

INTERNAL AUDIT REPORT

Limited Contract Compliance Audit
Concourse Concessions LLC

January 2024 – June 2024

Issue Date: March 5, 2025
Report No. 2025-03

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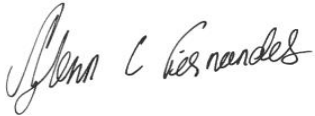
Executive Summary

Internal Audit (IA) completed a limited scope audit of the Lease and Concession Agreement (Agreement) between Concourse Concessions LLC, and the Port of Seattle (Port). The period audited was January 1, 2024, through June 30, 2024.

The audit was performed to determine whether concession fees were complete, properly calculated, and remitted timely to the Port.

We concluded that Concourse Concessions LLC materially complied with the terms of the Agreement. No exceptions were identified.

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



Glenn Fernandes, CPA
Director, Internal Audit

Responsible Management Team

Lisa Lam, Director, Accounting and Financial Reporting
Khalia Moore, Assistant Director, Aviation Commercial Management
Jeff Wolf, Director, Aviation Commercial Management

Background

On March 15, 2019, The Port of Seattle (Port) entered into a lease agreement (AIR002362) with Concourse Concessions LLC. Concourse Concessions LLC operates Caffé D'arte.

According to ExploreSEA.org:

“As the premier Northwest artisan coffee roaster, Caffé D'arte was founded in Seattle in the 1980's [sic] by Italian espresso master Mauro Cipolla. Along with offering award-winning coffee drinks, Caffé D'arte features quality pastries from Macrina Bakery and Alki Bakery, and an Italian-inspired menu featuring made-to-order pizza, grilled sandwiches, hot breakfast items, and fresh grab-to-go sandwiches and salads, all prepared on-site every day with the highest quality.”

The Minimum Annual Guarantee (MAG) is 85% of the total paid by the concessionaire to the Port, for the previous calendar year. The annual MAG for 2024 was \$806,311.97. At the end of the lease year, a reconciliation is performed comparing the Percentage Fees due to the Port, to the Agreement Year's MAG. Any amount of the Percentage Fees that fall below the MAG is due to the Port.

Percentage Fees:

15% of annual gross sales less than \$3,000,000

15.5% of annual gross sales between \$3,000,000 and \$4,000,000

16% of annual gross sales greater than \$4,000,000

The table below reflects 2024's Gross Sales and Percentage Fees:

Period	Gross Sales	Percentage Fee
2024 January - June	\$3,038,412	\$455,954
2024 July - December	2,960,221	468,827
	\$5,998,633	\$924,781

Audit Scope and Methodology

We conducted the engagement in accordance with Generally Accepted Government Auditing Standards and the Global Internal Audit Standards. 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.

In some instances, we used judgmental sampling methods to determine the samples selected for our audit test work. In those cases, the results of the work cannot be projected to the entire population.

The period audited was January 2024, through June 2024 and included the following procedures:

- Validated that the percentage fees 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 Department
- Agreed point of sale summary reports to the general ledger
- Obtained the Annual Gross Sales Report from the CFO of Concourse Concessions LLC's and compared the report to year-end gross sales data reported to AFR
- Reviewed the Profit & Loss statements for variances
- Reviewed a random sample of invoices to determine if they were paid on time and for the full amount charged
- Validated that concessionaire was certified through the Office of Minority and Women's Business Enterprises (OMWBE) and confirmed with management that they are reflected as such on the Airport Concessions Disadvantaged Business Enterprise (ACDBE) participation report submitted to the Federal Aviation Administration (FAA)

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	Moderate probability for external audit issues and / or negative public perception	Requires attention
Low	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