

INTERNAL AUDIT REPORT

LEASE AND CONCESSION AGREEMENT AUDIT

SEATAC RENTALS INC dba PAYLESS CAR RENTAL

MAY 17, 2012 – MAY 31, 2014

ISSUE DATE: AUGUST 08, 2016
REPORT NO. 2016-10

EXECUTIVE SUMMARY

AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine whether Port management monitoring controls are adequate and effective to ensure:

1. SeaTac Rentals Inc. reported concession fees were complete, properly calculated, and remitted timely to the Port.
2. SeaTac Rentals Inc. complied with significant financial provisions of the agreement.
3. Customer Facility Charges (CFC) were properly collected and remitted.

We reviewed and analyzed records for the agreement period. For purposes of rendering our opinion, we focused on the period May 17, 2012 - May 31, 2014.

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

BACKGROUND

SeaTac Rentals Inc. dba Payless Car Rental is a subsidiary of Avis Budget Group.

The lease and concession agreement with SeaTac became effective May 17, 2012. The terms of the agreement provide for a Minimum Annual Guarantee (MAG) of 85% of the total amount paid to the Port in the previous agreement year. Additionally, the agreement requires a percentagefee equal to ten percent (10%) of gross revenues, provided the fee is higher than the monthly MAG.

AUDIT RESULT

Management controls are effective to ensure that reported concession fees were materially complete, properly calculated, and remitted timely to the Port. The Lessee materially complied with the terms of the Lease and Concession Agreement, as amended.

However, we determined that the Customer Facility Charge (CFC) was underreported. We recommend Port management seek recovery of \$19,682 in CFC charges, and audit cost. We also recommend Port management consider assessing a one-time late fee and accrued interest, and seek recovery from the tenant as appropriate. See Finding 1 on the Schedule of Findings.

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TRANSMITTAL LETTER

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of SeaTac Rentals Inc. dba Payless Car Rental. We reviewed information for the period May 17, 2012 - May 31, 2014.

We conducted the audit in accordance with Generally Accepted Government Audit 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 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 our audit objectives.

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



On behalf of
Joyce Kirangi, CPA, CGMA
Internal Audit, Director

AUDIT TEAM

Margaret Songtantaruk, Senior Auditor
Jessica Martin-Carscadden, IA Manager

RESPONSIBLE MANAGEMENT TEAM

Jim Schone, Director AV Business Development
Rudy Caluza, Director Accounting and Financial Reporting

BACKGROUND

SeaTac Rentals Inc. dba Payless Car Rental is a subsidiary of Avis Budget Group.

The lease and concession agreement with SeaTac became effective May 17, 2012. The terms of the agreements provide for a Minimum Annual Guarantee (MAG) of 85% of the total amount paid to the Port in the previous agreement year. Additionally, the agreement requires a percentage fee equal to ten percent (10%) of gross revenues, provided the fee is higher than the monthly MAG.

The MAG is payable in advance, on or before the first 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 late payments, the agreement provides for a one-time late payment charge of 5% of the overdue amount.

FINANCIAL HIGHLIGHTS

KEY FINANCIAL RESULTS FOR SEATAC RENTALS, INC AGREEMENT

| AGREEMENT YEAR | REPORTED GROSS REVENUES | CONCESSION PAID |
|-------------------------|-------------------------|---------------------|
| 2012 ¹ -2013 | \$ 4,545,900 | \$454,590 |
| 2013-2014 | 5,784,331 | 578,433 |
| TOTAL | \$ 10,330,231 | \$ 1,033,023 |

Data Source: PeopleSoft Financials and Propworks

Data Note: ¹Started 05/17/2012

AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period May 17, 2012 - May 31, 2014. We utilized a risk-based audit approach from planning to examination. We gathered information through document requests, interviews, observation, and data analysis. Internal Audit obtained a complete understanding of the significant provisions of the agreement between the Port of Seattle and SeaTac Rentals, Inc. and the respective operations.

