



Internal Audit Report

Department Audit

Sea-Tac Airport Office Building and Conference Center

January 1, 2008 to December 31, 2010

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Transmittal Letter

We have completed an audit of the Sea-Tac Airport Office Building, which includes the Conference Center, a revenue-generating activity. The purpose of the audit was to determine whether internal controls are adequate to ensure that operations are efficient and effective, processes are adequately controlled and applicable legal requirements are met.

We reviewed information relating to Airport Office Building operations from January 1, 2008 – December 31, 2010, and through the end of fieldwork in June 2011.

Management has primary responsibility to establish and implement effective controls. Our role was to assess and test those controls in order to establish whether the controls were adequate to ensure effective operations and compliance.

We conducted the audit using due professional care. The audit was planned and performed to obtain reasonable assurance that controls are adequate and operating effectively as intended in the aforementioned areas.

The Airport Office Building and the Conference Center at Sea-Tac Airport are operated by experienced staff. Although there are minor internal control weaknesses, we noted no issues of significance.

We extend our appreciation to the Airport Office Building and Conference Center staff for their assistance and cooperation during the audit.



Joyce Kirangi, CPA
Internal Audit Director

Executive Summary

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

- 1) Revenue generated by the Conference Center is complete and accurate
- 2) Expenditures (including payroll) are authorized and valid
- 3) Compliance with contract requirements
- 4) Compliance with applicable laws
- 5) Operational effectiveness

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

Background The Port of Seattle constructed the Airport Office Building in 2002/3. Staff moved into the AOB in early 2004. The AOB houses approximately 300 staff, exclusive of the staff in the Airport Communications Center and the 911 Dispatch Center at the AOB.

Management is responsible for daily operations of the AOB, which includes the Conference Center (9 rooms with a seating capacity of 1,673), located on the mezzanine level of the AOB.

Room Rental

Due to low internal utilization, the Conference Center has been a revenue-generating activity since late 2005, increasing from \$10,000 in 2005 to \$154,000 in 2010, during which year it hosted 220 external (paid) events, 415 internal or promotional events and 311 airline events. Room utilization was 32 percent of available hours.

Catering Revenue

An external contractor provides catering services and remits 25 percent of its revenues for Conference Center events to the Port. This contract began in September 2009, with monthly commissions ranging from \$500 to \$3,600. Annual commissions were \$11,000 in 2009 and \$22,000 in 2010.

Janitorial Maintenance

Building maintenance is provided by an external contractor, which is separate from the contractor that provides maintenance services to the airport terminal and other facilities. The AOB contract also includes the police department.

Audit Result Summary Based on the audit procedures performed, the Airport Office Building has adequate controls to ensure efficient and effective operations and compliance with applicable legal requirements. Although there are minor internal control weaknesses, we noted no issues of significance. We identified benchmarks that may assist the Conference Center to improve its operational effectiveness.

DETAILED AUDIT REPORT

Background

The Airport Office Building (AOB) was first occupied in 2004. The Airport Office Building Department consists of six staff: a manager, two central load dock employees and three Conference Center staff. The AOB houses approximately 300 staff, many of which previously had been located in satellite offices and leased space. The AOB also houses the Airport Communications Center and the 911 Dispatch Center.

Within the first year of occupancy, management recognized the need for a facility manager to oversee daily operations of the AOB, including the fitness facility, the employee lunchroom, furniture and equipment purchases, space planning and emergency evacuation coordination. By the second year, this responsibility expanded to include budget planning and monitoring, central load docks, janitorial services, copier leases, coffee contracts and the Conference Center.

Management of the building is responsible for a diverse array of services, from employee coffee to furniture purchases to copier leases to janitorial maintenance to conference center events. The one area that is not under the purview of the management team for the AOB is the front desk security staff.

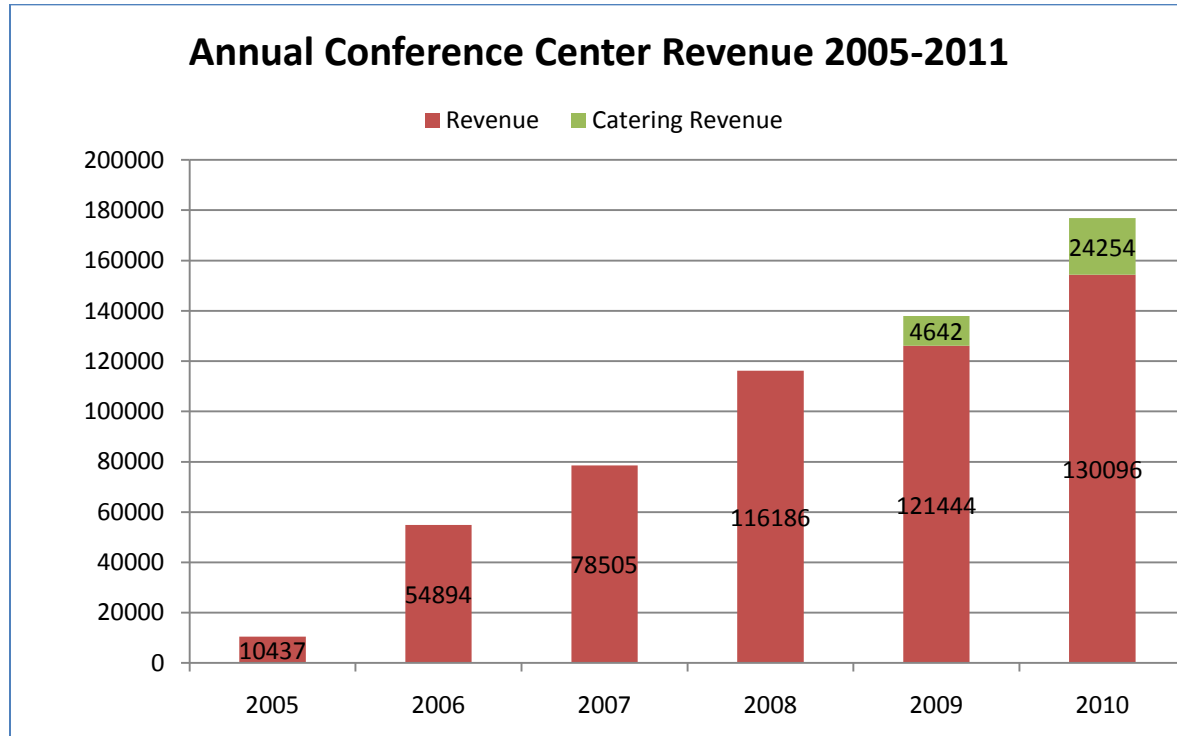
The Conference Center is on the mezzanine level of the AOB. It includes the following space:

