



# Internal Audit Report

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Pallino Pastaria Company

Lease and Concession Compliance Audit

January 1, 2008 through 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 Pallino Pastaria Company. The purpose of the audit was to determine whether:

- 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.

Pallino complied with the terms of the Lease and Concession agreement, and we noted no discrepancies with reported concession revenue. The agreement itself also complies with applicable state and Port requirements.

We extend our appreciation to the management and staff of the 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 Pallino Pastaria Company 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** Pallino was founded in 1999, and it offers quick service for dine-in or take-out business. The meals are primarily Italian type food. Pallino has six restaurants located in Washington State as follows: University Village, Columbia Center, Issaquah, SeaTac Airport, Redmond Town Center, and Woodinville.

The terms of the agreement provide for a Minimum Annual Guarantee (MAG) of 85% of the total amount paid to the Port in the previous agreement year. Additionally, the agreement requires a percentage fee to be paid to the extent the that Percentage Fee exceeds the MAG in accordance with the following structure:

- 10% - for receipts less than \$500,000
- 12% - for receipts greater than \$500,000 but less than \$1,000,000
- 15% - for receipts greater than \$1,000,000

The MAG is payable in advance, on or before the first day of each month, without notice from the Port, and without setoff or deduction. The percentage fee, if applicable, is due on or before the 15<sup>th</sup> of the following month.

If payments are paid untimely, the agreement calls for a one-time late fee of 5%, and interest to be accrued from the due date until paid.

**Audit Result Summary** Pallino complied with the terms of the Lease and Concession agreement, and we noted no discrepancies with reported concession revenue. The agreement itself also complies with applicable state and Port requirements.

## Background

Pallino was founded in 1999, and offers quick service for dine-in or take-out business. The meals are primarily Italian type food. Pallino has six restaurants located in Washington State as follows: University Village, Columbia Center, Issaquah, SeaTac Airport, Redmond Town Center, and Woodinville.

The terms of the agreement provide for a Minimum Annual Guarantee (MAG) of 85% of the total amount paid to the Port in the previous agreement year. Additionally, the agreement requires a Percentage fee to be paid to the extent that the Percentage Fee exceeds the MAG in accordance with the following structure:

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If payments are paid untimely, the agreement calls for a one-time late fee of 5%, and interest to be accrued from the due date until paid.

| Year         | Reported Gross Revenue | Paid Concession    |
|--------------|------------------------|--------------------|
| 2007         | 2,550,222              | 346,378            |
| 2008         | 2,592,298              | 352,925            |
| 2009         | 2,328,053              | 315,391            |
| <b>Total</b> | <b>\$7,470,573</b>     | <b>\$1,014,694</b> |

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 January 1, 2008 through December 31, 2009.

## **Audit Approach**

To achieve our audit objective, 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 accuracy, completeness, and compliance. We performed the following detailed procedures:
  - Reconciled reported gross receipts to the lessee's accounting records to ensure completeness and consistency.
  - Reconciled the certified Audited Schedule of Gross Receipts to lessee's accounting records to ensure completeness.
  - Verified that concession fees were paid timely.
  - Recalculated concession revenue and related fees to ensure accuracy.

## **Conclusion**

Pallino complied with the terms of the Lease and Concession agreement, and we noted no discrepancies with reported concession revenue. The agreement itself also complies with applicable state and Port requirements.