



INTERNAL AUDIT REPORT

Limited Contract Compliance Audit
Dilettante Chocolates, Inc.

January 2018 – December 2020

Issue Date: October 25, 2021
Report No. 2021-16

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Executive Summary

Internal Audit (IA) completed an audit of the Seattle-Tacoma International Airport Lease and Concession Agreement (Agreement) between Dilettante Chocolates, Inc. (Dilettante) and the Port of Seattle (Port). Dilettante paid the Port approximately \$600,000 in annual concession fees in 2019. However, the impact of COVID-19 decreased concession fees to about \$300,000 in 2020.

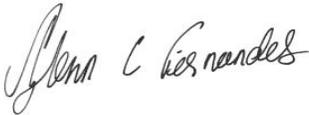
The period audited was January 2018 through December 2020. The audit was performed to determine whether Dilettante complied with significant provisions in the Agreement including whether reported gross revenues and percentage fees were complete and accurate.

We concluded Dilettante materially complied with the significant terms of the Agreement.

No issues were identified requiring a management response.

We noted inconsistencies among the current surety on hand, the Agreement, and the Port's RE-2 Policy (RE-2). RE-2 was last updated on October 20, 1995 and is currently under management review as a result of an Internal Audit report on Concourse Concessions LLC, published in September of 2020.

We extend our appreciation to management and staff of Airport Dining and Retail, Aviation Finance and Budget, Accounting and Financial Reporting, and Dilettante for their assistance and cooperation during the audit.



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Director, Internal Audit

Responsible Management Team

Rudy Caluza, Director, Accounting and Financial Reporting
Dawn Hunter, Director, Aviation Commercial Management
Lisa Lam, Assistant Director, Financial Reporting Revenue Services
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Background

In August of 2016, the Port entered into an Agreement with Dilettante Chocolates, Inc. (Dilettante) to operate a store in the Central Terminal. The terms of the Agreement provide for a Minimum Annual Guarantee (MAG) equal to 85% of the total amount paid to the Port from the previous agreement year. The MAG is payable, in advance, on or before the first day of each month. Additionally, the Agreement outlines the following monthly fees, due on or before the fifteenth day of each succeeding month:

- Rent in the amount of 7% of gross revenue
- Excise tax in the amount of 12.84% of rent
- Percentage fee in the amount of 7% of gross revenue, provided the fee is higher than the MAG
- Marketing fee in the amount of 0.5% of gross revenue with a yearly cap of \$30,000

By March 31 of each year, Dilettante is required to provide the Port an annual report reflecting the amount of Gross Sales for the preceding Agreement Year. The annual report shall be accompanied by a signed certificate by an independent Certified Public Accountant, Dilettante’s Chief Financial Officer, or Chief Executive Officer. The certificate states:

- a) he/she has examined the Annual Report,
- b) his/her examination included such tests of Concessionaire’s books and records as he/she considered necessary or appropriate under the circumstances,
- c) such report presents fairly the information reflected for the preceding calendar year,
- d) the information reflected conforms with and is computed in compliance with the definitions set forth in the Agreement, and
- e) if the certificate is submitted by a CPA, the standards observed by the CPA in its audit are such that it planned and performed the audit to obtain reasonable assurances that Concessionaire’s report is free from material misstatement.

The table below reflects the gross concession revenue and percentage fees billed:

Agreement Year	Gross Revenue (\$)	Concession Fees (\$)
January 2018 – December 2018	3,639,875	560,497
January 2019 – December 2019	3,850,812	592,979
January 2020 – December 2020	1,989,671	299,823
Total	9,480,358	1,453,299

Data Source: PeopleSoft Financials, AFR YE documents

Concessionaires at Seattle-Tacoma International Airport (SEA) have experienced a significant decrease in business due to the COVID-19 pandemic. Port Commissioners approved the suspension of the MAG from March to December 2020. The Marketing Fee was also suspended from April to December 2020.

Audit Scope and Methodology

We conducted the engagement 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 conduct an engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our engagement objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our engagement objectives.

The period audited was January 2018 through December 2020.

We performed the following procedures:

Revenue Completeness, Accuracy, Timeliness

- Agreed monthly revenue reports provided to the Port, to Dilettante's general ledger.
- Validated that the annual report was submitted and signed by an independent CPA, Chief Financial Officer or Chief Executive Officer from Dilettante.
- Reviewed the Agreement definition of gross sales, including exclusions, and reviewed Dilettante's records such as the chart of accounts, revenue reports, and general ledger, to determine the completeness of prior years' reporting.
- Recalculated the MAG and concession fees to verify accuracy.
- Verified timeliness of payments for all months in the audit period.
- Obtained Commission records to review the change of requirements for MAG payments due to COVID-19.
- Verified timeliness of MAG and/or concession fee payments for all months in the audit period.

Surety and Insurance Compliance

- Reviewed Dilettante's rent security deposit for compliance with the Lease Agreement, Port Policy (Port RE-2), and Washington State Law (RCW 53.08.085).
- Obtained the insurance certificates to ensure the general liability insurance and automobile liability insurance amounts are in place and meet the requirements per the contract.

We applied the following testing methods:

100% Population Testing

- Compared the monthly gross revenue statements, Profit and Loss statements, and Trial Balance statements to the Certified Annual Report.
- Calculated the rent, excise tax, percentage fees, marketing fees, and minimum annual guarantee (MAG) and compared the amounts to the monthly invoices.
- Confirmed MAG payments and concession fees were paid timely.
- Verified surety bonds and insurance certificates were in place and met contract requirements.

Sample Testing: Random Sampling

- Selected four months from each agreement year and compared daily sales for the month to the monthly gross revenue statements.

Appendix A: Risk Ratings

Findings identified during the audit are assigned a risk rating, as outlined in the table below. Only one of the criteria needs to be met for a finding to be rated High, Medium, or Low. Findings rated Low will be evaluated and may or may not be reflected in the final report.

Rating	Financial Stewardship	Internal Controls	Compliance	Public	Commission/ Management
High	Significant	Missing or not followed	Non-compliance with Laws, Port Policies, Contracts	High probability for external audit issues and / or negative public perception	Requires immediate attention
Medium	Moderate	Partial controls Not functioning effectively	Partial compliance with Laws, Port Policies Contracts	Potential for external audit issues and / or negative public perception	Requires attention
Low	Minimal	Functioning as intended but could be enhanced to improve efficiency	Mostly complies with Laws, Port Policies, Contracts	Low probability for external audit issues and/or negative public perception	Does not require immediate attention