

INTERNAL AUDIT REPORT

COMPREHENSIVE OPERATIONAL AUDIT

GROUND TRANSPORTATION

JANUARY 1, 2015 – JUNE 30, 2016

ISSUE DATE: August 8, 2016

REPORT NO. 2016-12

EXECUTIVE SUMMARY

AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine:

- Accuracy and timeliness of Seattle Tacoma International Limousine Association (STILA) billing and payments
- Accuracy and completeness of STILA reported trip data
- Effectiveness of billing processes (including Transportation Network Company)
- Sufficiency of Ground Transportation (GT) staffing levels
- Effectiveness of management monitoring controls of key contractual elements within STILA and Puget Sound Dispatch, LLC DBA Yellow Taxi Association* (PSD) including:
 - Green initiatives
 - Insurance requirements
 - Safety

We reviewed information for the period January 1, 2015 through June 30, 2016.

Details of our audit scope and methodology are on page four.

BACKGROUND

Ground Transportation (GT) is responsible for the Airport's GT businesses. All GT activities are monitored by ten controllers who oversee the operation by monitoring the upper drive, lower drive, commercial lanes on the third floor of the parking garage, cell phone lots, and airport roadways. The controllers are responsible for inspecting taxis and limos, as well as monitoring commercial vehicles that utilize the airport to ensure that all the operators follow State, County, and Port regulations.

From the Ground Transportation Center (GTC), limos and charter buses are dispatched, as well as assisting phone-in and walk-up customers. The GTC is located in the center of the third floor of the parking garage. GT operators generate more than 2.8 million trips annually.

GT also employs Tour Group Coordinators (TGCs) during the cruise ship season (May through October). TGCs are a vital component to providing safe and efficient operations of charter bus operations in the North, South, and off-site lots. Their responsibilities include, assisting cruise passengers, assigning parking spaces, directing bus drivers into and out of assigned parking spaces, and dispatching buses from the 28th holding and South lot.

AUDIT RESULT

Environmental requirements have adequately been met and management monitoring controls continue to improve. Although GT management had not monitored this requirement, we verified that STILA has

seven hybrid sport utility vehicles within their fleet; the concession agreement requires six. We also discussed these requirements with management from Environmental and generally conclude that monitoring of “green” initiatives is improving to mitigate risk of non-compliance.

However, staffing levels may not be sufficient to meet aviation business goals and essential job functions (see recommendation 1).

Additionally, management oversight and approval has not been incorporated into the internal control structure. Although no material differences were identified between STILA and Port trip counts, additional trip fee revenue and rent credits were not applied timely as required by the Concession Agreement dated January 12, 2011. We also identified that a process does not exist to obtain insurance documents as required in the STILA and PSD concession agreements and in some operating agreements (see recommendation 2).

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TRANSMITTAL LETTER

Audit Committee
Port of Seattle
Seattle, Washington

We have completed a comprehensive operational audit of Ground Transportation.

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 Ground Transportation for their assistance and cooperation during the audit.



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

AUDIT TEAM	RESPONSIBLE MANAGEMENT TEAM
Dan Chase, Senior Auditor	Michael Ehl, Director Airport Operations
Brian Nancekivell, Senior Auditor	Jeff Hoebet, Senior Manager Airport Operations

BACKGROUND

Ground Transportation (GT) is responsible for the Airport's GT businesses. All GT activities are monitored by ten controllers who oversee the operation by monitoring the upper drive, lower drive, commercial lanes on the third floor of the parking garage, cell phone lots, and airport roadways. The controllers are responsible for inspecting taxis and limos, as well as monitoring commercial vehicles that utilize the airport to ensure that all the operators follow State, County, and Port regulations.

GT also employs Tour Group Coordinators (TGCs) during the cruise ship season (May through October). TGCs are a vital component to providing safe and efficient operations of charter bus operations in the North, South, and off-site lots. Their responsibilities include, assisting cruise passengers, assigning parking spaces, directing bus drivers into and out of assigned parking spaces, and dispatching buses from the 28th holding and South lot.

