



Port of Seattle

Internal Audit Report

Aviation Business Development & Management (AVBD) Audit

Audit Period January 1, 2007 through December 31, 2008

Issue Date: January 12, 2010
Report No.: 2010-01



Internal Audit Report
Aviation Business Development & Management Departments
Audit Period January 1, 2007 – December 31, 2008

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Internal Auditor's Report

We have completed an audit of the AV Business Development & Management. The audit objective was to determine whether the department has established adequate and effective controls to reasonably ensure that the department:

- Achieves its goals and objectives.
- Performs a regular risk assessment to adequately address the risks impacting their department and to mitigate those risks to an acceptable level.
- Effectively monitors and maintains material agreement provisions in PROPWorks including, but are not limited to, billing rules for proper concession and MAG calculation.
- Efficiently manages lease agreements.

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 conducted the audit using due professional care. We planned and performed the audit to obtain reasonable assurance that department controls related to resources, operations, and compliance are adequate and operating as intended.

Aviation Business Development & Management (AVBD) has established adequate and effective controls, and there were no significant issues noted during the audit review. During the audit period, AVBD well managed 300+ concession agreements and non-aeronautical properties at/around the airport, and was instrumental in generating annual non-aeronautical revenues of ~\$50M. As part of Internal Audit's continuing efforts to add value toward management control improvement, we identified certain opportunities to strengthen existing controls over the department's risk assessment and agreement management processes, which have been communicated to management in a separate letter.

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



Joyce Kirangi, CPA
Director, Internal Audits

Executive Summary

Audit Scope and Objective Our audit objective was to determine whether the department has established adequate and effective controls to reasonably ensure that the department:

- Achieves its goals and objectives.
- Performs a regular risk assessment to adequately address the risks impacting their department and to mitigate those risks to an acceptable level.
- Effectively monitors and maintains material agreement provisions in PROPWorks including, but not limited to, billing rules for proper concession and MAG calculation.
- Efficiently manages agreements.

The scope of our audit covered the period from January 1, 2007 through December 31, 2008.

Background Aviation Business Development & Management (AVBD) mission is to enhance non-aeronautical revenue opportunities through aggressive efforts to support existing non-aeronautical businesses and to develop new business opportunities. AVBD is a group of Aviation Division organization units (referred to as a node) and consists of the following four (4) individual work units:

- Business Development & Analysis
 - Function - provides property development and analytical support.
- Concessions Business
 - Function - manage retail, food, and concessions in the airport.
- Property Management
 - Function – manage property leases.
- Acquisitions/Relocations
 - Function – manages the property acquisitions and relocation in the areas surrounding the airport.

These individual units serve different functions but have a common thread of serving property and business needs of the airport. AVBD operates on an average annual budget of ~\$4.5M with ~20 Full Time Equivalents (FTEs) and generates approx. \$50 million in non-aeronautical revenues.

Audit Result Summary Aviation Business Development & Management (AVBD) has established adequate and effective controls, and there were no significant audit issues noted during the review. During the audit period, AVBD well managed 300+ concession agreements and non-aeronautical properties at/around the airport, and was instrumental in generating annual non-aeronautical revenues of ~\$50M. As part of Internal Audit's continuing efforts to add value toward management control improvement, we identified certain opportunities to strengthen existing controls over the department's risk assessment and agreement management processes, which have been communicated to management in a separate letter.

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Background

The Aviation Business Development & Management (AVBD) is a group of Aviation Division organization units (referred to as a node) and consists of the following four (4) individual units:

- **Business Development & Analysis**
 - Function--provides property development and analytical support.
 - Types of Activity--analysis on off-airport properties, cargo development, parking rates, rental car facility analysis, etc.
- **Concessions Business**
 - Function--manages retail, food, and concessions in the airport.
 - Types of Activity--monitoring of concession venues at the airport to include Smarte Carte, restaurants, news stand, book store, and the like.
- **Property Management**
 - Function – manages property leases at the airport.
 - Types of Activity – negotiation of new leases, lease contract compliance, providing real estate expertise to senior management.
- **Acquisitions/Relocations**
 - Function – manages the property acquisitions and relocation in the areas surrounding the airport.
 - Types of Activity – acquisition of properties and relocation of tenants of the acquired property in accordance with Federal and Port’s own policies and procedures.

