



INTERNAL AUDIT REPORT

LEASE AND CONCESSION AGREEMENT AUDIT
BELL STREET P-66 PARKING REVENUE

JULY 1, 2014 - FEBRUARY 28, 2017

ISSUE DATE: JULY 21, 2017
REPORT NO. 2017-11

EXECUTIVE SUMMARY

AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was:

1. To determine whether management internal controls were effective.
2. To determine whether the lessee complied with significant lease provisions.

We reviewed and analyzed records for the agreement period July 2014 through February 2017.

BACKGROUND

The Port of Seattle owns the Bell Street Parking Garage located at 9 Wall Street on the Seattle waterfront. It contains approximately fifteen hundred spaces with a portion of these spaces reserved or available to specific customers or local Port tenants.

Republic Parking Northwest (RPNW) has been managing the Port's Bell Street parking facilities on a month-to-month basis continuously since 1992. The Lease is month-to-month due to a portion of the Bell Street Garage being funded with government bonds which means the government entity should own and operate the facility. There are exceptions that allow the Port of Seattle to have an outside party operate the facility, the Port's month-to-month agreement which can be canceled by the Port meets the IRS requirements.

AUDIT RESULT

Real Estate Asset Management internal controls were not always effective.

The Lessee complied with significant terms within the contract.

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TRANSMITTAL LETTER

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of the Bell Street P-66 Parking Revenue.

We conducted the performance audit in accordance with Generally Accepted Government Auditing Standards and 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 the management and staff of Real Estate Asset Management and the Accounting and Financial Reporting teams for their assistance and cooperation during the audit.



Joyce Kirangi, CPA, CGMA
Director, Internal Audit

AUDIT TEAM

Dan Chase, CPA
Internal Audit Manager - Acting

RESPONSIBLE MANAGEMENT TEAM

Dave McFadden - Managing Director Economic Development
Melinda Miller - Dir, RE Asset Management
Paula Edelstein - Senior Director Human Resources

BACKGROUND

The Port of Seattle owns the Bell Street Parking Garage located at 9 Wall Street on the Seattle waterfront. It contains approximately fifteen hundred spaces with a portion of these spaces reserved or available to specific customers or local Port tenants.

The Port of Seattle executed the following agreements with RPNW:

- Lease Agreement 425, August 12, 2002 - Bell Street WTC Parking Garage Lease
- Lease Agreement 424, August 12, 2002 - Bell Street Pier 66 Lot Lease

There are two components to the lease agreement 425: 1) on the first of each month RPNW is required to pay rent in the amount of \$65,000, 2) by the 15th of the following month, RPNW is required to pay a concession fee of seventy-one percent of the Gross Receipts less \$65,000 rent.

Republic Parking Northwest (RPNW) has been managing the Port's Bell Street parking facilities continuously since 1992. The current leases were both signed in 2002 and are month to month due to bonding in the central garage which restricts long-term leasing agreements.

In 1987, Republic Parking expanded its operation to the Pacific Northwest and created a partner company, Republic Parking Northwest, Inc., based in Seattle, Washington. Since then, RPNW's Northwest portfolio has grown to over 222 separate sites located in Alaska, Arizona, California, Hawaii, Idaho, Montana, Oregon and Washington. RPNW is a full service transportation management company providing clients solutions to their parking, valet, shuttle and curbside management issues.

RPNW is able to leverage its relationship with its partner company providing efficient cost effective operations to its clients. While RPNW works closely with its partner company decision making is made locally which allows its Northwest region property owners and clients the autonomy to work directly with business owner and decision makers.

FINANCIAL HIGHLIGHTS

BELL STREET WORLD TRADE CENTER PARKING GARAGE REVENUE						
ACCOUNT	ACCOUNT DESCRIPTION	6 MONTHS		12 MONTHS		2 MONTHS
		2014	2015	2016	2017	
44360	SALE OF UTILITIES - ELECTRICITY - MARINE	\$5,290	\$11,983	\$12,824	\$2,710	
44420	SALE OF UTILITIES - SURFACE WATER	4,374	9,517	8,325	1,443	
44460	REVENUES: OPERATING COSTS	6,357	9,372	9,372	1,562	
45330	SPACE RENTAL GENERAL - L/H TAX	911,855	1,882,114	1,854,131	198,689	
49140	MISCELLANEOUS REVENUE (RETAIL) - SALES TAX	486	1,041	0	0	
TOTAL		\$928,362	\$1,914,027	\$1,884,652	\$204,404	

Data Source: PeopleSoft Financials

AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period July 1, 2014 – February 28, 2017. We utilized a risk-based audit approach from planning through testing. To obtain a complete understanding of the operations, we gathered information through document reviews, Port management and working with RPNW management. We applied audit procedures to areas with the highest likelihood of significant negative impact.

