



Internal Audit Report

Lease and Concession Audit

Bell Street Parking Garage and Pier 66 Parking Lot

June 1, 2010 – May 31, 2011

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Transmittal Letter

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of the Lease and Concession Agreements between the Port of Seattle and Republic Parking Northwest, Inc. (Republic).

We examined information related to a twelve-month period from June 1, 2010 through May 31, 2011.

We conducted this performance 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.

We extend our appreciation to the management and staff of the Real Estate Division and the Accounting and Financial Reporting for their assistance and cooperation during the audit.



Joyce Kirangi, CPA
Director, Internal Audit

Executive Summary

Audit Scope and Objective We examined the books and records of Republic for a twelve-month period beginning June 1, 2010 and ending May 31, 2011. The Real Estate Division is responsible for administering and monitoring this agreement to ensure contractual compliance.

The purpose of the audit was to determine whether:

1. Rent and gross sales (concessions) were complete and paid within the contractual timelines;
2. Republic complied with insurance and surety requirements;
3. Republic complied with lease requirements intended to mitigate unrealized revenues

Agreement Terms The Port of Seattle executed the following agreements with Republic:

- Lease Agreement 000424, August 12, 2002 (Continual Term) for the Pier 66 Parking Lot;
- Lease Agreement 000425, August 12, 2002 (Continual Term) for the Bell Street Garage.

Both leases have monthly concession payment terms:

- For the Pier 66 Parking Lot, 90% of the gross parking revenues;
- For the Bell Street Garage, 71% of gross parking revenues, if the concession exceeds the monthly rent of \$65,000 (excluding applicable taxes). The rent acts as a minimum monthly guarantee in the event that revenues come in below expectations.

Both agreements cite due dates for the concession payments and the monthly rent for Bell Street Garage:

- Concession payments for the prior month are due on or before the 15th of the current month;
- Rent (only for Bell Street Garage) is due on the 1st of each month.

Audit Result Summary Republic Parking Northwest, Inc. materially complied with both of the terms of the lease agreements. However, Republic did not report some minor revenues from the Bell Street Garage lease, resulting in \$6,969 additional fees.

Background

Republic Parking was founded in 1966 in Tennessee, and now has operations in North America and Europe. The Northwest division is headquartered in Seattle and operates in Washington, Idaho, and Hawaii. Republic has been managing both the Bell Street Garage and Pier 66 Parking Lot since 1992.

The Port of Seattle executed the following agreements with Republic:

- Lease Agreement 000424, August 12, 2002 (Continual Term) for the Pier 66 Parking Lot;
- Lease Agreement 000425, August 12, 2002 (Continual Term) for the Bell Street Garage.

Republic operates the Port's Bell Street Parking Garage which has 1,511 parking stalls. The Pier 66 parking lot is a small, non-staffed open-air lot, and is open for a limited number of hours. Both facilities utilize modern revenue control equipment.

Below are the financial highlights for the audit period:

Location	Reported Revenue	Payments to the Port	
		Total Rent Payments	Total Concession Payments
Bell Street Garage	\$2,517,168.59	\$880,152.00*	\$907,039.00
Pier 66 Parking Lot	\$17,613.74	N/A	\$14,048.55

Data Source: Port of Seattle Accounting & Financial Reporting Records.

* Data Note: Includes payment of state Lease-Hold Tax of 12.84%.

The concession is defined as follows:

- Lease Agreement 000424 (Pier 66 Parking Lot) - 90% of the gross parking revenues
- Lease Agreement 000425 (Bell Street Garage) - 71% of gross parking revenues if the concession amount exceeds the monthly rent of \$65,000

Both agreements cite the following as the terms of payment, with a ten-day grace period:

- Concession payments are due on the 15th for the preceding month
- Rent payments are due on the 1st for the current month (lease 000425 only)

For untimely payments, the agreements 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 Scope and Methodology

We reviewed information for the twelve-month period of June 1, 2010 – May 31, 2011. We utilized a risk-based audit approach from planning to testing. We gathered information through research, interviews, observations and analytical reviews, in order to obtain a complete understanding of the lessee operations. We applied additional detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

1. Verify the completeness and timeliness of rent and concession revenues.

We reviewed Republic's monthly revenue reports submitted to the Port. Additionally we obtained both hard and soft copies of Republic's transactions from both the Pier 66 Parking Lot and the Bell Street Garage. We validated the population and subsequently determined whether the transactions agreed to Republic's reported "gross sales" to the Port of Seattle.

