

# Required Annual Communication

In accordance with the International Professional Practices Framework (IPPF) promulgated by the Institute of Internal Auditors and the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States, the Internal Audit Director must ensure the following information is communicated annually to the Audit Committee:

- Internal Audit Charter
- Confirmation of Organizational Independence
- Quality Assurance and Improvement Program

**INTERNAL AUDIT**

**March 24, 2017**

## UPDATE

### Aviation and Marine Maintenance Inventory Program - Report Back

#### AUDIT RECAP

In February 2016, we presented the result of a Limited Operational Audit of the Inventory Program at Aviation and Marine Maintenance.

The scope covered January 1, 2015 - October 31, 2015.

The audit identified one issue regarding the disposition of inventory (see following slide)



# UPDATE

## Aviation and Marine Maintenance Inventory Program - Report Back

### AUDIT RESULT – FINDING

#### INTERNAL CONTROLS TO IDENTIFY AND REMOVE INVENTORY THAT IS OBSOLETE, EXCESSIVE, OR HAS NO MARKET VALUE ARE NOT ALWAYS EFFICIENT OR EFFECTIVE.

- Policy AC-13 Disposition of Property states (in part):
  - .02(b) Inventory is expected to be consumed within a year...
  - .03 Property should be disposed when it no longer services its intended purpose, no alternative future use within 12 months exists, it is not considered a specialty item, and/or the Port no longer requires it to maximize the return on investment for the disposal of Port’s property...
  
- A review of AVM and MM inventory identified a significant amount of inventory aged over 12 months (see table below):

INVENTORY ITEM LAST ISSUED	AVIATION		MARINE	
	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE
Within 1 year	\$ 1,841,488	28%	\$ 171,958	59%
Within 2 years	332,982	5	24,828	9
Within 3 years	348,445	5	18,646	6
Within 4 years	204,090	3	8,903	3
Over 4 years	3,851,203	59	66,636	23
<b>TOTAL</b>	<b>\$ 6,578,208</b>	<b>100%</b>	<b>\$ 290,970</b>	<b>100%</b>

Data Source: Maximo



## UPDATE

### Cruise Terminal of America (CTA) - Report Back

#### AUDIT RECAP

In May 2016, we presented the result of a Lease and Concession Agreement Audit of Cruise Terminal of America.

The scope covered January 1, 2013 - December 31, 2015.

The audit identified one issue regarding the rent surety (see following slide)



## UPDATE

## CTA - Report Back

## AUDIT RESULT - FINDING

Monitoring controls performed by Maritime Cruise Operations and Finance are designed appropriately and operating effectively. The lessee materially complied with significant provisions of the Lease Agreement. Management's preventative controls over the lease process are not adequate.

**There was one reportable finding:**

1. There is no formal process to evaluate whether lease agreement rent security is adequate to protect the Port from risk of loss.
  - The rent security provision in the Cruise Facility Lease agreement deviated from state law and Port procedure guidelines.
    - **RCW 53.08.085** - Lease of Property - Security of Rent - requires rent security of one-sixth the total rent, but not less than one year's rent or more than three years' rent with the port commission having the discretion to adjust or waive rent security.
    - **Port Procedure RE-2** - provides a guideline that agreements of five years or more shall require rent security of six months' rent with the Executive Director or designee having the discretion to adjust the amount or form of security in appropriate circumstances.
  - The deviation was not documented or expressly approved by the Port Commission.

## REVISED MANAGEMENT RESPONSE

*Management agrees with Internal Audit recommendation. In the future, before lease agreements are presented to commission for approval, management will include a key control process that ensures proposed agreements are only approved when risk is set to an acceptable level and the Port is in compliance with applicable Laws and Port policies or procedures and any deviations are documented and explicitly presented to decision makers.*

*In addition, as a result of this audit finding a formal process will be performed and documented before the start of each remaining cruise season through the remaining term of the CTA lease to evaluate any risk to the port. Although the annual rent the port receives from the cruise business is greater than 14 million the concern of risk to the Port should be based on a month's rent for which CTA pays the port during the cruise season. CTA collects the Ports per passenger tariff fees from the cruise lines for each ship call during a particular month May through Sept. CTA retains roughly 12% of those fees and forwards balance to the port by the 15<sup>th</sup> of the following month . CTA's lease, restated as a result of the NCL agreement at P66, now only pertains to T91 cruise operations.*

# LEASE AND CONCESSION AGREEMENT AUDIT

## Pier 86 - Grain Terminal

### AUDIT OBJECTIVES AND SCOPE

*The purpose of the audit was to determine whether:*

- *The lessee complied with significant lease provisions.*

We reviewed and analyzed records for the Agreement period. For purposes of rendering our opinion, we focused on the period January 1, 2015 through August 31, 2016.

