INTERNAL AUDIT REPORT

PUGET SOUND DISPATCH, LLC DBA YELLOW TAXI ASSOCIATION

CONCESSION AGREEMENT AUDIT

NOVEMBER 1, 2011 – AUGUST 31, 2015

ISSUE DATE: JANUARY 6, 2016
REPORT NO. 2016-01

EXECUTIVE SUMMARY

AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was:

1. To determine whether Port management monitoring controls are adequate and effective to ensure:
    - Puget Sound Dispatch (PSD) submits a detailed statement showing the Gross Receipts derived from the Concession Agreement and pay to the Port, if applicable, a percentage fee in excess of the Minimum Annual Guarantee (MAG).
2. To determine whether PSD-reported MAG/Concession Fees were complete, properly calculated, and remitted timely to the Port.
3. To determine whether Port management and PSD complied with significant financial terms of the agreement.
4. To determine how the unique gross receipts provision, which allows the use of estimates, became part of the agreement.

We reviewed and analyzed records for the entire Agreement period. For purposes of rendering our opinion, we focused on the period November 1, 2011 – August 31, 2015. Under the Agreement record retention requirement, PSD is not required to retain records for periods prior to November 2011.

Details of our audit's scope and methodology are on page 4.

BACKGROUND

The Port issued a Request for Proposals (RFP) in 2009 for the management and operation of On-Demand taxicab services at Seattle-Tacoma International Airport. A number of firms responded, and the contract was awarded to Puget Sound Dispatch. Puget Sound Dispatch (PSD) is a separately licensed local taxi association that provides communication, dispatch, and cashiering services to Yellow taxicabs in King County.

The Port entered into a five-year concession agreement, effective November 1, 2010, with PSD for "the non-exclusive right to provide transportation services from the Airport by way of On-Demand Taxi services…" In exchange for the right, PSD agreed to pay Concession Fees of 13% of Gross Receipts generated in connection with the agreement or the Minimum Annual Guaranty of $3,670,778 whichever is higher.

AUDIT RESULT

Management monitoring controls over the Puget Sound Dispatch Concession Agreement were/are not adequate to ensure accurate and complete reporting of Concession Fees. Although PSD mathematically calculated Concession Fees properly and submitted the information timely, PSD-reported Concession Fees were not complete or accurate. Additionally, PSD did not comply with the record retention requirements in the Agreement. See Findings 1, 2, and 3.

The origin of the unique Gross Receipts provision, which allows the use of estimates, is noted in the first and second paragraphs under the report Background.

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TRANSMITTAL LETTER

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of the Concession Agreement between the Port of Seattle and Puget Sound Dispatch (PSD), LLC dba Yellow Taxi Association.

We reviewed and analyzed records for the entire Agreement period. For purposes of rendering our opinion, we focused on the period November 1, 2011 – August 31, 2015. Under the Agreement record retention requirement, PSD is not required to retain records for periods prior to November 2011.

We conducted this performance 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 of 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 AV Operations – Landside and Ground Transportation Operations and the Accounting and Financing Reporting Department for their assistance and cooperation during the audit.

Joyce Kirangi, CPA, CGMA
Internal Audit, Director

AUDIT TEAM	RESPONSIBLE MANAGEMENT TEAM
Margaret Songtantaruk, Senior Auditor	Michael Ehl, Director Airport Operations
	Jeff Hoevet, Senior Manager Airport Operations

BACKGROUND

The Port issued a Request for Proposals (RFP) in 2009 for the management and operation of On-Demand taxicab services at Seattle-Tacoma International. A number of firms responded, and a proposal by Puget Sound Dispatch (PSD) won the bid. Puget Sound Dispatch is a separately licensed local taxi association that provides communication, dispatch, and cashiering services to Yellow taxicabs in King County.

