Port of Seattle

INTERNAL AUDIT REPORT

Customer Facility Charge (CFC) Compliance
Limited Operational Audit

January 1, 2012-July 31, 2014

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TRANSMITTAL LETTER

Audit Committee
Port of Seattle
Seattle, Washington

We have completed a compliance audit of the Customer Facility Charge (CFC). We reviewed information for the period January 1, 2012-July 31, 2014.

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 the Aviation Finance & Budget Department for their assistance and cooperation during the audit.

Joyce Kirangi, CPA, CGMA
Internal Audit, Director

AUDIT TEAM	RESPONSIBLE MANAGEMENT TEAM
Brian Nancekivell, Senior Auditor	Borgan Anderson, Director
Jack Hutchinson, Audit Manager	Linda Nelson, Manager

EXECUTIVE SUMMARY

AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was:

- To determine whether management controls for operating costs are adequate to ensure compliance with the Revised Code of Washington (RCW) 14.08.120 in the use of the Customer Facility Charge (CFC).

We reviewed information for the period January 1, 2012 – July 31, 2014. Details of our audit's scope and methodology are on page 6.

BACKGROUND

The Customer Facility Charge (CFC) is a user fee paid only by customers renting cars at the airport. Rental car companies collect the CFC as part of each rental car agreement and remit revenue to the Port. The revenue is used to cover all rental car facility expenses, which include but are not limited to costs associated with the common use busing operations and debt service on the bonds that financed the construction. The Port has been collecting the CFC fee since 2006, and the current fee is $6 per day. The Port has the authority to increase the CFC, to meet its ongoing operating and maintenance costs.

Per the RCW 14.08.120, the CFC may only be used for the authorized costs such as:

- Financing, designing, constructing, operating and maintaining the consolidated rental car facilities.
- Common use transportation equipment and facilities.

The Port collects approximately $30 million annually and incurs roughly $26 million in operating and debt service expenditures. Any excess revenue, after operating and maintenance cost is accumulated in a CFC fund to finance future capital costs such as bus replacements.

AUDIT RESULT

Port management has implemented adequate controls to ensure compliance with the Revised Code of Washington (RCW) 14.08.120 in the use of the Customer Facility Charge (CFC).

BACKGROUND

In July 2005, Senate Bill 5584 was passed authorizing municipal airports to levy a Customer Facility Charge (CFC) on rental car customers at the airports. The purpose of the fee at the Port of Seattle was to finance the design, construction, and operation of a consolidated rental car facility and a common use busing system to shuttle passengers between the facility and the airport terminal. The CFC is a user fee paid only by customers renting cars at the airport. Rental car companies collect the CFC as part of each rental car agreement. The rental car companies remit the fee monthly to the Port. The fee covers costs associated with the facility, the common use busing operations, and the debt service on the bonds issued to finance the construction of the facility. The Port has been collecting the CFC since 2006. The current CFC rate is $6 per day, and the Port has the authority to increase the rate to meet its costs related to the rental car facility operation.

Per RCW 14.08.120 (7), the CFC may only be used "…for the purposes of financing, designing, constructing, operating, and maintaining the consolidated rental car facilities and common use transportation equipment and facilities which are used to transport the customer between the consolidated car rental facilities and other airport facilities.". In addition, the agreements between the Port and the rental car companies: 1) place further limitations on the use of the CFC, 2) provide for an annual review of CFC collected and remitted to the Port, and 3) require an independent audit every five years during the life of the agreements.

The Port financed the consolidated rental car facility with revenue bonds of $310 million issued in 2009. The facility was completed in 2012.

The Port collects approximately $30 million annually and incurs roughly $26 million in operating and debt service expenditures. Any excess revenue, after operating and maintenance cost, is accumulated in a CFC fund to finance future capital costs such as bus replacements.

FINANCIAL HIGHLIGHTS

CFC – Sources and Uses of Funds (in thousands)		
	2012	2013
Sources of Funds		
CFC Collections	$ 30,016	$31,549
Interest Earnings	191	104
Total Sources of Funds	$ 30,207	$31,653
Uses of Funds		
Debt Service	$ 19,689	$19,667
Operating Costs	6,145	6,363
Project Expenditures (capital)	17,122	2,512
Total Uses of Funds	$ 42,956	$28,542
Net Funds	$(12,749)	$ 3,111
Prior Year Fund Balance	$ 25,383	$12,634
Ending CFC Fund Balance	$12,634	$15,745
Data Source: Aviation Finance & Budget		

AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period January 1, 2012 - July 31, 2014. We utilized a risk-based audit approach from planning to testing. We gathered information through research, interviews, observations, and data analysis in order to obtain a complete understanding of the operating expenses related to the rental facility and common use transportation equipment and facilities. We assessed significant risks and identified controls to mitigate those risks. We evaluated whether the controls were functioning as intended.

During the audit period, there were scheduled, non-recurring capital expenditures related to the completion of the rental car facility construction and common use busing facilities. We focused on the higher risk variable operating costs which will be recurring over many future years.

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

To determine whether management controls for operating costs are adequate to ensure compliance with RCW 14.08.120 in the use of the Customer Facility Charge:

- Port Management Reconciliation Processes:
  - We reviewed the reconciliation processes currently in place with Aviation Finance & Budget, which is a management control implemented to ensure complete and reasonable reconciliation of revenues and expenses.
  - We reviewed the processes to reclassify CFC revenues and to reimburse the Aviation Development Fund (ADF) fund for CFC qualified operating expenses.

    CFC revenues are monthly classified between non-operating revenue for debt service and operating revenue for the remainder. Most operating expenses of departments are initially charged to the ADF fund. The CFC fund, on a monthly basis, reimburses the ADF fund for CFC qualified operating expenses.

  - We reviewed the 2012 and 2013 reconciliations for completeness and reasonableness.

- Port Department Management Processes
  - We tested a risk-based sample of individual departments charging operating expenses to the CFC. We reviewed the department controls to ensure the appropriateness of the charges. The testing included payroll and vouchers from various departments.

    - Facility, Fleet, Systems & Grounds
    - AV Electric & Electronic Sys
    - Construction Services
    - AV Maintenance Asset Mgt & Logistics
    - Marine Maintenance

CONCLUSION

Port management has implemented adequate controls to ensure compliance with the Revised Code of Washington (RCW) 14.08.120 in the use of the Customer Facility Charge (CFC).