Internal Audit Briefing

Presented to the Port of Seattle

Audit Committee and Tay Yoshitani, CEO

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Director, Internal Audit

November 13, 2012

Port of Seattle

Agenda

- ## Audit Report
  1. Lease and Concession Audits
     - ➢ Avis Rent-A-Car
     - ➢ Budget Rent-A-Car
  2. Operational Audits
     - Central Processing System
       - ➢ None
     - Comprehensive Operational Audit
       - ➢ Real Estate Portfolio Management Department
     - Limited Operational Audit
       - ➢ None
     - 3rd Party Audit
       - ➢ None
- ## Briefing/Updates
  1. Proposed Charter for the Internal Audit Department
  2. Preliminary 2013 Internal Audit Budget
  3. Preliminary Discussion of the 2013 Internal Audit Work Plan

Background

The Avis retail location around the airport is wholly owned by Avis Budget Group, LLC. In 2008, Avis entered into a 30-year agreement with the Port to operate from the consolidated rental car facility.

The terms of the agreement provide for a Minimum Annual Guarantee (MAG) of 80% of the total amount paid to the Port in the previous agreement year. An additionally Percentage Fee equal to 10% of gross revenues is required, if the fee is higher than the MAG.

Fiscal Year	Reported Gross Revenue	Paid Concession
2008 – 2009	$40,271,615	$4,225,757
2009 – 2010*	38,181,518	4,058,000
2010 – 2011*	42,257,572	4,058,000
Total	$120,710,705	$12,341,757

* MAG is greater than concession for the Agreement Year

Audit Objectives

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 Port and the lessee complied with provisions of the Lease and Concession Agreement, as amended.
3. Customer Facility Charges (CFC) were properly collected and remitted timely to the Port.

We examined a three-year period from November 1, 2008, through October 31, 2011.

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Lease and Concession Audit
Avis Rent-A-Car

Audit Result

- Two Finding
  - Noncompliance with record retention requirements related to certain key records
  - Underreporting of concession revenues

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Fiscal Year	Reported Gross Revenue	Paid Concession
2008 – 2009*	$24,626,865	$3,500,400
2009 – 2010*	21,527,526	2,452,727
2010 – 2011	26,263,513	2,626,085
Total	$72,417,904	$8,579,212

* MAG is greater than concession for the Agreement Year

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Audit Result

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Background

The Real Estate Portfolio Department (REP) is a department of 14 FTEs with an annual operating budget of approximately $1.3 million. REP is responsible for developing and managing business agreements for the Real Estate Division's properties including commercial office space, maritime industrial, and retail locations. To manage these agreements, the department uses PROPWorks, which is a Port's system for managing real estate agreements.

Real Estate Portfolio Department Expenses		
Expense Category	2011 Expenditures	% of 2011 Expenditures
Salaries & Benefits	$1,118,097.00	84.84%
General Expenses	$100,121.00	7.60%
Outside Services	$42,367.00	3.21%
Travel & Other Employee Expenses	$17,329.00	1.31%
Wages & Benefits	$15,835.00	1.20%
Other Expenses	$24,096	1.83%
Grand Total	$1,317,844.00	100.00%

Audit Objectives

The purpose of the audit was to determine whether the Real Estate Portfolio Department has sufficient controls to reasonably ensure:

1. Real Estate Division lease agreements comply with the Port's Real Estate Policies 1 and 2.
2. Real Estate and Seaport Division agreements are effectively managed within PROPWorks.

We reviewed information for the period January 1, 2011 – June 30, 2012.

Audit Result

- One Finding
  - The Department's controls for its Real Estate agreement development process were inconsistently applied to ensure compliance with the Port's Real Estate 1 Policy.

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Briefing/Updates

- Proposed Charter for the Internal Audit Department
- Preliminary 2013 Internal Audit Budget
- Preliminary Discussion of the 2013 Internal Audit Work Plan
    - See Attached