

**COMPLETED AUDITS - 2017 AUDIT PLAN CARRYOVER**

Audit Title	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Host International, Inc.	Limited Compliance												
Delta Lounge	Operational												
P66 Norwegian Cruise Line Partnership	Operational												
Employee Parking	Operational												
Transportation Network Companies	Operational												
Terminal 91 Dockage	Operational												

**2018 AUDIT PLAN STATUS**

Audit Title	Type	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Beecher's Handmade Cheese	Limited Compliance												
Disbursements / Accounts Payable	Operational												
Sky Chef's Inc.	Limited Compliance												
Capital - N. Satellite	Operational												
Dollar Rent a Car	Limited Compliance												
TNC's Rematch (EKPI's)	Operational												
Thrifty Car Rental	Limited Compliance												
Fox Rent-A-Car	Limited Compliance												
Marine Maintenance Shops	Operational												
Capital - W. Fire STA	Operational												
Parking Soft System (Protiviti)	IT												
Change Management - AVM (Point B)	IT												
Northwest Seaport Alliance	Operational												
Data Centers - AVM	IT												
Cruise Related Investments	Operational												
SeaTac Utilities	Operational												
Capital - IAF	Operational												
Taxi Cabs (Eastside for Hire)	Operational												

Key:	Complete
	In Process
	Not Started



# UPDATES / NEW INITIATIVES

**I. ISSUE FOLLOW-UP PROCESS**

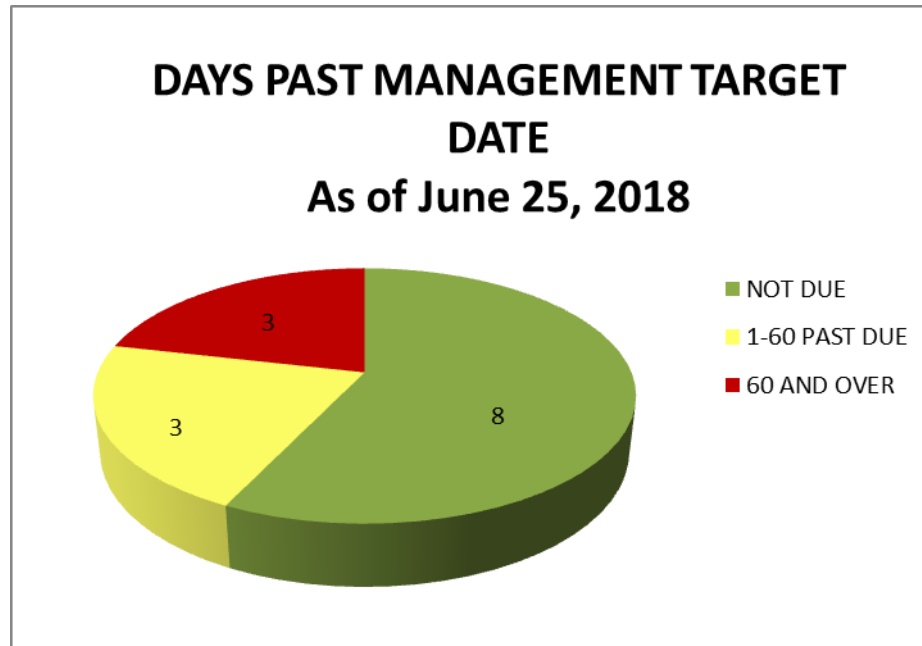
**II. INTERNAL SELF ASSESSMENT**

**III. STREAMLINE LIMITED CONTRACT COMPLIANCE REPORT**



## ISSUE FOLLOW-UP PROCESS

- Monitoring of prior internal audit issues
- Internal Audit Standards require a system to monitor that management actions have been effectively implemented



- Generally audit issues are being addressed, “Red” issues have explainable business reasons.

# INTERNAL SELF-ASSESSMENT

## SCOPE OF REVIEW

- Aligned Generally Accepted Government Auditing Standards (GAGAS) and International Professional Practices Framework (IPPF) to the Port's Internal Audit Department Policies and Operating Procedures.
- Reviewed work papers of three audits from the 2017 audit plan to evaluate compliance with GAGAS and IPPF.
- Provided recommendations to audit management.

## RESULTS

The Port of Seattle Internal Audit Department complied with applicable GAGAS and IPPF Standards and has adequate internal quality control processes in place to facilitate compliance.



## INTERNAL SELF-ASSESSMENT

### RECOMMENDATIONS

- Implement an annual formal internal self-assessment process that includes a summary of results and recommendations for corrective action - (GAGAS 3.93 / IPPF 1320).
- Update procedures to reflect that the audit program for each engagement is approved prior to the start of fieldwork by audit management – (IPPF 2240.A1).
- Update procedures to reflect that each auditor is required to complete at least 20 hours annually of Continuing Professional Education and retain course outlines / materials - (GAGAS 3.76).
- Identified opportunities to streamline the internal audit process.



