

# INTERNAL AUDIT REPORT

WORLD TRADE CENTER-WEST  
THIRD-PARTY MANAGEMENT AGREEMENT

JANUARY 1, 2012 – DECEMBER 31, 2013

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## TRANSMITTAL LETTER

Audit Committee  
Port of Seattle  
Seattle, Washington

We have completed an audit of the Third Party Management Agreement for World Trade Center - West. The Port of Seattle owns this property and Kidder Mathews manages the building and provides services to the tenants on behalf of the Port.

We reviewed information relating to the Third Party Management Agreement from January 1, 2012 - December 31, 2013.

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 management and staff of the Real Estate Asset and Portfolio Management Department, the Marine Maintenance Department, the Seaport Finance Department, and managers of Kidder Mathews for their assistance and cooperation during the audit.



Joyce Kirangi, CPA, CGMA  
Internal Audit, Director

### AUDIT TEAM

Ruth Riddle, Senior Auditor  
Jack Hutchinson, Audit Manager

### RESPONSIBLE MANAGEMENT TEAM

Joe McWilliams, Director – Real Estate Division  
Melinda Miller, – Director – Portfolio and Asset Management  
Pat Spangler, Real Estate Manager

## EXECUTIVE SUMMARY

### AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine whether management controls over the Third-Party Management Agreement with Kidder Mathews (KM) for the management of World Trade Center-West (WTC-W) are adequate to ensure:

1. KM properly bills, collects, and remits tenant receipts to the Port.
2. Payments by KM, reimbursed by the Port, are properly supported and related to WTC-W activity.
3. KM complies with the significant requirements of the management agreement.

We reviewed information for the period January 1, 2012 - December 31, 2013. Details of our audit's scope and methodology are on page 6.

### BACKGROUND

The Port of Seattle owns the World Trade Center - West building. The Port developed and constructed this property in the mid-1990s. WTC-W is a 69,000 square-foot, four-story commercial office building, located on the east side of Alaskan Way, across from Pier 66. Currently, there are 14 tenants, including the World Trade Center - Seattle on the fourth floor.

KM has managed the building since 2010, through the current time.

### WORLD TRADE CENTER - WEST -- THIRD-PARTY MANAGEMENT

REVENUE AND EXPENSE DESCRIPTIONS	2010	2011	2012	2013
Third-Party Lease Revenue	\$954,699	\$990,773	\$1,187,505	\$1,135,584
Management Fee Expense	45,600	47,880	50,274	45,600
Third-Party Management Operating Expense	456,372	460,551	481,990	518,786
Revenue Over (Under) Expense	\$452,726	\$482,341	\$655,241	\$571,198

Data Source: PeopleSoft Financials

### AUDIT RESULT

Management controls over the third-party management agreement are adequate. KM properly bills, collects, and remits tenant receipts to the Port. The payments by the Port to KM are properly supported and related to WTC-West activity. KM complies with the significant requirements of the management agreement.

## BACKGROUND

The Port of Seattle owns the World Trade Center - West (WTC-W). The Port developed and constructed this building in the mid-1990s. WTC-W is a 69,000 square-foot, four-story commercial office building, located on the east side of Alaskan Way, across from Pier 66. Currently, there are 14 tenants, including the World Trade Center - Seattle on the fourth floor.



Above photo: World Trade Center-West looking north from Alaska Way

During its early years of operation, Wright Runstad, the developer, managed the building. In 2009, the Port requested competitive proposals for building management. The Port entered into a one-year management agreement with Kidder Mathews (KM), effective January 1, 2010. The Port executed one-year extensions of this management agreement for 2011 and 2012. In 2012, the Port requested competitive proposals for building management. The Port again awarded management of the building to KM, effective January 1, 2013, with four automatic one-year extensions through 2017.

## FINANCIAL HIGHLIGHTS

### WORLD TRADE CENTER - WEST -- THIRD-PARTY MANAGEMENT

REVENUE AND EXPENSE DESCRIPTIONS	2010	2011	2012	2013
Third-Party Lease Revenue	\$954,699	\$990,773	\$1,187,505	\$1,135,584
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Data Source: PeopleSoft Financials

## HIGHLIGHTS AND ACCOMPLISHMENTS

- The Port established a lock box for remittance by WTC-West tenants of rental payments.
- The Port established a dedicated bank deposit account for WTC-West, ensuring all deposits are “swept” to the Port’s main bank account.
- The Port established a revolving checking account for WTC-West, ensuring only valid payments are made from and reimbursed to this account.

## AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period January 1, 2012 – December 31, 2013. 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 third-party management agreement. We evaluated and tested controls to determine whether they were operating as intended.

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

1. To determine whether KM properly bills, collects and remits tenant receipts to the Port:
  - a. We calculated 100% of tenant rents due to the Port, based on lease agreements, and reconciled expected rents to actual rents.
  - b. We traced one set of payments through the system from dates of payment by tenants to dates of receipt by lock box to dates of deposit to bank to dates of sweep to Port’s primary bank account.
2. To determine whether payments by KM, reimbursed by the Port, are properly supported and related to WTC-West activity:
  - a. Vendor payments - We tested a risk-based sample of payments against supporting documents to determine whether valid. Of total checks issued of 621 in the amount of \$1,226,439, we tested 43 (7%) in the amount of \$237,337 (19%).
  - b. Reimbursements to KM for labor and other fees - As part of the above sample, we tested supporting work orders to determine whether valid.
3. To determine whether KM complies with the significant requirements of the management agreement:
  - a. Insurance - We determined whether required insurance was in force at the required coverage amounts.

- b. Pre-approvals of specified payments (KM's reimbursements to itself and purchases exceeding \$5,000) - As part of the sample documented above at 2a, we determined whether payments by KM to itself and purchases exceeding \$5,000 were pre-approved by Port management.
- c. Annual budget submission - We determined whether KM submitted annual budgets by required dates in 2012 and 2013.
- d. Monthly financial reports - We determined whether KM submitted monthly financial reports by required dates in 2012 and 2013 and whether reports were accurate.

## CONCLUSION

Management controls over the third-party management agreement are adequate. KM properly bills, collects, and remits tenant receipts to the Port. The payments by the Port to KM are properly supported and related to WTC-West activity. KM complies with the significant requirements of the management agreement.