



Internal Audit Report

Fireworks Lease and Concession Compliance Audit

June 1, 2006 through May 31, 2008

Issue Date: September 1, 2009
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1) Late Payments

**Internal Audit
Fireworks (Agreement No. 612)
Audit Period: June 1, 2006 – May 31, 2008**

Internal Auditor's Report

We have completed the audit of the Lease and Concession Agreement between the Port of Seattle (Port) and Fireworks for the period of June 1, 2006 through May 31, 2008.

We conducted our audit using due professional care and we planned and performed the audit to obtain reasonable assurance as to whether the lessee and the Port had complied with the provisions of the lease agreement.

The objectives of the audit was to verify gross receipts were properly reported to the Port in accordance with the terms of the lease agreement and that the Lessee properly calculated and paid the appropriate concession fees due to the Port on time. We also reviewed the effectiveness of Port management's monitoring system over the lease agreement.

The Lessee materially complied with the terms of conditions of the agreement including, but is not limited to, the proper reporting of gross receipts and accurate/timely remittance of the concession fees. Additionally Port management effectively monitored the agreement to assure compliance. However, there were two instances of late payments that resulted in \$1,366.14 in late charges and interest due to the Port.

We extend our appreciation to Aviation Business Development and staff for their assistance and cooperation during the audit.

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

Joyce Kirangi, CPA
Sr. Internal Audit Manger

Executive Summary

Audit Scope and Objective The purpose of the audit was to determine compliance with the provisions of the Lease and Concession Agreement No. 612. We examined the books and records of Fireworks (Lessee) in order to verify gross receipts were properly reported to the Port in accordance with the terms of the lease agreement and the Lessee properly calculated and paid the appropriate concession fees due to the Port on time. We also reviewed the effectiveness of Port management's monitoring system over the lease agreement.

Agreement Terms The Lease and Concession Agreement No. 612 authorizes Fireworks to operate a concession at the airport. In accordance with the lease, the Lessee pays the Port a three-tier concession fee that ranges from ten percent (10%) of gross receipts to twelve percent (12%) of gross receipts based on the level of gross receipts.

Audit Result Summary The Lessee materially complied with the terms of conditions of the agreement including, but is not limited to, the proper reporting of gross receipts and accurate/timely remittance of the concession fees. Additionally Port management effectively monitored the agreement to assure compliance. However, there were two instances of late payments that resulted in \$1,366.14 in late charges and interest due to the Port.

Background

Fireworks operates a number of galleries in the Seattle area including a gallery at the Seattle Tacoma International Airport.

The lease agreement requires the following three-tier concession fees:

- ten percent (10%) of gross receipts under \$1,000,000
- eleven percent (11%) of gross receipts between \$1,000,000 and \$3,000,000
- twelve percent (12%) of gross receipts over \$3,000,000

The gross receipts as reported to the Port for the respective lease years under review are as follows:

2006	2007	2008
\$ 3,280,692	\$ 3,771,189	\$ 4,104,668

Source: PeopleSoft and Fireworks reporting

Audit Objectives

We reviewed the Lessee's records in order to verify that the Lessee had:

- Properly reported its gross receipts to the Port in accordance with the terms of the lease agreement
- Properly calculated and paid the appropriate concession fee due to the Port
- Paid concession fees on time and in accordance with the terms of the agreement

We also reviewed the effectiveness of Port management's monitoring system over the lease agreement.

Audit Scope

The scope of the audit covered the period of June 1, 2006 through May 31, 2008.

Audit Approach

To achieve our audit objectives, we performed the following procedures:

- Obtained an understanding of the lease agreement and the significant compliance requirements
- Reviewed Port internal controls and monitoring activities over the lease requirements

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- Obtained relevant financial data from the Lessee
- Analyzed data (internal & external) to determine completeness and compliance

Conclusion

The Lessee materially complied with the terms of conditions of the agreement including, but is not limited to, the proper reporting of gross receipts and accurate/timely remittance of the concession fees. Additionally Port management effectively monitored the agreement to assure compliance. However, there were two instances of late payments that resulted in \$1,366.14 in late charges and interest due to the Port.

Schedule of Findings and Recommendations

1) Late Payments

The Lessee had two late payments that exceeded the 10-day grace period. Paragraph 8 of the lease agreement imposes 1) late charge of five percent (5%) on overdue payments by more than ten days past the grace period, and 2) interest at eighteen percent (18%) per annum on the unpaid balance. The late charges amounted to \$1,080.53 and interest of \$285.61 for the two late payments.

Recommendation:

We recommend that Aviation Business Development bill and collect \$1,366.14.

Management Response:

It is not Aviation Business Development's role or responsibility to bill and collect late fees or interest from tenants for late payments. Tenants report and submit payments to the Port's Accounting department which determines their timeliness and has responsibility for determining late fees due to the Port. Billing of late fees has, to our knowledge, not been included in the automated billing processes in Accounting until 2009.

Fireworks has been a tenant since May 2005, and has made approximately 48 payments to the Port. It is difficult to know what extenuating circumstances may have existed with the two payments in question. Fireworks achieved sales of more than \$4 million in 2008, resulting in nearly a half million dollars in revenue for the Port. By comparison, a deficiency of less than \$1,400 does not seem significant. However, it is unfortunate that this deficiency could not have been brought to the tenant's attention in a more timely fashion.