Description	Usable Sq. Ft.
Copenhagen (4)	326
Tokyo (4)	442
Seoul (4)	862
Amsterdam (4)	969
London (4)	1,111
Beijing (4)	1,037
International (Beijing/London/Amsterdam) (5)	3,117
Summit (3)	823
Central Auditorium (1)	2,849
Central Annex (inside seismic) (2)	731
TOTAL (excluding International)	9,150

- (1) This room is on the mezzanine level, but not within the AOB
- (2) This room is next to the Central Auditorium
- (3) This room is on the ticketing level (near Seattle's Best Coffee)
- (4) All of these rooms are on the mezzanine level, within the AOB
- (5) Not included in total square footage, since it is a collection of three separate rooms

Room Rental

Due to low internal utilization, the Conference Center has been transformed into a revenue generating activity since 2005.



Source: Responsibility Report

In 2010, the Conference Center hosted 220 paid events, 415 internal or promotional events and 311 airline events. Room utilization was 32 percent of available hours of 27,000. Although there is growth potential, the challenge in further increasing conference center paid utilization is two-fold: If the marketing budget is increased and efforts are successful in attracting new business, more staff would be needed to operate the conference center as well as continuing the effective marketing efforts.

The following provides comparative information for the Conference Center and two other local conference centers:

	<u>AOB Conf. Center</u>	<u>Conf. Center A</u>	<u>Conf. Center B</u>
Total SF of conference center space	9,150	49,320	414,722
Annual revenue per SF (exclusive of parking)	\$16.87	\$45.84	\$71.29
Annual advertising expense per SF	\$.70	\$8.01	\$13.98
Percentage of space occupied by year	32% (a)	46%	68%
Exterior signage?	NO	YES	YES

(a) This percentage includes occupancy by Port staff and other nonpaying tenants

Catering Revenue

As of fourth quarter 2009, a contractor provides catering services to the Conference Center and remits 25 percent of the revenues to the Port for catered events at the Conference Center.

Janitorial Maintenance

Janitorial maintenance is provided under contract. This contract began in 2008, when management decided to solicit proposals for AOB janitorial, separate from the larger contract for terminal maintenance. The AOB janitorial contract includes the Police Department.

Audit Objectives

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

- 1) Revenue generated by the Conference Center is complete and accurate
- 2) Expenditures (including payroll) are authorized and valid
- 3) Compliance with contract requirements
- 4) Legal compliance
- 5) Operational effectiveness

Highlights and Accomplishments

Some significant accomplishments include:

- The first external clients paid to use the Conference Center starting in late 2005.
- Revenues from room rental increased from \$54,894 in 2006 to \$130,096 in 2010.
- Contracted for catering services in 2009, resulting in additional revenue of \$4,642 in 2009 and \$24,254 in 2010.
- The Airport Facilities Manager assumed responsibility for a new janitorial service that maintains the AOB (including the Police Department), resulting in improvements.

- Management completed significant remodels to the modular workstations on floors two and five using underutilized space.
- Management executed new copier leases, which resulted in savings.
- On a smaller scale, management revamped the coffee program, which resulted in savings.
- Adopted first, albeit small, Conference Center advertising budget, which resulted in greater paid utilization.
- Ended leases in remote buildings and brought work groups together within the AOB.

Audit Scope and Methodology

We reviewed information relating to the period January 1, 2008, through December 31, 2010, including activity through the end of fieldwork in June 2011. We identified risks and developed audit procedures to address those risks. We assessed and evaluated controls over the following areas:

Conference Center Revenues

We selected a representative sample of Conference Center events, to determine whether proper fees had been charged and payments had been recorded completely, accurately and timely (whether by check or credit card).

Contract Compliance

We identified two significant contracts and tested compliance with the contract requirements:

Janitorial Services

1. Timely contract renewal
2. Certificate of Liability Insurance
3. Worker compensation account with Labor and Industries
4. Performance (i.e., quality of services provided)

Catering Services

1. Timely contract renewal
2. Certificate of Liability Insurance
3. Worker compensation account with Labor and Industries
4. Submission of commission earnings

Legal Compliance

We identified the rates in the Port's tariff to be charged at the Conference Center and conducted tests to determine whether the authorized rates were charged.

Benchmarking

We obtained limited information from two local convention centers for the period 2010, in order to compare metrics with the AOB Conference Center.

Conclusion

Based on the audit procedures performed, the Airport Office Building has adequate controls to ensure efficient and effective operations and compliance with applicable legal requirements. Although there are minor internal control weaknesses, we noted no issues of significance. We identified benchmarks that may assist the Conference Center improve its operational effectiveness.