



# **Internal Audit Briefing**

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

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Director, Internal Audit**

September 07, 2011



# Agenda

- **Audit Report**
  - Comprehensive Operational Audit
    - None
  - Third-Party Arrangements Operational Audit
    - Club International Lounge
  - Limited Operational Audit
    - Port of Seattle Fleet Maintenance – Aviation and Marine
  - Concession and Lease Audits
    - Bill & Nick
    - Enterprise Rent-A-Car
- **2011 Work Plan Status Update and Initial 2012 Work Plan Discussion**
- **2012 Quality Control and Assurance Review – GAGAS Requirement**



# Third Party Management Operational Audit Club International Lounge

## Background

A three-year management agreement was entered into between the Port and VIP Hospitality, LLC in March 2010 for operations of lounge services at South Satellite of the airport. The agreement provides that the contractor will operate, manage and maintain lounge services on a per-flight basis for designated airline passengers for a management fee. The lounge currently services two airlines - Asiana and Condor Airlines - with plans to expand in near future.

The total revenues and expenses from 2010 are as follows:

	2010	2011 <i>thru July</i>
Revenue	105,500	92,320
Operating Expenses	114,188	46,108
Management Fee	42,672	36,847
Net Income/(loss)	(51,360)	9,365

Source: PeopleSoft



# Third Party Management Operational Audit Club International Lounge

## Audit Objectives

The objective was to determine if management implemented adequate controls to assure:

1. Compliance with the management agreement
2. Monitoring of the operating expenses was adequate

We reviewed information related to the period from March 5, 2010 to present.



# Third Party Management Operational Audit Club International Lounge

## Audit Result

### One Finding

- Payroll Monitoring: Payroll reimbursement to the contractor was based on budget estimates rather than actual expenses incurred. No true-up reconciliation was conducted at year-end.



# Limited Operational Audit Fleet Maintenance – Aviation and Marine

## Background

The Port of Seattle maintains a large and diverse fleet of 1,335 items, as of August 2011, including but not limited to the following:

- 38 take-home vehicles
- 71 assigned vehicles
- 118 pool vehicles
- 11 boats

The total annual expenses for fleet maintenance for 2008 – 2010:

Year	Aviation Maintenance	Marine Maintenance	Total
2008	\$3,099,762	\$1,259,184	\$4,358,947
2009	\$2,961,162	\$1,117,294	\$4,078,456
2010	\$2,910,563	\$972,782	\$3,883,346

Source: PeopleSoft



# Limited Operational Audit Fleet Maintenance – Aviation and Marine

## Audit Objectives

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

1. Compliance with internal policies and procedures Executive Policy 17 (EX-17);
  - Assigned take-home vehicles justified and authorized
  - Utilization requirements for assigned and pooled vehicles are met
2. Corrective maintenance occurs as needed and appears reasonable
3. Performance measures are available, utilized, and assisting management in achieving its goals (e.g., preventive maintenance time allocation estimates are monitored against actual)
4. Benchmarks are available and can be used to help improve Port fleet operations

We reviewed information for the period of January 1, 2008, through December 31, 2010, including activity through the end of fieldwork in July 2011.



# Limited Operational Audit Fleet Maintenance – Aviation and Marine

## Audit Result

### Two Findings

- Maximo Software (IBM) for Fleet Maintenance Is Not Used At Optimal Capacity
- Certain Requirements of the Fleet Management Policy (EX-17) Are Not Being Met





# Concession and Lease Audit Bill & Nick, Inc.

## Background

Bill & Nick, Inc. (d/b/a Bay Café) is a private company that has operated a diner on Fisherman's Terminal since 1987. Based in Seattle, Washington, this establishment has been serving visiting and local patrons food items, beverage items, and other business related services just feet from the wharf.

The agreement requires a fixed monthly minimum rent to be adjusted annually based on a 3 prior year average. Additionally, the agreement requires a percentage fee of 6%, provided the fee exceeds the fixed monthly minimum rent.

Below are Bill & Nick, Inc. financial highlights for the last two years:

Year	Reported Gross Revenue	Total Rent Paid
2009	\$766,313	45,979
2010	\$795,754	47,745

Source: PeopleSoft



## Concession and Lease Audit Bill & Nick, Inc.

### Audit Objectives

The purpose of the audit was to determine the following:

1. Reported concession was complete and properly calculated.
2. The lessee complied with provisions of the Lease and Concession Agreement.

The scope of the audit covered a two-year period from January 1, 2009 to December 31, 2010



# Concession and Lease Audit Bill & Nick, Inc.

## Audit Result

- Clean Audit Report



# Concession and Lease Audit Enterprise Rent-A-Car

## Background

Enterprise Rent-A-Car (ERAC) currently has two locations at/around the airport that could be subject to concession as defined in the agreement: a counter at the Airport and another off-airport location within a three (3) mile radius of the Airport's boundary.

The terms of the agreement provide for:

- Minimum Annual Guarantee (MAG) of 80% of the total amount paid or payable in the previous agreement year
- Percentage Fee of 10% of gross revenues to the extent the fee is higher than the MAG.

Below are ERAC financial highlights for the last three agreement years:

Fiscal Year	Reported Gross Revenue	Paid Concession
2007-2008	\$18,888,053	\$1,888,807
2008-2009	19,881,323	1,988,131
2009-2010	21,672,584	2,167,258
Total	\$60,441,960	\$6,044,196

Source: PeopleSoft



# Concession and Lease Audit Enterprise Rent-A-Car

## 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. Port and the lessee complied with provisions of the Lease and Concession Agreement, as amended.
3. Customer Facility Charges (CFC) were properly collected and remitted timely to the Port.

The scope of the audit covered the period of November 1, 2007, through October 31, 2010.



# Concession and Lease Audit Enterprise Rent-A-Car

## Audit Result

- Clean Audit Report



# 2011 Work Plan Status Update and Initial 2012 Work Plan Discussion

- 2011 Work Plan Status
  - audit progress attached
  
- 2012 Work Plan Preparation Timeline
  - Preliminary 2012 department budget due on 9/2/2011
    - ❖ No additional FTEs
    - ❖ Approx. \$10,000 to \$50,000 for peer review
    - ❖ Approx. \$100,000 for initial IT risk assessment and recommendations for areas of audit focus
  - Identified 20+ Key Port Leaders to start initial discussion
  - To date, met with approx. 15 senior leaders
  - In Sept., begin financial analysis
  - By Oct., compile risk assessment document
  - By Nov., preliminary discussion with the Committee
  - By either Dec. or Jan., approved 2012 Work Plan



## 2012 Quality Control and Assurance Review

- Department Readiness Self-Assessment
  - Implemented TeamMate in 2011
  - TeamMate training
  - Refining/formalizing department policies/procedures
  - Self-comparison with peer internal shops in the region (e.g., City of Seattle and King County)
  - Informal 3<sup>rd</sup> party peer review readiness assessment and training
  
- Formal Peer Review in 2012
  - Tentatively scheduled for the 2nd quarter
  - Conducted by ALGA (Association of Local Government Auditors) in accordance with government auditing standards or Committee recommendation