

INTERNAL AUDIT BRIEFING

PRESENTED TO THE PORT OF SEATTLE
AUDIT COMMITTEE AND
MR. TAY YOSHITANI, CEO

JOYCE KIRANGI, CPA, CGMA
DIRECTOR, INTERNAL AUDIT

TUESDAY, JULY 29, 2014

AGENDA

Audit Report

1. Lease and Concession Audits
 - Dollar Rent-A-Car
2. Operational Audits
 - Central Processing System
 - None
 - Comprehensive Operational Audit/Departmental Audit
 - Aviation Business Development Department
 - Terminal 91 Maritime Operations
 - Shilshole Bay Marina
 - Limited Operational Audit
 - CPO Efficiency Review - outsourced to Mobius Industries
3. Third-Party Audit
 - Club International and Cascade Lounge
 - World Trade Center - West

Briefing/Update

- The Internal Audit Department of the Port of Seattle is hosting the 27th Annual Conference of the Association of Airport Internal Auditors (AAIA) in 2016
- 2014 Flexible Work Plan Update

LIMITED OPERATIONAL AUDIT CENTRAL PROCUREMENT OFFICE EFFICIENCY – OUTSOURCED TO MOBIUS INDUSTRIES



INTERNAL AUDIT

BACKGROUND

- Mobius Industries was awarded the contract in February 2014. Work began March 3, 2014.

AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to:

- Assess whether the established processes, procedures, management controls, and established practices are efficient, economical, and result in an effective way to provide procurement and contracting services.
- Acknowledge risk and evaluate risk management practices to ensure the Port enters into sound contracts with qualified firms at fair and reasonable contract rates.
- Identify and evaluate best practices in government procurement for delivering procurement and contracting services.
- Benchmark Port procurement practices with other government agencies best practices, including applicable private sector practices and the Federal Acquisition Regulation (FAR).

The review was for the period January 1, 2010 - May 11, 2014.

LEASE AND CONCESSION AUDIT DOLLAR RENT-A-CAR



INTERNAL AUDIT

BACKGROUND

CMC Investments, Inc. dba Dollar Rent-A-Car is a private company categorized under Automobile Renting and Leasing in Mercer Island, WA. Dollar Rent-A-Car entered into the initial lease and concession agreement with the Port of Seattle on November 1, 1999. The current lease agreement is from June 1, 2012 - May 31, 2014. The terms of the agreement provide for a Minimum Annual Guarantee (MAG) of 80% of the total amount paid to the Port in the previous agreement year. Additionally, the agreement requires a Percentage Fee equal to 10% of gross revenues, provided the fee is higher than the monthly MAG payment.

FINANCIAL HIGHLIGHTS

KEY FINANCIAL RESULTS FOR DOLLAR RENT-A-CAR AGREEMENT		
AGREEMENT YEAR ¹	REPORTED GROSS REVENUES	CONCESSION PAID
2010-2011	\$ 14,402,658	\$1,440,303
2011-2012 ²	4,995,787	518,657
TOTAL	\$ 19,398,445	\$ 1,958,960

Data Source: PeopleSoft Financials
Data Notes: ¹ Agreement Year from November 1 - October 31
² November 1, 2011 - 05/16/2012

LEASE AND CONCESSION AUDIT DOLLAR RENT-A-CAR

AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine whether:

- The reported concession fees were complete, properly calculated, and remitted timely to the Port.
- The Port and lessee complied with provisions of the Rental Car Lease and Concession Agreement, as amended.
- Customer Facility Charges (CFC) were properly collected and remitted timely to the Port.

We reviewed information for the period November 1, 2010 - May 16, 2012.

LEASE AND CONCESSION AUDIT

DOLLAR RENT-A-CAR

AUDIT RESULT

Dollar Rent-A-Car materially complied with the terms of the Rental Car Lease and Concession Agreement. However, the audit determined that certain gross receipts and CFC were underreported. We recommend Port management seek recovery of \$62,804 in additional concession fees, CFC, late fees, and interest charges. There were two reportable findings:

1. Certain gross revenues were underreported.
2. Customer Facility Charge (CFC) was underreported.

COMPREHENSIVE OPERATIONAL AUDIT

AVIATION BUSINESS DEVELOPMENT DEPARTMENT



INTERNAL AUDIT

BACKGROUND

The Aviation Business Development Department (AVBD) is responsible for generating non-aeronautical revenues from Seattle-Tacoma International Airport (STIA) operations, which include retail concessions, rental cars, and local property development. It develops, manages, and terminates lease agreements for diverse customers including airlines, rental cars, concessionaires, and other airport-related businesses. The business agreements developed and managed by AVBD generate over \$48 million in non-aeronautical revenues annually for the Port.