During the Agreement negotiations, there were numerous discussions about the relationship between PSD and taxicab owners/operators. The negotiation focused on the relationship between employee vs independent contractor. PSD maintained that taxicab owners/operators were independent contractors and PSD had no control over their behavior and/or business activity. Because PSD did not control the independent contractors, it could not mandate a particular way of recordkeeping or enforce the quality of submitted information. In recognition of the situation, the Port and PSD agreed to include a provision in the agreement to allow the use of estimates and averaging in determination of Gross Receipts reported to the Port. Both parties were to work together to establish a methodology of calculating the imputed Gross Receipts.

The Port entered into a five-year concession agreement, effective November 1, 2010, with PSD for "the non-exclusive right to provide transportation services from the Airport by way of On-Demand Taxi services…" In exchange for the right, PSD agreed to pay Concession Fees of 13% of Gross Receipts generated in connection with the agreement or the Minimum Annual Guaranty of $3,670,778, whichever is higher.

The Concession Agreement provides the following two methods to calculate gross receipts as the basis for Concession Fees:

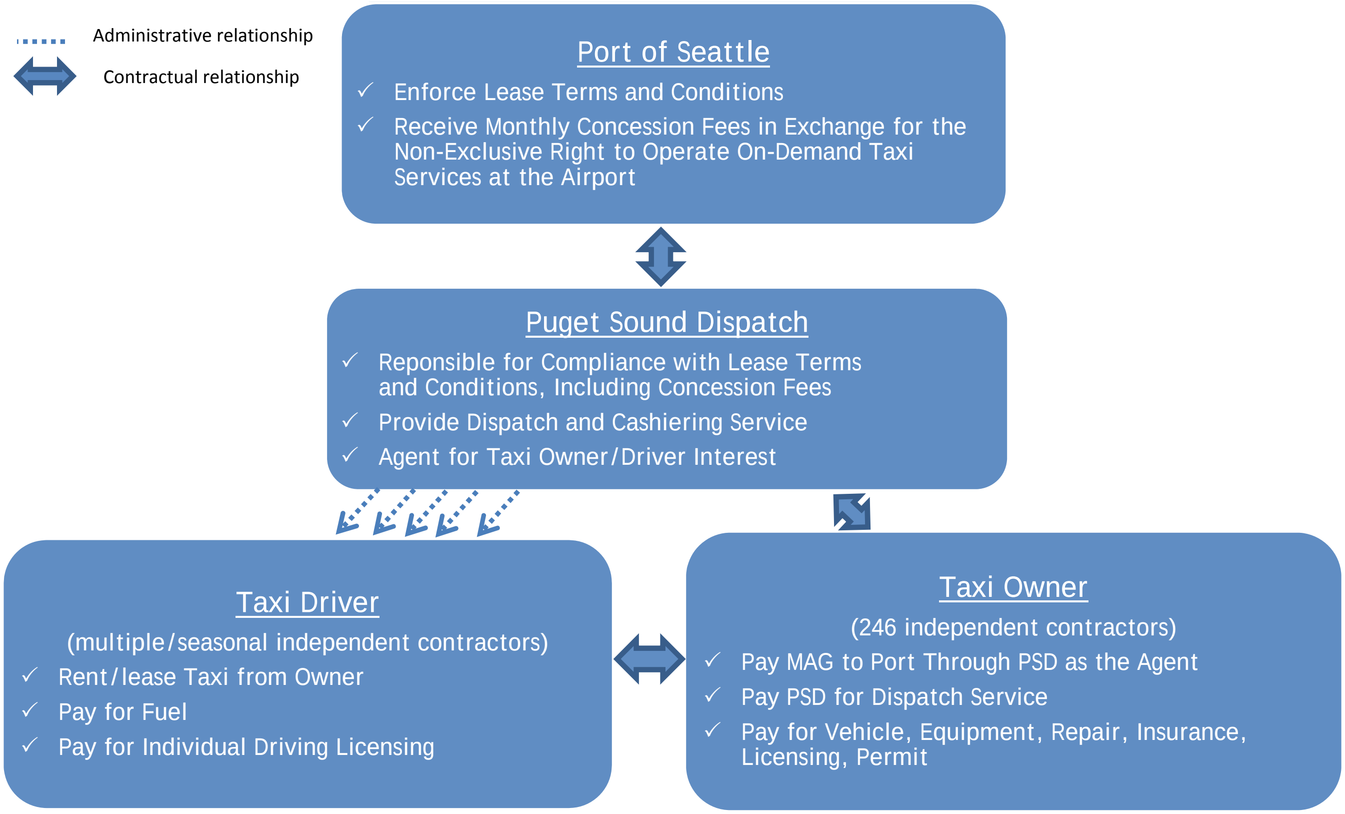
1. Based on total actual revenues derived from operations under the terms of the Agreement

