



Internal Audit Report

World Trade Center Seattle
Management Services Agreement No. 677

Audit Period

January 1, 2005 through December 31, 2007

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A. Ineffective Budget Monitoring

Internal Auditor's Report

We completed an audit of the World Trade Center Seattle (WTCS). The Port of Seattle (Port) owns the World Trade Center and has outsourced the management of this Facility to Columbia Hospitality, Inc. (CHI). CHI oversees the day-to-day management of the WTCS. The Port's Real Estate Property Management Department administers the management services agreement between the Port and CHI.

We conducted the audit using due professional care. The audit was planned and performed to obtain reasonable assurance that Columbia Hospitality, Inc (CHI) complied with the provisions of the management services agreement as well as other applicable laws and regulations. We also evaluated the effectiveness of Port management's monitoring system.

Port management has the primary responsibility to establish and implement effective controls. Our audit objective was to assess and test those controls in order to establish whether the controls were adequate and operating effectively.

We identified an opportunity to improve the effectiveness of the current Port management's monitoring practices, and our recommendation is discussed in the subsequent sections of this report.

We extend our appreciation to Port Real Estate Property Management and Columbia Hospitality, Inc staff for their assistance and cooperation during the audit.

A handwritten signature in black ink, appearing to read "Joyce Kirangi".

Joyce Kirangi, CPA
Internal Audit Manager

Executive Summary

Audit Scope and Objective The audit covered the period from 2005 through 2007.

The purpose of the audit was to determine whether:

- 1) Columbia Hospitality, Inc (CHI) complied with the provisions of the management services agreement as well as applicable laws and regulations.
- 2) Port management effectively monitored the management services agreement with CHI.

Agreement Terms and Obligations CHI is responsible for the day-to-day management of the WTCS, including sales, marketing, food preparation, executive dining catering services, accounting services etc. The management services agreement provides for a tiered management fee based on gross revenue/profit.

The Port of Seattle is responsible for the costs of operating the Facility.

Audit Result Summary We noted inadequate management monitoring of budgeted and actual operating expenses.



Background

The Port of Seattle owns the World Trade Center Seattle (WTCS). The Facility was developed under the Washington State authority of RCW 53.29 – Trade Center Act. The Port of Seattle and local private sector are the primary sponsors of the WTCS. The primary objective of the WTCS is to foster international trade and commerce, and to expose Seattle to international trade.

The WTCS building is located on Seattle's downtown waterfront. The fourth floor of the building contains conference rooms, as well as an executive and a private dining room. The sponsoring companies and their members have the privilege to use the Facility and its services for a fee. In addition, private catered events are also held at this Facility.

At a fee, the Port has outsourced the day-to-day management of the WTCS to Columbia Hospitality Inc. (CHI). The services include sales and marketing, fundraising, member services, solicitation of sponsorships, food preparation services, and overall accounting services. Revenue generated from the Facility is remitted to the Port daily.

The Port of Seattle is responsible for the costs of operating the Facility. It pays for all costs including repair and maintenance; utilities; insurance; legal and accounting services; and labor compensation related to CHI employees working at the Facility.

Financial Highlights

Revenues

Description	2005	2006	2007
Club Service Membership	\$402,235	\$403,541	\$377,356
Food Services	618,372	705,909	656,850
Beverage	81,844	138,816	129,990
Club Service Others	187,938	208,061	201,830
Total	\$1,290,389	\$1,456,327	\$1,366,026

Expenses

Description	2005	2006	2007
Club Services & Others	\$102,213	\$128,903	\$117,611
Food & Beverage	386,221	480,726	406,750
Administrative	351,279	429,909	427,163
Capital Reserved	26,645	31,584	29,660
Management and IMF Fees	247,036	229,837	232,424
Total	\$1,113,394	\$1,300,959	1,213,608

Audit Objectives

The purpose of our audit was to:

- 1) Determine whether Columbia Hospitality, Inc. (CHI) complied with the provisions of the management services agreement as well as with other applicable laws and regulations.
- 2) Assess how effectively Port management monitored the agreement with Columbia Hospitality Inc.

Audit Scope

The scope of the audit covered the period 2005 through 2007.

Audit Approach

We performed the following audit procedures:

- Obtained an understanding of the WTCS operations, and the Port Real Estate management monitoring system related to the WTCS.
- Reviewed applicable state and local laws, rules and regulations, and Port policies.
- Analyzed financial data (internal and external) and other relevant information to achieve our audit objectives.

Conclusion:

Overall, Columbia Hospitality Inc. was in compliance with the terms and conditions of the management services agreement. We also observed that Port management monitors this agreement, but that its current monitoring system could be improved.

Summary of Findings and Recommendations

A. Ineffective Budget Monitoring

A well-designed and well-placed system of monitoring is necessary to provide management with reasonable assurance of compliance with the agree-upon terms and conditions of the agreement. Port management’s monitoring of the World Trade Center Seattle budgeted and actual expenses was not adequate.

The management agreement states:

G.4 “CHI shall submit to the Port an Annual Plan for the Facility for the following calendar year... the Annual Plan will be the CHI’s best estimate of the operations for the following calendar year...the Plan will contain a summary of the proposed expenditures for the year...”

M3 “CHI must consult with the Port promptly if total Operating Expenses for any three-month period exceed the Annual Plan by more than 10%...”

While actual expenses exceeded the budget in the following fiscal quarters, there was no evidence or documentation that CHI notified the Port of the overages or that Port management questioned the budget variances. Without documentation, the auditor could not determine whether CHI had fully complied with the above budget requirement.

The World Trade Center Seattle budget was exceeded as follows:

Year	Qtr 1	Qtr 2	Qtr 3	Qtr 4
2006 – over(under)	24%	18%	27%	28%
Port Approved Budget	239,909	261,000	273,984	271,955
Actual Expenses	297,648	307,545	248,197	347,572
2007– over(under)	4%	11%	28%	(9%)
Port Approved Budget	269,996	280,823	288,971	285,291
Actual Expenses	281,025	312,332	360,625	259,626

Recommendation

We recommend that Port management improve its budget monitoring procedures, and hold the contractor accountable to the service agreement’s budget communication requirements.

Management Response

Every month, Port Management and CHI meet to discuss the current financial and marketing reports as well as the anticipated revenues and corresponding expenses for the subsequent quarter. Variances in operating expenses are always discussed and generally have proportional increases in revenue and net income so have not been detrimental to the operation of the WTCSE. Unfortunately, during the period audited, we did not keep written documentation of these discussions.

As a result of a similar finding in the BHICC audit in 2008, Port Management requested that CHI document operating variances over 10% at WTCSE in writing. They will continue to do so in the future.