverage and submitted evidence to the Port in accordance with the agreement.
- We identified the annual reports required by the agreement for the audit period and determined whether the lessee had submitted the reports to the Port in accordance with the agreement.
- We identified the security coverage required by the agreement for the audit period and determined whether the lessee had obtained sufficient coverage and submitted evidence to the Port in accordance with the agreement.

Conclusion

Concession revenue reported by Vino Volo was complete, calculated properly, and remitted timely, except for overpayment of the concession fee (Finding 1). Vino Volo complied with significant provisions of the lease and concession agreement.



Schedule of Findings and Recommendations

1. VINO VOLO OVERSTATED GROSS RECEIPTS AND OVERPAID THE CONCESSION FEE.

Section 1.8 of the lease and concession agreement states:

"Gross Receipts" shall not include the following when properly recorded and accounted for:

1.8.3 Any discounts actually granted....

For the audit period May 1, 2010 – September 30, 2012, Vino Volo reported gross receipts of \$3,976,695. Based on its misinterpretation of the language in the lease and concession agreement, Vino Volo did not reduce gross receipts by discounts of \$41,348 granted to its customers. The following table shows the revised amounts and the overpayment.

Schedule of Vino Volo Report of Gross Receipts and Concession Payment				
<i>Audit Period May 1, 2010 - September 30, 2012</i>				
Description	Audited Gross Receipts and Concession Fee	Audited Discounts	Revised Gross Receipts and Concession Fee	Overpayment
Gross Receipts	\$ 3,976,695	\$ (41,348)	\$ 3,935,347	
Concession Fee (@ 11%)	\$ 437,436		\$ 432,888	\$ 4,548
Data Source: Vino Volo's CFO-Certified Annual Financial Reports				

Recommendation

We recommend Port management work with Vino Volo to resolve the overpayment and ensure future gross receipts are reported in accordance with the terms of the agreement.

Management Response

The audit conducted of the Vino Volo was a very comprehensive look at this tenant, with a unique concept for the airport. While it is certainly more common that any misinterpretations of contractual language tend to fall to the favor of the lessee, it is nonetheless possible for a tenant's interpretation to result in an overpayment of concession fee. Management will work with the tenant to insure that they interpret the language properly in the future, and reach an agreement regarding repayment of overpaid concession fee.