   or

2. Based on other reasonably available information to Concessionaire where "...a precise determination of Concessionaire's total Gross Receipts may be difficult or impossible." Under this methodology, the Port and PSD agreed to determine the Gross Receipts by a formula: outbound trips x average fare = Gross Receipts.

To provide the On-Demand taxi services at Sea-Tac Airport, PSD contracts with taxicab owners. Taxicabs are independently owned and are operated directly by owners and/or rented/leased to independent drivers. There are approximately 220 taxicabs in the Sea-Tac Airport fleet plus approximately 40 wheelchair accessible vehicles. Taxi drivers operate on a full-time, part-time, or seasonal basis.

Puget Sound Dispatch Concession Agreement Economics



Taxicab fares and meter rates are established and regulated jointly by King County and the City of Seattle. The two agencies have an interlocal agreement that defines each agency's jurisdiction and responsibility; they work together to enforce taxi codes, including testing of taximeters.

FINANCIAL HIGHLIGHTS

REPORTED GROSS RECEIPTS AND CONCESSION CALCULATION

AGREEMENT YEAR	REPORTED GROSS REVENUES	MINIMUM ANNUAL GURANTEE	CONCESSION 13%	REPORTED CONCESSION FEES OWED (13% > MAG)
2010-2011	$26,202,200	$3,670,778	$3,406,286	$ 0
2011-2012	27,489,235	3,670,778	3,573,601	0
2012-2013	24,402,431	3,670,778	3,172,316	0
2013-2014	24,706,525	3,670,778	3,211,848	0
2014-2015[1]	21,179,892	3,058,982	2,753,386	0
TOTAL	**$123,980,283**	**$17,742,094**	**$ 16,117,437**	**$ 0**

Data Source: PeopleSoft Financials and Propworks
Data Note: [1] 11/1/2014 - 08/31/2015

AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period November 1, 2011 – August 31, 2015. We utilized a risk-based approach from planning to testing. We gathered information through research, interviews, observations, and analytical review, in order to obtain a complete understanding of concession agreement terms and conditions. We assessed significant risks and identified controls to mitigate those risks. We evaluated whether the controls were functioning as intended.

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

1. To determine whether Port management monitoring controls are adequate and effective to ensure compliance with agreement terms and conditions:
    - Interviewed Port management to obtain a complete understanding of monitoring activities and assessed the effectiveness in the following areas:
        - Consistent engagement with PSD to stay well-informed about the industry and PSD operations including County/City regulation changes, PSD dispatch system changes, availability of information/data supporting concession, etc.
        - Compliance enforcement including affixing a functioning Automatic Vehicle Identification (AVI) tag to each Yellow taxi operating at the airport under the terms and conditions of the Concession Agreement.
    - Reviewed Port management monitoring activities and the AVI system data to determine whether:
        - The system was functioning properly: 1) to ensure complete counting of all outbound trips by the airport fleet of Yellow taxis during the periods where AVI counts were used in Gross Receipts calculations and 2) to be used as a benchmark for PSD-reported trip counts in evaluating their reasonableness and completeness during the periods where PSD was using its own counts.
        - All valid taxicab numbers in the airport fleet according to the AVI system reconcile to a list of Yellow taxis in PSD dispatch system records from May 2015 to August 2015.
        - AVI trip counts were reconciled to Ground Transportation Operator Activity Report in order to provide correct information to PSD.