### BACKGROUND

The Pier 86 Grain Terminal was constructed by the Port in 1970. The electronic controls and mechanical devices installed in the terminal made it one of the most automated grain facilities in the world, insuring maximum speed and efficiency in moving grain from rain cars to silos or directly to a ship's hold. Under the lease and concession agreement, Louis Dreyfus operates the terminal and pays the Port a rental fee plus a concession based on loaded ship tonnage.

### AUDIT RESULT

The lessee materially complied with significant provisions of the Lease Agreement.

# LEASE AND CONCESSION AGREEMENT AUDIT

## Airport Management Services, LLC

### AUDIT OBJECTIVES AND SCOPE

Port management controls were effective to ensure compliance with significant terms of the lease agreement, as amended.

Airport Management Services (AMS) complied with the significant terms of the lease agreement, as amended, including:

- Gross receipt requirements.

- Rent payment requirements.

- Independent certified gross receipt annual report requirements.

- Letter of credit or security requirements.

- Insurance requirements.

For purposes of rendering our opinion, we focused on the period May 1, 2013 - April 30, 2016.

### BACKGROUND

Airport Management Services, LLC, (AMS) operates retail concessions at the SeaTac International airport. Their retail operations provide wide range of goods and services to the airport customers.

There were 22 different concession units leased under this lease. As of May 2014, two (2) units were closed and on April 1, 2016 nine (9) units were incorporated into a new lease agreement with the Port. All these changes were mutually agreed among all the parties involved.



# LEASE AND CONCESSION AGREEMENT AUDIT

## Airport Management Services, LLC

### AUDIT RESULT

Port management controls over the Airport Management Services concession agreement were effective to ensure compliance with the significant terms of the lease agreement. Airport Management Services complied with the significant terms of the agreement, as amended.



# LEASE AND CONCESSION AGREEMENT AUDIT

## Clear Channel Outdoor, Inc. DBA Clear Channel Airports

### AUDIT OBJECTIVES AND SCOPE

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

- Clear Channel reported concession fees were complete, properly calculated, and remitted timely to the Port.
- Clear Channel complied with significant financial terms of the lease and concession agreement.

We reviewed and analyzed records for the Agreement period August 1, 2012 - July 31, 2015.

### BACKGROUND

The lease agreement with the Port authorizes Clear Channel Outdoor, Inc., doing business as Clear Channel Airports (Clear Channel), to management the public advertisements at the Seattle Tacoma International Airport.

The terms of the agreement provide for fixed Minimum Annual Guarantee (MAG) of \$5 million annually. In additionally, the agreement requires a concession fee equal to 70% of gross receipts, provided the concession fee is higher than the MAG payment.

# LEASE AND CONCESSION AGREEMENT AUDIT

## Clear Channel Outdoor, Inc. DBA Clear Channel Airports

### FINANCIAL HIGHLIGHTS

#### KEY FINANCIAL RESULTS FOR CLEAR CHANNEL AIRPORTS

AGREEMENT PERIOD	REPORTED GROSS	
	REVENUES	CONCESSION PAID
2012-2013	\$3,956,648	\$5,000,000
2013-2014	\$5,122,345	5,000,000
2014-2015	\$7,842,258	5,489,580
<b>TOTAL</b>	<b>\$16,921,252</b>	<b>\$15,489,580</b>

Data Source: PeopleSoft Financials & Propworks

### AUDIT RESULT

Port management monitoring controls were reasonably effective and Clear Channel complied with the significant financial provisions of the agreement. However, certain gross receipts were underreported. We recommend the Port management seek recovery of \$7,821 in additional concession fees.

#### One Reportable Finding:

1. Gross revenues were underreported



### BACKGROUND

The Port of Seattle Police Department (POSPD) provides the primary law enforcement service to Seattle-Tacoma International Airport and the Port of Seattle seaport properties. The Department was created in 1972, and as of August 15, 2016, consisted of 132 employees. These employees include 96 commissioned officers and 36 non-commissioned personnel.

