

INTERNAL AUDIT REPORT

Limited Contract Compliance Audit
Seattle Chocolate Company

July 2023 – December 2023

Issue Date: November 14, 2024
Report No. 2024-09

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Executive Summary

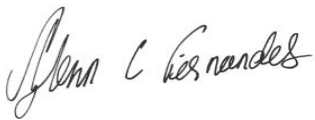
Internal Audit (IA) completed a limited scope audit of the Lease and Concession Agreement (Agreement) between Seattle Chocolate Company and the Port of Seattle (Port). The original period audited was July 1, 2023, through December 31, 2023. After finding discrepancies during our initial testing, we broadened our scope to January 2022 through July 2024.

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

We concluded that Seattle Chocolate Company under-reported revenue and owes additional monies to the Port. This issue is described below with further detail on page six.

1. (Medium) Discounts were incorrectly deducted, and two reporting errors resulted in under-reported revenue of \$81,850.57 and an additional \$9,822.07 in concession fees.

We extend our appreciation to management and staff of the Airport Dining and Retail, 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, Senior Manager, Airport Dining and Retail

Jeff Wolf, Director, Aviation Commercial Management

Background

On August 17th, 2016, the Port entered into a lease agreement (AIR002093) with Seattle Chocolate Company.

Seattle Chocolate Company operates a retail store selling chocolate, truffles, and jcoco by Gate C1 in the airport. Seattle Chocolate Company makes their products in Washington with ethically sourced ingredients. The company is woman-owned, rainforest alliance certified, and carbon neutral.

Percentage fees were due in arrears, to the extent the percentage fees are higher than the monthly MAG (Minimum Annual Guarantee) which is paid in advance. Effective January 1, 2023, only the percentage fee payments are made, since the MAG was not considered until the end of the lease year.

The table below reflects 2022 and 2023 Gross Sales and Percentage Fees:

Year	Gross Sales	Percentage Fee
2022	\$2,041,876	\$245,025
2023	2,293,684	279,242
Total	\$4,335,560	\$524,267

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.

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 July 2023 through December 2023 and included the following procedures below. Limited procedures were performed for the periods outside of the original scope and were determined to be tested as necessary.

- 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 Seattle Chocolate Company, 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 the concessionaire was not certified through the Office of Minority and Women's Business Enterprises and confirmed with management that they were not reflected as such on the Airport Concession Disadvantaged Business Enterprise (ACDBE) participation report submitted to the Federal Aviation Administration (FAA)

Schedule of Observations and Recommendations

1) Rating: Medium

Discounts were incorrectly deducted, and two reporting errors resulted in under-reported revenue of \$81,850.57 and an additional \$9,822.07 in concession fees.

According to section 1.18 of the Agreement, sales discounts are generally not allowable deductions. However, our testing identified differences between the point of sales journal and what had previously been reported to the Port. As a result, \$47,202.22 was incorrectly deducted from gross revenue. The table below represents discounts and resulting concession fees due.

Year	Month	Discount	Concession Fee
2022	January	\$1,598.15	\$191.78
	February	2,235.76	268.29
	March	2,544.36	305.32
	October	2,645.07	317.41
2023	March	2,634.06	316.09
	June	6,612.76	793.53
	September	3,097.30	371.68
2024	January	3,332.22	399.87
	February	15,655.39	1,878.65
	March	3,860.30	463.24
	April	2,986.85	358.42
Total		\$47,202.22	\$5,664.27

We also identified reporting errors of \$34,648.35. The errors occurred because revenues from the prior year was erroneously entered into current year sales figures. The table below represents incorrect gross sales reported from the prior year.

Year	Month	Reporting Error	Concession Fee
2022	November	\$21,296.04	\$2,555.52
2024	July	13,352.31	1,602.28
Total		\$34,648.35	\$4,157.80

We observed that the VP of Finance who prepares the revenue reports was also the person who certified to the accuracy of the concessionaire's books and records in the annual report.

Recommendations:

Collect monies owed, excluding any monies already paid because of the audit.

We also suggest an additional person, the CEO or an external auditor, review the prior year's books and records and sign the annual certification with the VP of Finance. Doing so will align with segregation of duties.

Management Response:

Aviation Commercial Management (AVCM) staff agrees with the findings and recommendations of the audit. AVCM staff will follow-up with Seattle Chocolates Company to ensure the amounts identified in the audit are paid and that an additional person reviews and signs certifications.

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