



## Internal Audit Report

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LaTrelle's Express, Inc. (dba Wendy's)

Lease and Concession Compliance Audit

June 1, 2007 – May 31, 2010

Issue Date: November 1, 2011  
Report No. 2011-22



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### Transmittal Letter

Audit Committee  
Port of Seattle  
Seattle, Washington

We have completed an audit of the Lease and Concession Agreement between the Port of Seattle and LaTrelle's Express, Inc. The purpose of the audit was to determine whether:

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

We examined information related to a three-year period from June 1, 2007 to May 31, 2010.

We conducted the audit in accordance with Generally Accepted Government Auditing Standards (commonly referred to as the Yellow Book). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

LaTrelle's Express Inc. reported the concession revenue properly and materially complied with the terms of the Lease and Concession agreement. Port management materially administered the lease in compliance with the terms and conditions of the agreement except for minor exceptions related to interest financial charges.

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.

Yours truly,



Joyce Kirangi, CPA  
Internal Audit, Director

## Executive Summary

**Audit Scope and Objective** We examined the books and records of LaTrelle's Express Inc. for a three-year period from June 1, 2007, through May 31, 2010. Aviation Business Development is responsible for administering and monitoring the agreement to ensure contractual compliance. 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.

**Agreement Terms** This is the Port's first audit of LaTrelle's Express, Inc. (dba Wendy's). The Port of Seattle executed the following agreements with Latrelle's:

- Lease and Concession Agreement 614, March 2, 2004 – 2014 (10-year term)
- Terminal Lease Agreement 877, September 19, 2006 - September 30, 2011 (5-year term).

The concession percentage per Agreement 614 is calculated as follows:

- 10% - for gross receipts less than \$1 million
- 12% - for gross receipts greater than \$1 million but less than \$1.5 million
- 13% - for gross receipts greater than \$1.5 million

The agreements cite the following due dates for the minimum rent and percentage fee:

- The minimum rent (614) – advance payment on or before the first day of each month
- The percentage fee (614)– payment on or before the 15<sup>th</sup> day of the following month
- Base rent (877) – advance payment on or before the first day of each month

For untimely payments, the agreement provides for a one-time late fee of 5% of the overdue amount and finance charges to be accrued at the rate of 18% per annum from the due date until paid.

**Audit Result Summary** LaTrelle's Express Inc. reported the concession revenue properly and materially complied with the terms of the Lease and Concession agreement. Port management materially administered the lease in compliance with the terms and conditions of the agreement except for minor exceptions related to interest financial charges.

## Background

This is the Port's first audit of LaTrelle's Express, Inc. (dba Wendy's). The Port of Seattle executed the following agreements with Latrelle's:

- Lease and Concession Agreement 614, March 2, 2004 – 2014 (10-year term)
- Terminal Lease Agreement 877, September 19, 2006 - September 30, 2011 (5-year term).

The James family has owned and operated LaTrelle's Management Company (Texas), since 1979. It includes 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. Three of the brands were listed in the top four of Zagat America's Top Restaurants of 2010. LaTrelle's boasts a highly-stable management staff and one of the best employee retention rates in the business.

The concession percentage per the agreement is calculated as follows:

- 10% - for gross receipts less than \$1 million
- 12% - for gross receipts greater than \$1 million but less than \$1.5 million
- 13% - for gross receipts greater than \$1.5 million

The agreements cite the following due dates with a ten-day grace period for the minimum rent and percentage fee:

- The minimum rent (614) – advance payment on or before the first day of each month
- The percentage fee (614)– payment on or before the 15<sup>th</sup> day of the following month
- Base rent (877) – advance payment on or before the first day of each month

For untimely payments, the agreement provides for a one-time late fee of 5% of the overdue amount and finance charges to be accrued at the rate of 18% per annum from the due date until paid.

Below are the financial highlights for the last three fiscal years:

<b>Fiscal Year</b>	<b>Reported Gross Revenue</b>	<b>Paid Concession</b>
2007-08	\$ 3,193,535	\$ 380,159
2008-09	\$ 3,466,939	\$ 415,702
2009-10	\$ 3,536,153	\$ 424,699
<b>Total</b>	<b>\$ 10,196,627</b>	<b>\$ 1,220,560</b>

Source: PROPWorks and PeopleSoft

## Audit Objectives

The purpose of the audit was to determine whether:

- 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.

## Audit Scope and Methodology

The scope of the audit covered a three-year period between June 1, 2007 and May 31, 2010.

We conducted the audit to determine whether the lessee was in compliance with the lease agreement terms including, but not limited to, monthly rent and concession payments. The audit was risk-based from planning to test sampling. We applied additional detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

### 1. Completeness of Reported Revenue

We observed the concession activity, to ensure that any additional sources of revenue (e.g., receipts from displays or promotions on the premises) were included in "gross sales." We reviewed financial records including LaTrelle's Washington state tax returns and monthly revenue reports. In addition, we obtained LaTrelle's certified sales by its CPA for the period under audit and determined whether the certified amounts agreed to LaTrelle's reported "gross sales" to the Port.

### 2. Minimum Annual Guarantee (MAG) Percentage Accurately Calculated

We reformed the calculation of the MAG annual percentage of gross sales for two periods: June 1, 2007, through May 31, 2008, and June 1, 2008, through May 31, 2009.

### 3. Timely Submission of Rent and Concession Percentage and, as applicable, Assessment of Late Fees

We reviewed the Port's records to determine when the rent and concession payments were received and whether or not they were late. In the event that payments were later than the 10-day grace period identified in the lease and concession agreement, we calculated the expected late fee and finance charge and determined whether these fees had been assessed.

### 4. Compliance with Other Significant Requirements

#### Insurance

We identified the insurance coverage required by the lease and concession agreement and determined whether the lessee had obtained sufficient coverage and submitted evidence to the Port.

Letter of Credit

We identified the letter of credit amounts required by the lease and concession agreement and determined whether the lessee had obtained the appropriate letter of credit and submitted evidence to the Port.

Annual Reporting

We identified the annual reports required by the lease and concession agreement and determined whether the lessee had submitted the reports on time and in accordance with the agreement.

**Conclusion**

LaTrelle's Express Inc. reported the concession revenue properly and materially complied with the terms of the Lease and Concession agreement. Port management materially administered the lease in compliance with the terms and conditions of the agreement except for minor exceptions related to interest financial charges.