# NEW LIMITED CONTRACT COMPLIANCE REPORT

## INTERNAL AUDIT REPORT

LIMITED CONTRACT COMPLIANCE

CONCESSION NAME

JANUARY 2015 – DECEMBER 2017

ISSUE DATE: JUNE 25, 2018

REPORT NO. 2018-09

## EXECUTIVE SUMMARY

Internal Audit (IA) completed an audit of the Lease and Concession Agreement between XXX and the Port of Seattle (Port).

No exceptions were identified or we identified the following exception(s):

### AUDIT SCOPE AND METHODOLOGY

We conducted this 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.

The period audited was January 2015 through December 2017 and included the following audit procedures:

#### Revenue Completeness and Accuracy

- Verified the mathematical accuracy of concession fees.
- Traced concession payments to Port records to verify payments were received by Agreement dates.
- Agreed revenue reported to the Port to the Concessionaire's general ledger, revenue reports, and z-tapes (source data).

This audit did not include an evaluation of internal controls.



Glenn Fernandes, CPA  
Director, Internal Audit

#### RESPONSIBLE MANAGEMENT TEAM

Name, Title

Name, Title

Name, Title

# OPERATIONAL AUDITS

- 1) North Satellite Airport Renovation and Expansion Project (NSAT)
- 2) TNC Re-match: Environmental Key Performance Indicator (E-KPI)
- 3) Disbursements / Accounts Payable



## NORTH SATELLITE RENOVATION AND EXPANSION PROJECT

### BACKGROUND

The Port and Alaska Airlines are partnering to create an efficient “Curb to Gate” operation at the north end of the Airport. As of January 2018, total Port costs were \$98.3 million from a Commission approved budget of \$658.3 million. The project is expected to be complete in the spring of 2021.

### RESULTS

**1. (High)** A letter of understanding (LOA) that the Port issued to Alaska, to assure alignment, was not legally binding, but nonetheless had the ability to materially impact the project’s cost and timeline. Failure to adhere to this LOA resulted in changes that increased the cost of the project by approximately \$31.8 million and delayed the schedule by approximately 39 weeks.

**2. (Medium)** The process utilized to reimburse Alaska for work performed, did not adequately involve key stakeholders to assure that what was reimbursed, was aligned with the value received by the Port.

## NORTH SATELLITE RENOVATION AND EXPANSION PROJECT

### MANAGEMENT ACTION PLAN (IN PART)

1. For future projects, we will:

- Require tenants to possess or provide a strong technical team sufficient to meet the needs of the project.
- Develop an improved change management process into the Tenant Reimbursement Agreement to better control scope changes and to determine responsibilities for cost increases.
- Changes to design, scope, and schedule, will not be pursued without a written agreement.

We will prepare a written letter and request reimbursement of \$1.2 million from Alaska for the dual passenger doors.

2. Since 2017, Aviation performs all concept development for Port owned facilities through the On Call Planning consultants. This will make it unnecessary for tenants to develop concepts with the expectation of reimbursement from the Port.

## TNC RE-MATCH - ENVIRONMENTAL KEY PERFORMANCE INDICATOR

### **BACKGROUND**

Re-match was introduced at the airport on December 5, 2017. The program allows TNCs, including those that don't meet the miles per gallon restriction, who complete an airport drop-off, to immediately receive a pick-up request, without having to wait in the holding lot. Under Re-match, vehicles that don't meet the 45 MPG restriction are permitted to pick-up passengers, only if they receive a matched trip, after completing an airport drop-off.

