



Internal Audit Report

Gate Gourmet, Inc

Lease and Concession Compliance Audit

January 1, 2008 through December 31, 2009

Issue Date: October 05, 2010
Report No. 2010-14



Internal Audit
Gate Gourmet, Inc; Agreement No. 42
Audit Period: January 1, 2008 – December 31, 2009

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Internal Auditor's Report

We have completed an audit of the Lease and Concession Agreement, as amended, between the Port of Seattle and Gate Gourmet, Inc. The purpose of the audit was to determine the following:

- 1) Reported concession was complete, properly calculated and remitted timely to the Port.
- 2) Port and the lessee complied with provisions of the Lease and Concession Agreement.
- 3) Lease and Concession Agreement, as amended, complies with applicable state and Port requirements.

We examined information related to a two-year period from January 1, 2008, through December 31, 2009.

We conducted our audit using due professional care. We planned and performed the audit to obtain reasonable assurance as to compliance with significant provisions of the agreement, including complete and timely reporting of concessionable revenues.

Gate Gourmet, Inc. materially complied with the terms of the Lease and Concession agreement, and the agreement itself complies with applicable state and Port requirements. However, the audit disclosed instances of late payments.

We extend our appreciation to the management and staff of Aviation Business Development, and Accounting & Financial Reporting for their assistance and cooperation during the audit.



Joyce Kirangi, CPA
Director, Internal Audit

Executive Summary

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

- 1) Reported concession was complete, properly calculated and remitted timely to the Port.
- 2) Port and the lessee complied with provisions of the Lease and Concession Agreement.
- 3) Lease and Concession Agreement, as amended, complies with applicable state and Port requirements.

We examined the books and records of Gate Gourmet, Inc. for a two-year period from January 1, 2008 through December 31, 2009. Aviation Business Development has the primary responsibility for administering and monitoring the agreement to ensure compliance with agreed-upon terms.

Agreement Terms Gate Gourmet, Inc. (GGI) provides in-flight catering services including the preparation and distribution of in-flight foods, beverages, and related services to domestic and overseas airlines at Seattle Tacoma International Airport.

The terms of the agreement provide for a 7% concession fee on the gross sales for catering services to airlines, and a 3.5% concession fee on the gross sales to non-airline parties. The gross sales include sales by any licensee or other party authorized to make sales in connection with the business operated by Gate Gourmet, Inc.

A monthly rent is payable in advance, on or before the first day of each month, without notice from the Port. The concession is due monthly within 15 days following the end of each calendar month. For untimely payments, the agreement provides interest to be accrued from the due date until paid.

Audit Result Summary Gate Gourmet, Inc. materially complied with the terms of the Lease and Concession agreement, and the agreement itself complied with applicable state and Port requirements. However, the audit disclosed a number of late payments resulting in financial of \$2,978.

Background

The lease agreement was originally entered into with United Airlines in August 1989 and was later assigned to Dobbs International Services, Inc. in May 1993. Gate Gourmet, Inc. merged with Dobbs International Services in January 2000.

Gate Gourmet (GG) is the world's largest independent provider of airline catering and provisioning services. GG delivers daily, on a global basis, to more than 250 airline customers and currently has more than 100 flight kitchens located in over 25 countries.

The terms of the agreement provide for a 7% concession fee on the gross sales for catering services to airlines, and a 3.5% concession fee on the gross sales to non-airline parties, with only the following acceptable offsets or deductions:

- 1) Returns and refunds
- 2) Taxes imposed and collected by Lessee as agent for its taxing body
- 3) Meals furnished to employees of Lessee

Financial Highlights

Year	Reported Gross Revenue	Paid Concession
2007	14,642,345	\$1,029,383
2008	14,180,062	1,098,441
2009	11,389,215	798,665
Total	\$40,211,622	\$2,926,489

Source: PROPworks and PeopleSoft

Audit Objectives

Our audit objective was to determine the following:

- 1) Reported concession was complete, properly calculated and remitted timely to the Port.
- 2) Port and the lessee complied with provisions of the Lease and Concession Agreement.
- 3) Lease and Concession Agreement, as amended, complies with applicable state and Port requirements.

Audit Scope

The scope of the audit covered the period of January 1, 2008 through December 31, 2009.

Audit Approach

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

- Read and analyzed the lease agreement, as amended.
- Reviewed applicable state and local rules and regulations.
- Identified significant provisions in the agreement.
- Obtained necessary financial and non-financial data from the lessee.
- Assessed relevant risks associated with the agreement.
- Designed and executed audit procedures based on risk.
- Analyzed data (internal & external) to determine completeness & compliance. This included performing the following additional procedures:
 - Reconciliation of the reported gross receipts to the lessee's accounting records to ensure completeness and consistency.
 - Reconciliation of the certified Audited Schedule of Gross Receipts to lessee's accounting records to ensure completeness.
 - Verification that concession fees were paid timely and intact.
 - Recalculation of concessions and related fees to ensure accuracy.

Conclusion

Gate Gourmet, Inc. materially complied with the terms of the Lease and Concession agreement. The agreement itself is also in compliance with applicable state and Port requirements. The audit; however, disclosed a number of late payments, resulting in finance charges of approximately \$2,978.

Schedule of Findings and Recommendations

1. Untimely Payments

Under the agreement, as amended, Section 3 (a) and Section 4 (e) stipulate specific payment terms for monthly rent and concession fee payments as follows:

- Rent shall be payable in advance on or before the first day of each month.
- Concession Fee shall be paid within 15 days following the end of each month.

For late payments, the agreement provides under Section 20, interest to be accrued at 18% per annum or the maximum allowed by the law, whichever is less.

We reviewed the payment history and noted 21 instances of late payments in 2008, and 20 instances of late payments in 2009.

Year	Type of Payment	Range of Days Late	# of Instances of Late Payments	Interest (18%/yr)
2008	Monthly Rent	1 to 18	12	\$494
	Concession Fees	1 to 8	9	1,564
2009	Monthly Rent	1 to 4	9	101
	Concession Fees	1 to 5	11	819
				\$2,978

The auditor’s calculation resulted in interest charges of approximately \$2,978 for the audit period.

Recommendation

We recommend management collect \$2,978 in interest charges, and/or work with the lessee to ensure timely payments.

Management Response

Aviation Business Development (AVBD) and Accounting & Financial Reporting (AFR) staff appreciate the insight provided by the internal audit regarding interest (finance) charges. The AFR department is continuing to seek opportunities to resolve longstanding challenges with the PeopleSoft financial system's shortcoming regarding applying finance charges on late payments, even though the impacts from this shortcoming are immaterial when taken as a whole. AVBD and AFR staff will address the audit's observations involving incompleteness in the application of finance charges and determine appropriate disposition involving the affected tenant.