

INTERNAL AUDIT BRIEFING

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

JOYCE KIRANGI, CPA, CGMA
DIRECTOR, INTERNAL AUDIT

THURSDAY, MAY 07, 2015

AGENDA

Audit Report

1. Lease and Concession Audits
 - Flying Food
2. Operational Audits
 - Comprehensive Operational Audit/Departmental Audit
 - Ground Transportation
 - Survey and Mapping
 - Limited Operational Audit
 - None
3. Third-Party Audit
 - None

Briefing/Update

- None



LEASE AND CONCESSION AUDIT FLYING FOOD



INTERNAL AUDIT

BACKGROUND

Flying Food Group, LLC, (FFG) was founded in Chicago in 1983, at which time it served one airline out of one kitchen at Midway Airport. Today, FFG produces over 100 million meals annually from its network of 18 US kitchens, which stretch from Honolulu to New York City. Customers include over 70 of the world’s leading airline customers—primarily international—plus key retail partners, including over 3,000 US Starbucks.

The agreement with the Port of Seattle originated in 1988. It spans a term of 30 years. At the end of the lease term in 2018, there is provision for two, five-year options, at the Port’s discretion. The agreement requires a monthly concession payment of 7% of gross sales.

FINANCIAL HIGHLIGHTS

KEY FINANCIAL RESULTS FOR FLYING FOOD GROUP

AGREEMENT YEAR	REPORTED GROSS SALES	CONCESSION PAID
2011 ¹	\$ 12,670,003	\$ 859,683
2012	13,056,391	913,947
2013	12,776,481	894,353
TOTAL	\$ 38,502,875	\$ 2,667,983

Data Source: PeopleSoft Financials

LEASE AND CONCESSION AUDIT FLYING FOOD

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 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.



LEASE AND CONCESSION AUDIT

FLYING FOOD

AUDIT RESULT

The reported concession fees were materially complete, properly calculated, and remitted timely to the Port. The lessee materially complied with significant provisions of the Lease and Concession Agreement, as amended, except for failing to meet the required timeline for submission of the annual report.

There was one reportable finding:

1. Flying Food did not submit the annual report by the due date.

COMPREHENSIVE OPERATIONAL AUDIT

GROUND TRANSPORTATION



INTERNAL AUDIT

BACKGROUND

The Ground Transportation Department at Seattle-Tacoma International Airport is a department of 15+ FTEs. The Department is responsible for managing a variety of ground transportation operators consisting of taxis, limousines, courtesy vehicles, airporters, charter buses, shuttle buses, crew vans and parcel carriers. In 2014, there were some 2.4 million outbound trips from the airport to various destinations. The Department processed over \$8 million in transportation fees (non-aeronautical revenue) in 2014.

FINANCIAL HIGHLIGHTS

Department Revenues - 2014 Actual		
Type	Revenue	Charge Method
Taxi - Yellow Cab	\$3,637,214	concession agreement
Courtesy cars/vans; crew vans	2,437,657	per trip
On-call limos	943,112	concession agreement
Pre-arranged limo	513,583	annual permit
Shared ride van	227,108	per trip
Charter bus	179,261	per trip
Airporters	108,646	per trip
Belled-in taxi	56,212	annual permit
Parcel carrier	21,538	annual permit
Other	172,951	
TOTAL	\$ 8,297,282	

Data Source: PeopleSoft Financials

COMPREHENSIVE OPERATIONAL AUDIT GROUND TRANSPORTATION



INTERNAL AUDIT

AUDIT OBJECTIVES AND SCOPE

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

- all applicable tariffs are accurately and completely recorded
- concession revenue is accurately and completely recorded.

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



COMPREHENSIVE OPERATIONAL AUDIT GROUND TRANSPORTATION



INTERNAL AUDIT

AUDIT RESULT

The Ground Transportation Department has adequate controls to ensure all applicable tariffs and concession revenue are accurately and completely recorded.

No Reportable Findings.



COMPREHENSIVE OPERATIONAL AUDIT SURVEY AND MAPPING

BACKGROUND

The Survey and Mapping Services Department is part of the Engineering Management Services group within the Port of Seattle's Capital Development Division. The Department provides survey services including construction layout, utility locates, lease line lay out, etc. to all Port divisions.

The Survey and Mapping Services is a department of about 15 FTEs with an annual operating budget (before capital charges and transfers) of approximately \$1.9 million. Almost all (~94%) of the department expenses are in salaries, wage, and benefits. The department has experienced a sharp increase in overtime activity in recent years as construction at the Aviation Division expands. It was, therefore, important to assess whether the department has established effective controls to handle the increased overtime activity.

FINANCIAL HIGHLIGHTS

Department Expenses Before Capital Charges and Transfers		
Account Description	2013	2014
Salaries, Wages, and Benefits	\$ 1,478,322	\$ 1,701,963
Travel & Other Employee Expenses	16,691	22,558
Other	3,705	(622)
Intra-department Allocations	68,673	64,408
TOTAL	\$ 1,567,391	\$1,788,307

Data Source: Data Source: PeopleSoft Financials

COMPREHENSIVE OPERATIONAL AUDIT SURVEY AND MAPPING



INTERNAL AUDIT

AUDIT OBJECTIVES AND SCOPE

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

- Non-regular payroll (2nd/3rd shift, and overtime) compensation is proper.
- Travel expenses are appropriate in compliance with the Port policy AC-1 and AC-2.

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



COMPREHENSIVE OPERATIONAL AUDIT SURVEY AND MAPPING

AUDIT RESULT

Management controls are not adequate to mitigate the risks related to non-regular hours and travel expenses.

There was one reportable finding:

1. The department controls for overtime and travel expenses are not adequate.