2. To determine whether PSD-reported MAG/Concession Fees were complete, properly calculated, and remitted timely to the Port:
    - Conducted a series of interviews with current PSD staff to gain a complete understanding of the processes related to:
        - Establishment of the 19 taxi drop-off destination zones.
        - Average fare calculation for each of the 19 established destination zones.
        - Allocation of a monthly total trip count to each of the 19 drop-off destination zones.
        - Compilation of trip counts and concession information reported to the Port.

- Analyzed and recalculated, where possible, trips counts, average fares, Gross Receipts, and concession to determine completeness and reasonableness.
  - Calculated monthly fares for each zone to determine if correct rates were used.
  - Compared outbound trip counts to deplaned passengers statistics to identify unusual trends.
  - Conducted in-depth analyses of trip distributions to identify unusual trends.
  - Compared credit card payment activities to AVI trip counts to determine count completeness and reasonableness.
  - Calculated and analyzed trip durations based on AVI timestamps to determine if reported local trips were reasonable.
  - Determined if non-airport fleet of Yellow taxi operated at the airport, and if so, determined if trips by these vehicles were properly and completely included in the reported outbound trips and reported Gross Receipts.
- Observed and analyzed short haul trip logs to ensure completeness and reasonableness of local trips.
- Reviewed Port records to determine the timeliness of submitted concession payments.

3. To determine whether Port management and PSD complied with significant financial terms of the agreement:
   - Reviewed the agreement to identify significant financial compliance requirements.
   - Reviewed available PSD information and records to determine compliance with record retention requirements.
   - Reviewed and tested block samples of payments which contained over 1,121 concession transactions (MAG) from owners to PSD; the intent was to ensure propriety.
   - Reviewed and tested an additional 453 payments from owners to PSD in order to ensure there were no unusual payments to PSD or vice versa.
   - Examined PSD security deposits to determine compliance with the Agreement requirement.

4. To determine how the unique gross receipts provision, which allows the use of estimates, became part of the agreement:
   - Interviewed Port employees, including a retired Ground Transportation manager, associated with the Request for Proposal (RFP) and subsequent contract negotiation processes.
   - Interviewed current PSD employees to obtain background information and data, if available.
   - Attempted to interview a retired PSD dispatch manager to obtain additional information during the RFP and contract negotiation periods.
   - Interviewed King County and City of Seattle personnel responsible for enforcing taxi regulations to obtain industry knowledge/insight and additional applicable information.
   - Interviewed external private parties, including a consultant to PSD during the RFP process, to obtain industry knowledge/insight and additional applicable information.

CONCLUSION

Management monitoring controls over the Puget Sound Dispatch Concession Agreement were/are not adequate to ensure accurate and complete reporting of Concession Fees. Although PSD mathematically calculated Concession Fees properly and submitted the information timely, PSD-reported Concession Fees were not complete or accurate. Additionally, PSD did not comply with the record retention requirements in the Agreement. See Finding 1, 2, and 3.

The origin of the unique Gross Receipts provision, which allows the use of estimates, is noted in the first and second paragraphs under the report Background.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

1. PORT MANAGEMENT MONITORING CONTROLS OVER THE PUGET SOUND DISPATCH (PSD) AGREEMENT ARE INADEQUATE AND INEFFECTIVE

Effective ongoing monitoring procedures identify anomalies and facilitate timely corrective actions. Management has the responsibility to establish internal controls to mitigate risks that might hinder achievement of its goals and objectives. The Aviation Ground Transportation Department (GT) is responsible for administering the PSD Concession Agreement and to ensure compliance with terms and conditions.

