



# INTERNAL AUDIT REPORT

## ATTESTATION ENGAGEMENT

AN EXAMINATION OF PORT MANAGEMENT'S ASSERTIONS  
RELATED TO THE AIRPORT DINING AND RETAIL (ADR)  
PROGRAM AT SEATTLE-TACOMA INTERNATIONAL AIRPORT

OCTOBER 1, 2012 – SEPTEMBER 30, 2013 (and other)

ISSUE DATE: FEBRUARY 10, 2015  
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## INDEPENDENT INTERNAL AUDITOR’S REPORT

Luis Navarro  
Director, Office of Social Responsibility  
Port of Seattle

We have examined management’s assertions related to the Airport Dining and Retail (ADR) Program at the Seattle-Tacoma International Airport (STIA), for the period October 1, 2012 - September 30, 2013, and other periods as stated in the assertions (Exhibit A). The Aviation Business Development Department management is responsible for the assertions. Our responsibility is to express an opinion on the assertions based on our examination.

Our examination was conducted in accordance with Generally Accepted Government Auditing Standards, and, accordingly, included examining, on a test basis, evidence supporting the assertions related to the Airport Dining and Retail Program and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Exhibit A identifies the assertions and the results of our testing for each assertion.

In our opinion, management’s assertions are fairly stated, in all material respects, for the period October 1, 2012 - September 30, 2013, and other periods, as stated in the assertions.

A handwritten signature in black ink, appearing to read "Kirangi".

Joyce Kirangi, CPA, CGMA  
Internal Audit, Director

ENGAGEMENT TEAM	RESPONSIBLE MANAGEMENT TEAM
Ruth Riddle, Senior Auditor, Lead	Mark Reis, Managing Director, Aviation Division
Jack Hutchinson, Audit Manager	James Schone, Director, Aviation and Bus. Development

## BACKGROUND

On February 14, 2012, the Port of Seattle Commission directed the CEO and staff to create a “Concession Master Plan” to guide the successful redevelopment of the Seattle-Tacoma International Airport (STIA) concessions program for 2015 - 2017.

On May 27, 2014, the Airport Dining and Retail (ADR) program staff briefed the Commission on the Master Plan, which was built on the foundations of the Port’s Century Agenda.

On November 4, 2014, the staff of the Airport Dining and Retail Program provided the Commission with more information and a “Fact Sheet” about the ADR program.<sup>1</sup>

On December 15, 2014, on behalf of the Commission and the CEO, the Director of the Office of the Social Responsibility engaged the Internal Audit Department to examine and validate the accuracy of certain assertions made by Port management related to the ADR program.

## TESTING METHODOLOGY

For each management assertion, we examined evidence provided by management or third parties in support of the assertion. We performed additional objective procedures to determine the validity of the assertions, which included:

- Observations
- Independent analyses
- Verification against reliable, external sources of information

The assertions tested and the results of the testing are provided in Exhibit A.

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<sup>1</sup> The statements in the “Fact Sheet” are the management’s assertions, to which we refer in our opinion.

**EXHIBIT A – RESULTS OF TESTING**

\* Although the assertion could be a true statement, independent 3rd party information or additional analyses from management, with which to validate the assertion, was not available.

Separate Assertion Statements	Assertion Letters	Assertion Statements	CONCLUSION			Auditor's Comments
			Valid	Not Valid	Cannot Objectively Validate *	
1	a	The Port of Seattle operates a successful ACDBE program as part of the overall Dining and Retail program at Seattle-Tacoma International Airport.	X			
2		Airport Dining and Retail (ADR) generates nearly \$200 million in annual sales.	X			
3	b	In 2013, ACDBE sales totaled \$43.1 million	X			
4		from 16 ACDBE tenants,	X			
5		which equated to 20.5% of the total Airport Dining and Retail sales at Sea-Tac.	X			
6		This exceeded the FAA approved goal of 19.56% for the period from 2011-2014	X			
7	c	For the fiscal year 2012-13, Sea-Tac's ACDBE's participation in gross sales breakdown was: African-American - \$13.4 million, Asian-Pacific - \$13 million, and Women - \$16.7 million.			X	Total sales of \$43.1 million (see Assertion 3b) are accurate. However, we cannot verify the allocation of gross sales among the three minority ethnic groups. We verified 4 of the 5 women-owned businesses, based on the certification letters from the OMWBE. We also verified the designation for Wendy's (refer to Assertion 24j) via other appropriate means. Thus, we verified 6 of the 16 minority designations. We could have submitted a public records request to the OMWBE, but that process would have taken a minimum of 30 days, which was longer than the time available for this engagement.