Commissioned officers provide professional law enforcement services, by protecting the rights of individuals, preventing crime, and building community partnerships. These commissioned officers are the primary first responders for all reported crimes and incidents within its jurisdiction.

Leadership, integrity, and accountability are listed as the departments guiding principles.



# COMPREHENSIVE OPERATIONAL AUDIT

## Police Department

### AUDIT OBJECTIVES AND SCOPE

The audit objective was to determine whether management controls were effective in order to achieve the Police Department goals and objectives and to comply with the appropriate laws and regulations, including:

- Payroll is calculated and properly processed.
- Training requirements are adhered to and in compliance with policy.
- Property held in evidence room is accounted for properly.
- Department equipment is accounted and properly safeguarded.
- Seized property and forfeitures are accounted and processed in accordance with federal, state, and local laws.

We reviewed information for the period January 1, 2014 through July 31, 2016.

# COMPREHENSIVE OPERATIONAL AUDIT

## Police Department

### FINANCIAL HIGHLIGHTS

#### PORT OF SEATTLE POLICE DEPARTMENT REVENUE AND EXPENSES

YEAR ENDED	REVENUES	EXPENSES
2013	\$329,908	\$19,698,648
2014	203,106	19,367,278
2015	160,856	19,645,388
2016*	154,075	10,205,823

Data Source: PeopleSoft Financials

\* As of July 22, 2017

### AUDIT RESULTS

Based on the testing performed, management controls were effective and the department complied with significant laws and regulations tested.



Status Legend:	E - exited with the Committee	NS - Removed from work plan by AC
	P - Pending Exit w/AC	O - ongoing audit

Audit Category	Audit	Status	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
Lease and Concession Agreements	1 CLEAR CHANNEL WORLDWIDE	E												
	2 LOUIS DREYFUS CORP - PIER 86	E												
	3 AIRPORT MANAGEMENT SERVICES LLC (Hudson)	E												
	4 MAD ANTHONY'S AT P 66 AND CHINOOK'S AT FISHERMEN'S TERMINAL	E												
	5 CRUISE TERMINAL OF AMERICA	E												
	6 THE CLIPPER NAVIGATION INC.	E												
	7 THE MAREL SEATTLE	E												
	8 TERRI D'S CATERING DBA ACT-3	E												
	9 EAN LLC (Enterprise, Alamo and National RAC) - carried forward from 2015	E												
	10 FIREFLY CAR RENTAL - carried forward from 2015	E												
	11 SEATAC RENTALS dba PAYLESS CAR RENTAL - carried forward from 2015	E												
Comprehensive Operational	12 AIRPORT OPERATIONS - GROUND TRANSPORTATION	E												
	13 AIRPORT SECURITY DEPARTMENT/CREDENTIAL CENTER	E												
	14 POLICE DEPARTMENT	E												
	15 LANDSIDE EMPLOYEE PARKING-AVIATION UTILITES	NS												
3rd Party Management	16 AIRPORT & CASCASE CLUBS - 75% COMPLETE	O												
	17 BELL HARBOR INTERNATIONAL CONFERENCE / WTCENTER - 75% COMPLETE	O												
Limited Operational	18 AIRPORT TERMINAL -- JANITORIAL SERVICES PROGRAM	NS												
	19 CENTRALIZED INTERNATIONAL SUPPORT SERVICES PROGRAM	P												
	20 CAPITAL PROGRAM - RECONSTRUCTION OF CENTER RUNWAY	E												
Information Technologies Projects	21 HIPAA COMPLIANCE - HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT	E												
	22 GENERAL CONTROL - END-POINT SECURITY	P												
	23 IT ASSET MANAGEMENT/RADIO COMMUNICATION EQUIPMENT	NS												
Consulting Services	1 TRANSPORTATION NETWORK COMPANIES (TNCs)	E												
	2 FOLLOW-UP 2015 YELLOW CAB AUDIT	E												
	3 SELECTION OF EXTERNAL FINANCIAL AUDITOR	E												

	Total # of audits	Percentage
	23	100%
# of Completion	18	78%
# of inprogress	2	9%
# of notstarted	3	13%



# Internal Audit Work Plan

*2017 Proposed Flexible Work Plan*

**INTERNAL AUDIT**

**March 24, 2017**

