



INTERNAL AUDIT REPORT

CMC INVESTMENTS, DBA DOLLAR RENT-A-CAR
LEASE AND CONCESSION AGREEMENT

NOVEMBER 1, 2010 – MAY 16, 2012

ISSUE DATE: JULY 29, 2014
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TABLE OF CONTENTS

TRANSMITTAL LETTER.....	3
EXECUTIVE SUMMARY	4
BACKGROUND	5
FINANCIAL HIGHLIGHTS.....	5
AUDIT SCOPE AND METHODOLOGY.....	5
CONCLUSION	7
SCHEDULE OF FINDINGS AND RECOMMENDATIONS	8
1. CERTAIN GROSS REVENUES WERE UNDERREPORTED	8
2. CUSTOMER FACILITY CHARGE (CFC) WAS UNDERREPORTED	9

TRANSMITTAL LETTER

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of CMC Investments, Inc. dba Dollar Rent-A-Car. We reviewed information for the period November 1, 2010 - May 16, 2012.

We conducted the audit 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 perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We extend our appreciation to the management and staff of Aviation Building Department and Accounting and Financial Reporting for their assistance and cooperation during the audit.



Joyce Kirangi, CPA, CGMA
Internal Audit, Director

AUDIT TEAM

Margaret Songtantaruk, Senior Auditor
Jack Hutchinson, Audit Manager

RESPONSIBLE MANAGEMENT TEAM

Jim Schone, Director – Aviation Business Development
James Jennings, Manager – Aviation Properties Group

EXECUTIVE SUMMARY

AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine whether:

1. The reported concession fees were complete, properly calculated, and remitted timely to the Port.
2. The Port and lessee complied with provisions of the Rental Car Lease and Concession Agreement, as amended.
3. Customer Facility Charges (CFC) were properly collected and remitted timely to the Port.

We reviewed information for the period November 1, 2010 - May 16, 2012. Details of our audit's scope and methodology are on page 5.

BACKGROUND

CMC Investments, Inc. dba Dollar Rent-A-Car is a private company categorized under Automobile Renting and Leasing in Mercer Island, WA. Dollar Rent-A-Car entered into the initial lease and concession agreement with the Port of Seattle on November 1, 1999. The current lease agreement is from June 1, 2012 - May 31, 2014. The terms of the agreement provide for a Minimum Annual Guarantee (MAG) of 80% of the total amount paid to the Port in the previous agreement year. Additionally, the agreement requires a Percentage Fee equal to 10% of gross revenues, provided the fee is higher than the monthly MAG payment.

AUDIT RESULT

Dollar Rent-A-Car materially complied with the terms of the Rental Car Lease and Concession Agreement. However, the audit determined that certain gross receipts and CFC were underreported. We recommend Port management seek recovery of \$62,804 in additional concession fees, CFC, late fees, and interest charges. See Findings 1 and 2 on the Schedule of Findings.

BACKGROUND

CMC Investments, Inc. dba Dollar Rent-A-Car is a private company categorized under Automobile Renting and Leasing in Mercer Island, WA. It began operations in 1987, and incorporated in the state of Washington, as CMC Investments. It operates two car rental facilities, one of which is at Sea-Tac Airport at the Consolidated Rental Car Facility. Dollar Rent-A-Car entered into the initial lease and concession agreement with the Port of Seattle on November 1, 1999. The current lease agreement is from June 1, 2012 - May 31, 2014.

The terms of the agreement provide for a Minimum Annual Guarantee (MAG) of 80% of the total amount paid to the Port in the previous agreement year. Additionally, the agreement requires a Percentage Fee equal to 10% of gross revenues, provided the Percentage Fee is higher than the monthly MAG payment.