Unlike other concession agreements at the Port, this Concession Agreement is unique because its definition of Gross Receipts allows the use of estimates based on reasonably available information.

The parties (Port and PSD) agreed to use such information as was reasonably available to the Concessionaire to determine an average fare for each outbound trip from the airport. The parties further agreed to use information available to ensure that the established average fare was representative of all outbound trips. The average outbound fare would be multiplied by the reconciled number of outbound trips from the Airport to determine the total Gross Receipts.

Calculations based on estimates, as well as their assumptions, are dynamic because such calculations/methodologies change over time as a function of numerous factors, including systems in use, changes in staff, etc. To properly manage such a concession environment, Port management had to engage more closely with PSD in order to understand the assumptions made and the methodologies used to report Gross Receipts to the Port. In short, this unique definition of Gross Receipts required elevated Port management involvement in order to ensure reasonable and complete reporting to the Port.

We noted overall Port management monitoring efforts were passive, and existing controls were not effective to address the high level of risk posed by the unique Gross Receipts definition in this Concession Agreement.

1. In the administration of this Concession Agreement, Port management did not have complete knowledge of the methodology used by PSD to calculate or estimate Gross Receipts reported to the Port.

2. Concession Agreement Section 7.C implies that “parties" to the Agreement (Port and PSD) work together to develop a methodology for reporting estimated Gross Receipts. After the Concession Agreement was signed, Port management was no longer involved with the development of the reporting methodology and/or estimation of Gross Receipts reported to the Port. Engagement by Port management was absent.

3. Concession Agreement, Section E, requires PSD to maintain monthly records setting forth trip counts of On-Demand Taxis from the airport. Rather than the GT management using PSD reported information to reconcile it to the Port internally generated AVI trip counts, GT management eventually started providing PSD with the outbound taxi trip counts.

4. Management monitoring of taxicab activities was not adequate to reasonably ensure that all airport fleet vehicles were properly tagged with a functioning AVI ID. For example, the auditor noted one taxicab without a tag. Upon being alerted to the exception, management ran a query and identified nine additional taxicabs without an AVI tag. That meant that activities of these taxicabs had not been tracked or captured in the AVI monthly trip count Port management provided to PSD. Incomplete and inconsistent management monitoring resulted in underreported trip counts and consequently underreported Gross Receipts.

5. PSD has used Port AVI trip counts as a basis for its allocations to the 19 drop-off destination zones. Each zone had an estimated average fare. Although allocated counts are significant to a determination of Gross Receipts, Port management had no knowledge of how the zones were determined. Port management did not understand or follow up on whether the method used was supported with data/information, or whether the established zones were reasonable and acceptable to the Port.

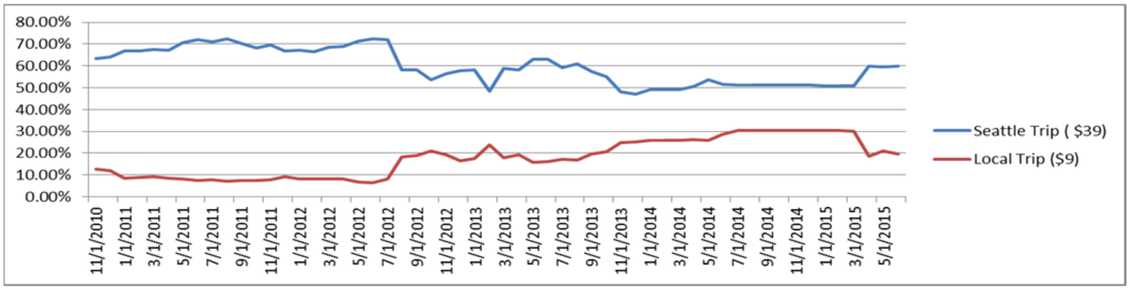
6. Port management did not stay abreast of evolving and emerging applicable taxi regulations in King County.

