

# THIRD-PARTY MANAGEMENT SERVICES AGREEMENT

## Bell Harbor International Conference Center / World Trade Center

### BACKGROUND

Bell Harbor International Conference Center and the World Trade Center are public facilities owned by the Port of Seattle. On June 1, 2012, the Port of Seattle entered into a third party management agreement with Columbia Hospitality, Inc. (CHI) to manage operations for Bell Harbor International Conference Center (BHICC) and the World Trade Center (WTC). The initial term of the agreement is 10 years, expiring on May 31, 2022.

CHI receives a base management fee equal to 3.5% of gross revenues. If net operating profit is greater than or equal to 15% of the gross revenue, CHI receives an incentive management fee equal to 15% of the net operating profit.

### FINANCIAL HIGHLIGHTS

<b>BELL HARBOR INTERNATIONAL CONFERENCE CENTER</b>		
<b>REVENUE AND EXPENSE DESCRIPTION</b>	<b>2015</b>	<b>2016</b>
REVENUES	\$8,844,226	\$6,669,867
EXPENSES (EXCLUDING BASE AND INCENTIVE MANAGEMENT FEES)	(6,568,645)	(5,535,645)
BASE MANAGEMENT FEE	(309,576)	(233,417)
INCENTIVE MANAGEMENT FEE	221,268	31,538
<b>NET OPERATING PROFIT</b>	<b>\$1,966,005*</b>	<b>\$900,805*</b>

Data Source: PeopleSoft Financials (\*Includes Smith Cove Conference Center Data)

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## FINANCIAL HIGHLIGHTS (continued)

<b>WORLD TRADE CENTER</b>		
<b>REVENUE AND EXPENSE DESCRIPTION</b>	<b>2015</b>	<b>2016</b>
REVENUES	\$1,245,568	\$1,297,661
EXPENSES (EXCLUDING BASE AND INCENTIVE MANAGEMENT FEES)	(873,483)	(976,478)
BASE MANAGEMENT FEE	(43,595)	(45,418)
INCENTIVE MANAGEMENT FEE	(43,204)	(34,915)
<b>NET OPERATING PROFIT</b>	<b>\$328,490</b>	<b>\$275,765</b>

Data Source: PeopleSoft Financials

# THIRD-PARTY MANAGEMENT SERVICES AGREEMENT

Bell Harbor International Conference Center / World Trade Center

## AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was:

1. *To determine whether Port management internal controls were effective to ensure:*
  - a. *Reported revenues and operating expenses were complete and accurate.*
  - b. *Expenses were appropriate and in accordance with the Agreement terms and conditions.*
  - c. *Related party events were held in accordance with the Agreement terms and conditions.*
  
2. *To ensure Columbia Hospitality, Inc. complied with significant terms of the Agreement.*

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

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## AUDIT RESULT

CHI generally complied with key terms in the contract.

We identified opportunities for management to strengthen monitoring controls. We also identified an opportunity to amend the contract.

## AUDIT RESULT – REPORTABLE FINDING

- a. Internal Controls could be improved to ensure compliance with the terms of the Agreement. The Port overpaid payroll by approximately \$26,300.
- b. Related and Affiliated Party Transactions - The agreement is silent regarding the use of Port owned facilities by CHI. We identified more than 100 CHI events, including team member orientations, employee parties, and trainings, in which CHI held events at BHICC at a discounted rate (68% discount). Some of these events were held at affiliate locations.

# THIRD-PARTY MANAGEMENT SERVICES AGREEMENT

## The Airport Club at SEA Lounges

### BACKGROUND

The Port of Seattle owns the Club at SEA lounges at the Sea-Tac airport (formerly known as - the International and Cascade Clubs).

The Port has outsourced the day-to-day management of the Club at SEA lounges to ALD. The services include sales and marketing, airlines services, solicitation of new clients, and overall accounting services for both lounges.

ALD receives a base management fee of \$15,208 per month, and an Incentive Management Fee up to 6% of the Net Operating Profit.