The following are the only agreed-upon deductions allowed in the agreement:

- a. Any tax imposed or collected on behalf of a taxing authority.
- b. Any amounts received as insurance proceeds or for damage to vehicles or other property, or for loss, conversion or abandonment of such vehicles.
- c. The wholesale transfer of salvage vehicles.
- d. All non-revenue rentals to employees.
- e. Fees paid to other governmental agencies (excluding the Port) relating to transactions at the airport.

The MAG is payable in advance, on or before the first day of each month, without notice from the Port. The percentage fee, if applicable, is due on or before the 20th of the following month. For untimely payments, the agreement provides for a one-time late fee of 5% of the overdue amount. Interest accrues at the rate of 18% per year from the due date until paid.

FINANCIAL HIGHLIGHTS

KEY FINANCIAL RESULTS FOR DOLLAR RENT-A-CAR AGREEMENT

AGREEMENT YEAR	REPORTED GROSS REVENUES	CONCESSION PAID
2010-2011	\$ 14,402,658	\$1,440,303
2011-2012 ¹	4,995,787	518,657
TOTAL	\$ 19,398,445	\$ 1,958,960

Data Source: PeopleSoft Financials
 Data Note: ¹Ended 05/16/2012

AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period November 1, 2010 - May 16, 2012. We utilized a risk-based audit approach from planning to testing. We gathered information through document requests, interviews, observation, and data analysis, in order to obtain a complete understanding of the financial requirements of the agreement between the Port of Seattle and Dollar Rent-A-Car.

We applied additional detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

- | | | | |
|----|--------------------------------|----|--------------------------------|
| a. | Timely Payment | e. | CPA Certified Annual Report |
| b. | Insurance Liability | f. | Concession Revenue |
| c. | Surety Bond/Security Deposit | g. | Customer Facility Charge (CFC) |
| d. | Minimum Annual Guarantee (MAG) | | |

a) Timely Payment

We reviewed payment records for the audit period to determine whether the lessee complied with the required due date.

b) Insurance Liability

We determined whether required insurance coverage was in force for the audit period.

c) Surety Bond/Security Deposit

We determined whether the surety bond amount complied with the requirements in the agreement.

d) Minimum Annual Guarantee

We determined whether the MAG was properly calculated and Port management obtained Port Commission approval for Exception Relief of MAG, if applicable.

e) CPA Certified Annual Report

We reviewed annual reports for the audit period to determine compliance with the timely and complete submission of the report.

f) Concession Revenue

We interviewed Dollar personnel about their policies, procedures, and internal controls over cash receipts, sales, accounting, and reporting.

We reconciled the Daily Business Report (DBR) to the CPA report and to the Revenue Report. The DBR, which is the general ledger, provides monthly detail by revenue category. The Revenue Report provides monthly totals summarized by revenue category.

To determine whether the lessee completely reported all concession revenues, we selected a sample of 141 of 109,415 closed rental agreements deemed high-risk for the audit period. We determined whether the revenue reported on each rental agreement agreed to the amount posted to the DBR and whether commercial discounts reduced concession revenue.

g) Customer Facility Charges

We calculated a number of transaction (i.e., rental) days and CFC amounts from the lessee's system reports. We reconciled the calculated numbers to what Dollar Rent-A-Car reported for the audit period. In addition, we tested a risk-based sample of 30 of 109,415 closed rental agreements to ensure proper CFC calculation. We examined monthly remittances to the Port and determined compliance with timeliness as required in the agreement.

CONCLUSION

Dollar Rent-A-Car materially complied with the terms of the Rental Car Lease and Concession Agreement. However, the audit determined that certain gross receipts and CFC were underreported. We recommend the Port management seek recovery of \$62,804 in additional concession fees, CFC, late fees, and interest charges. See Findings 1 and 2 on the Schedule of Findings.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

1. CERTAIN GROSS REVENUES WERE UNDERREPORTED

The lease agreement under Section 1.26 stipulates:

“Gross Revenues” shall mean and refer to all consideration of any kind - whether cash, credit or in kind-received, derived and/or billed by the Concessionaire for: (a) all charges, including, but not limited to, time and mileage charges and separately stated fees for rental of vehicles and other related or incidental services or merchandise, and any other items or services made at or from Concessionaire’s Rental Car Concession, regardless of where the vehicles or services are delivered to or returned...”