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

- To determine whether Port management monitoring controls are adequate and effective to ensure whether reported Concession fees were complete, properly calculated, and remitted timely to the Port, we:
 - Reviewed the lessee's chart of accounts to determine whether all revenue accounts were included in the reported revenues to the Port.
 - Reconciled the reported revenues to detail business records by revenue category.
 - Tested a risk-based sample of 14 closed car rental agreements to determine whether:

- Revenue adjustments and/or reductions were valid and refunded.
 - Concession revenue items on RA agreed to the amount recorded in the DBR.
 - Analyzed Port records to determine the timeliness of submitted MAG/Concession Fee payments.
 - Verified and tested that the car rental agreements were not sequentially numbered.
2. To determine whether SeaTac Rentals complied with significant financial terms of the Lease and Concession Agreement, as amended. We reviewed the:
- Agreement to identify significant financial compliance requirements.
 - Insurance coverage and surety company bond to ensure amounts were sufficient and in effect during the audit period.
 - Non-RAC Concession Contract and North Parcel Rents to ensure they were properly maintained and calculated.
 - Certified Audited Statement of Gross Revenues for compliance and timely submission.
 - Minimum Annual Guarantee (MAG) for accuracy of calculation and that Port management obtained Port Commission approval for Exceptions Relief of MAG, if applicable.
3. To determine whether Customer Facility Charges (CFC) were properly collected and remitted timely to the Port. We:
- Analyzed the CFC calculation and reporting.
 - Recalculated CFC based on the lessee's accounting records for all rental agreements under the audit period. We reconciled the calculated result to the CFC amount reported to the Port.
 - Tested a risk-based sample of 35 closed car rental agreements to determine whether lessee calculated CFC was based on the correct check-out and return date/time.
 - Analyzed all payment records for the audit period to determine whether payments were remitted by the required due dates.

CONCLUSION

Management controls are effective to ensure that reported concession fees were materially complete, properly calculated, and remitted timely to the Port. The Lessee materially complied with the significant terms of the Lease and Concession Agreement, as amended.

However, we determined that Customer Facility Charge (CFC) was underreported. We recommend Port management seek recovery of \$19,682 in CFC charges and audit costs. We also recommend Port management consider assessing a one-time late fee and accrued interest and seek recovery from the tenant as appropriate. See Finding 1 on the Schedule of Findings.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

1. CUSTOMER FACILITY CHARGE (CFC) WAS UNDERREPORTED

The analysis of the lessee’s financial records and detailed rental agreements determined the lessee did not report CFC completely. The agreement, Section 6.2, stipulates:

“Operator shall collect a daily Customer Facility Charge on all vehicle rental transactions with Airport Customers... Each Operator must collect the Customer Facility Charge at the time of the first payment is made for a qualifying vehicle rental transaction, and must remit the full amount of the Customer Facility Charge to the Port regardless of whether or not the full amount such Customer Facility Charge is actually collected by the Operator from the person who rented the Automobile.”

A recalculation of the CFC based on the Daily Business Reports (DBR) vehicle check-out and return dates for the audit period (excluded cancellation car rental agreement), revealed the CFC was underreported by approximately \$19,682.

| UNDERREPORTED CUSTOMER FACILITY CHARGE FOR SEATAC RENTAL | | | |
|---|--------------------|--------------------|------------------------|
| AGREEMENT YEAR | AUDITED CFC FEES | REPORTED CFC FEES | UNDERREPORTED CFC FEES |
| 2012 ¹ - 2013 | \$945,210 | \$934,764 | \$10,446 |
| 2013 - 2014 | 915,984 | 906,738 | 9,236 |
| TOTAL | \$1,861,194 | \$1,841,194 | \$19,682 |
| TOTAL DUE TO PORT | | | \$19,682 |

Data Source: SeaTac Rental Monthly Schedule Report, PeopleSoft Financials
Data Note: ¹ 5/17/2012 - 5/31/2013

In addition, Section 8.2.1 of the Lease Agreement requires “the full cost of the audit be borne by the lessee in the event an audit reveals a discrepancy of more than 1% of CFC for any 12-month period.” As indicated below, the discrepancy was greater than 1% for each of the two years in the audit period as follows:

| AGREEMENT YEAR | UNDERREPORTED CFC FEES | REPORTED CFC FEES | PERCENTAGE OF UNDERREPORTED CFC FEES |
|--------------------------|------------------------|-------------------|--------------------------------------|
| 2012 ¹ - 2013 | \$10,446 | \$934,764 | 1.12% |
| 2013 - 2014 | 9,236 | 906,738 | 1.02% |

Data Note: ¹ 5/17/2012 - 5/31/2013

Recommendations:

We recommend management

- 1) Seek recovery of \$19,682 for the underreported customer facility charge (CFC).
- 2) Assess the applicability of the one-time late charge and accrue interest caused by the above underreporting. Seek recovery if appropriate.
- 3) Seek recovery of the audit costs, in accordance with the terms of the lease agreement.

Management Response

Management will work with tenant to ensure their understanding of CFC collection protocols, as well as pursue recovery of the underpaid CFC's. In addition, we will negotiate with tenant regarding late charge and interest accruals as a result of the CFC underreporting, as well as the recovery of audit costs.