



INTERNAL AUDIT REPORT

LEASE AND CONCESSION AGREEMENT AUDIT

TERRI D's CATERING INC. DBA ACT-3 CATERING

SEPTEMBER 23, 2012 – SEPTEMBER 30, 2015

ISSUE DATE: MAY 09, 2016
REPORT NO. 2016-07

EXECUTIVE SUMMARY

AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine whether Port management monitoring controls are adequate and effective to ensure:

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

We reviewed information for the period September 23, 2012 – September 30, 2015. Details of the audit scope and methodology are on page 6.

BACKGROUND

ACT-3 Catering (the Caterer) started in 1984. It has been serving the Greater Seattle and Tacoma area for over 25 years. It is a family owned and operated business. Corporate clients account for 54% of its clientele, including several airlines.

The agreement with the Port of Seattle originated in 2012. Under the terms of the agreement, the Caterer provides all food and beverage services to the Airport Office Building Conference Center and Conference Rooms. The agreement spans a three-year term, through September 30, 2015, with two optional one-year extensions. One extension has been executed, extending the term through September 30, 2016. The agreement requires a monthly concession payment of 10% of gross receipts.

AUDIT RESULT

Port management monitoring controls were effective to ensure that reported concession fees were materially complete, properly calculated, and remitted timely to the Port. The Caterer materially complied with significant provisions of the Concession Agreement, as amended.

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TRANSMITTAL LETTER

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of the ACT-3 Catering Concession Agreement. We reviewed information for the period September 23, 2012 - September 30, 2015.

We conducted this performance 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 the Airport Office Building - Conference Center and Accounting and Financial Reporting for their assistance and cooperation during the audit.

A handwritten signature in black ink that reads "Kirangi".

Joyce Kirangi, CPA, CGMA
Internal Audit, Director

AUDIT TEAM	RESPONSIBLE MANAGEMENT TEAM
Margaret Songtantaruk, Senior Auditor	Michele Fideler, Airport Facility Manager, Airport Office Building
	Tony Baca, Sr. Manager Airport Building & Facility Services
	Rudy Caluza, Director, Accounting and Financial Reporting

BACKGROUND

ACT-3 Catering (the Caterer) started in 1984. It has been serving the Greater Seattle and Tacoma area for over 25 years. It is a family owned and operated business. Its facilities are only five miles from Sea-Tac Airport and the Airport Office Building, where it provides catering services. Its 16,000 SF facility has a state-of-the-art kitchen. Corporate clients account for 54% of its clientele, some of which are:

- Alaska Airlines
- Aviation Partners
- Boeing Company
- British Airways
- Delta Airlines
- National Air Traffic Controllers Association
- Starbucks
- Teamster's Local Union 117
- Wells Fargo

The Port of Seattle entered into its first agreement for catering services at the Airport Office Building (AOB) and Conference Center in 2009. That agreement was in place for three years. In 2012, the Port selected ACT-3 Catering to provide food and beverage services to the Conference Center and the conference rooms within the AOB. The agreement spans a three-year term, from September 23, 2012 - September 30, 2015, with two optional one-year extensions. One extension has been executed, for the period September 23, 2015 - September 30, 2016. The agreement requires a monthly concession fee of 10% of gross receipts. In addition to the 10% concession fee paid to the Port on gross receipts from external parties, the Caterer provides a 10% discount on direct sales to the Port.

FINANCIAL HIGHLIGHTS

KEY FINANCIAL RESULTS FOR ACT-3 CATERING			
AGREEMENT PERIOD	REPORTED GROSS RECEIPT	CONCESSION PAID	
9/23/12 - 9/30/13	\$ 190,112	\$ 19,011	
10/1/13 - 9/30/14	142,108	14,211	
10/1/14 - 9/30/15	193,250	19,325	
TOTAL	\$ 525,469	\$ 52,547	

Data Source: PeopleSoft Financials & Propworks

AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period September 23, 2012 - September 30, 2015. We utilized a risk-based audit approach from planning to the testing. We gathered information through document review, inquiries of management and the Caterer, observations, and data analysis, in order to obtain a complete understanding of the financial and other requirements of the agreement between the Port of Seattle and Act 3 Catering.

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

1. To determine whether Port Management monitoring controls are adequate and effective to ensure.
 - Gross receipts were complete and concession fees properly calculated:
 - Reviewed the Caterer's chart of accounts to determine whether all revenue accounts were reported.
 - Reconciled the reports provided by the Caterer to CPA Certified Annual Report of Gross Sales
 - Port management oversight was adequate to identify and rectify any errors in reported concession fees.
 - We selected high dollar catered events across the three-year agreement period, which accounted for 25% of gross food and beverage receipts, and determined whether:
 - Customer billings agreed to amounts reported to the Port.
 - Customer billings reflected approved food and beverage menu pricing.
 - Reported concession was remit timely to the Port, late fees and interest assessed and paid:
 - Reviewed all payment records for the audit period, to determine whether payments were received timely.
 - Identified late payments, if any, calculated late fees/interest, and determined whether billed and paid.
2. To determine whether the Caterer and Port management complied with other significant provisions of the Concession Agreement, as amended, we determined whether the Caterer:
 - Submitted certified annual reports by required date.
 - Maintained required insurance at specified amounts.

CONCLUSION

Port management monitoring controls were effective to ensure that reported concession fees were materially complete, properly calculated, and remitted timely to the Port. The Caterer materially complied with significant provisions of the Concession Agreement, as amended.