



Internal Audit Report

Smarte Carte, Inc.

Lease and Concession Compliance Audit

February 1, 2008 through January 31, 2010

Issue Date: December 07, 2010
Report No. 2010-18



Internal Audit
Smarte Carte, Inc. (Agreement No. 629)
Audit Period: February 1, 2008 – January 31, 2010

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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 Smarte Carte, Inc. 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 February 1, 2008, through January 31, 2010.

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. We also audited completeness and timely reporting of concessionable revenues.

Smarte Carte, Inc. materially complied with the terms of the Lease and Concession agreement. We noted no discrepancies with reported concession revenue, and the agreement itself is in compliance with the applicable state and Port requirements.

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.

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

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 Smarte Carte, Inc. for a two-year period from February 1, 2008 through January 31, 2010. Aviation Business Development in conjunction with Accounting and Financial Reporting (AFR) has the primary responsibility for administering and monitoring the agreement to ensure compliance with agreed-upon terms.

Agreement Terms Smarte Carte, Inc. operates approximately fifty-five luggage carts and seven cell phone charging stations at the Seattle Tacoma International Airport.

The terms of the agreement provide for a Minimum Annual Guarantee (MAG) of 90% 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 Port to the extent the fee exceeds the MAG in accordance with the following structure:

<u>Gross Receipts from</u>	<u>Percentage</u>
• Carts (\$2.00 rate)	30%
• Carts (\$3.00 rate)	35%
• Advertising	40%

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

For untimely payments, the agreement provides a one-time late fee of 5% on the overdue amount, and interest accrues at the rate of 18% per annum from the due date until paid.

Audit Result Summary

Smarte Carte, Inc. materially complied with the terms of the Lease and Concession agreement. We noted no discrepancies with the reported concession revenue, and the agreement itself is in compliance with the applicable state and Port requirements.



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Background

At Seattle-Tacoma International Airport, Smarte Carte, Inc. offers the traveling public with many services including self-serve luggage carts, electronic charging kiosks and massage chairs.

The terms of the agreement provide for a Minimum Annual Guarantee (MAG) of 90% 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 Port to the extent the Percentage Fee exceeds the MAG in accordance with the following structure:

<u>Gross Receipts from</u>	<u>Percentage</u>
• Carts (\$2.00 rate)	30%
• Carts (\$3.00 rate)	35%
• Advertising	40%

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 15th of the following month.

For untimely payments, the agreement provides a one-time late fee of 5% on the overdue amount, and interest accrues at the rate of 18% per annum from the due date until paid.

Financial Highlights:

Fiscal Year	Reported Gross Revenue	Paid Concession
2006-2007	\$1,775,176	\$599,996
2007-2008	1,727,461	649,359
2008-2009	1,517,078	602,036
2009-2010	1,427,206	526,870
Total	\$6,446,921	\$2,378,261

Source: PROPworks and PeopleSoft

Audit Scope

The scope of the audit covered the period of February 1, 2008 through January 31, 2010.

Audit Approach

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

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- 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 the following additional procedures:
 - Reconciliation of the reported gross receipts to the lessee's accounting records to ensure completeness and consistency.
 - Verified that concession fees were paid timely and intact.
 - Recalculated concession revenue and related fees to ensure completeness and accuracy.

Conclusion

Smarte Carte, Inc. materially complied with the terms of the Lease and Concession agreement. We noted no discrepancies with reported concession revenue, and the agreement itself complies with the applicable state and Port requirements.