



INTERNAL AUDIT REPORT



Limited Contract Compliance Audit

Lenlyn Limited

April 1, 2017 – March 31, 2020

Issue Date: May 28, 2021

Report No. 2021-09



INTERNAL AUDIT

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Executive Summary

Internal Audit (IA) completed an audit of the Lease Agreement (Agreement) between Lenlyn Limited (dba International Currency Services) and the Port of Seattle (Port) for the period April 2017 through March 2020. The audit was performed to determine whether Lenlyn Limited complied with significant provisions of the Agreement, including whether reported revenues and percentage fees, were complete and accurate.

In June 2020, in order to promote financial stability of dining and retail (ADR) tenants during COVID-19 pandemic, the Port Commission authorized the temporary suspension (elimination) of Minimum Annual Guarantee (MAG) payments, for ADR tenants, from March through December 2020. The MAG amount that Lenlyn Limited had paid for the month of March 2020, was retroactively credited to its account.

The foreign currency exchange business is unique in nature and, therefore, for a successful lease agreement, it is critical to fully understand the mechanism as to the types of revenues and how they are recognized. As reflected in Lenlyn Limited's revenue accounting policies, revenue is measured at the fair value of the consideration received or receivable. Revenue arises from the following, key components of the business:

- **Sale and purchase of foreign currency:** The margin between the sale of one currency against the currency purchased over the counter is recognized as revenue at the point in time of sale/purchase.
- **Sales and purchase commission receivable:** Commission-based fees earned on above-mentioned currency trades are also recognized at the point in time of the delivery of currency.
- **Other ancillary services and income:** Revenue arises from the sale of goods (e.g., SIM card sales) and the rendering of services.

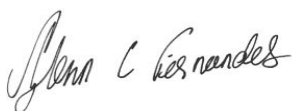
Our audit identified the following issue related to revenue reporting and associated payments:

1. **(Medium)** Lenlyn Limited underreported \$324,836 in foreign currency and other service gross revenues, which resulted in approximately \$12,023 in additional percentage fees owed to the Port. Furthermore, the Lease Agreement did not specify the customary five percent late fee, resulting in \$4,260 in potential lost revenue to the Port.

This issue is discussed in more detail on page seven.

In addition, we noted inconsistencies among the current surety on hand, the Agreement, and the Port's RE-2 Policy (RE-2). RE-2 was last updated on October 20, 1995, and is currently under management review, as a result of an Internal Audit report on Concourse Concessions LLC, published in September of 2020.

We extend our appreciation to management and staff of Airport Dining and Retail, Aviation Finance and Budget, Accounting and Financial Reporting, and Lenlyn Limited for their assistance and cooperation during the audit.



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Director, Internal Audit

Responsible Management Team

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Background

The Port entered into a seven-year Lease Agreement (Agreement Number AIR001788), dated January 27, 2014, with Lenlyn Limited (dba International Currency Services USA or ICE) for a foreign currency exchange concession at the Seattle-Tacoma International Airport (SEA). Lenlyn Limited is a United Kingdom corporation and operates worldwide, with over 320 branches in 20 countries, and in more than 65 airports, including SEA. ICE is headquartered in Los Angeles, California. The Agreement Year is set for April - March, which started the first full month on or after the Rent Commencement Date. Following the contract termination in March 2021, Lenlyn Limited has been operating in a month-to-month arrangement, at four locations at SEA: Concourse A, Baggage Claim 6, South Esplanade, and South Satellite. Currently, the Port and Lenlyn Limited are negotiating a contract renewal.

Per the Agreement, Lenlyn Limited is required to pay a minimum Annual Guarantee (MAG) in equal monthly payments payable on or before the first of each month. In addition to the MAG, Lenlyn Limited agreed to pay a percentage fee based on gross sales on or before the 15th of the following month, according to the following table:

Agreement Year	MAG
First Year	\$880,000
Second & Third Years	Equal to the amount (whether by MAG or Percentage Fees) paid to the Port for the First Year
Fourth Year	\$1,000,000
Fifth through Seventh Years	Equal to the amount paid for the Fourth Year
Annual Gross Revenue	Percentage (%) Fees of Gross Revenue
Foreign Currency Exchange (FCE):	
Equal or less than \$13,000,000	7.25%
Greater than \$13,000,000	10.00%
Other Services	20.00%

The table below reflects Gross Revenues as reported by Lenlyn Limited, and the MAG and percentage fees as billed by the Port:

Agreement Year (April – March)	Gross Revenue	MAG	Percentage Fees	Total Rent
2017/2018	\$16,752,045	\$1,000,000	\$317,763	\$1,317,763
2018/2019	16,658,466	1,317,763	70,302	1,388,065
2019/2020	14,907,553	1,317,763	15,334	1,333,097
Total	\$48,318,064	\$3,635,526	\$403,399	\$4,038,925

Source: Lenlyn Limited Monthly Revenue Reports; PeopleSoft Financials, and AFR Concession documents

Audit Scope and Methodology

We conducted this 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 April 1, 2017 through March 31, 2020 (three Agreement Years) and included the following audit procedures:

Concession Fees Completeness, Accuracy, and Timeliness

- Tested the tenant's billing and payments for all months in the audit period to determine whether the MAG payments and percentage fees were billed and paid accurately, completely, and timely.
- Reconciled revenues reported to the Port, to the tenant's General Ledger (GL), Profit and Loss (P&L) reports, independently audited revenue schedules, and tenant's Miami Point of Sales (POS) daily activity data.
- Analyzed deductions to determine whether they were properly classified and correctly deducted from the gross revenues, as provided in the Lease Agreement.