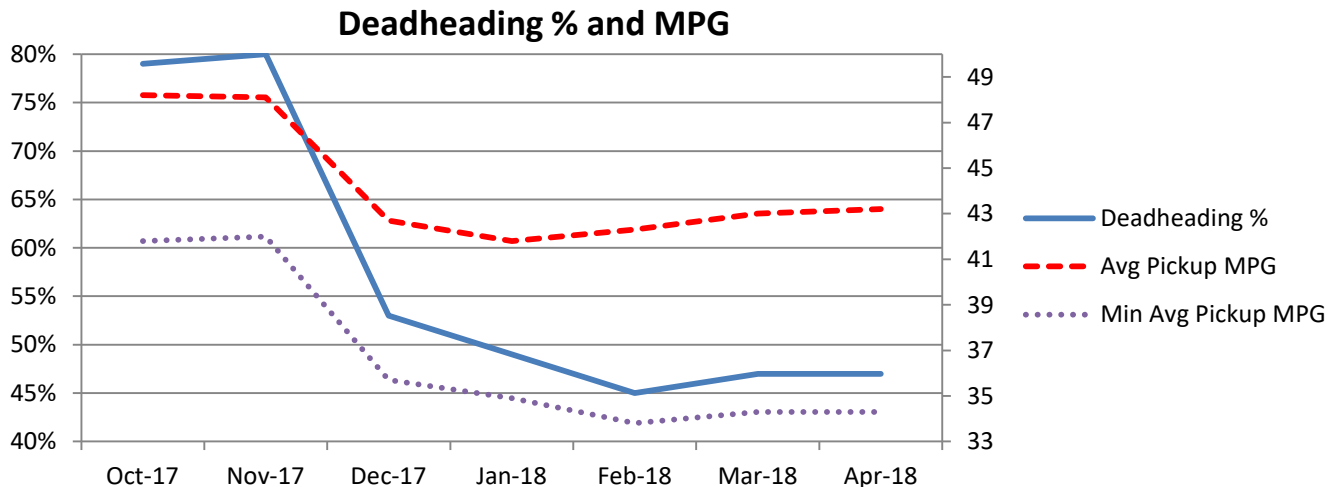
The Port uses the Environmental Key Performance (E-KPI) metric as a tool that was designed to demonstrate equivalency with the environmental performance of outbound, on-demand taxis at Sea-Tac Airport. It is expressed in units of lbs. of CO<sub>2</sub> per typical passenger-trip and the formula sums the Airport drop-off trip fuel consumption with the Airport pick-up trip fuel consumption multiplied by the carbon emissions per fuel consumed.

# TNC RE-MATCH - ENVIRONMENTAL KEY PERFORMANCE INDICATOR

## RESULTS

**(High)** The Re-match program is an innovative solution that reduces deadheading and greenhouse gases, while also having the potential to ease congestion at airport drives. However, the E-KPI in its current form could result in TNCs serving the airport with a fleet of vehicles that are not considered “green” vehicles.

The graph below reflects a decline in deadheading but also a decline of the average MPG. The decrease in deadheading also lowers the average MPG allowed to comply with the current 10.82 E-KPI requirement.



## TNC RE-MATCH - ENVIRONMENTAL KEY PERFORMANCE INDICATOR

### **MANAGEMENT ACTION PLAN (IN PART)**

When the contract is renewed, or before any long term agreement is signed, we will review the overall TNC performance under the E-KPI approach to assure we continue to reduce emissions through highly efficient operations and service providers at the Airport. Additionally, assumptions made in the E-KPI equation will be more clearly described in the contract to eliminate any possible confusion about how the equation is applied.



## DISBURSEMENTS / ACCOUNTS PAYABLE

### BACKGROUND

The disbursements function within the Accounting and Financial Reporting Department (AFR) reviews supporting documentation, general ledger coding, and enters invoice data into PeopleSoft.

In early 2017, AFR began using COR360, a third party software designed to streamline and control invoice payments. COR360 gives employees, including those outside AFR, approval authority to request payment for invoices.

The table below reflects disbursements for January 1, 2017 through December 31, 2017:

2017 DISBURSEMENTS BY TYPE				
METHOD	AMOUNT	% BY AMOUNT	COUNT	% BY COUNT
Check	\$76,467,068	11%	6,174	43%
Electronic Payments*	598,010,956	89%	8,137	57%
<b>TOTAL</b>	<b>\$674,478,024</b>	<b>100%</b>	<b>14,311</b>	<b>100%</b>

\* Includes ACH, wire, and EFT

## DISBURSEMENTS / ACCOUNTS PAYABLE

### RESULTS

**1. (Medium)** A Port wide delegation of authority for approving invoice payments should be reviewed and approved by Executive Management and memorialized into Executive Policy (EX-2) guidance. Delegations of authority establish approval limits that generally correlate to the individual's level and responsibility within the organization.

**2. (Medium)** Opportunities were identified to improve internal controls. These opportunities include, implementing controls to disable user access when no longer needed, validating the accuracy of invoices entered into PeopleSoft, and segregating the responsibility of adding and approving vendors. These changes to internal controls align to best practices and would further refine processes.

## DISBURSEMENTS / ACCOUNTS PAYABLE

### MANAGEMENT ACTION PLAN (IN PART)

1. We acknowledge that the auditor recommendation enhances visibility in the control environment. As recommended, a higher Executive-level review and affirmation of payment authorization delegations will be implemented, to augment department management authorized delegations. AFR will extract the payment delegations currently contained in COR360 and incorporate them into the executive level EX-2 delegation schedules.

2. As recommended:

- Quarterly user access reviews will be put in place to identify and remove access when an employee transfers departments or the need is no longer necessary. AFR has put in place a review of COR360 payment delegations, each time a termination notice is received from HR.
- We will institute batch total controls between COR360 output and PeopleSoft Financials accounts payable system input, to validate completeness.
- AFR will work in partnership with CPO to assess this change.



