

# INTERNAL AUDIT BRIEFING

PRESENTED TO THE PORT OF  
SEATTLE AUDIT COMMITTEE AND  
MR. TED FICK, CEO

JOYCE KIRANGI, CPA, CGMA  
DIRECTOR, INTERNAL AUDIT

TUESDAY, FEBRUARY 10, 2015

# AGENDA

## Audit Report

1. Lease and Concession Audits
  - Gate Gourmet, Inc.
  - Thrifty Rent-A-Car
2. Operational Audits
  - Comprehensive Operational Audit/Departmental Audit
    - None
  - Limited Operational Audit
    - SLOA III - Compliance with Calculation of Rates and Charges
    - Examination of Management's Assertions Related Airport Dining and Retail (ADR) Program at the Sea-Tac International Airport
3. Third-Party Audit
  - None

## Briefing/Update

- Proposed Internal Audit 2015 Work Plan
- Required Annual Communication to the Audit Committee

# LEASE AND CONCESSION AUDIT THRIFTY RENT-A-CAR



INTERNAL AUDIT

## BACKGROUND

Thrifty Car Rental is a franchise car rental. The Port of Seattle entered into an agreement with Pacific Northwest Rental & Leasing, which assigned its obligation to DTG Operations. In November 2012, Hertz Global Holdings acquired Dollar Thrifty Automotive Group.

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. Additionally, the agreement requires a Percentage Fee equal to 10% of gross revenues, provided the Percentage Fee is higher than the MAG payment.

## FINANCIAL HIGHLIGHTS

KEY FINANCIAL RESULTS FOR DTG/THRIFTY CAR RENTAL AGREEMENT		
AGREEMENT YEAR	REPORTED GROSS REVENUES	CONCESSION PAID
2010-2011	\$11,984,110	\$1,198,411
2011-2012 <sup>1</sup>	4,631,947	463,195
<b>TOTAL</b>	<b>\$ 16,616,057</b>	<b>\$ 1,661,606</b>

Data Source: PeopleSoft Financials  
Data Note: <sup>1</sup>Ended 05/16/2012

# LEASE AND CONCESSION AUDIT THRIFY RENT-A-CAR

## AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine whether:

- The reported concession fees were complete, properly calculated, and remitted timely to the Port.
- The Port and Lessee complied with provisions of the Rental Car Lease and Concession Agreement, as amended.
- Customer Facility Charges (CFC) were properly collected and remitted timely to the Port.

We reviewed information for the period November 1, 2010 - May 16, 2012.



# LEASE AND CONCESSION AUDIT

## THRIFY RENT-A-CAR

### AUDIT RESULT

Thrifty Car Rental materially complied with the terms of the Rental Car Lease and Concession Agreement. However, the audit determined that certain gross receipts and CFC were underreported. We recommend the Port management seek recovery of **\$40,397** in **additional concession fees and CFC charges**. We also recommend Port management assess applicability the one-time late fee and accrued interest, and seek recovery from the tenant as appropriate. There were two reportable findings:

1. Certain gross revenues were underreported
2. Customer Facility Charge (CFC) was underreported

# LIMITED OPERATIONAL AUDIT

## SLOA III Airline Agreement



INTERNAL AUDIT

### Compliance with Calculation of Rates and Charges

#### BACKGROUND

The Signatory Lease and Operating Agreement (SLOA III) is a five-year agreement between the Port and the airlines. The agreement defines the rights and privileges of occupancy and use of the airport. It was the result of long and complex negotiations with the airlines, starting in early 2011, and culminating in final approval and acceptance in late 2013. The terms of the agreement were retroactive to January 1, 2013.

#### FINANCIAL HIGHLIGHTS

<b>SLOA III REVENUE (in thousands)</b>				
	<b>2013</b>		<b>2014</b>	
	<b>Actual</b>	<b>% of Total</b>	<b>Budget</b>	<b>% of Total</b>
Landing Fees	\$69,679	32%	\$74,590	31%
Ramp Tower Fees	1,006	0.50%	1,119	0.50%
Apron Fees	6,158	3%	8,000	3%
Terminal Rentals	134,821	61%	144,392	61%
Federal Inspection Services (FIS) Fees	7,525	3%	8,618	4%
Remaining Overnight (RON) Fees	745	0.50%	1,095	0.50%
Open Storage Space Rents	189	0%	249	0%
<b>Total</b>	<b>\$220,123</b>		<b>\$238,063</b>	
<b>OTHER ADJUSTMENTS</b>				
Revenue Sharing	-9,773		-6,136	
Leasehold Tax	274			
<b>NET REVENUE</b>	<b>\$210,624</b>		<b>\$231,927</b>	

Data Source: Aviation F&B

# LIMITED OPERATIONAL AUDIT

## SLOA III Airline Agreement



INTERNAL AUDIT

## Compliance with Calculation of Rates and Charges

### HIGHLIGHTS AND ACCOMPLISHMENTS

During the course of the audit, we noted the following highlights and accomplishments. The Department:

- Implemented numerous complex rate calculations.
- Performed year-end settlement on schedule.
- Accomplished myriad tasks within a compressed time frame.



# LIMITED OPERATIONAL AUDIT

## SLOA III Airline Agreement

### Compliance with Calculation of Rates and Charges



INTERNAL AUDIT

#### AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine whether management controls are adequate to ensure:

- Rates charged are accurate and in accordance with the agreement terms and conditions (2013 actual and 2014 budget).
- The 2013 year-end airline reconciliation and settlement, including revenue sharing, was accurate and in accordance with the agreement terms and conditions.

We reviewed information for the period January 1, 2013 - December 31, 2014.





# LIMITED OPERATIONAL AUDIT SLOA III Airline Agreement

## Compliance with Calculation of Rates and Charges



INTERNAL AUDIT

### AUDIT RESULT

Management controls are adequate to ensure that the rates charged for 2013 actual and 2014 budget and the 2013 year-end airline reconciliation and settlement, including revenue sharing, were accurate and in accordance with the agreement terms and conditions.

No Reportable Findings.



# LIMITED OPERATIONAL AUDIT

## Examination of Port Management's Assertions Related to The Airport Dining and Retail (ADR) Program At the Sea-Tac International Airport



INTERNAL AUDIT

### 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.

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.

# LIMITED OPERATIONAL AUDIT

## Examination of Port Management's Assertions Related to The Airport Dining and Retail (ADR) Program At the Sea-Tac International Airport



INTERNAL AUDIT

### AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to examine 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.



# LIMITED OPERATIONAL AUDIT

## Examination of Port Management's Assertions Related to The Airport Dining and Retail (ADR) Program At the Sea- Tac International Airport



INTERNAL AUDIT

### EXAMINATION RESULT

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.



# BRIEFING/UPDATE

- Proposed Internal Audit 2015 Work Plan
- Required Annual Communication to the Audit Committee