AIRPORT DINING AND RETAIL PROGRAM  
OCTOBER 1, 2012 – SEPTEMBER 30, 2013

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Separate Assertion Statements	Assertion Letters	Assertion Statements	Valid	Not Valid	Cannot Objectively Validate *	Auditor's Comments
8	d	The new plan for 2014-17 has raised the goal to 21.2% of total sales and	X			
9		Sea-Tac is well on its way to achieve this goal	X			
10		with the addition of three new ACDBE's and the continued record numbers seen in airport sales.	X			
11	e	A 2014 audit report of 64 U.S. airports by the Office of the Inspector General of the U.S. Department of Transportation specifically mentioned Sea-Tac's success in unbundling large contracts. It notes "the Seattle airport directly contracted or leased to over 20 disadvantaged firms since 2005" and noted further that "direct award or leasing can be the most effective means for bringing new ACDBE participation to an airport."	X			
12	f	Inaccurate reports about a low ranking from the OIG report failed to note that the exhibit ("C") in the back of the audit put Sea-Tac 59th out of 64 airports, not as a ranking, but rather as an alphabetical listing of airport names. More substantively, the report notes that 33 out of 64 airports had no new DBE or ACDBE contracts in the one year reviewed, 2012 (this includes such major airports as Dallas/Fort Worth, Denver and Newark, as well as Seattle). The report noted this "does not indicate a lack of support for DOT's DBE/ACDBE program" as those airports did not have contract opportunities during that year as contracts were signed during previous years.	X			
13		With 90% of Sea-Tac's leases expiring in the next 2 years, there will be significant new opportunity opportunities	X			

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14	g	Sea-Tac Airport's ADR program redevelopment in 2004/5 shifted the airport's offering of restaurants and shops from one major concessionaire for the entire airport to a leasing structure of large operators of multiple units and direct leases with independent operators. This brought about an open bid process for spaces during the central terminal renovation in 2005.	X			
15		During the next few years, those leases will expire and	X			
16		a renovation of airport space is projected to nearly double sales ... by 2025.	X			
17		a renovation of airport space is projected to ... increase jobs by 40% by 2025			X	We were unable to obtain documented evidence of management's analysis to support this assertion.
18	h	Another false assertion claimed an ACDBE tenant [Quiznos] went out of business due to the arrival of McDonald's. The entrance by McDonald's to Concourse B was not the cause of this business's struggles.			X	With the arrival of McDonald's, sales decreased 11% in July, 16% in August, and 10% in September, as compared to the same months in the prior year. Whether the cause was McDonald's or other factors, we could not validate. The Office of Social Responsibility will conduct further follow up on this assertion.
19		In fact, the business's monthly sales were relatively stable <u>after</u> the introduction of McDonald's in June 2013,		X		After the introduction of McDonald's, gross sales fluctuated as follows, which does not present a stable pattern: <ul style="list-style-type: none"> <li>• increased 5% in July</li> <li>• decreased 6% in August</li> <li>• decreased 15% in September</li> <li>• decreased 23% in October</li> <li>• decreased 9% in November</li> <li>• increased 15% in December</li> </ul>
20		but ended the year with a 3.4% decrease in sales	X			
21		Through September of 2014, [there was] a 30% loss in sales.		X		Sales decreased approximately 8%.

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22	i	During this same period, every other Concourse B food location has experienced sales increases between 15%-41%.	X			
23	j	It is also worth noting that one of the most successful <b>[quick serve food]</b> businesses in the central terminal is Wendy's,			X	In terms of dollars, Wendy's was the second highest grossing quick serve food business in the central terminal (behind Qdoba), with sales of \$3.9M, (2012), \$3.6M (2013) and \$3.5M (2014).  However, Wendy's gross sales also decreased 4.4% (2012), 2.3% (2013) and 7.5% (2014).
24		an African-American family-owned business	X			
25		sales of \$3.8 million in 2013 [calendar period].	X			
26	k	From a rent standpoint, all [food] tenants pay rent as a percentage of gross sales.	X			
27		Some leases provide lower rent based on branded restaurants or services which require the franchisee to pay additional fees of between 2 to 10% to the franchisor for the use of the brand name product.	X			
28		Businesses operating their own brand (as is the case for some of the ACDBE tenants) do not have to pay these franchise fees.	X			
29	i	The Host subtenant ACDBEs received significant rent relief and two year lease extensions in 2005.	X			
30		This relief was provided in tiers over the term of the lease.	X			
31		For much of the lease term, the ACDBEs paid significantly less rent than their lessor, Host.	X			
32		An analysis in early 2013 showed that of all food service tenants regardless of rent schedule (category, tiered or flat) paid similar percentage rent, 12.5-13%.			X	Of the 37 food service locations on the analysis provided by management, only 3 had average rents within the cited range.
33		Tenants serving high-margin alcohol pay somewhat higher rent, about 15%	X			



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34	m	Anthony's [has a] current 8% flat rent.	X			
35		However, as an anchor tenant for the central terminal, they had very high investment costs in a location that was at the time unproven,	X			
36		serves fresh cooked food	X			
37		with glassware and silverware rather than plastic	X			
38		and has daily operational costs far exceeding those for other food and beverage units.			X	We were unable to obtain documented evidence from management for the operational costs of Sea-Tac food and beverage units.
39		The location has proven to be the highest grossing restaurant in any U.S. airport.			X	We were unable to obtain documented evidence from management to support this assertion. Subsequent to this engagement, Port management reached out to its peer airports to support the assertion, but that information was not available when the assertion was made.