

# INTERNAL AUDIT REPORT

Limited Contract Compliance Audit  
Seattle Air Ventures

July 2021 – June 2023

Issue Date: November 29, 2023  
Report No. 2023-15

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## Executive Summary

Internal Audit (IA) completed an audit of the Lease and Concession Agreement (Agreement) between Airport Management Services, LLC, later assigned to Seattle Air Ventures, and the Port of Seattle (Port). The period audited was July 1, 2021, through June 30, 2023. The audit was performed to determine whether concession fees were complete, properly calculated, and remitted timely to the Port.

Fifteen stores, with a range of offerings including convenience retail, cosmetics, and food and beverage, operate under these agreements. Below is a listing of each store operating under both leases:

**AIR002017 / AIR002732**

(CA-02) Hudson Marketplace  
(CA-12) Hudson News  
(CA-14) Hudson News  
(CB-08) Hudson Marketplace  
(CT-11) Made in Washington  
(CT-17) Hudson Marketplace

**AIR002018 / AIR002733**

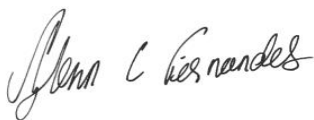
(BC-01) Hudson News  
(CC-03) Hudson Marketplace  
(CC-12) Hudson Marketplace  
(CD-04) Hudson News  
(CT-04) MAC Cosmetics  
(CT-05) Coach  
(NE-05) Hudson Marketplace  
(SE-03) Euro Café  
(SS-03) Hudson Marketplace

During our audit, we identified the following issue:

**(Medium)** In 2021, a variance of \$142,662 in gross sales was reported between the externally audited financial statements and the amount previously reported to the Port. We also identified differences between point-of-sale revenue and the general ledger.

This issue is discussed in more detail on page six.

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



Glenn Fernandes, CPA  
Director, Internal Audit

### **Responsible Management Team**

Bridget Boldt, Senior Business Manager, Airport Dining and Retail  
Lisa Lam, Acting Director, Accounting and Financial Reporting  
Lance Lyttle, Managing Director, Aviation  
Khalia Moore, Senior Manager, Airport Dining and Retail  
Scott Van Horn, Senior Business Manager, Airport Dining and Retail  
Jeff Wolf, Director, Aviation Commercial Management

## Background

On March 30, 2016, The Port of Seattle (Port) entered into two lease agreements (AIR002017 and AIR002018) with Airport Management Services, LLC. Effective January 1, 2022, the Port executed Conditional Consents to Assignment of both leases that transferred all rights and obligations under the Agreements from Airport Management Services, LLC to Seattle Air Ventures. Through this assignment, leases AIR002017 and AIR002018 ended and were replaced with AIR002732 and AIR002733, respectively.

These leases provide the lessee the right to operate convenience retail stores under Hudson News and Hudson Marketplace, high-end retail stores under MAC Cosmetics and Coach™, and food and beverage stores under Euro Café. Combined these leases represent 15 stores.

A Minimum Annual Guarantee (MAG) “equal to eighty five percent (85%) of the total amount paid (whether by Minimum Annual Guarantee or Percentage Fees) by Concessionaire, in the previous calendar year...” Beginning on January 1, 2023, instead of due monthly and in advance, the MAG is subject to an annual reconciliation. During the reconciliation, the Agreement Year’s total Percentage Fees due to the Port are compared to the annual MAG, and any amount that, the agreement year’s percentage fees, falls below the MAG, is due to the Port thirty (30) days following the Port’s notice to the Lessee.

