

LEASE AND CONCESSION AUDIT

Puget Sound Dispatch LLC dba Yellow Cab

BACKGROUND

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:

- Based on total actual revenues derived from operations under the terms of the Agreement
- Or
- 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: $\text{outbound trips} \times \text{average fare} = \text{Gross Receipts}$.

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BACKGROUND CONTINUED...

Puget Sound Dispatch Concession Agreement Economics

..... Administrative relationship
↔ Contractual relationship

Port of Seattle

- ✓ Enforce Lease Terms and Conditions
- ✓ Receive Monthly Concession Fees in Exchange for the Non-Exclusive Right to Operate On-Demand Taxi Services at the Airport



Puget Sound Dispatch

- ✓ Responsible for Compliance with Lease Terms and Conditions, Including Concession Fees
- ✓ Provide Dispatch and Cashiering Service
- ✓ Agent for Taxi Owner/Driver Interest



Taxi Driver
(multiple/seasonal independent contractors)

- ✓ Rent/lease Taxi from Owner
- ✓ Pay for Fuel
- ✓ Pay for Individual Driving Licensing



Taxi Owner
(246 independent contractors)

- ✓ Pay MAG to Port Through PSD as the Agent
- ✓ Pay PSD for Dispatch Service
- ✓ Pay for Vehicle, Equipment, Repair, Insurance, Licensing, Permit



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INTERNAL AUDIT

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, 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.

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INTERNAL AUDIT

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.

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.

Three (3) Reportable Findings



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INTERNAL AUDIT

AUDIT RESULT – FINDING #1

1. Port Management Monitoring Controls Over The Puget Sound Dispatch (PSD) Agreement Are Inadequate And Ineffective.

- Port management did not have complete knowledge of the methodology used by PSD to calculate or estimate Gross Receipts reported to the Port.
- Management monitoring of taxicab activities was not adequate to reasonably ensure that all airport fleet vehicles were properly tagged with a functioning AVI ID.
- Management had no knowledge of how the zones were determined. 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.
- Port management did not stay abreast of evolving and emerging applicable taxi regulations in King County.
- Trips by non-airport fleet taxicabs were not tracked.
- Port management had little interactions with PSD related to monthly financial reporting.
- Port management did not follow up on unusual trends and information.

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AUDIT RESULT – FINDING #2

2. Puget Sound Dispatch Reported Inaccurate And Incomplete Gross Receipts.

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

- During the period November 2011 - March 2015, Gross Receipts were imputed based on a simple formula: $\text{Outbound Trip Count} \times \text{Average Fare} = \text{Gross Receipts}$.
 - Average Fare - no records to support this average fare estimation
 - Outbound Trip Count - incomplete information in support of the trips used in Gross Receipts calculations
- During the period April 2015 - August 2015, PSD reported Gross Receipts based on data from its dispatch system.
 - Incomplete reporting of trips, resulting in underreported Gross Receipts

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INTERNAL AUDIT

AUDIT RESULT – FINDING #3

3. Puget Sound Dispatch Did Not Comply With The Agreement Record Retention.

- PSD did not maintain a system of records in full support of the reported Gross Receipts and Concession Fees. Records were incomplete and/or missing for the audit period and did not comply with the 3-year retention requirement.