All gross revenues from car rental operations at the airport and within a 3-mile radius are subject to concession, except for the following:

- a. Any amounts received as insurance proceeds or for damage to vehicles or other property, or for loss, conversion or abandonment of such vehicles.
- b. The wholesale transfer of salvage vehicles.
- c. Non-revenue rentals to employees.
- d. Fees paid to other government agencies (excluding the Port) relating to transactions at the airport.
- e. Any tax imposed or collected on behalf of a taxing authority.

Our analysis of the lessee’s financial records and our detailed transaction testing determined that Dollar Rent-A-Car did not report to the Port gross revenues from the following concession items:

- Vehicle Recovery Fees
- Administration Fees
- Parking and Storage Fees
- Pickup Fees
- Miscellaneous Fees

Dollar Rent-A-Car has acknowledged the amounts cited in the table below, which summarizes underreported gross revenues: (See Schedules A and B for details).

UNDER-REPORTED GROSS REVENUES FOR DOLLAR RENT-A-CAR		
AGREEMENT YEAR/ CALCULATION	REPORTED GROSS REVENUES	UNDER-REPORTED REVENUES
2010-2011	\$ 14,402,658	\$1,440,303
2011-2012 ¹	5,055,675	59,888
Concession Revenue Under-Reported		118,481
Concession Fees Under-Paid		9,840
One-Time Late Payment Fee (5%)		398
Interest Accrued (18% per Annum)		3,724
TOTAL DUE TO PORT		\$ 13,962

Data Source: PeopleSoft Financials
 Data Note: ¹Ended 05/16/2012

Recommendations:

We recommend management:

1. Seek recovery of \$13,962 in underpaid concession fees, late fees and interest charges.
2. Work with Dollar Rent-A-Car to ensure that all receipts subject to concession fees are accurate and completely reported.

Management Response:

Aviation Business Development agrees with the Auditor’s findings and will follow up with the tenant accordingly.

2. CUSTOMER FACILITY CHARGE (CFC) WAS UNDERREPORTED

The lease agreement under Section 5.25 A. stipulates:

“Concessionaire shall collect a daily CFC on all vehicle rental transactions originating at the Airport... Each Concessionaire must collect the CFC at the time the first payment is made under a Rental Car Contract, and must remit the full amount of the CFC to the Port regardless of whether or not the full amount of such CFC is actually collected by the Concessionaire from the person who rented the Automobile under such Rental Car Contract.”

We reviewed monthly transaction totals against CFC payment history to the Port. We determined the lessee collected CFC inconsistently and did not properly remit all CFC owed to the Port. Dollar Rent-A-Car has acknowledged the amounts cited in the table below, which summarizes underreported CFC: (See Schedules C and D for details).

UNDER-REPORTED GROSS REVENUES FOR DOLLAR RENT-A-CAR			
AGREEMENT YEAR/ CALCULATION	AUDITED CFC REVENUES	REPORTED CFC REVENUES	UNDER-REPORTED CFC REVENUES
2010-2011	\$1,544,745	\$1,529,345	\$ 15,400
2011-2012 ¹	707,868	702,371	5,497
TOTAL	\$2,252,613	\$2,231,716	\$20,897
One-Time Late Payment Fee (5%)			1,045
Interest Accrued (18% per Annum)			26,900
TOTAL DUE TO PORT			\$ 48,842

Data Source: CMC Investments’ CFC-Audited Reports, PeopleSoft Financials

Data Note: ¹Ended 05/16/2012

Recommendations:

We recommend Port management seek recovery of \$48,842 of underpaid CFC, late fee and interest charges.

Management Response:

Aviation Business Development agrees with the Auditor’s findings and will follow up with the tenant accordingly.