



# Internal Audit Report

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Concession Audit

Of

Emerald Cove Enterprises

September 23, 2009 – September 30, 2011

Issue Date: January 10, 2012

Report No. 2012-03

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## Transmittal Letter

Audit Committee  
Port of Seattle  
Seattle, Washington

We have completed an audit of the Concession Agreement between the Port of Seattle and Emerald Cove Enterprises. 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 concessionaire complied with significant provisions of the concession agreement.

We examined information related to a two-year period from contract inception on September 23, 2009, through September 30, 2011.

We conducted the audit in accordance with generally accepted government auditing standards. 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.

Emerald Cove Enterprises reported revenue completely and accurately, and the percentage fee was remitted timely to the Port. Further, Emerald Cove Enterprises complied with the other significant provisions of the agreement.

We extend our appreciation to the management and staff of the Airport Office Building Department and Accounting & Financial Reporting at the Port for their assistance and cooperation during the audit. We also thank the management and staff of Emerald Cove Enterprises for their assistance during the audit.



Joyce Kirangi, CPA  
Director, Internal Audit Department

## Executive Summary

**Audit Scope and Objective** 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 concessionaire complied with significant provisions of the concession agreement.

This is our first audit of Emerald Cove Enterprises. We examined the books and records for a two-year period from September 23, 2009, through September 30, 2011. The Airport Office Building Department, in conjunction with Accounting and Financial Reporting (AFR), has the primary responsibility at the Port of Seattle for administering and monitoring the agreement to ensure contractual compliance.

**Agreement Terms** The initial agreement term was for one year, through September 30, 2010, with two one-year extension options. The current agreement is in its final one-year extension, which will terminate on September 30, 2012.

The concession percentage per the agreement is 25% of gross revenues on food and beverage sales to external customers of the Airport Conference Center.

The agreement provides a basic set of exclusions from gross revenue including taxes, refunds to customers, and revenue derived from expenses passed directly through to third parties. However, any markup on such pass-through expenses is included in gross revenue.

The percentage fee is payable within 15 days after the end of each calendar month with respect to gross revenues realized during the 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 12% per annum from the due date until paid.

**Audit Result Summary** Emerald Cove Enterprises reported gross revenues in accordance with the concession agreement. Further, Emerald Cove Enterprises complied with the significant terms of the agreement.

## Background

In 2009, the Port of Seattle entered into its first agreement with a caterer for the exclusive rights to cater events at the Airport Conference Center. The concession agreement was awarded to Emerald Cove Enterprises of Normandy Park, Washington. Emerald Cove is a full-service caterer, founded in 1999. On its web site, Emerald Cove promotes the Airport Conference Center as follows:

**Book a party at our exclusive venue!**

**The Conference Center at Seattle-Tacoma International Airport.**

Located at the Sea-Tac International Airport, the Conference Center is available to accommodate small meetings or conferences up to 200 attendees. Offering almost 9000 square feet of private, flexible meeting space, the conference center can be the perfect venue for your next meeting, special event, or holiday party.

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## Two-year Financial Highlights

Reporting Period	Gross Sales	25% Commission
9-1-09 – 9-30-10	\$91,979	\$22,995
10-1-10 – 9-30-11	\$125,335	\$31,333
TOTAL	\$217,314	\$54,328

## **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 concessionaire complied with significant provisions of the lease and concession agreement.

## **Audit Scope and Methodology**

The scope of the audit covered the period September 23, 2009, through September 30, 2011. We conducted the audit to determine whether the concessionaire was in compliance with the concession agreement terms including, but not limited to, proper concession payments. The audit approach was risk-based from planning to test sampling. We focused on the following areas:

- **Timely Payments**  
We reviewed payment records to determine whether the lessee complied with the timely payment requirement.
- **Insurance Liability**  
We determined whether insurance requirements had been met by reviewing the certificates of insurance in force for the audit period.
- **Certified Annual Report**  
We reviewed the annual certifications for the audit period to determine whether the certifications were submitted timely.
- **Percentage/Concession Revenue**  
We obtained the sales reports from the concessionaire's accounting records and agreed them to the reports submitted monthly to the Port of Seattle. We determined whether the calculation of the concession percentage was accurate. We verified whether the percentage had been calculated on the food and beverage sales, in accordance with Section 1.10 of the agreement.
- **Charges for Food and Beverage**  
We obtained the approved menus and pricing schedules and sampled 46 invoices over the audit period, to determine whether prices charged were in accordance with the approved pricing schedules. We traced and agreed the invoices to the concessionaires' accounting records.

## **Conclusion**

Emerald Cove Enterprises reported gross revenues in accordance with the concession agreement. Further, Emerald Cove Enterprises complied with the significant terms of the agreement.