Internal Audit Briefing

Presented to the Port of Seattle

Audit Committee and Tay Yoshitani, CEO

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Agenda

- **Audit Report**
  1. Lease and Concession Audits
     - ➢ Airport Management Services
  2. Operational Audits
     - Central Processing System
       - ➢ None
     - Comprehensive Operational Audit
       - ➢ None
     - Limited Operational Audit
       - ➢ Delegation of Authority
       - ➢ Corporate Cost Allocations
     - 3rd Party Audit
       - ➢ None
- **Briefing/Updates**
  1. 2012 Work Status

Background

On January 28, 2003, the Port of Seattle entered into a lease and concession agreement with Hudson News Company, d/b/a Hudson News Group, for operation of Retail Concessions at Seattle-Tacoma International Airport. In July of 2004, with consent from the Port of Seattle, Hudson News Group assigned all its lease rights to Airport Management Services, LLC.

Hudson operates 20+ different concession locations under the lease, including 4 specialty locations. The lease provides four different categories of retail merchandise with a different concession rate ranging from 11.5% to 26.5%. The agreement generates annually approximately $7 million in non-utility revenues to the Port.

	2009	2010	2011
Revenue	$7,054,411	$6,973,595	$7,559,343

Audit Objectives

The purpose of the audit was to determine compliance with:

1. Complete reporting of sales subject to gross receipts
2. Complete reporting of "Retail Display Allowances" in the report of gross receipts
3. Compliance with significant provisions of the agreement including the certified CPA reports

We reviewed information for the period May, 1 2008, through April 30, 2010.

Audit Result

- Three Finding
  - Underreported Concession of Retail Display Allowances (RDAs)
    - $297,679
  - Concession Overpayment on Certain Specialty Goods
    - $116,336
  - Underreporting of Receipts related to Promotional and Marketing
    - $74,916

Background

Resolution 3605 delegates specific authority to the CEO for day-to-day operation of the Port. Currently, under Resolution 3605, the CEO may authorize projects, contracts and agreements with a value up to $300,000. Projects, contracts and agreements with an amount greater than $300,000 require Commission authorization. There are additional specific provisions related to change orders and amendments to contracts and agreements. The delegation of authority is not limited to contracting and procurement. It also includes provisions for real property agreements, legal services, accounting activities, equal opportunity, risk management and other Port operations. In November 2009, the Commission adopted Resolution 3628, which amended certain sections of Resolution 3605.

The table below arranges 2010 and 2011 contracts by type and amount with the current Commission authorization threshold of $300,000:

		Fixed Price Contracts/ Goods and Services	Interlocal, Interagency, MOA, MOU	Major Construction Contracts	Service Agreements	Blanket Vendor Contracts	Small Works Contracts
2010	< $300,000	16%	10%	0%	11%	17%	100%
	> $300,000	84%	90%	100%	89%	83%	0%
2011	< $300,000	21%	100%	0%	15%	9%	100%
	> $300,000	79%	0%	100%	85%	91%	0%

Source: PeopleSoft

Limited Operational Audit
Delegation of Authority

Audit Objectives

The purpose of the audit was:

1. To determine whether the delegation of authority under Resolution 3605 is efficient and effective
2. To determine whether management has adequate controls and has complied with the requirements of Resolution 3605
3. To determine whether the requirements of Resolution 3605 continue to be commensurate with the risks
4. To determine whether there have been any unintended consequences due to Resolution 3605

We reviewed information for the period January, 1 2010, through December 31, 2011.

Audit Result

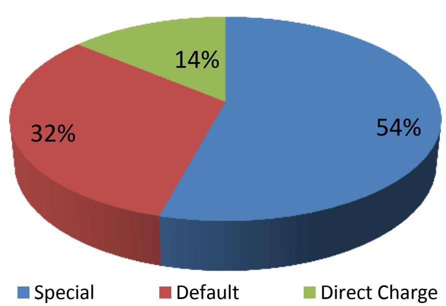
- No Finding

Background

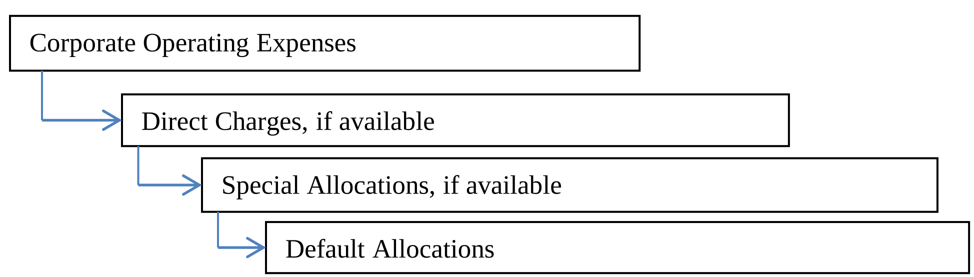
The Port of Seattle is organized into five divisions/groups. Three are operating divisions that generate revenue, and two provide support services to the operating divisions. The service support costs are allocated to the operating divisions to appropriately reflect full costs associated with generating operating revenues. Thus, a true cost of operating revenue should include service support costs.

The Port distributes all of the net operating costs of the service support groups in accordance with the Cost Allocation Policy through any combination of the following allocation methodologies:

2011 Budget $73.3 Allocation & Direct Charges



Sequential Application of the Current Cost Allocation Methodology



Audit Objectives

The purpose of the audit was to determine whether :

1. The Port Corporate costs are allocated to the operating divisions based on a reasonable and cost effective basis.

   Specifically, we determined whether:

   - The current default allocation formula is reasonable.
   - The selection of the default formula by corporate departments is reasonable and in accordance with the Operating Cost Allocation Policy.
   - The special allocation formula by corporate departments is reasonable, supportable, and in accordance with the Operating Cost Allocation Policy.
   - Direct Charges by corporate departments are in accordance with the Direct Charge Policy.

We reviewed information for the period January 1, 2011 through December 31, 2011.

Audit Result

- No Finding

Briefing/Updates

- IT and Performance Risk Assessment RFP
  - 3 companies for the Best and Final Offer (BAFO) process
- ALGA Peer Review
  - Tentatively scheduled for August
- 2012 Work Plan Status