

INTERNAL AUDIT BRIEFING

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

JOYCE KIRANGI, CPA, CGMA
DIRECTOR, INTERNAL AUDIT

TUESDAY, AUGUST 11, 2015

AGENDA

Audit Report

1. Information Technology
 - PeopleSoft Post-Upgrade Implementation Audit
 - Data Center Audit
2. Operational Audits
 - Comprehensive Operational Audit/Departmental Audit
 - None
 - Limited Operational Audit
 - Aviation Division Manual Receipting Operations
 - **Scrappage and Replacements for Air in Puget Sound (ScRAPPS) Program**
3. Lease and Concession Audits
 - Sky Chefs
4. Third-Party Audit
 - None

New Business/Update



Information Technology Risk Map

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Information Technology Control Environment

- ❖ General Controls mitigate risk associated with:
 - IT operations, User management, change management
 - application development, maintenance and upgrade
 - Data Center Management
 - Business continuity (e.g., backup and recovery)
- ❖ Application Controls mitigate risk associated with :
 - Input, processing and output of the application

Tier I Controls

Risk that could be subject to additional controls

Non-IT Additional Management Controls

- ❖ Separation of Duties
- ❖ Reconciliations
- ❖ Reviews
- ❖ Etc.

Tier II Controls

Is this Acceptable Level of Residual Risk for the Organization??



LIMITED OPERATIONAL AUDIT

AVIATION DIVISION MANUAL RECEIPTING OPERATIONS



INTERNAL AUDIT

BACKGROUND

There are over 50 departments in the Aviation Division. We identified 38 departments with either known or possible receipting activity. For purposes of this audit, we define receipting activity as the following:

- Payments from customers (e.g., parking customers, airport tenants).
- Refunds from vendors (e.g., utility companies, equipment/tool suppliers).
- Payments from employees (e.g., payments for Port events, reimbursements of travel expenses).
- Payments from other organizations (e.g., reimbursements from other governments).

FINANCIAL HIGHLIGHTS

AVIATION DIVISION - RECEIPTING ACTIVITY – 2013 – 2014

MODE OF DEPOSIT TO BANK	2013	%	2014	%
Wire and ACH	\$ 167,363,297	34%	\$ 342,601,797	62%
Lock Box	142,293,097	29%	98,727,867	18%
Manual (P69) Via Armored Car (1)	106,225,833	22%	40,419,157	7%
Manual (Aviation) Via Armored Car	8,508,923	2%	9,526,993	2%
Credit Card	63,211,728	13%	65,213,633	12%
TOTAL DEPOSITS TO BANK	\$ 487,602,878	100%	\$ 556,489,447	100%

Source: PeopleSoft

(1) In 2013, there was a high level of aviation manual receipting at P69 due to SLOA II and III payments sent to P69. These types of payments typically would have been remitted via lock box or ACH.

LIMITED OPERATIONAL AUDIT AVIATION DIVISION MANUAL RECEIPTING OPERATIONS



INTERNAL AUDIT

AUDIT OBJECTIVES AND SCOPE

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

- Manual receipts are complete.
- Complied with applicable legal requirements.

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



LIMITED OPERATIONAL AUDIT
AVIATION DIVISION MANUAL RECEIPTING OPERATIONS



INTERNAL AUDIT

AUDIT RESULT

Management controls are adequate to ensure receipts are materially complete and in compliance with legal requirements that we deemed significant to the objectives of our audit.

No Reportable Findings.



LIMITED OPERATIONAL AUDIT

ScRAPs 2 PROGRAM—CLEAN AIR TRUCK REPLACEMENT



INTERNAL AUDIT

BACKGROUND

Included in the 2015 Audit Committee Annual Work Plan was a limited operational audit of the ScRAPs 2 Program - Clean Air Truck Replacement Program. The audit objective was to assess management controls to ensure accountability over program funds and compliance in achieving the desired program outcomes.

After conducting our planning and assessing the risks of this program, we have decided to terminate the audit. We did not identify any significant risks, and further audit testing would add no value.



LEASE AND CONCESSION AUDIT

LSG Sky Chefs Inc.



INTERNAL AUDIT

BACKGROUND

LSG Sky Chefs, Inc. (Sky Chefs) is a subsidiary of LSG Lufthansa Service Holding AG and currently operates in 54 countries. Sky Chefs provides in-flight catering service, including the preparation and distribution of in-flight foods, beverages, and related services to domestic and overseas airlines at Seattle Tacoma International Airport

The agreement requires two forms of payments from Sky Chefs: rent (Land and Building) and concession fees. Rent is computed based on square footage and is due monthly. Annual rent for Land is \$169,611 and for the building is at \$286,000. Concession fees are 7% of gross revenue for airline operations and 3.5% of gross revenue for non-airline operations.

FINANCIAL HIGHLIGHTS

KEY FINANCIAL RESULTS FOR LSG SKY CHEFS INC.			
AGREEMENT YEAR	REPORTED GROSS REVENUES	RENT	CONCESSION PAID
2011-2012	\$28,564,832	\$455,611	\$1,993,992
2012-2013	34,362,522	455,611	2,399,376
2013-2014 ¹	39,127,474	455,611	2,733,797
TOTAL	\$102,054,828	\$1,366,832	\$7,127,165

Data Source: PeopleSoft Financials
Data Note: ¹ as of 02/28/2014

LEASE AND CONCESSION AUDIT

LSG Sky Chefs Inc.



INTERNAL AUDIT

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 Lease and Concession Agreement, as amended.

We reviewed information for the period March 1, 2011 - February 28, 2014.



LEASE AND CONCESSION AUDIT

LSG Sky Chefs Inc.

AUDIT RESULT

The reported concession fees were complete, properly calculated, and remitted timely to the Port. Sky Chefs also complied with the provisions of the Lease and Concession Agreement that we deemed significant to the audit objectives. However, Lessee's response to audit requests was unreasonably untimely.

There was one reportable finding:

1. Sky Chefs did not provide audit response timely.