

INTERNAL AUDIT REPORT

LEASE AND CONCESSION AGREEMENT AUDIT

AIRPORT MANAGEMENT SERVICES, LLC

MAY 1, 2013 – APRIL 30, 2016

ISSUE DATE: MARCH 24, 2017

REPORT NO. 2017-06

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TRANSMITTAL LETTER

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of the Concession Agreement between the Port of Seattle and Airport Management Services, LLC.

We reviewed and analyzed records for the Agreement period May 1, 2013 - April 30, 2016.

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 of 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 Port management and staff of Airport Management Services for their assistance and cooperation during the audit.



Joyce Kirangi, CPA, CGMA
Internal Audit, Director

| AUDIT TEAM | RESPONSIBLE MANAGEMENT TEAM |
|---|--|
| Joyce Kirangi, Director Internal Audit Roneel Prasad, Internal Auditor | Jim Schone, Director AV Business Development Rudy Caluza, Director Accounting & Financial Reporting |

EXECUTIVE SUMMARY

AUDIT OBJECTIVES AND SCOPE

1. Port management controls were effective to ensure compliance with significant terms of the lease agreement, as amended.
2. Airport Management Services (AMS) complied with the significant terms of the lease agreement, as amended, including:
 - Gross receipt requirements.
 - Rent payment requirements.
 - Independent certified gross receipt annual report requirements.
 - Letter of credit or security requirements.
 - Insurance requirements.

For purposes of rendering our opinion, we focused on the period May 1, 2013 - April 30, 2016.

Aviation Business Development has the primary responsibility for administering and monitoring the agreement to ensure compliance with agreed-upon terms. Accounting & Financial Reporting (AFR) department administers billing, collection and accounting of revenue generated from this lease agreement.

Details of our audit's scope and methodology are on page five.

BACKGROUND

Airport Management Services, LLC, (AMS) operates retail concessions at the SeaTac International airport. Their retail operations provide wide range of goods and services to the airport customers.

There were 22 different concession units leased under this lease. As of May 2014, two (2) units were closed and on April 1, 2016 nine (9) units were incorporated into a new lease agreement with the Port. All these changes were mutually agreed among all the parties involved.

The agreement requires AMS to remit to the Port rent payments as follows: minimum annual guarantee (MAG) or percentages fee to the extent it is greater than MAG.

AUDIT RESULT

Port management controls over the Airport Management Services concession agreement were effective to ensure compliance with the significant terms of the lease agreement. Airport Management Services complied with the significant terms of the agreement.

BACKGROUND

Airport Management Services, LLC, (AMS) operates retail concessions at the SeaTac International airport. Their retail operations provide wide range of goods and services to the airport customers.

There were 22 different concession units leased under this lease. As of May 2014, two (2) units were closed and on April 1, 2016 nine (9) units were incorporated into a new lease agreement with the Port. All these changes were mutually agreed among all the parties involved.

The agreement requires AMS to remit to the Port rent payments as follows: minimum annual guarantee (MAG) or percentages fee to the extent it is greater than MAG.

FINANCIAL HIGHLIGHTS

REPORTED GROSS RECEIPTS AND CONCESSION CALCULATION

| AGREEMENT YEAR | REPORTED GROSS RECEIPTS/REVENUES | CONCESSION FEE PAID |
|------------------------------|----------------------------------|---------------------|
| May 1, 2013 - April 30, 2014 | \$49,477,086 | \$7,603,995 |
| May 1, 2014 - April 30, 2015 | 52,411,697 | 8,120,180 |
| May 1, 2015 - April 30, 2016 | 53,105,596 | 8,184,914 |
| TOTAL | \$154,994,379 | \$23,909,089 |

Data Source: PeopleSoft and Propworks

AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period May 1, 2013 - April 30, 2016. The audit was conducted utilizing risk-based approach from planning to testing. We gathered information through research, interviews, observations, and analytical review, in order to obtain a complete understanding of concession agreement terms and conditions.

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

1. To determine whether Port management controls were effective to ensure compliance with the significant terms of the lease agreement, we:
 - Identified and tested management controls which ensure compliance.
2. To determine whether AMS complied with significant terms of the Agreement, we performed the following:

- a. Reported gross receipts were complete and concession fees were properly calculated:
 - Reviewed the lessee's chart of accounts to determine whether all revenue accounts were included in the determination of concession revenue receipts reported to the Port.
 - Obtained and analyzed detailed accounting information including detailed and daily sale reports by sales category and store locations to verify that recorded sales were accurate and complete.
 - Reconciled the reported revenues to lessee's daily sale reports.
 - Verified that reported retail display allowances (RDA) were complete and properly included in the gross receipts reported to the Port.
 - Reconciled reported revenue for RDA to lessee's accounting records to determine all RDA accounts were reported as required.
- b. Rent payments (MAG/Concession fee) as required were timely remitted.
 - Identified payment due dates.
 - Analyzed port records to determine the timeliness of submitted fee payments.
 - Tested a sample of 38 payments for timely remittance.
- c. Independent certified gross receipt annual report provided to the Port as required in the agreement.
 - Identified the annual report requirements in the agreement.
 - Verified by testing three (3) annual reports were provided timely to the Port.
- d. Letter of credit or other security as required was maintained.
 - Identified the Letter of credit or other security requirements in the agreement.
 - Verified by testing three (3) years rent security amount as required were maintained.
- e. Insurance as required was maintained.
 - Identified the insurance requirements of the agreement.
 - Verified insurance certificates as required in the agreement were provided to the Port during the audit period.
 - Verified by testing three (3) years insurance coverages as required were maintained.

CONCLUSION

Port management controls over the Airport Management Services concession agreement were effective to ensure compliance with the significant terms of the lease agreement. Airport Management Services complied with the significant terms of the agreement, as amended.