



Internal Audit Briefing

**Presented to the Port of Seattle
Audit Committee and Tay Yoshitani, CEO**

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Director, Internal Audit**

November 01, 2011



Agenda

- **Audit Report**
 - Concession and Lease Audits
 - Ex Officio LLC
 - Ivar's, Inc.
 - Wendy's
 - Maki of Japan
 - Comprehensive Operational Audit- Central Accounting System
 - Asset Management
 - Third-Party Arrangements Operational Audit
 - None
 - Limited Operational Audit
 - None
- **Survey Results – Lease and Concession Audits**
- **2012 Proposed Internal Audit Budget and Preliminary Work Plan Discussion**
- **2011 Work Plan Status Update**



Concession and Lease Audit Ex Officio LLC

Background

Ex Officio is an outdoor and travel clothing company founded in 1986 in Seattle, Washington as De Sar, Inc. The company currently operates three locations in the region including the location at Sea-Tac International Airport.

The terms of the agreement provide for:

- Minimum Annual Guarantee (MAG) of 85% of the total amount paid or payable in the previous agreement year
- Percentage Fee of 12% to 14% of gross revenues to the extent the fee is higher than the MAG.

Below are financial highlights for the last three agreement years:

Fiscal Year	Reported Gross Revenue	Paid Concession
2008-2009	\$ 2,021,625	\$ 242,269
2009-2010	1,991,847	239,022
2010-2011	2,355,361	289,751

Source: PeopleSoft



Concession and Lease Audit Ex Officio LLC

Audit Objectives

The purpose of the audit was to determine the following:

1. Reported concession was complete, properly calculated, and remitted timely to the Port.
2. The lessee complied with significant provisions of the Lease and Concession Agreement.

The scope of the audit covered the period of June 1, 2008, through May 31, 2011.



Concession and Lease Audit Ex Officio LLC

Audit Result

- Clean Audit Report



Concession and Lease Audit Ivar's, Inc.

Background

Ivar's Inc. is a private company founded on Pier 54 in Seattle in 1938. Since then, the company has expanded to three full-service waterfront restaurants and 25 fast casual Seafood Bars, including the location at Sea-Tac International Airport.

The terms of the agreement provide for:

- Minimum Annual Guarantee (MAG) of 85% of the total amount paid or payable in the previous agreement year
- Percentage Fee of 10% to 15% of gross revenues to the extent the fee is higher than the MAG.

Below are financial highlights for the last three agreement years:

Year	Reported Gross Revenue	Total Rent Paid
2007-08	\$ 2,964,296.41	\$ 397,644.46
2008-09	\$ 2,848,825.91	\$ 387,681.50
2009-10	\$ 2,759,134.16	\$ 373,025.16

Source: PeopleSoft



Concession and Lease Audit Ivar's, Inc.

Audit Objectives

The purpose of the audit was to determine the following:

1. The revenue reported was reasonable and complete.
2. Rent payments were received in a timely manner.
3. The lessee complied with provisions of the lease and concession agreement.

The scope of the audit covered the period of June 1, 2007 and May 31, 2010.



Concession and Lease Audit Ivar's, Inc.

Audit Result

- Clean Audit Report



Concession and Lease Audit Latrelle's Express, Inc. (dba Wendy's)

Background

LaTrelle's Express, Inc. operates nearly two-dozen restaurants located in airports and throughout major cities. LaTrelle's operates a portfolio of well-known restaurant brands, from Wendy's and Subway to Peet's Coffee & Tea and Buffalo Wild Wings.

The terms of the agreement provide for:

- Minimum Annual Guarantee (MAG) of 85% of the total amount paid or payable in the previous agreement year, provided it is not less than \$100,000.
- Percentage Fee of 10% to 13% of gross revenues to the extent the fee is higher than the MAG.

Below are financial highlights for the last three agreement years:

Year	Reported Gross Revenue	Total Rent Paid
2007-08	\$ 3,193,535	\$ 380,159
2008-09	\$ 3,466,939	\$ 415,702
2009-10	\$ 3,536,153	\$ 424,699

Source: PeopleSoft



Concession and Lease Audit Latrell's Express, Inc. (dba Wendy's)

Audit Objectives

The purpose of the audit was to determine the following:

1. The concession revenue was complete, properly calculated and remitted timely to the Port.
2. The lessee complied with other significant provisions of the lease and concession agreement.

The scope of the audit covered the period of June 1, 2007 and May 31, 2010.