# LIMITED CONTRACT COMPLIANCE AUDITS

- 1) Sky Chefs, Inc.
- 2) CMC Investments, Inc. dba Dollar Rent-A-Car
- 3) Beecher's Handmade Cheese

## SKY CHEFS, INC.

### BACKGROUND

Sky Chefs provides in-flight catering service, including the preparation and distribution of in-flight foods.

Sky Chefs pays a monthly concession fee and land/building rent based on square footage (see table below).

SKY CHEFS, INC.			
FISCAL YEAR	GROSS REVENUES	CONCESSION REVENUE	LAND & BUILDING RENT
2015	\$49,032,636	\$3,428,844	\$483,268
2016	51,612,608	3,611,374	483,268
<b>TOTAL</b>	<b>\$100,645,244</b>	<b>\$7,040,218</b>	<b>\$966,536</b>

\* Data Source: PeopleSoft Financials

### RESULTS

We concluded that the Lessee materially complied with the significant terms in the Agreement.



## DOLLAR RENT-A-CAR

### BACKGROUND

CMC Investments, Inc. is a private company and operates under the name Dollar-Rent-A-Car.

The agreement requires a Minimum Annual Guarantee (MAG) and a Percentage Fee equal to 10% of Concessionaire's gross revenues, provided the fee is higher than the monthly MAG. The agreement also requires the Concessionaire to collect a Customer Facility Charge (CFC) of \$6 per rental day. The table below reflects total gross revenue, concession fees, and CFC fees:

REPORTED GROSS REVENUE AND CONCESSION CALCULATION			CUSTOMER FACILITY CHARGE
AGREEMENT YEAR	REPORTED GROSS REVENUES	CONCESSION FEES	REPORTED CFC FEES
2014 - 2015	\$16,093,271	\$1,609,327	\$1,943,754
2015 - 2016	16,071,679	1,607,168	2,042,244
2016 - 2017	16,555,626	1,655,563	2,207,856
<b>TOTAL</b>	<b>\$48,720,576</b>	<b>\$4,872,058</b>	<b>\$6,193,854</b>

Data Source: PeopleSoft Financials and Propworks

## DOLLAR RENT-A-CAR

### RESULTS

- 1. (Medium)** The Concessionaire did not report \$343,326 in incidental gross revenues to the Port, resulting in \$34,333 in Percentage Fees owed to the Port.
- 2. (Medium)** The CFC was over-reported to the Port, by \$19,596 for the audit period. This was primarily due to a mistake by Concessionaire in November 2015, which resulted in an overpayment of that month's CFC to the Port.

## DOLLAR RENT-A-CAR

### MANAGEMENT RESPONSE

1. Aviation Commercial Management (ACM) will seek to recover the underpaid Percentage Fees, together with any applicable late fees and interest charges. ACM will also communicate both verbally and in writing that the revenues identified above, are not permitted exclusions from revenue according to the Agreement.
2. Aviation Commercial Management will refund the overpaid CFC's.

## BEECHER'S HANDMADE CHEESE

### BACKGROUND

Beecher's Handmade Cheese (Beecher's) is headquartered in Seattle and operates four cafés offering an assortment of fresh sandwiches, soups, salads, and cheeses.

Beecher's pays the Port a Minimum Annual Guarantee (MAG) equal to eighty-five percent (85%) of the total amount paid by the Lessee for the previous year. In addition to the MAG, Beecher's pays a twelve percent (12%) concession fee, to the extent the percentage fee was higher than the monthly MAG payment.

The table below reflects the concession revenue earned by the Port:

<b>BEECHER'S HANDMADE CHEESE</b>		
<b>YEAR</b>	<b>GROSS SALES</b>	<b>CONCESSION REVENUE</b>
2014	\$3,712,924	\$445,551
2015	4,461,175	535,341
2016	5,748,587	689,831
2017	6,903,741	828,449
<b>TOTAL</b>	<b>\$20,826,427</b>	<b>\$2,499,172</b>

\* Data Source: PROPworks

## BEECHER'S HANDMADE CHEESE

### RESULTS

**(Medium)** The Agreement requires the Lessee, in part, to maintain records for a period of three years. However, the daily point of sale data was not provided to Internal Audit in its original format; rather, an excel document was provided. Cash register z-tapes, in their original format, are necessary to obtain reasonable assurance to conclude on the accuracy of concession revenue.

### MANAGEMENT RESPONSE

Due to unusual circumstances, Beecher's was unable to provide original documentation to support their reported sales. Airport Dining and Retail staff has communicated with Beecher's senior management about the requirement in their lease to provide sales documentation in its original format and have requested that they provide that documentation along with their 2018 certified annual sales report.