   For the duration of the Agreement, taxi rates were increased twice; once in September 2012 and again in November 2014. Port management was not aware of the rate increase, and did not note that the increased fare rates were not factored or reflected in the Gross Receipts reported to the Port. By not factoring the meter rates increase in its calculations, PSD underreported Gross Receipts to the Port.

7. To improve customer service and wait time for passengers at the Airport, Port management at various times has authorized non-airport fleet taxicabs to pick up passengers at the airport. These additional taxicabs were not tagged with an AVI ID. As a result, their trips were not tracked or included in the monthly totals provided to PSD. As trip counts are a major factor in determining Gross Receipts, underreported AVI trip counts, in the concession activity, resulted in understated Gross Receipts. Since these taxicabs activities were not tracked, the auditor could not establish a precise amount of underreporting.

8. Port management had little interactions with PSD related to monthly financial reporting. For example, when trip information exhibited unusual trends, management was not aware and did not follow up. Exceptional trends, as noted below, had direct and significant impacts to Gross Receipts calculations.

- ✓ Management was not aware of a sudden increase in local trips from an average of 8% to 18% with the corresponding decrease in Seattle trips. The trend suggests that Gross Receipts were shifted downward by decreasing trips in a higher average fare zone (i.e., Seattle $39/trip) and concurrently increasing trips in a lower average fare zone (i.e., Local $9/trip). The shift resulted in an overall decrease in Gross Receipts reported to the Port.



- ✓ GT management did not reconcile or monitor AVI trip counts prior to providing the counts to PSD. Monthly totals provided to PSD for 20 months during the audit period were less than the totals calculated by the auditors based on direct access to the AVI system database. Since both sets of information are from the same data source, there should not be variances.

- ✓ From September 2014 to March 2015, percentage trip allocated to each of the 19 zones were unchanged. Assuming all taxi passengers go to exact same destinations for a period of seven months would be an unreasonable assumption. Port management did not notice the trend although fixed trip allocations had potential to understate Gross Receipts.

9. PSD implemented a new dispatch system in October 2014. The system is capable of generating detailed trip information for determination of Gross Receipts. Port management was not aware of the implementation or its capability, and continued providing monthly trip counts to PSD until March 2015. If Port management had been more involved, system reports could have been developed to provide more accurate and complete trip counts to calculate Gross Receipts.

The above management control weaknesses resulted in an uncertainty regarding Concession Fees. There are only incomplete data and unverifiable information to support the reported Gross Receipts and concession. The indicators of likely manufactured trip data and expired fare information were never investigated. As a result, while evidence clearly indicates a likely underpayment, a determination of the precise extent of the underpayment remains uncertain.

Although numerous management control weaknesses were observed, nothing came to the attention of the auditor to indicate fraudulent activities.

Recommendations

We recommend that Port Management:

1. Develop a comprehensive understanding of the nature and extent of the information needed in order to effectively administer a taxi concession agreement.
2. Consider current and emerging technology as part of a concession structure for future taxi agreement negotiations.
3. Discuss at regular intervals if/when estimates are used to calculate any elements of Concession Fees.
4. Work with PSD to determine the impact of underreported Gross Receipts to the Concession Fees.

Management Response

Management agrees that oversight of this lease agreement was deficient. The reporting deficiencies and underpayment of percentage rent may have been avoided with a collaborative group review (including personnel from Landside business operations, Accounting & Financial Reporting, Aviation Finance & Budget, and Puget Sound Dispatch) of the PSD Monthly Financial Reporting. Management recently initiated collaborative meetings (including legal counsel for both parties) in order to identify and address reporting issues retroactive to the inception of this lease, including calculation of PSD underpayment and its means of repayment. Management intends to continue collaborative group meetings, for the duration of PSD operations at the airport, to ensure effective monitoring and oversight of this agreement.