To determine whether Lessee complied with the Lease and Concession Agreement, we performed the following procedures:

1. Agreed the Monthly Gross Receipts Reports provided to RPNW's Monthly Ledger and Monthly Revenue Summary by transaction.
 - a. Recalculated the gross receipts to verify mathematical accuracy
 - b. Traced daily transactions to validate the following:
 - i. The Daily Summary Reports agreed to Cash Deposits and Credit Card Settlements.
 - ii. The daily shift Transactions agreed with system generated reports.
 - iii. The total Sales and City Parking Tax for the month to the total Sales and City Tax as report to the respective government agencies.
2. We obtained insurance policies and surety bonds and validated RPNW was in compliance with the terms of the lease agreements.
3. Verified that RPNW provided two market comparisons within 12 months to Port Management as required by the Lease Agreement.
4. We obtained time cards for RPNW security personnel to verify security coverage as required by the lease terms.
 - a. Observed parking facilities and operations during business hours.

To determine whether management controls were effective with regards to key cards, we:

- 1) Evaluated Port management oversight and monitoring of Port issued key cards.
 - a) Compared the Master List of key card of Port employees to RPNW records.

CONCLUSION

Real Estate Asset Management internal controls were not always effective.

The Lessee complied with significant terms within the contract.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

INTERNAL CONTROLS COULD BE IMPROVED TO ENSURE COMPLIANCE WITH THE TERMS OF THE AGREEMENT

Finding One

The Lease and Concession Agreement (425) dated August 12, 2002 does not allow credit card fees to be deducted from gross revenue. Real Estate Asset Management does not receive or review the Gross Receipts Report prior to billing by AFR. As a result, from July 2014 through October 2016, RPNW deducted credit card fees from gross revenue which was not detected by the Port's Real Estate Asset Management. This resulted in underreported gross revenue to the Port of approximately \$147,000 causing an underpayment concession fee of \$114,000.

Recommendation

- Real Estate Asset Management should review the monthly RPNW revenue reports for reasonableness.
- Real Estate Asset Management should evidence their review by signing the report and then provide it to the AFR team for billing.

Management Response

As the team ultimately responsible for the revenue generated by this Lease and Concession Agreement, Real Estate Asset Management (REAM) agrees that we should play a more active role in the monthly review and approval of Republic Parking NW revenue reports. Currently Accounting & Financial Reporting (AFR) receives the monthly statements from Republic Parking to process billing and REAM has not been involved.

After consulting with AFR, we have concluded that the best way to structure our review is to follow the review process of the Aviation Division. They currently review concession reports from tenants for reasonableness after AFR bills in order to ensure that the timing of the billing process isn't affected by management's review. If management's review uncovers an issue with the gross revenue reports, it is corrected after the fact. We have already communicated with AFR the need to add our review to the monthly billing process, and have implemented this Internal Audit recommendation.

Finding Two

According to section nine of the Lease and Concession Agreement between the Port and RPNW, the Port is entitled to 500 unassigned parking passes (garage key cards) at no cost. Real Estate Asset Management is responsible for the overall Lease and Concession Agreement between the Port and RPNW. The oversight and maintenance of Port issued garage key cards is performed by Human Resources and Corporate Facilities. The monthly value of an individual unassigned garage key card is \$260. Per the agreement, the Lessee and the Port are supposed to work together to establish procedures for issuance and maintenance of garage key cards. This process is important so that the Port has an accurate and complete record of issued garage key cards.

As of March 31, 2017 the Port's Master key card List reflected 390 active garage key cards while RPNW Master List reflected 1098 active Port related key cards, a difference of 708. During the month of April 2017, a total of 444 individual key cards were used by the Port of Seattle per RPNW Master List. Of the 444 key cards used, 44 had no name associated with them.

Port management does not currently have an effective system for issuance and maintenance of garage key cards. As a result, Port issued key cards could be used by unauthorized individuals (non-port employees or former employees) without detection.

Recommendation

- Institute a system to track issuances and maintenance of garage key cards.

Management Response (target date December 31, 2017).

Real Estate Asset Management agrees that there is an opportunity to strengthen the tracking of Port of Seattle issued parking access cards by taking a stronger oversight position and working closely with the other departments involved. Currently, Human Resources and Development is involved in the employee benefits policy and decision-making aspects and P69 Facility Management (the front desk) issues cards for this garage.

Real Estate Asset Management has already begun working with HRD and Facilities and is leading the development of a stronger control system which will likely involve:

1. *reissuance of parking access cards to create an accurate baseline list*
2. *a stronger system for issuing and logging access cards*
3. *periodic review and reconciliation of the list of approved Port access card holders*
4. *regular communication with Republic Parking to ensure that cards are deactivated when employee leaves or a card is lost*