FINANCIAL HIGHLIGHTS

TOP 5 SOURCES OF AVIATION BUSINESS DEVELOPMENT REVENUE AND PERCENT-SHARE

RANK	REVENUE SOURCE	2011	2012	2013	2013 SHARE ¹
1	Retail ²	\$ 8,726,299	\$ 9,219,223	\$ 9,716,575	20%
2	In-Flight Meals	3,732,987	4,486,312	4,813,815	10
3	Food & Beverage	3,928,609	4,239,946	4,617,400	10
4	General Space Rentals	3,390,479	3,353,147	3,150,403	6
5	Advertising Display	4,409,560	3,246,209	2,696,593	6

Data Source: PeopleSoft Financials

Data Notes: ¹ The percent-share is based on the FY 2013 departmental revenues of \$48,533,161.34.

² Retail includes multiple PeopleSoft Financial accounts described as 'retail'.

COMPREHENSIVE OPERATIONAL AUDIT AVIATION BUSINESS DEVELOPMENT DEPARTMENT



INTERNAL AUDIT

AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine whether Aviation Business Development management has adequate and sufficient controls to develop and manage its agreements.

We reviewed information for the period January 1, 2013 - June 30, 2014.



COMPREHENSIVE OPERATIONAL AUDIT AVIATION BUSINESS DEVELOPMENT DEPARTMENT



INTERNAL AUDIT

AUDIT RESULT

Management controls are adequate and sufficient for developing and managing agreements.

No Reportable Findings.



COMPREHENSIVE OPERATIONAL AUDIT TERMINAL 91 MARITIME OPERATIONS



INTERNAL AUDIT

BACKGROUND

Cruise & Maritime Operations, a group within the Seaport Division, operates Terminal 91, which includes two large piers, the Smith Cove Cruise Ship Terminal with room to berth two cruise ships, and an extensive landside area with leased premises for seafood processors and related businesses and storage areas for containers, trailers, and vehicles.

FINANCIAL HIGHLIGHTS

MAJOR SOURCES OF REVENUE FOR TERMINAL 91

REVENUE SOURCE	FISCAL YEAR 2012	FISCAL YEAR 2013
Dockage – Tariff	21%	17%
Dockage – Preferential	28	30
Wharfage	13	14
Equipment Rental	3	3
Electrical	12	12
Space Rental	12	17
Other	3	3
TOTAL	100% \$ 3.9 MILLION	100% \$ 4.2 MILLION

Data Source: PeopleSoft Financials

COMPREHENSIVE OPERATIONAL AUDIT TERMINAL 91 MARITIME OPERATIONS



INTERNAL AUDIT

AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine whether management has implemented adequate controls to ensure:

- All applicable revenue is properly recorded on a timely basis.
- Rates charged comply with the tariff or preferential agreement.

We reviewed information for the period January 1, 2013 - May 31, 2014.



COMPREHENSIVE OPERATIONAL AUDIT TERMINAL 91 MARITIME OPERATIONS



INTERNAL AUDIT

AUDIT RESULT

Management has implemented adequate controls to ensure all applicable revenue is recorded on a timely basis and the rates charged are in accordance with the tariff or preferential agreement.

No Reportable Findings.



COMPREHENSIVE OPERATIONAL AUDIT SHILSHOLE BAY MARINA



INTERNAL AUDIT

BACKGROUND

Harbor Services within the Port of Seattle's Real Estate Division operate Shilshole Bay Marina. The Commission-approved Moorage Tariff No. 6 governs the Department's revenue streams. The tariff specifies the rates and charges for services provided by the Marina, including berthage and moorage, electricity, live-aboard fees, equipment rental, and other services.

FINANCIAL HIGHLIGHTS

SHILSHOLE BAY MARINA DEPARTMENTAL REVENUES BY FISCAL YEAR

AGREEMENT YEAR	2011	2012	2013
Berthage & Moorage:			
Monthly Moorage	\$ 7,257,424	\$ 7,201,171	\$ 7,372,506
Guest Moorage	203,579	233,988	211,776
Dry Moorage	160,213	172,647	182,661
Other Moorage	18,197	8,987	12,440
Parking	10,802	14,931	10,356
Other Revenue	592,412	607,835	658,695
TOTAL	\$ 8,242,627	\$ 8,239,560	\$ 8,448,434

Data Source: PeopleSoft Financials

COMPREHENSIVE OPERATIONAL AUDIT SHILSHOLE BAY MARINA



INTERNAL AUDIT

AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine whether Shilshole Bay Marina management controls are adequate to ensure:

- Guest Moorage, Dry Moorage, and Parking revenue is complete and charged at the appropriate rate.
- Rates are charged in accordance with the approved tariff.
- Customer liability insurance complies with requirements.