### FINANCIAL HIGHLIGHTS

NET INCOME FOR THE 12 MONTH PERIOD ENDING MARCH 31, 2016			
	Gate - A	Gate - S	Total
Revenue	\$836,468	\$1,941,407	\$2,777,875
Expense	349,807	861,103	1,210,910
<b>Total Net Income</b>	<b>\$486,661</b>	<b>\$1,080,304</b>	<b>\$1,566,965</b>

Source: The Club at SEA Financial Statements

# THIRD-PARTY MANAGEMENT SERVICES AGREEMENT

## The Airport Club at SEA Lounges

### AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was:

- 1) To determine whether management controls were effective to ensure:
  - a) airlines usage billings/invoices (revenue) were complete and accurate
  - b) lounge expenses were proper and in accordance with the terms of the agreement
  
- 2) To determine whether Airport Lounge Development Corporation (ALD) complied with significant terms of the agreement, including the City of SeaTac Proposition-1 for minimum wage rates.

We reviewed information for the period April 1, 2015 through March 31, 2016.

# THIRD-PARTY MANAGEMENT SERVICES AGREEMENT

## The Airport Club at SEA Lounges

### AUDIT RESULT

Airport Development Lounge Corporation materially complied with the significant terms of the management agreement. We; however, determined that Port management monitoring controls can be improved. The Port overpaid compensation costs, benefits, and payroll taxes by a net amount of \$54,139. It also overpaid insurance by approximately \$4,222. In addition, we noted some instances where time card reports were not available to support hours worked. See the Schedule of Findings and Recommendations.

### AUDIT RESULT - REPORTABLE FINDING

#### 1. MANAGEMENT CONTROLS NEED IMPROVEMENT

- a. Payroll was overpaid by \$54,139
- b. Lack of Support for some hours worked and charged to the Port
- c. We observed the Port was charged and paid for non-required insurance. ALD allocated \$4,222 from its umbrella commercial property insurance to the Port. The Port is self-insured for its properties and does not require commercial property insurance. Therefore, this was unnecessary cost.

# LIMITED OPERATIONAL AUDIT

## Centralized International Support Services Agreement

### BACKGROUND

On December 8, 2014, the Port of Seattle entered into Agreement with VIP Hospitality to provide passenger and baggage services in the Federal Inspection Services (FIS) area. VIP staff assist the Customs and Border Patrol (CBP) officers in facilitating the movement of international passengers and baggage through FIS area.

### FINANCIAL HIGHLIGHTS

<b>PORT OF SEATTLE PAYMENTS TO VIP HOSPITALITY</b>		
<b>PERIOD</b>	<b>2015</b>	<b>2016</b>
JANUARY - MARCH	\$297,151	\$391,481
APRIL - JUNE	411,961	646,864
JULY - SEPTEMBER	393,226	494,705
OCTOBER - DECEMBER	381,555	578,719
<b>TOTAL</b>	<b>\$1,483,893</b>	<b>\$2,111,769</b>

Data Source: PeopleSoft Financials



# LIMITED OPERATIONAL AUDIT

## Centralized International Support Services Agreement

### AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was:

- 1) To determine whether management internal controls are effective.
- 2) To ensure VIP complied with significant terms in the contract.
- 3) To ensure compliance with the City of SeaTac Proposition-1 for minimum hourly wage rates.

We reviewed and analyzed records for the period January 2015 through February 2016.

# LIMITED OPERATIONAL AUDIT

## Centralized International Support Services Agreement

### AUDIT RESULT

From January 2015 to February 2016 internal controls were not operating effectively. As a result, the Port overpaid VIP \$55,000.

VIP complied with the significant terms in the contract.

VIP complied with the City of SeaTac Proposition 1 - minimum hourly wages (from December 1, 2015 through December 31, 2016).

### AUDIT RESULT – REPORTABLE FINDING

#### 1. INTERNAL CONTROLS WERE NOT EFFECTIVE TO ENSURE ACCURACY OF PAYMENTS

Between January 1, 2015 through February 29, 2016, VIP billed rates that were not included in the contract. Management knowingly authorized invoiced rates that did not agree to the terms and rates in the agreement. Although Port management reviewed and approved the invoices, the review was not effective at preventing the overpayment. As a result, the Port overpaid VIP by \$55,000 from the period January 1, 2015 through February 29, 2016.