

## Memorandum

**Date:** August 4, 2009  
**To:** Audit Committee & Tay Yoshitani, Chief Executive Officer  
**From:** Jack Hutchinson, Manager Internal Audit  
**Subject:** Internal Auditor's Report on Avis, Budget & Hertz Audits

We have completed audits of Rent-A-Car lease agreements with Avis, Budget and Hertz for the 24-month period ending October 2008. The Internal Audit Department contracted with a regional independent CPA firm, Branch, Richards & Co, P.S., to perform agreed-upon procedures for the following objectives:

- To determine whether the lessees properly calculated, reported and paid the correct amount of concession fees in accordance with the terms and conditions of the agreement.
- To determine whether the lessees properly collected and remitted the correct amount of Customer Facility Charges (CFC) to the Port.

Based upon the detailed testing conducted, nothing came to our attention to suggest the rental agreement revenues were not captured by the lessees' reporting systems. Moreover the CFC charges appeared to have been collected and paid to the Port in accordance with the lease agreements.

Specific findings on the concession fee for each lessee are as follows:

- Avis Rent A Car System, Inc. had unreported revenue and reporting errors that resulted in additional concession fees of \$17,485.
- Budget Rent A Car System, Inc. had unreported some revenue, but the underpayment did not result in additional concession because the Minimum Annual Guarantee (MAG) exceeded the concession fee.
- Hertz Corporation had unallowable deductions and unreported concessionable revenue that resulted in additional concession fees of \$7,392.

Below are a series of tables on the audit history, including the current audit cycle, with noted gross discrepancies for Avis, Budget, and Hertz. The information is presented to provide a context for the current audit findings, as well as to communicate potential issues in future lease management.

**Note for the tables:**

- 1) The tables contain GROSS discrepancies discovered during the audit.
- 2) Outstanding and applied credits/refunds must be considered to link the noted discrepancies to financial recoveries.

| Avis                      | 11/01 - 10/03<br>(24 months) | 11/03 -10-04<br>(12 months) | 11/04 - 10/06<br>(24 months) | 11/07 - 10/08<br>(24 months) |
|---------------------------|------------------------------|-----------------------------|------------------------------|------------------------------|
| Avis Incremental Discount | 518,745                      | 236,287                     | 236,991                      | 329,912                      |
| Drop fee (one way fee)    | 99,167                       | 47,153                      |                              |                              |
| GPS                       |                              |                             |                              | 364,148                      |
| Misc. adj.                |                              |                             |                              | (66,609)                     |
| Vehicle Licensing Fee     |                              |                             | 746,617                      |                              |
| Other                     |                              | 26,308                      |                              |                              |
|                           | <b>617,912</b>               | <b>309,748</b>              | <b>983,608</b>               | <b>627,451</b>               |

While the total discrepancy appears to be declining from the previous audit, the underlying issue driving the discrepancy appears not to have been resolved. The lessee continues to take disallowed discounts, and we found a new fee that was not included as part of concessionable revenue.

| Budget                      | 11/04 -10-05<br>(12 months) | 11/05 -10-06<br>(12 months) | 11/07 - 10/08<br>(24 months) |
|-----------------------------|-----------------------------|-----------------------------|------------------------------|
| Budget Incremental Discount | 43,029                      |                             | 179,422                      |
| Surcharge                   | 147,798                     |                             |                              |
| Vehicle Licensing Fee       |                             | 237,379                     |                              |
| Other                       |                             |                             | 15,409                       |
|                             | <b>190,827</b>              | <b>237,379</b>              | <b>194,831</b>               |

No financial recoveries were suggested in the current audit as the MAG exceeded a revenue-based concession. However, the lessee appears to be taking disallowed discount which may become an issue if/when the lease agreement structure is modified or changed.

| Hertz                             | 11/01 - 10/03<br>(24 months) | 11/03 -10-04<br>(12 months) | 11/04 - 10/06<br>(24 months) | 11/07 - 10/08<br>(24 months) |
|-----------------------------------|------------------------------|-----------------------------|------------------------------|------------------------------|
| Commercial Discount               | 1,540,989                    | 787,734                     | 448,142                      |                              |
| Local Rental Deduction            | 1,950,430                    | 924,782                     | 4,334,782                    | 611,358                      |
| Rev. Adjustment                   |                              | 121,195                     |                              |                              |
| Off-site Rev. (w/i 3-mile radius) |                              |                             |                              | (17,786)                     |
| Refueling Charges                 |                              |                             | 600,117                      |                              |
| Other                             |                              | 8,540                       | 31,837                       | 1,596                        |
|                                   | <b>3,491,419</b>             | <b>1,842,251</b>            | <b>5,414,878</b>             | <b>595,168</b>               |

The single largest issue of past audits, local rental deduction, appears to have been resolved. While the lessee was still taking the deduction during the current audit period, it completely stopped at/around October 2007 when a settlement was reached for prior audit discrepancies. The current audit revealed that there were a couple of undisclosed (thus not reported) off-site rental facilities within the 3-mile radius in ~~2007~~ <sup>2006</sup> agreement year. However the lessee corrected the condition in 2008 agreement year.

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