



Internal Audit Report

World Trade Center West Building
Management Agreement No.665

Audit Period

January 1, 2007 through December 31, 2008

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Internal Auditor's Report

We have completed an audit of World Trade Center West Building (WTC-W). The Port of Seattle owns the WTC-W, and management of the WTC-W is outsourced to Wright Runstad & Company (WR&C), a private company that oversees the day-to-day operations of the facility. The Port Real Estate Property Management Department administers the management services agreement.

We conducted the audit using due professional care. The audit was planned and performed to obtain reasonable assurance of Wright Runstad & Company compliance with the management lease agreement. We also evaluated the effectiveness of Port management's monitoring system

Port Management has the primary responsibility to establish and implement effective controls. Our role was to assess and evaluate the controls in order to determine whether the controls were adequate and operating effectively.

We have identified opportunities to improve the effectiveness of Port management's monitoring practices, which are discussed in the subsequent sections of this report.

We extend our appreciation to Real Estate Property Management, Wright Runstad & Company staff for their assistance and cooperation during the audit.



Joyce Kirangi, CPA
Internal Audit Manager

Executive Summary

Audit Scope and Objective The purpose of the audit was to determine whether:

- 1) Port management effectively monitored the agreement with Wright Runstad & Company.
- 2) Wright Runstad & Company complied with the provisions of the management services agreement, as well as other applicable laws and regulations.

Agreement Terms The WTC-W (World Trade Center West Building) management agreement with WR&C (Wright Runstad & Company) provides a management fee of \$4,166.67 per month. All revenue generated by the Facility is remitted to the Port, and the Port pays for all the Facility operating expenses, including costs related to compensation, benefits, and payroll taxes for WR&C employees working at WTC-W Facility.

The WR&C is responsible for the overall day-to-day management of WTC-W to include keeping the building in good, clean and safe condition, handling complaints, maintaining tenant insurances and collecting rents.

Audit Result Summary Wright Runstad & Company materially complied with the terms of the agreement; however, we determined that the current Port monitoring system is not effective in managing the risks associated with WTC-W management lease agreement. Specifically, management monitoring over third-party employee compensation costs paid by the Port was ineffective for the period under audit.

Background

The Port of Seattle (POS) is the owner of the building located at 2200 Alaskan Way, known as World Trade Center West Building (WTC – W). WTC–W derives its revenues from leasing of approximately 69,507 net rentable square feet for office and retail spaces.

At a fee, the Port has outsourced the day-to-day management of the WTC-W to Wright Runstad & Company. All revenue generated by the Facility is remitted to the Port, and the Port pays for all the Facility operating expenses, including costs related to compensation, benefits, and payroll taxes for WR&C employees working at WTC-W Facility.

Financial Highlights

Table 1 - Revenue

Description	2006	2007	2008
Lease Revenue	\$920,405	\$1,094,930	\$1,281,335

Source: PeopleSoft GL Account 45410

Table 2 - Expense

Description	2006	2007	2008
3rd Party Mgmt Operating Exp	\$858,356	\$944,735	\$738,880

Source: PeopleSoft GL Account 64100 - 67700

Audit Objectives

The purpose of the audit was to determine whether:

1. Port management effectively monitored the agreement with Wright Runstad & Company.
2. Wright Runstad & Company complied with the provisions of the management services agreement, as well as other applicable laws and regulations.

Audit Scope

The scope of the audit covered the period 2007 through 2008.

Audit Approach

Internal Audit performed the following audit procedures:

- Obtained an understanding of Wright Runstad & Co, Accounting Report Financial, and Real Estate Management operations related to the WTC-W
- Reviewed all applicable state and local laws, rules and regulations, and Port policies
- Analyzed the data (internal and external) to achieve audit objectives

Conclusion

Wright Runstad & Company materially complied with the terms of the agreement; however, we determined that the current Port monitoring system is not effective in managing the risks associated with WTC-W management lease agreement. Specifically, management monitoring over third-party employee compensation costs paid by the Port was ineffective for the period under audit.

Summary of Findings and Recommendations

I. Inadequate Monitoring Related to the Third-party Employee Compensation Costs Paid by the Port

A system of monitoring is necessary to provide management with reasonable assurance of compliance with agree-upon terms and conditions. Such a system should be based on an analysis of risks related to the agreement and an identification of key controls that may mitigate identified risks. Management then determines what controls to monitor and how the controls will be monitored.

We concluded that the contractor, Wright Runstad & Company, was in compliance with the terms of the agreement, but observed that the Port management monitoring system of the third-party employee compensation needs improvement.

As part of the management services agreement, Port management has advanced some working capital (funds) to Wright Runstad for the payment of the World Trade Center West Building's day-to-day expenses. The Port pays for all costs related to the Facility, including costs related to compensation, benefits, and payroll taxes for the Wright Runstad employees working at the Facility. Wright Runstad uses the Port working capital (funds) to disburse these payments.

For the Wright Runstad employees working at the Facility, we observed that the Port paid their benefits based on a certain percentage or estimate. The auditor tested the benefit estimate and determined it was reasonable, but found no evidence where Port management had reviewed, questioned, or was aware how employee benefits were calculated.

The auditor also found evidence that Port funds were used to pay for Wright Runstad employee bonuses, although there was no evidence of a bonus program. Washington State Constitution does not allow public entities to use public funds to make additional compensation for services already rendered and compensated.

We acknowledge that Property management group does conduct monthly reviews of WTC-W expenses, but the review does not seem to address meaningful risks related to this agreement.

Recommendation

- Port management should implement an appropriate level of monitoring and review to ensure that it is aware of what it pays at the World Trade Center West Facility related to the third-party employee compensation costs.

Management Response

- *The Management Agreement grants Wright Rundstad & Company (“WR&C”) the discretion to hire, manage and terminate staff. As described, all personnel hired by WR&C for the World Trade Center West (“WTC-W”) facility are WR&C employees and not the Port’s. While employee compensation cost components are not broken out as separate line items, the Budget submitted by WR&C, and approved by the Port, includes the total compensation for all employees assisting in the operation of the WTC-W facility.*

Port staff agrees that employee compensation should be reviewed with more discrete detail that identifies the various components of employee compensation. Port staff has requested such detail as it relates to the 2009 budget and will request such detail in future budget packages.