Concession and Lease Audit Latrell's Express, Inc. (dba Wendy's)

Audit Result

- Clean Audit Report



Concession and Lease Audit Food Systems Unlimited, Inc. (dba Maki of Japan)

Background

Food System Unlimited, Inc. is a concept restaurant that began its operations in Orlando, Florida in 1991. The company operates in the food courts at the malls and airports around the nation, including a location at the Seattle Tacoma International Airport.

The terms of the agreement provide for:

- Minimum Annual Guarantee (MAG) of 85% of the total amount paid or payable in the previous agreement year, provided it is not less than \$165,000.
- Percentage Fee of 14% to 18% of gross revenues to the extent the fee is higher than the MAG.

Below are financial highlights for the last three agreement years:

Year	Reported Gross Revenue	Total Rent Paid
2008-2009	\$2,616,594	\$418,153
2009-2010	2,551,050	415,987
2010-2011	2,656,797	404,189

Source: PeopleSoft



Concession and Lease Audit Food Systems Unlimited, Inc. (dba Maki of Japan)

Audit Objectives

The purpose of the audit was to determine the following:

1. The reported concession was complete, properly calculated, and remitted timely to the Port.
2. The lessee complied with provisions of the Lease and Concession Agreement, as amended.

The scope of the audit covered the period of June 1, 2008 and May 31, 2011.



Concession and Lease Audit Food Systems Unlimited, Inc. (dba Maki of Japan)

Audit Result

- Clean Audit Report



Comprehensive Operational Audit- Central Accounting System Asset Management

Background

The Port of Seattle maintains large and diverse asset groups.

As of July 28, 2011, the Port has 26,130 in-service capital assets with a historical cost of \$6.6 billion across several different categories as follows :

Asset Category	Historical Cost (in millions)
Land	\$1,652
Building	1,485
Utility and Other Systems	1,047
Structures	1,046
Roads & Grounds	584
Land and Air Rights	306
Equipment	260
Improvements	125
Other	120

Source: PeopleSoft



Comprehensive Operational Audit- Central Accounting System Asset Management

Audit Objectives

The purpose of the audit was to determine whether management has implemented adequate controls to ensure:

1. Newly created assets are entered in the asset management system timely, efficiently and are complete.
2. Asset retirements are recorded in asset management in a timely, efficient and complete manner.
3. The capital asset list used for the physical inventory in all Divisions is accurate and complete.
4. Capital Services new asset creation and retirement processes are effective and complete.

We reviewed information for the period of January 1, 2010, through July 31, 2011.



Comprehensive Operational Audit- Central Accounting System Asset Management

Audit Result

- Clean Audit Report



2012 Proposed Internal Audit Budget

➤ 2012 Proposed Internal Audit Budget

Regular Budget Items

Salaries & Benefits	\$ 1,126,499
Supplies and General Expenses	11,945
Outside Services	2,780
Cont. Prof. Education (CPE) and Prof. Membership	45,274
Telecommunications	7,560
Worker's Compensation Expenses	2,418
Total Regular Items	\$ 1,196,476

One-Time 2012 Items

IT Performance Review and Risk Assessment	250,000
Internal Audit Quality Assurance (peer review)	50,000
Total One-Time Items	\$ 300,000

2012 Proposed Budget	\$ 1,496,476
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2012 Proposed Internal Audit Budget

➤ Internal Audit Budget

2008	2009	2010	2011	Proposed 2012
\$848,958	\$1,211,366	\$1,109,049	\$1,214,982	\$1,496,476

➤ Internal Audit FTEs

	2006	2007	2008	2009	2010	2011
FTEs	1	3	5	7	7	8

➤ Projected 2012 Internal Audit Resources

- ❖ Available audit resources -- 9,506 hours



Preliminary 2012 Work Plan Discussion

Risk-Based Internal Audit Steps

- Understand Port businesses and objectives
- Discuss Port risks with Port leadership and Commissioners (see attached)
- Identify potential Port wide risks
- Link the risk to specific Port objectives that could be disrupted/impaired
- Determine and set the scale to be used in the risk assessment
- Assess and rank risk factors/drivers
- 2012 project selection based on risk ranking



Preliminary 2012 Work Plan Discussion

Risk-Based Internal Audit Universe

	IT Risk	Strategic/ Governance Risk	Operational Risk	Compliance Risk	Accountability/ Transparency Risk	Reporting Risk
Business Units/Departments			X	X	X	X
Lease and Concession				X		
Central Key Processing Systems			X		X	
3RD Party Mgmt.			X	X	X	
Federal Assistance				X		X
Financial Reporting			X	X	X	X
Capital Improvement Program			X	X	X	X
Commission Directives/Policies		X				X
Information Technology (IT)	X					
Non-audit Services			X	X	X	



2011 Work Plan Status Update

- 2011 Work Plan Status
 - audit progress attached