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INTERNAL AUDIT REPORT

Limited Contract Compliance Audit
ATZ, Inc. dba Doug Fox Parking

July 2019 – June 2022

Issue Date: May 30, 2023
Report No. 2023-07

ATZ Inc. dba Doug Fox Parking
July 2019 – June 2022

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Executive Summary

Internal Audit (IA) completed an audit of the Lease and Concession Agreement (Agreement) between ATZ Inc. dba Doug Fox Parking (Doug Fox) and the Port of Seattle (Port). The period audited was July 1, 2019, through June 30, 2022. The audit was performed to determine whether Doug Fox reported Concession Fees were complete, properly calculated, and remitted timely to the Port.

We concluded that Doug Fox had materially complied with the terms of Agreement, specifically that concession fees were accurate, complete, and remitted timely to the Port. No issues were identified requiring a management response.

Through their reconciliation process, Doug Fox identified \$633 in cancellation fees that were over reported in January and March of 2020. Although the amount identified was nominal, the associated credit back to Doug Fox, had not been processed because of various factors including COVID-19. After being identified by this audit, the Port processed and applied the necessary credit to Doug Fox's account.

We extend our appreciation to management and staff of the Aviation Commercial Management and Accounting & Financial Reporting (AFR) Departments for their assistance and cooperation during the audit.

Glenn Fernandes, CPA
Director, Internal Audit

Responsible Management Team

Rudy Caluza, Director, Accounting and Financial Reporting

Lisa Lam, Assistant Director, Accounting and Financial Reporting

Geoff Foster, Aviation Property Manager

Lance Lyttle, Managing Director Aviation

Jeff Wolf, Senior Manager, Aviation Business Development

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Background

ATZ Inc. dba Doug Fox Parking (Doug Fox) is the closest parking lot to Sea-Tac Airport that offers fully attended and secure parking 24 hours a day. The Port of Seattle (Port) entered into a Lease and Concession Agreement (Agreement) with Doug Fox on July 30, 2013.

Per the Agreement and applicable amendment(s), Doug Fox is required to pay a Minimum Annual Guarantee (MAG) of \$2,000,000 during the extension term, in equal monthly payments payable on or before the first day of each month equating to approximately \$166,666.67. However, as a result of the COVID-19 pandemic, the Exceptional Circumstances provision within the Agreement was amended. Effective April 1, 2021, if the total numbers of enplaned passengers for any calendar month decreases by more than 20% percent from the same month of the prior year, MAG payment due for the next month shall automatically be adjusted downward.

The Agreement also requires a Percentage Fee equal to 58% of gross revenues, provided the fee is higher than the monthly MAG. The Percentage Fee decreases to 45%, 30%, 10%, and 10%, respectively, for each of the four months comprising the Lessee Winding Down Period as well. As mentioned above, the MAG is payable in advance, on or before the first day of each month. On the other hand, the Percentage Fee, if applicable, is due within 10 days of the invoice due date. Otherwise, a late fee of 5% is imposed on the outstanding balance after the 10th day.

The table below reflects the Gross Revenues and Percentage Fees billed:

Agreement Year Gross Revenue (\$) Percentage Fees (\$)

July 2019 - June 2020 4,533,893 2,289,045

July 2020 - June 2021 2,945,118 1,496,000

July 2021 - June 2022 7,083,293 2,843,024

Source: Doug Fox Monthly P&L Reports, Peoplesoft Financials, and AFR documents

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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 July 2019 through June 2022 and included the following procedures:

Concession Fees Completeness, Accuracy, and Timeliness

- Reviewed relevant documents (e.g., Commission Records, CRRSAA Grant Agreements, Port's Rent Deferral Program, Billing Adjustment Worksheets, etc.) to gain an understanding of the changes to the requirements for MAG and Percentage Fee payments as a result of the COVID-

19 pandemic.

- Tested the tenant's billing and payments for all months in the audit period to determine whether MAG payments and percentage fees were billed and paid completely, accurately, and timely.
- Inspected and reviewed the Tenant's monthly P&L reports to determine whether any other income line items should be included within concessionable revenue.
- Agreed revenues reported to the Port to the Tenant's monthly P&L reports.
- Traced concession payments to Port records to verify payments were received timely and if not, late fees were assessed appropriately.

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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.

Financial Internal Commission/

Rating Compliance Public

Stewardship Controls Management

High probability

Non-compliance

Missing or not for external audit Requires

with Laws, Port

High Significant followed issues and / or immediate

Policies,

negative public attention

Contracts

perception

Moderate

Partial

Partial controls probability for

compliance with

external audit Requires

Medium Moderate Laws, Port

Not functioning issues and / or attention

Policies

effectively negative public

Contracts

perception

Low probability

Functioning as Mostly complies Does not

for external audit

intended but with Laws, Port require

Low Minimal issues and/or

could be Policies, immediate

negative public

enhanced Contracts attention

perception