We reviewed the Port's records to determine whether the rent and concession payments were received timely. In the event of late payments, we calculated the expected late fee and finance charge.

2. Confirm that insurance and surety bond requirements were met during the audit period.

We identified the insurance and surety requirements, and verified compliance by reviewing available physical documents.

3. Ensure that Republic complied with lease requirements intended to mitigate unrealized revenues.

We identified three operational requirements put in place to minimize potential revenue loss due to market conditions and fraud:

- Access Key Cards

We reviewed records from Republic's access key card system to ensure that cards were properly allocated to customers and tenants of the Port (and at the correct rates) as specified in the Bell Street Garage lease.

- Market-Rate Analysis

We verified that Republic had conducted the 'twice-yearly' market-rate analysis for both lease locations and submitted reports to the Port.

- Security

We conducted a test of randomly selected Republic employees' time cards to substantiate Republic's efforts to meet the minimum security levels required at the Bell Street Garage. We randomly selected 20 days during the audit period, and compared the time cards against the security levels requirements for compliance.

Conclusion

Republic Parking Northwest, Inc. materially complied with the terms of both the lease agreements. However, Republic did not report some minor revenues from the Bell Street Garage lease, resulting in \$6,969 additional fees.

Schedule of Findings and Recommendations

1. Incomplete Reporting of Bell Street Garage Concession Revenues

The agreements define gross parking revenues as follows:

- (a) All sales of Lessee, whether by cash, credit or otherwise, without regard to the manner in which or place at which Lessee has received the parking or service request;
- (b) All other sales to customers by Lessee including, but not limited to, sales of items of personal property or services provided to parking customers;

We observed that Republic did not report a minor revenue stream to the Port. Specifically, Republic did not report a \$2 processing fee that it charges on each online parking reservation. For the audit period, approximately 2,215 of online pre-paid parking reservations were made and generated about \$4,430 in gross revenue.

Additionally, when reviewing the revenue records against the lease terms for the Bell Street Garage, we noted that at the end of the 2010-11 lease term, the over/short accounts showed a positive cumulative balance of \$4,154 that had not been reported to the Port. This results in a \$2,950 concession fee owed to the Port.

Concession	Gross	Concession Rate	Concession Fee (C.F.)
Processing Fee – Parking Reserv.	\$4,430 *	71%	\$3,145
Bell Street Garage’s Concession Payment Discrepancies	\$4,154**	71%	\$2,950
			Applicable Late Fees (5% of C.F.) \$157
			Applicable Interest Charges (18%-per-annum) \$716
			Total Concessions Owed to Port \$6,969

* Not subject to sales or city parking taxes
 ** Gross Parking Revenues (sales and city parking taxes deducted)

Recommendation

We identified the Bell Street Garage exception when reviewing the records against the lease’s terms, and we shared this with Port management and Republic’s management. Republic has noted that it may have additional records that would account for the revenue discrepancy; however they were not in a state to be independently verified.

- We recommend Port management: Recover approximately \$4,018 in concession fees, late charges, and interest fees owed to the Port due to non-compliance with the disclosure of the service fee;
- Work with Republic’s management to ensure that all parking charges and related fees are fully documented and accounted for in the monthly concession reports.
- Work with Republic’s management within a reasonable time frame to carefully consider their exceptions to the positive balance on the Bell Street Garage’s lease.
- If after that time, Port management cannot independently verify the exceptions, then it should recover the approximately \$2,950 in concession fees.

Management Response

The Real Estate Division management staff agrees with the internal auditors' recommendations. The Central Waterfront Portfolio Property Manager will contact Republic Parking to recover the \$6,969 due for concession fees, late charges and interest fees, and will ensure that Republic Parking reports all revenues including service fees to the Port's Revenue Division in the "Monthly Gross Receipt Report".