Surety and Insurance Compliance

- Reviewed the tenant's rent security amount bonded by an insurance company for compliance with the lease agreement, Port Policy (Port RE-2) and Washington State Law (RCW 53.08.085).
- Reviewed the tenant's Certificates of Insurance for compliance with the Lease Agreement terms.

Schedule of Findings and Recommendations

1) Rating: Medium

Lenlyn Limited underreported \$324,836 in foreign currency and other service gross revenues, which resulted in approximately \$12,023 in additional percentage fees owed to the Port. Furthermore, the Lease Agreement did not specify the customary five percent late fee, resulting in \$4,260 in potential lost revenue to the Port.

Under-reported Gross Revenue

A. Purchase Commission

An error in the foreign currency gross revenue calculation formula resulted in Purchase Commission being subtracted from the amounts reported to the Port. Per Lenlyn Limited's recalculations, under-reported percentage fees due to this Purchase Commission subtraction of \$305,839 for the audit scope (Agreement Years four to six), was estimated as \$12,023. The credit balance Lenlyn Limited has with the Port (currently approximately \$155,000) will cover the under-payments. Due to the accounting record retention time limit, set for three years after the end of each Agreement Year, Internal Audit limited the audit scope to Agreement Years four through six.

Agreement Year	Purchase Commission	Under Payment
April 2017 - March 2018 (Four)	\$109,304	\$10,930 ^{*1}
April 2018 - March 2019 (Five)	105,096	1,093 ^{*1}
April 2019 - March 2020 (Six)	91,439	N/A ^{*2}
Total	\$305,839	\$12,023^{*1}

Source: Lenlyn Limited's recalculation worksheets supported by its original monthly rent calculation worksheets, P&L and GL reports, etc.

^{*1} Under payments subject to recovery.

^{*2} For Agreement Year Six, MAG, which was greater than the total percentage fees, was used for annual true-up, to determine the under/over-payments per the Agreement (Section 4.2). Therefore, the additional Purchase Commission per recalculation did not have any impact on the annual under-/over-payment determination.

Gross revenue does not seem to be clearly defined in the Agreement (Section 1.9), to reflect the unique nature of the foreign currency exchange business. It is unknown how the foreign currency gross revenue calculation formula/method in use, was chosen when the Agreement was entered upon. Per Lenlyn Limited's Accountant, the gross revenue definition differs by airport and some others use Gross Profit instead, which reflects revenues net of all costs. The Gross Revenue section in the Agreement indicates the inclusion of "wholesale sales" but it is irrelevant to the current gross revenue calculation. Wholesale sales, as well as wholesale purchases, sales interbranch, stock movements, etc., which are not part of the gross revenue calculation, may need to be reflected in the Agreement (Section 1.9.6 - 1.9.8) related to gross revenue exclusions. The section currently specifies only refunds, discounts, and sales/excise tax on service/product sale.

B. Other Services (SIM Card Sales)

Internal Audit's reconciliation of reported gross revenue, to Lenlyn Limited's Miami Point of Sales system data, noted that in Agreement Year six (April 2019 through March 2020), SIM card sales of \$18,997 had been omitted from the revenue reported to the Port. This resulted in an additional 20% percentage fee of \$3,799; however, the recovery is unnecessary (See Footnote*² in the above Table). We noted that Lenlyn Limited had recently detected the SIM card sales omission from revenue reporting to the Port, and initiated corrections for Agreement Year seven (April 2020 through March 2021).

Late Payment Fees

Internal Audit reviewed the timeliness of payments and noted that Lenlyn Limited had paid the May 2018 MAG payment 25 days late and the January 2020 percentage fee 26 days late, after the 10-day grace period. However, Lenlyn Limited was not assessed a five percent late fee of \$4,260 in total, because the Agreement did not specify the late fee language, which is customary in Port Lease Agreements.

Recommendations:

Management should:

1. Pursue collection of the additional percentage fees of \$12,023 (estimate).
2. Define and specify in a new Lease Agreement, the foreign currency gross revenue calculation method/components, and gross revenue inclusion and exclusion items more clearly and thoroughly.
3. Specify the five percent late fee in the Late Charges section of a new Lease Agreement.

Management Response/Action Plan:

Management has engaged the tenant to address the outstanding balance for the additional percentage fees of \$12,023. The tenant has a credit on their account, which covers the outstanding balance, and they have requested that the outstanding balance be cleared via the application of the credit. In the preparation of the new Agreement, Management has engaged both Lease Administration, Accounting and Legal to ensure a clear understanding of the revenue reporting language of the contract for ease of administrations, and the late fee charges have been reinstated within the new Agreement as well.

DUE DATE: 6/30/2021

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