The monthly collaborative group review will: confirm the methodology used by PSD to calculate gross revenues, reconcile any discrepancies in trip counts, and review the distribution of trips by location to make sure the explanations for shifting trends are reasonable.

In response to the Audit, Aviation has already taken or enhanced the following actions:

- *Conduct monthly vehicle inspections that ensure that all airport taxis are properly tagged with a functioning AVI ID*
- *Monitor any and all changes to taxi regulations in King County*
- *Work with PSD to ensure that PSD has a method for tracking trip counts for called-in non-airport fleet taxis during peak demand periods by installing AVI ID*
- *Transferred management responsibility of this lease from Aviation Operations to Aviation Properties, Business Development*

2. PUGET SOUND DISPATCH REPORTED INACCURATE AND INCOMPLETE GROSS RECEIPTS

Under Section 7.B, the agreement requires a 13% annual percentage fee of Gross Receipts or $3,670,778 in Minimum Annual Guarantee (MAG), whichever is higher.

PSD used two different methods during the audit period to calculate Gross Receipts as follows:

1. During the period November 2011 – March 2015, Gross Receipts were imputed based on a simple formula: *Outbound Trip Count x Average Fare = Gross Receipts*.

   Average Fare

   PSD categorized taxi driver drop-off destinations into 19 zones. For each zone, an average fare was established (e.g., Seattle Zone - $39/trip, Local Zone - $9/trip). The current PSD staff provided anecdotal information that a geographical center point was used to estimate and calculate an average fare for each zone. To determine whether average fares were complete and reasonable, it is critical to identify verifiable information related to how the destination zones were established and where the center point for each zone was. However, the auditor found PSD had no records to support this average fare estimation.

   Outbound Trip Count

   Each zone does not have an equal weight to an overall determination of Gross Receipts. A relatively large trip increase in an inexpensive zone (e.g., Local Zone for trips around the airport at $9/trip) has less impact to Gross Receipts than a slight trip increase in a high fare zone (e.g., Seattle Zone at $39/trip). Therefore, understanding how outbound trip counts were allocated to the 19 zones is equally important as fares to determine whether the reported Goss Receipts were complete and reasonable.

   During the period November 2011 – March 2015, PSD used the following three procedures to allocate a monthly total outbound trip to the 19 zones each month.

   a) November 2011 to December 2011
   We understand PSD tracked and used its own outbound trip counts. The auditor determined that PSD had no records available to support trip allocations for this period.

   b) January 2012 to August 2014
   Port management provided PSD with monthly taxicab outbound trip counts. The information came from Port AVI system. PSD used Port-provided outbound monthly counts to allocate the trip counts among the 19 zones. Per PSD, the allocation was based on voluntary driver feedback/survey regarding their destinations. Driver participation was said to have been around 20%. The auditor determined that PSD had no detailed records available to support trip allocations for this period.

c) **September 2014 to March 2015**

Port management provided PSD with monthly taxicab outbound trip counts. The information came from Port AVI system. PSD calculated a percentage increase/decrease of the total monthly trip from the previous month. The percentage was then applied to individual zone count in the previous month to determine current month allocations.

In effect, each zone had a fixed percentage of the total trips for the entire period without considering month-to-month fluctuations in destinations. Example, during this period, Seattle trips always accounted for approximately 51% of the total trips. Assigning a constant percentage of the total trip to each of the 19 zones is inconsistent with having estimates that are representative of actual trips. Thus count allocations for the period were not reasonable.

For the period November 2011 – March 2015, each of the two elements used to calculate the Gross Receipts cannot be verified with any degree of certainty due to the lack of information and/or data. However, as noted in Finding No. 1 (bullet 4, 6, 7, 8, 9 etc.), there are a number of known irregular trends and underreported trips during this period. These trends explicitly conclude that Gross Receipts were underreported.

Given the absence of necessary information and/or data, the auditor made no attempt to impute a precise amount of Concession Fees owed for the period. Any efforts to determine a precise amount owed to the Port would require assumptions upon assumptions based on hearsays and incomplete sets of information. Such efforts will generate an estimate among many, but never a precise amount.