Percentage fees are due in arrears, to the extent the percentage fees were higher than the monthly MAG (paid in advance). Effective January 1, 2023, only the percentage fee payments are made since MAG is not considered until the end of the lease year. The table below reflects the Gross Revenues and Percentage Fees billed:

Agreement Year	Contract	Gross Revenue (\$)	Percentage Fees (\$)
2021	AIR002017	23,658,150	3,911,367
	AIR002018	30,279,677	5,019,999
Total		53,937,827	8,931,366

Agreement Year	Contract	Gross Revenue (\$)	Percentage Fees (\$)
2022	AIR002732	30,742,663	5,188,266
	AIR002733	37,471,607	6,333,779
Total		68,214,270	11,522,045

Percentage Fees are calculated using the following schedule:

### Percentage fees of annual gross sales

Category	Annual Gross Sales	Percentage
News/Gift & Convenience	< \$25,000,000	16%
	\$25,000,000 - \$45,000,000	17.5%
	> \$45,000,000	19%
Specialty Retail	< \$10,000,000	9%
	\$10,000,000 - \$15,000,000	10%
	> \$15,000,000	11.5%

## 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 January 2021 through June 2023 and included the following procedures:

### Concession Fees Completeness, Accuracy, and Timeliness

- Validated that the percentage fees for non-specialty and specialty categories were calculated correctly and in accordance with the lease revenue thresholds.
- Agreed Concessionaire's monthly general ledger sales data to what was provided to the Accounting & Financial Reporting (AFR) Department.
- Agreed point of sale summary reports to the general ledger and identified variances. These variances were discussed and cleared with Seattle Air Ventures.
- Obtained the audited Schedules of Gross Sales Report produced by Marcum, LLP, the Independent Certified Public Accountant, and compared the report to year-end gross sales data reported to AFR.

## Schedule of Findings and Recommendations

**1) Rating: Medium**

In 2021, a variance of \$142,662 in gross sales was reported between the externally audited financial statements and the amount previously reported to the Port. We also identified differences between point-of-sale revenue and the general ledger.

The agreements require the concessionaire to provide an annual report reflecting “Gross Sales for the preceding calendar year accompanied by a signed certificate of an independent Certified Public Accountant (CPA), concessionaire’s Chief Financial Officer, or Chief Executive Officer...” The report asserts that the individual performed tests of the books and records and that the Concessionaire’s report is free from material misstatement.

The independent audit reflected higher revenue than had been reported to the Port by \$142,662.27. As of August 15, 2023, the Port issued billing adjustments for additional amount owed. The table below reflects the 2021 differences in gross sales reported:

Lease	Reported to AFR	External Audit	Under-reported
AIR002017	\$ 23,659,871.88	\$ 23,721,458.00	\$ 61,586.12
AIR002018 - AIR002733	\$ 30,279,676.85	\$ 30,360,753.00	\$ 81,076.15

Seattle Air Ventures’ explanation for the difference, was that advertising revenue for the four-month period, beginning March 2021 through June 2021 had not been captured during the 2021 reporting year. While the explanation was logical, the variances did not reconcile to the difference we identified, and documentation was not provided.

We also compared point-of-sale revenue data to the general ledger. Our testing identified differences that could also be related to advertising, but explanations were not provided. Therefore, we were unable to conclude with reasonable assurance, that what was reported was accurate.

**Recommendations:**

Management within the Port’s Airport Dining Retail group, in partnership with Internal Audit, should continue discussions and seek documentation from Seattle Air Ventures to validate that accounting records agree to verbal assertions.

**Management Response/Action Plan:**

We agree with the audit finding and will engage Seattle Air Ventures and Internal Audit to determine what is causing the variance. Further, we agree that variances should be supported with documentation and will work to resolve these differences by June 30, 2024.

**DUE DATE: 6/30/2024**

## 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
<b>High</b>	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
<b>Medium</b>	Moderate	Partial controls Not functioning effectively	Partial compliance with Laws, Port Policies Contracts	Moderate probability for external audit issues and / or negative public perception	Requires attention
<b>Low</b>	Minimal	Functioning as intended but could be enhanced	Mostly complies with Laws, Port Policies, Contracts	Low probability for external audit issues and/or negative public perception	Does not require immediate attention