



# Internal Audit Report

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Sodexo America, LLC

Lease and Concession Compliance Audit

January 1, 2008 through December 31, 2009

Issue Date: December 7, 2010  
Report No. 2010-17

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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 Sodexo America, LLC. 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.

Sodexo America, LLC materially complied with the terms of the Lease and Concession agreement, and the agreement itself complies with applicable state and Port requirements. However, as documented on Page 7 of this audit report, we observed instances of late payments during the audit period.

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 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 the books and records of Sodexo America, LLC for a two-year period from January 1, 2008 through December 31, 2009. 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** Sodexo, Inc. operates approximately 80+ of vending machines at the Seattle Tacoma International Airport.

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 Port to the extent the fee exceeds the MAG in accordance with the following structure:

- 51% - for receipts in Passenger Terminal Premises
- 10% - for receipts in Airport Office Building and Off-Site Location Premises

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.

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**

Sodexo materially complied with the terms of the Lease and Concession agreement, and the agreement itself complies with applicable state and Port requirements. The audit also identified a noncompliance with the RCW related to the operations of vending machines in public buildings dedicated to government administrative functions. The noncompliance has been communicated to management in a separate letter.

Additionally, as document on Page 7 of this audit report, the audit disclosed instances of late payments ranging from 1 to 89 days. The noted exceptions resulted in approximately \$17,866 in additional fees and interest.

## Background

Sodexo is a leading integrated food and facilities management services company in the U.S., Canada, and Mexico. Sodexo, as a subsidiary of Sodexo & Affiliate Group, is headquartered in Gaithersburg, MD. The company provides a number of food services, including facilities management and business strategy, to hospitals, colleges and universities, and School Districts.

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. The agreement was amendment effective October 2009, and it decreased the MAG to 60% of the total amount paid in the previous agreement year. The agreement also 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:

- 51% - for receipts in Passenger Terminal Premises
- 10% - for receipts in Airport Office Building and Off-Site Location Premises

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.

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.

Below are the financial highlights for the last three years.

| Year         | Revenue Type             | Reported Gross Revenue | Paid Concession    |
|--------------|--------------------------|------------------------|--------------------|
| 2007         | Passenger Terminal       | \$1,016,871            | \$523,421          |
|              | Airport Office Buildings | 44,066                 | 9,223              |
|              | Off-Site Locations*      | 25,490                 | 7,366              |
| 2008         | Passenger Terminal       | 859,369                | 504,127            |
|              | Airport Office Buildings | 37,544                 | 31,558             |
|              | Off-Site Locations       | 27,664                 | 30,568             |
| 2009         | Passenger Terminal       | 781,808                | 426,001            |
|              | Airport Office Buildings | 33,360                 | 30,615             |
|              | Off-Site Locations       | 29,108                 | 30,189             |
| <b>Total</b> |                          | <b>\$2,855,280</b>     | <b>\$1,593,068</b> |

Source: PROPworks and PeopleSoft

## 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 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.
  - Verified that concession fees were paid timely and intact.
  - Recalculated concession revenue and related fees to ensure accuracy.

## **Conclusion**

Sodexo materially complied with the terms of the Lease and Concession agreement, and the agreement itself complies with applicable state and Port requirements. The audit also identified a noncompliance with the RCW related to the operations of vending machines in public buildings dedicated to government administrative functions. The noncompliance has been communicated to management in a separate letter.

Additionally, the audit disclosed instances of late payments, ranging from 1 to 89 days. The noted exceptions resulted in approximately \$17,866 in additional fees and interest.

**Schedule of Findings and Recommendations**

**1. Untimely Payments**

The agreement, as amended under Section 4, stipulates specific payment terms for MAG and percentage fee payments as follows:

- MAG is payable in advance on or before the first day of each month.
- Percentage fee, if applicable, is due within 15 days following the end of each month.

Late payments, as stipulated under Section 8 of the agreement, are to be assessed a one-time late fee of 5% on the overdue amount, and interest of 18% per annum or the maximum allowed by the law, whichever is less. In addition, the agreement requires quarterly, rather than monthly, advance payments of fees/rent if more than three late payments are observed in a 12-month period.

We reviewed Sodexo payment history and noted ten instances of late payments in 2008, and eleven instances of late payments in 2009.

The table below summarizes untimely payments and related late fees and interest.

| Year               | Type of Payment | Range of Days Late | # of Instances of Late Payments | One-time Late Charge (5%) | Interest (18%/yr) | Total           |
|--------------------|-----------------|--------------------|---------------------------------|---------------------------|-------------------|-----------------|
| 2008               | MAG             | 1 to 35            | 3                               | \$4,716                   | \$514             | \$5,230         |
|                    | Concession fee  | 10 to 89           | 7                               | 1,727                     | 432               | 2,159           |
| 2009               | MAG             | 1 to 15            | 6                               | 8,391                     | 1,603             | 9,994           |
|                    | Concession fee  | 5 to 40            | 5                               | 207                       | 276               | 483             |
| <b>Grand Total</b> |                 |                    |                                 | <b>\$15,041</b>           | <b>\$2,825</b>    | <b>\$17,866</b> |

**Recommendation**

We recommend that management

- Collect approximately \$17,866 in one-time late and interest/finance charges.
- Require quarterly advance MAG payments.
- Work with the concessionaire to ensure timely payments.

**Management Response**

*As with previous recent audits, the Sodexo audit identified late penalties which were never accessed the tenant at the time of the late payment. Sodexo had two separate accounting staffing changes in 2008-2009, which did not take place in a seamless fashion. Thus, Sodexo made a number of late payments. However, since the time that the Port began*

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*enforcing the late penalty requirement, Sodexo has paid any late payment penalties and interest. The tenant also has established a pattern of timely payments in 2010. We believe that the issue of retroactive late penalties should be handled in a consistent fashion with other previous audits where this issue was identified, i.e. the retroactive late fees should not be billed.*