We reviewed information for the period January 1, 2013 - June 30, 2014.



COMPREHENSIVE OPERATIONAL AUDIT SHILSHOLE BAY MARINA



INTERNAL AUDIT

AUDIT RESULT

Management controls are adequate to ensure Guest Moorage, Dry Moorage, and Parking revenue is complete and charged appropriately. Management controls are also adequate to ensure compliance with the approved tariff and customer insurance requirements.

No Reportable Findings.



THIRD-PARTY MANAGEMENT AGREEMENT AUDIT CLUB INTERNATIONAL AND CLUB CASCADE LOUNGES



INTERNAL AUDIT

BACKGROUND

The Port owns and operates Club International (CI) and Club Cascade (CC) Lounge at Seattle-Tacoma International Airport. CI is located at the southeast end of the South Satellite, and CC is located at the southeast end of the A Concourse. In March 2010, the Port entered into a three-year management agreement with VIP to manage the day-to-day operations of CI. In 2013, the Port extended the agreement to include CC.



THIRD-PARTY MANAGEMENT AGREEMENT AUDIT CLUB INTERNATIONAL AND CLUB CASCADE LOUNGES



INTERNAL AUDIT

FINANCIAL HIGHLIGHTS

KEY FINANCIAL RESULTS OF CLUB INTERNATIONAL AND CLUB CASCADE

DESCRIPTION	CLUB INTERNATIONAL		CLUB CASCADE
	FISCAL YEAR 2012	FISCAL YEAR 2013	FISCAL YEAR 2013
PASSENGERS SERVED	13,000	33,500	550
AIRLINES SERVED	4	6	1
GROSS REVENUES	\$ 390,000	\$ 1,097,000	\$ 18,000
EXPENSES			
MANAGEMENT FEE	\$ 73,000	\$ 85,900	\$ 1,300
INCENTIVE MANAGEMENT FEE	10,600	8,100	-
LABOR COST	84,800	204,400	10,400
COST OF GOODS SOLD	61,200	148,400	2,700
OTHER	74,300	88,900	7,500
NET INCOME/(LOSS) TO PORT	\$ 86,100	\$ 561,500	\$ (3,900)

Data Source: PeopleSoft Financials, VIP Hospitality Profit and Loss Financial Statements

THIRD-PARTY MANAGEMENT AGREEMENT AUDIT CLUB INTERNATIONAL AND CLUB CASCADE LOUNGES



INTERNAL AUDIT

AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine whether:

- Port management controls are adequate to ensure:
 - Revenues are complete, timely recorded, and accurately reported.
 - Expenses are appropriate and reasonable.
- VIP Hospitality (VIP) complied with the agreement terms in the following areas:
 - Budget
 - Inventory
 - Insurance requirements
 - Customer billings and receipts
 - Expenses

We reviewed information for the period January 1, 2012 - December 31, 2013.



THIRD-PARTY MANAGEMENT AGREEMENT AUDIT CLUB INTERNATIONAL AND CLUB CASCADE LOUNGES



INTERNAL AUDIT

AUDIT RESULT

Port management controls are adequate to ensure revenues are complete, timely recorded, and accurately reported. Port management controls are inadequate to ensure expenses are reasonable.

VIP complied with the agreement terms on budget, inventory, insurance requirements, and customer billings and receipts. VIP did not comply with the terms of the agreement related to payroll expenses. There are two reportable findings:

1. VIP did not maintain adequate accounting records for labor cost.
2. Port management control over employee payroll tax reimbursements is inadequate.

THIRD-PARTY MANAGEMENT AGREEMENT AUDIT

WORLD TRADE CENTER - WEST



INTERNAL AUDIT

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.

Kidder Mathews has managed the building since 2010, through the current time.

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
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

THIRD PARTY MANAGEMENT AGREEMENT AUDIT WORLD TRADE CENTER - WEST



INTERNAL AUDIT

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:

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

We reviewed information for the period January 1, 2012 - December 31, 2013.



THIRD-PARTY MANAGEMENT AGREEMENT AUDIT WORLD TRADE CENTER - WEST



INTERNAL AUDIT

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.

No Reportable Findings.



BRIEFING/UPDATE

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- ❑ 2014 Flexible Work Plan Update

