



INTERNAL AUDIT REPORT

Limited Contract Compliance Audit
Qdoba Restaurant Corporation

February 2018 – December 31, 2019

Issue Date: May 28, 2020
Report No. 2020-07

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Executive Summary

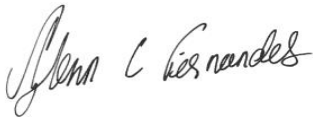
Internal Audit (IA) completed an audit of the Concession Lease Agreement between Qdoba Restaurant Corporation and the Port of Seattle (Port).

The Period audited was February 1, 2018 through December 31, 2019. The audit was performed to determine whether Qdoba Restaurant Corporation complied with significant provisions of the Agreement, including whether reported gross revenues and percentage fees were complete and accurate.

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

No issues were identified requiring management response.

We extend our appreciation to management and staff of the Airport Dining and Retail and the Accounting and Financial Reporting Departments for their assistance and cooperation during the audit.



Glenn Fernandes, CPA
Director, Internal Audit

RESPONSIBLE MANAGEMENT TEAM

Jim Schone, Director, Aviation Business Development
Dawn Hunter, Senior Manager Airport Dining and Retail

Background

Qdoba Restaurant Corporation, headquartered in California, was founded in 1995. Trading as Qdoba Mexican Eats, it now has 740 restaurants in the United States and Canada.

The Port of Seattle (Port) entered into a Concession Lease Agreement (Agreement No 002096) with Qdoba Restaurant Corporation, on August 10 2016, with an occupancy date of March 17, 2017. The lease expires on August 30, 2027. As per this Agreement, which was the one covered in the scope of this audit, the first agreement year was February 2018 to December 2018. The second agreement year was January to December 2019.

The terms of the Agreement provide for an initial Minimum Annual Guarantee (MAG) which is equals to \$ 510,000 per annum, payable in advance on the 1st day of the month. For subsequent years, the MAG is equal to 85% of the total amount paid to the Port for the previous Agreement Year.

Additionally, the Agreement requires a Percentage Fee that is calculated on a graduated scale as shown in the table below. The Percentage Fee, if applicable, is due by the 15th of the following month.

Annual Gross Sales	Percentage of Gross Sales
Less than \$ 3,400,000	15.0%
\$ 3,400,000 - \$ 5,500,000	17.5%
More than \$ 5,500,000	20.0%

The table below reflects the Gross Revenues as reported by Qdoba and the Minimum Rent and Percentage Fees as billed by the Port of Seattle:

Year	Gross Revenue	Minimum Rent	Percentage Fees	Total Rent
2018 ¹	6,228,878	467,500	555,776	1,023,276
2019	7,199,177	510,000	708,472	1,218,472
Total	\$13,428,055	\$ 977,500	\$1,264,248	\$2,241,748

Source: Qdoba Monthly Revenue Reports; Peoplesoft Financials, AFR YE documents

¹ The 2018 figures are for 11 months starting from February to December 2018

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 and 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 conclusions based on our engagement objectives.

The Agreement reviewed during this audit was Agreement number 002096 and the period was February 2018 through December 2019. After identifying significant provisions in the Agreement, we performed the following audit procedures:

Revenue Completeness and Accuracy

- Traced concession payments to Port records to verify payments were received by Agreement dates.
- Agreed revenue reported to the Port, to the Concessionaire's monthly revenue reports, charge sheets, and to independently audited schedules.
- Analyzed deductions in the data sheets (General Ledger) to determine whether they were properly classified and correctly deducted from the gross revenues, as provided in the Lease Agreement

Compliance

- Reviewed the Concessionaire's 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