



INTERNAL AUDIT REPORT

Limited Contract Compliance Audit
Fireworks Galleries, LLC

November 2017 – December 2019

Issue Date: July 16, 2020
Report No. 2020-09

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Executive Summary

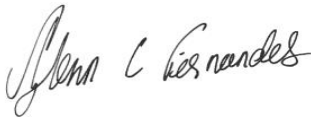
Internal Audit (IA) completed an audit of the Seattle-Tacoma International Airport Lease and Concession Agreement (Agreement) between Fireworks Galleries, LLC (Fireworks) and the Port of Seattle (Port). Fireworks pays the Port approximately \$1.1 million in annual concession fees.

The period audited was November 2017 through December 2019. The audit was performed to determine whether Fireworks complied with significant provisions in the Agreement including whether reported gross revenues and percentage fees were complete and accurate.

We concluded that Fireworks materially complied with the significant terms of the Agreement.

No issues were identified requiring a management response.

We extend our appreciation to management and staff of the Aviation Commercial Management Department and the Accounting and Financial Reporting Department for their assistance and cooperation during the audit.



Glenn Fernandes, CPA
Director, Internal Audit

Responsible Management Team

Rudy Caluza, Director, Accounting and Financial Reporting
Dawn Hunter, Senior Manager, Airport Dining & Retail
Linda Nelson, Assistant Director, Financial Reporting Revenue Services
Jim Schone, Director, Aviation Business Development

Background

In September of 2016, the Port entered into an Agreement with Fireworks to operate in two locations: The Central Terminal and Concourse D. The terms of the Agreement provide for a Minimum Annual Guarantee (MAG) equal to 85% of the total amount paid to the Port from the previous agreement year. The MAG is payable, in advance, on or before the first day of each month. Additionally, the Agreement requires payment of a Percentage Fee equal to a percentage of gross revenue, provided the fee is higher than the MAG. The Percentage Fee is due on or before the fifteenth day of each succeeding month, according to the following schedule:

Annual Gross Revenue	Percentage (%) of Gross Sales
Central Terminal	
\$1 to < \$2,000,000	11%
\$2,000,000 to < \$4,000,000	12%
Over \$4,000,000	13%
Concourse D	
Annual Gross Sales	11%

Within 90 days after the close of each Agreement Year, Fireworks is required to provide the Port an annual report reflecting the amount of Gross Sales for the preceding Agreement Year. The annual report shall be accompanied by a signed certificate by an independent Certified Public Accountant or Fireworks Chief Financial Officer or Chief Executive Officer. The certificate specifically states, a) he/she examined the annual report, b) the examination included such tests that were considered necessary or appropriate under the circumstances, c) the information was presented fairly, and d) conforms with and was computed in compliance with the definitions set forth in the Agreement.

The table below reflects the gross concession revenue and percentage fees billed:

Agreement Year	Gross Revenue	Percentage Fees
November 2017 – December 2017	\$1,452,937	\$180,147
January 2018 – December 2018	8,339,114	1,115,064
January 2019 – December 2019	8,813,696	1,174,443
Total	\$18,605,747	\$2,469,654

Data Source: PeopleSoft Financials, AFR YE documents

Audit Scope and Methodology

We conducted the engagement 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 conduct an engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our engagement objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our engagement objectives.

The period audited was November 2017 through December 2019 and included the following procedures:

Revenue Completeness, Accuracy, Timeliness

- Agreed monthly revenue reports provided to the Port, to Fireworks' general ledger.
- Validated that the annual report was submitted and signed by an independent CPA, Chief Financial Officer or Chief Executive Officer from Fireworks.
- Reviewed the Agreement definition of Gross Sales, including exclusions, and reviewed Fireworks records such as the chart of accounts, revenue reports, and general ledger, to determine the completeness of prior years' reporting.
- Recalculated the MAG and Percentage Fees to verify accuracy.
- Verified timeliness of payments for all months in the audit period.

Surety Compliance

- Reviewed Fireworks' Rent Security Deposit for compliance with the Lease Agreement, Port of Seattle Policy (Port RE-2) and Washington State Law (RCW 53.08.085).

Appendix A: Risk Ratings

Findings identified during the audit are assigned a risk rating, as outlined in the table below. Only one of the criteria needs to be met for a finding to be rated High, Medium, or Low. Findings rated Low will be evaluated and may or may not be reflected in the final report.

Rating	Financial Stewardship	Internal Controls	Compliance	Public	Commission/ Management
High	Significant	Missing or not followed	Non-compliance with Laws, Port Policies, Contracts	High probability for external audit issues and / or negative public perception	Requires immediate attention
Medium	Moderate	Partial controls Not functioning effectively	Partial compliance with Laws, Port Policies Contracts	Potential for external audit issues and / or negative public perception	Requires attention
Low	Minimal	Functioning as intended but could be enhanced to improve efficiency	Mostly complies with Laws, Port Policies, Contracts	Low probability for external audit issues and/or negative public perception	Does not require immediate attention