



INTERNAL AUDIT REPORT

GATE GOURMET, INC.

LEASE AND CONCESSION AGREEMENT

JANUARY 1, 2011 – DECEMBER 31, 2013

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TRANSMITTAL LETTER

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of Gate Gourmet, Inc. We reviewed information for the period January 1, 2011 - December 31, 2013.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. 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 Aviation Business Development Department and the Accounting and Financing Reporting Department for their assistance and cooperation during the audit.



Joyce Kirangi, CPA, CGMA
Internal Audit, Director

AUDIT TEAM	RESPONSIBLE MANAGEMENT TEAM
Margaret Songtantaruk, Senior Auditor	Jim Schone, Director, Aviation Business Development
Jack Hutchinson, Audit Manager	James Jennings, Manager, Aviation Properties Group
	Rudy Caluza, Director, Accounting and Financial Reporting

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EXECUTIVE SUMMARY

AUDIT OBJECTIVES AND SCOPE

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 lessee complied with significant provisions of the Lease and Concession Agreement, as amended.

We reviewed information for the period January 1, 2011 - December 31, 2013. Details of our audit's scope and methodology are on page 5.

BACKGROUND

Gate Gourmet, Inc. (GG) provides in-flight catering services including the preparation and distribution of in-flight foods, beverages, and related services to domestic and overseas airlines at Seattle Tacoma International Airport.

The terms of the agreement provide for a 7% concession on the gross sales for catering services to airlines, and a 3.5% concession fee on the gross sales to non-airline customers. The gross sales include sales by any licensee or other party authorized to make sales in connection with the business operated by GG.

AUDIT RESULT

The reported concession fees were materially complete, properly calculated, and remitted timely to the Port. The lessee materially complied with the terms of the Lease and Concession Agreement, as amended.

BACKGROUND

Gate Gourmet (GG) is the world’s largest independent provider of airline catering and provisioning services. It delivers daily, on a global basis, to more than 250 airline customers, and currently has more than 100 in-flight kitchens in over 25 countries.

The terms of the agreement provide for a 7% concession fee on the gross sales for catering services to airlines, and a 3.5% concession fee on the gross sales to non-airline parties, with only the following offsets or deductions:

1. Returns and refunds
2. Taxes imposed and collected by lessee as agent for its taxing body
3. Meals furnished to employees of lessee

FINANCIAL HIGHLIGHTS

KEY FINANCIAL RESULTS FOR GATE GOURMET, INC

AGREEMENT YEAR	REPORTED GROSS REVENUES	CONCESSION PAID
2011	\$ 13,246,935	\$927,285
2012	17,430,858	1,220,160
2013	18,317,517	1,282,226
TOTAL	\$ 48,995,310	\$ 3,429,671

Data Source: PROPworks and PeopleSoft Financials

AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period January 1, 2011 - December 31, 2013. We utilized a risk-based audit approach from planning to testing. We gathered information through document reviews, inquiries, observations, and data analyses, in order to obtain a complete understanding of the financial requirements of the agreement between the Port of Seattle and Gate Gourmet, Inc.

We applied additional detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

1. To determine whether the reported concession fees were complete, properly calculated, and remitted timely to the Port.
 - Reviewed the lessee’s chart of accounts to ensure all revenue accounts were included in the reported revenues to the Port.

- Reconciled the reported revenues to:
 - SAP general ledger by account, type and customer. Additionally, the revenues by customer were reviewed to determine whether all customers subject to the concession were included in the reported revenue.
 - Certified Audited Statement of Gross Revenues independently verified by a CPA.
 - Tested a risk-based sample of 46 transactions to determine whether:
 - All accrued transactions were legitimate, valid and properly reversed.
 - All credit invoices, such as returns and refunds, were legitimate and for valid purposes.
 - All volume discounts, a disallowed deduction, did not reduce gross sales.
 - Reviewed all payment records for the audit period for compliance with the required due date.
2. To determine whether the Port and Lessee complied with provisions of the Lease and Concession Agreement, as amended. We reviewed the following:
- The Certified Audited Statement of Gross Revenues for compliance with the timely and complete submission requirements.
 - Insurance coverage in force for the audit period.
 - Security deposit and/or surety bond maintained at specified amount.

CONCLUSION

The reported concession fees were materially complete, properly calculated, and remitted timely to the Port. The lessee materially complied with the terms of the Lease and Concession Agreement.