



Internal Audit Report

Shilshole Bay Fuel Dock LLC

Lease and Concession Audit

December 1, 2009 through December 31, 2010

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Transmittal Letter

We have completed an audit of the Lease and Concession Agreement, as amended, between the Port of Seattle and Shilshole Bay Fuel Dock LLC. The purpose of the audit was to determine whether the lessee complied with agreed-upon terms and conditions, including but not limited to proper remittance of flowage fees.

We examined information related to the period from December 1, 2009 through December 31, 2010.

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.

Shilshole Bay Fuel Dock LLC complied with the terms of the Lease and Concession agreement, and we noted no discrepancies with reported flowage fees or timely payment of rent for the leased premises.

We extend our appreciation to the management and staff of Harbor Services – Recreational and Accounting & Financial Reporting for their assistance and cooperation during the audit.



Joyce Kirangi, CPA
Director, Internal Audit

Executive Summary

Audit Scope and Objective The purpose of the audit was to determine whether:

- 1) Rent payments were remitted timely to the Port.
- 2) Reported flowage fees were complete, properly calculated, and remitted timely to the Port.
- 3) Lessee complied with provisions of the Lease and Concession Agreement pertaining to environmental standards, insurance and indemnity.

We examined the books and records of Shilshole Bay Fuel Dock for the period from December 1, 2009 through December 31, 2010. Harbor Services – Recreational within the Real Estate Division has the primary responsibility for administering and monitoring the agreement to ensure compliance with agreed-upon terms.

Background The Shilshole Bay Fuel Dock provides fuel filling services for moorage customers and the public at Shilshole Bay Marina. For over nine years, the Port and Shilshole Bay Fuel Dock have managed a long-standing rental arrangement.

The base rent is subject to annual adjustments based on the Consumer Price Index for All Urban Consumers, U.S. City Average. The current agreement was signed in December 2006, and amended/extended in December 2009 through November 30, 2011.

In December 2009, a flowage fee of one cent per gallon of any fuel pumped from the dock was amended to the current basic lease which extends through November 30, 2011.

Audit Result Summary Shilshole Bay Fuel Dock LLC complied with the terms of the Lease and Concession agreement, and we noted no discrepancies with reported fuel flowage fees or timely rent payments.

Detailed Audit Report

Background

The agreement between the Port and Shilshole Bay Fuel Dock LLC includes a base monthly rent and semi-annual flowage fees for the periods from December 1 through May 31, and June 1 through November 31 each year.

For the audit period, the aggregate number of gallons pumped and resulting flowage fees were as follows:

Semi-Annual Flowage Fees Reporting Periods	Aggregate Number of Gallons	Paid Flowage Fees
May 2010	66,604.24	\$664.04
November 2010	176,367.00	\$1,763.67
Total	242,971.24	\$2,427.71

Source: PROP works

In addition to the flowage fees, Shilshole Bay Fuel Dock paid a monthly base rent rate of \$3,006.40 through November 30, 2010.

Audit Objectives

The purpose of the audit was to determine whether:

- 1) Rent payments were remitted timely to the Port.
- 2) Reported flowage fees were complete, properly calculated, and remitted timely to the Port.
- 3) Lessee complied with provisions of the Lease and Concession Agreement pertaining to environmental standards, insurance and indemnity.

We examined the books and records of Shilshole Bay Fuel Dock for the period from December 1, 2009 through December 31, 2010.

Highlights and Accomplishments

During the review, we observed efficient and effective management controls in the following areas:

- Port management has been proactive in determining the useful physical life of the fuel dock and a future replacement plan.

- Port management has effectively monitored the lessee's responses to any identified deficiencies in operations, including those arising from site visits by Washington State Department of Ecology, local fire department and the Port's Environmental Compliance Assessment Program.

Audit Scope and Methodology

Our approach to the audit was risk-based from planning to test sampling. We reviewed and assessed risks associated with operations, compliance and accounting processes. We applied audit procedures to areas with the highest likelihood of significant negative impact. We considered the nature of the activity and evaluated it within the context of our audit objectives. Our consideration included control (both manual and system driven) assessment and control testing, as necessary.

Audit procedures can be grouped and summarized into compliance and accounting. We approached these audit areas with the following methodology:

1. Compliance

In order to determine whether management has complied with the lease provisions pertaining to environmental standards, insurance and indemnity requirements, we reviewed (1) reports completed by the Port as part of its Environmental Compliance Assessment Program, (2) Continuation Certificates for Term Bonds and Liability Insurance, and (3) AFR's Legal Documents file.

2. Accounting

In order to determine whether rent payments were remitted timely to the Port and reported flowage fees were complete, properly calculated, and remitted semi-annually to the Port, we reviewed (1) AFR's Concession files, including concession and rent schedules, (2) Reports completed by the independent Accountant, (2) Fuel Sales reports, (3) Daily sales receipts, and (4) monthly invoices from fuel supplier of fuel purchases.

Conclusion

Shilshole Bay Fuel Dock LLC complied with the terms of the Lease and Concession agreement, and we noted no discrepancies with reported flowage fees and timely payment of rent for the leased premises.