2. During the period April 2015 – August 2015, PSD reported Gross Receipts based on data from its dispatch system.

   PSD acquired a new dispatch system based on GPS technology in October 2014. The system is able to generate and retain detailed trip information, including counts and fares.

   Analyses indicated the reported total Gross Receipts from the system are not complete and reasonable. When compared to AVI counts, PSD counts from the new GPS system are less by approximately 21%. The difference is largely attributed to the fact that drivers don't always login to the dispatch system. Without the login, the system does not capture trip information.

TRIP COUNT COMPARISON BETWEEN PORT AVI AND PSD SYSTEM			
	PORT AVI TRIP COUNTS	PSD GPS TRIP COUNTS*	TRIP COUNTS DIFF.
April	74,692	51,915	22,777
May	81,359	66,366[1]	14,993
June	83,721	66,308[1]	17,413
July	86,233	67,759	18,474
August	86,903	73,617	13,286

Source: Port AVI readers and PSD GPS trip counts
* Trips by non-airport fleet Yellow taxis are not included
[1] Provided to Auditors

As indicated in the above table, there are significant numbers of trips missing from the PSD-reported Gross Receipts. In addition, the reported trips from the PSD system have a number of trips with no recorded fare. That is, there are trips with no associated receipts. Thus, Gross Receipts for the period May 2015 – August 2015 were underreported.

The evidence collected for the audit period clearly indicates Gross Receipts were underreported. However key elements to compute the precise extent of the underreporting are not available. Additionally while there are indicators of manufactured trip data, information was not available to establish evidence supporting intentional manipulation.

Recommendations

We recommend that Port Management:

1. Work with PSD to determine the impact of underreported Gross Receipts to the Concession Fees.

Management Response

Management concurs with the audit finding that the tenant did not report Gross Revenue in accordance with the lease. As a result, percentage rent remitted to the Port was likely lower than the amount due under the lease.

Management will work with the tenant to agree on reasonable estimates of Gross Revenues and re-compute concession rent owed for each year of the agreement. Management will seek to recover any concession rent due to the Port in accordance with the lease.

3. PUGET SOUND DISPATCH DID NOT COMPLY WITH THE RECORD RETENTION REQUIREMENTS

Under Section 8, the Agreement requires an accounting system to support the reported Gross Receipts and Concession Fees.

> *"The Concessionaire covenants and agrees that it will establish and maintain current and detailed records of all services provided under this Concession together with an accounting system (specifically including all books of account and records customarily used in the type of operation permitted by this Agreement) in full and complete accordance with generally accepted accounting principles and otherwise reasonably satisfactory to the Port for the determination of any Percentage Fees or other computation, or both, which may be necessary or essential in carrying out the terms of this Agreement. Concessionaire shall maintain its records relating to the operation permitted by this Agreement for a period of at least three (3) years after the end of each year of this Agreement…"*

As detailed in Findings No. 1 and 2, PSD did not maintain a system of records in full support of the reported Gross Receipts and Concession Fees. Records of outbound trips and/or average fares were incomplete and/or missing for the audit period and did not comply with the 3-year retention requirement.

Recommendations

We recommend that Port Management:

1. Continue to work with PSD to ensure complete compliance with the Agreement.

Management Response

Management concurs with the audit finding. Management will continue to reinforce the tenant's responsibility for maintaining true and accurate records in compliance with the lease. As indicated above, Management will meet monthly with PSD to review activity and calculation of Gross Revenues.

Management will require that the tenant must certify the accuracy of their monthly financial report, in which certification the tenant would acknowledge the tenant's responsibility for compliance with reporting requirements under the lease.

Further, management will request an additional audit by Internal Audit for the period November 1, 2015 through the final month of the extended term of the agreement to confirm lease compliance.