



Internal Audit Report

Lease and Concession Audit
ATZ, Inc.
dba Doug Fox Parking

October 1, 2009 – May 31, 2012

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Transmittal Letter

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of ATZ, Inc. (dba Doug Fox Parking) for the period from October 1, 2009, through May 31, 2012.

We conducted this 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.

Doug Fox Parking materially complied with the terms of the Lease and Concession agreement.

We extend our appreciation to the management and staff of Aviation Business Development and Accounting and Financial Reporting 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:

- 1) The reported concession fees were complete, properly calculated, and remitted timely to the Port.
- 2) The annual report is accurate, complete and timely.

We examined the books and records of Doug Fox Parking for a period of thirty-two months from October 1, 2009, through May 31, 2012.

Agreement Terms The lease and concession agreement is for a period of two years with an option of one 1-year extension at the Port's sole discretion. The concession under the agreement is tiered based on gross receipts, ranging from 54.5% to 75%.

For the audit period, the agreement generated for the Port approximately \$2.2 million annually in concession revenues.

Audit Result Summary Doug Fox Parking complied with the annual reporting requirements. The reported concession to the Port was materially complete, properly calculated, and timely paid. We; however, identified a minor variance where Doug Fox Parking did not timely reported forfeited customer deposits (no-show) as part of concession parking receipts. The exception is discussed in the Schedule of Findings and Recommendations.

Background

Doug Fox Parking operates a parking lot located on S. 170th Street under a lease and concession agreement. The agreement was for a period of two years with an option of one 1-year extension at the Port's sole discretion. Dough Fox Parking has operated the lot for five years prior to the current agreement.

Aviation Business Development, in conjunction with Accounting and Financial Reporting, has the primary responsibility for administering and monitoring the agreement to ensure compliance with agreed-upon terms.

The terms of the agreement provide for tiered percentage fees based on gross parking and ancillary services (e.g., car wash) receipts as follows:

	Gross Receipts	Concession Rate
Parking Gross Receipts	Up to \$4,800,000	54.5%
	\$4,800,000 to \$5,250,000	70%
	\$5,250,000 to \$6,600,000	72%
	over \$6,600,000	75%
Ancillary Services Receipts	All	15%

The following are agreed-upon deductions in the agreement:

- a. Refunds allowed by lessee
- b. Discounts actually granted
- c. Sales tax or other excise tax imposed by the taxing body
- d. The amount of any rent attributable to a sublease

The percentage fee is due on or before the 15th of each month for the preceding month. For untimely payments, the agreement provides for a one-time late fee of 5% of the overdue amount and interest to be accrued at the rate of 18% per year from the due date until paid.

Below are the financial highlights for the last two agreement years:

Fiscal Year	Reported Gross Revenue	Paid Concession
2009 – 2010	\$4,229,662	\$2,343,446
2010 - 2011	3,964,106	2,160,192

Audit Scope and Methodology

We conducted the audit to determine whether the lessee was in compliance with the lease agreement terms including, but not limited to, proper concession payments. We utilized a risk-based audit

approach from planning to test sampling. We gathered information through document requests, interviews, observation and analytical reviews in order to obtain a complete understanding of the financial requirements of the agreement. We applied additional detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

- Timely Payment
- Annual Financial Report
- Concession Revenue

a) **Timely Payment**

We reviewed the entire payment records for the audit period to determine whether the lessee made timely payments as stipulated in the agreement.

b) **Annual Report**

We reviewed annual reports to determine compliance with the timely and complete submission of the report.

c) **Concession Revenue**

We interviewed Doug Fox Parking personnel about policies, procedures, and internal control over cash receipts, accounting, and reporting.

To determine whether the lessee completely reported all concession revenues, we performed the following:

- Reconciled the reported concession to the lessee's accounting records as well as to state excise tax returns to ensure completeness.
- Tested a sample of 22 batches of parking transactions from Dec. 2009, July 2010, Feb. 2011, Apr. 2011, May 2011, August 2011, and Sept. 2011. The batches were reconciled to bank statements to ensure complete and accurate report of concession parking revenues.
- Analyzed and reconciled detailed parking transactions to the reported concession.

Conclusion

Doug Fox Parking complied with the annual reporting requirements. The reported concession to the Port was materially complete, properly calculated, and timely paid. We; however, identified a minor variance where Doug Fox Parking did not timely reported forfeited customer deposits (no-show) as part of concession parking receipts. The exception is discussed in the Schedule of Findings and Recommendations.

Schedule of Findings and Recommendations

1. Untimely Reporting of Online Reservation Deposits

Gross Receipts as defined in the lease agreement under Section 1.11.1 include deposits not refunded to customers.

Doug Fox Parking offers online reservation services with a \$10 deposit. At exit, the deposit is applied as part of payment. The deposits from no-show customers are properly accounted for as a liability until such a time when they can be reasonably assumed to have been forfeited.

We noted that the reservation deposit account balance as of August 20, 2012 was \$42,516 with the following aging schedule:

Aging Period	Amount
Up to 9 months	\$17,652.01
9 to 18 months	16,329.66
Over 18 months	8,535.13
Total	\$42,516.80

Deposits older than nine months are considered stale and should have been reported as part of parking gross receipts as follows:

Aging Period	Amount	Percentage	Percentage Fee
9 to 18 months	\$16,329.66	54.5%	\$8,899.66
Over 18 months	8,535.13		4,651.65
Total	\$24,864.79		\$13,551.31

Recommendations:

We recommend management:

- Seek \$13,551 in concession fee resulting from forfeited customer deposits.
- Work with Doug Fox Parking to ensure that all parking gross receipts are timely reported.

Management Response

Management will pursue collection of the monies owed.