Individual units serve different functions but with a common thread of serving property and business needs of the airport. AVBD has an average annual budget of ~\$4.5M and operates with ~20 Full Time Equivalents (FTEs). AVBD mission is to enhance non-aeronautical revenue opportunities through aggressive efforts to support existing non-aeronautical businesses and to develop new business opportunities.

Acquisitions/Relocations unit is not part of the current review as Internal Audit previously audited the operation as a separate engagement.

Below are financial highlights for a 4-year period ending in 2008:

Revenues

(in thousands)

Description	2005	2006	2007	2008
Aviation Fees	\$1,435	\$1,306	\$1,181	\$1,417
Maintenance Fees	298	351	369	389
Land Rental	5,807	5,320	5,445	5,528
Space Rental	6,198	6,447	5,089	5,420
Advertising Revenue	2,900	2,947	4,172	3,727
Food & Beverage Revenue	14,057	11,744	11,976	12,444
Gift & Newspaper Revenue	12,990	8,761	10,560	11,380
In-Flight Kitchen	3,264	2,682	3,026	3,434



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Flight Insurance & Foreign Exchange	292	316	355	699
Locker and Vending	477	407	547	587
Other Service & Property Rental	763	1,010	1,231	2,417
Grand Total	\$48,481	\$41,292	\$43,951	\$47,442

Source: PeopleSoft

Expenses

(In thousands)

Description	2005	2006	2007	2008
Salaries/Wages & Benefits	\$1,683	\$1,677	\$1,741	\$2,003
Outside Services	6,883	1,949	443	676
General Expenses	1,141	517	897	1,091
Equipment Expense	21	5	11	10
Travel & Other Employee Expenses	30	22	40	41
Workers Compensation	8	23	(4)	5
Miscellaneous	53	2	0	1,098**
Others	109	111	43	74
Grand Total	\$9,928	\$4,306	\$3,171	\$4,998

Source: PeopleSoft (depreciation excluded)

**One-time Federal reimbursable improvement expenses. The expenses were fully reimbursed in 2009.

Audit Objective

Our audit objective was to determine whether the department has established adequate and effective controls to reasonably ensure that the department:

- Achieves its goals and objectives.
- Performs a regular risk assessment to adequately address the risks impacting their department and to mitigate those risks to an acceptable level.
- Effectively monitors and maintains material agreement provisions in PROPWorks including, but not limited to, billing rules for proper concession and MAG calculation.
- Efficiently manages agreements.

Scope of the Audit

The scope of this audit covered the period January 1, 2007 through December 31, 2008.

Audit Approach

We performed the following audit procedures:

- We obtained an understanding of the Department operations and its environment.

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- We reviewed applicable state and local laws, and regulations, as well as Port policies, procedures, and guidelines.
- We obtained and analyzed financial data and other relevant information and assessed risks within the department.
- We tested data and supporting documentation to determine completeness and accountability including compliance.
- We performed detailed testing including physical walk-through of concession venues at the airport and in-depth reviews of agreements and amendments.

Conclusion

Aviation Business Development & Management (AVBD) has established adequate and effective controls, and there were no significant issues during the review. During the audit period, AVBD well managed 300+ concession agreements and non-aeronautical properties at/around the airport, and was instrumental in generating annual non-aeronautical revenues of ~\$50M. As part of Internal Audit's continuing efforts to add value toward management control improvement, we identified certain opportunities to strengthen existing controls over the department's risk assessment and agreement management processes, which have been communicated to management in a separate letter