

INTERNAL AUDIT REPORT

LEASE AND CONCESSION AGREEMENT AUDIT

ATZ, Inc. dba Doug Fox Parking

October 1, 2013 – June 30, 2016

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TRANSMITTAL LETTER

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of ATZ, Inc. dba Doug Fox Parking. We reviewed information for the period October 1, 2013 - June 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 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 Commercial Management Department, and Accounting and Financial Reporting Department for their assistance and cooperation during the audit.



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Director, Internal Audit

AUDIT TEAM

Margaret Songtantaruk, CFE, CB, Lead Auditor

Dandan Wang, CPA, CIA, Auditor-In-Charge

RESPONSIBLE MANAGEMENT TEAM

Lance Lyttle, Managing Director - Aviation

James Schone, Director AV Commercial Management

James Jennings, Manager Aviation Property

EXECUTIVE SUMMARY

AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine whether:

1. Port management monitoring controls were effective to ensure:
 - ATZ, Inc. dba Doug Fox Parking (ATZ) reported concession fees were complete, properly calculated, and remitted timely to the Port.
2. Port and ATZ complied with significant terms of the lease and concession agreement.

We reviewed and analyzed records for the Agreement period October 1, 2013 through June 30, 2016.

BACKGROUND

ATZ, Inc. dba Doug Fox Parking (ATZ) operates the Airport Parking Lot located north of the Airport under the current Lease and Concession Agreement, which is effective from October 1, 2013 through June 30, 2019. ATZ has been operating the lot since 1970s. Aviation Commercial Management, in conjunction with Accounting and Financial Reporting (AFR), is primarily responsible for administering and monitoring the agreement to ensure ATZ complies with the agreed-upon provisions.

ATZ pays the Port a Minimum Annual Guarantee (MAG) during the agreement term. In addition, ATZ pays a percentage fee, to the extent that it is higher than the monthly payment of the MAG based on gross receipts of the parking services.

AUDIT RESULT

Port management monitoring controls were effective. ATZ reported concession fees were complete, properly calculated, remitted timely to the Port, and complied with the significant terms of the lease and concession agreement.

BACKGROUND

Lease agreement number 001718 authorizes ATZ, Inc. dba Doug Fox Parking to operate the north parking lot.

The terms of the agreement provide for increments of Minimum Annual Guarantee (MAG) for the five year terms payable to the Port at \$1,500,000, \$2,500,000, \$2,600,000, \$2,700,000, and \$2,800,000, respectively. The agreement requires a concession fee equal to 55% of parking gross receipts for the fiscal year ended 2015, and 60% of parking gross receipts for the fiscal year ended 2016.

The following are the only agreed-upon deductions allowed in the agreement:

1. Refunds actually granted and made
2. Discounts actually granted
3. Sales tax or other excise tax collected by Lessee as agent for the taxing body
4. The amount of any rent attributable to a sublease

The MAG is due and payable in advance and/or by the first day of every month. The percentage fee is due on or before the 15th day of each month for the preceding month. If payments are not received within ten days after the due date, the Port will charge Lessee a late fee of 5% of the overdue amount, and accrue interest at the rate of 18% per year from the due date until paid.

FINANCIAL HIGHLIGHTS

KEY FINANCIAL RESULTS FOR ATZ, Inc. dba DOUG FOX PARKING

AGREEMENT PERIOD	REPORTED GROSS	
	REVENUE	CONCESSION FEES
10/1/2013 – 6/30/2015	\$7,033,359	\$3,868,347
7/1/2015 – 6/30/2016	4,321,177	2,592,706
TOTAL	\$ 11,354,536	\$6,461,053

AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period October 1, 2013 – June 30, 2016, utilizing a risk-based approach from planning to examination. We gathered information through document requests, research, interview, observations, and data analysis.

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

1. To determine whether Port management monitoring controls were effective to ensure ATZ reported concession fees were complete, properly calculated, and remitted timely to the Port, we:

- Reviewed the agreement to identify significant agreement provisions.
 - Gained an understanding of and documented Port management key controls over insurance, surety, and AFR billing processes.
 - Tested effectiveness of the key controls to ensure:
 - Monthly concessions were reviewed for accuracy prior to Lessee billings.
 - Annual concession reconciliation was performed to ensure the reported gross sales were accurate.
 - Surety was in compliance with the terms of the lease agreement.
 - Insurance terms were complied with.
 - Analyzed the Port records to determine timeliness of the submitted MAG and concession percentage fee.
2. To determine whether the Port and ATZ complied with significant terms of the lease and concession agreement, we:
- Reviewed the Lessee's chart of accounts to determine whether all applicable revenue accounts were included in the revenue reported to the Port.
 - Conducted three-way reconciliation among the Lessee's trial balances, P&L, and reported revenue to the Port to determine if the reported revenue was complete and accurate.
 - Performed analytical procedures on monthly concession billings to identify months with significant revenue decreases from previous year.
 - Tested four months with significant revenue decreases to ensure reported revenue was complete and accurate:
 - Reconciled the Lessee's detailed transaction totals to P&L, and to the B&O tax returns.
 - Reconciled the Lessee's detailed transactions to the bank statements.
 - Verified that the voided transactions were legitimate and properly approved.

CONCLUSION

Port management monitoring controls were effective. ATZ reported concession fees were complete, properly calculated, and remitted timely to the Port, and complied with the significant terms of the lease and concession agreement.