From the Ground Transportation Center (GTC), limos and charter buses are dispatched, as well as assisting phone-in and walk-up customers. The GTC is located in the center of the third floor of the parking garage.

GT operators generate more than 2.8 million trips annually by the following operators:

- I. Limousines
 - a) On demand service - STILA - 24 vehicles, minimum annual guarantee of \$732,000 plus additional trip fee of four dollars in excess of 38,000 trips
 - b) Pre-arranged Limousines - approximately 1,130 vehicles
- II. Taxis
 - a) On demand service - Puget Sound Dispatch, LLC DBA Yellow Taxi Association, minimum annual guarantee \$3,670,778 or 13% of the annual gross receipts
 - b) Belled in - approximately 200 vehicles
- III. Charter Buses - approximately 175 charter companies
- IV. Airporters - estimated 13 companies
- V. Parcel Carriers - estimated 85 vehicles (70 Boeing)
- VI. Courtesy
 - a) Courtesy vehicles - estimated 270 vehicles from 84 companies
 - b) Crew vans - estimated 73 vehicles from 7 companies
- VII. Shuttle Services
 - a) Shuttle Express - estimated 74 vehicles
 - b) Speedi Shuttle - estimated 18 vehicles
- VIII. TNCs - Lyft, Uber, Wingz - approximately 5,000 individual operators

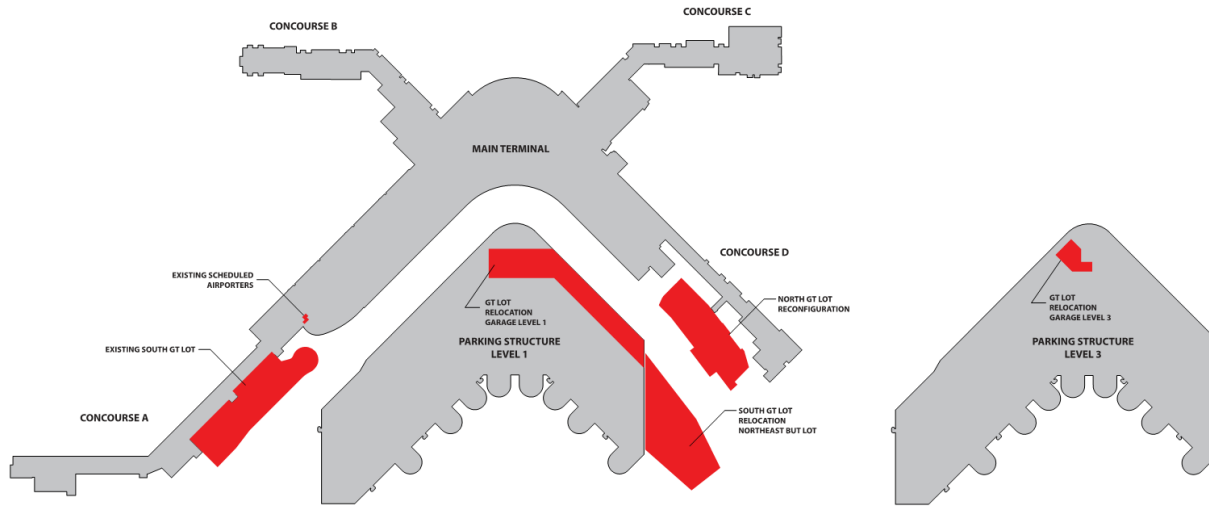
In 2016, Lyft, Raiser, LLC (Uber), and Wingz collectively known as TNCs, signed one year pilot program operating agreements with the Port. TNCs connect paying passengers through mobile devices with drivers who provide the transportation using their own non-commercial vehicles. Lyft, Uber, and Wingz pay \$5.00 per outbound trip or passenger pickup. Passenger pick-ups in April and May were approximately 40,000 and 51,500.

The steady increase in passenger activity at Seattle-Tacoma International Airport has introduced expansion challenges. For example, construction of the new International Arrivals Facility is scheduled to commence in November 2016 and will displace the South GT lot which is used by charter buses and

airporter vans to pickup and drop-off passengers. GT management is actively exploring alternative options for these operators (see site plan on following page).

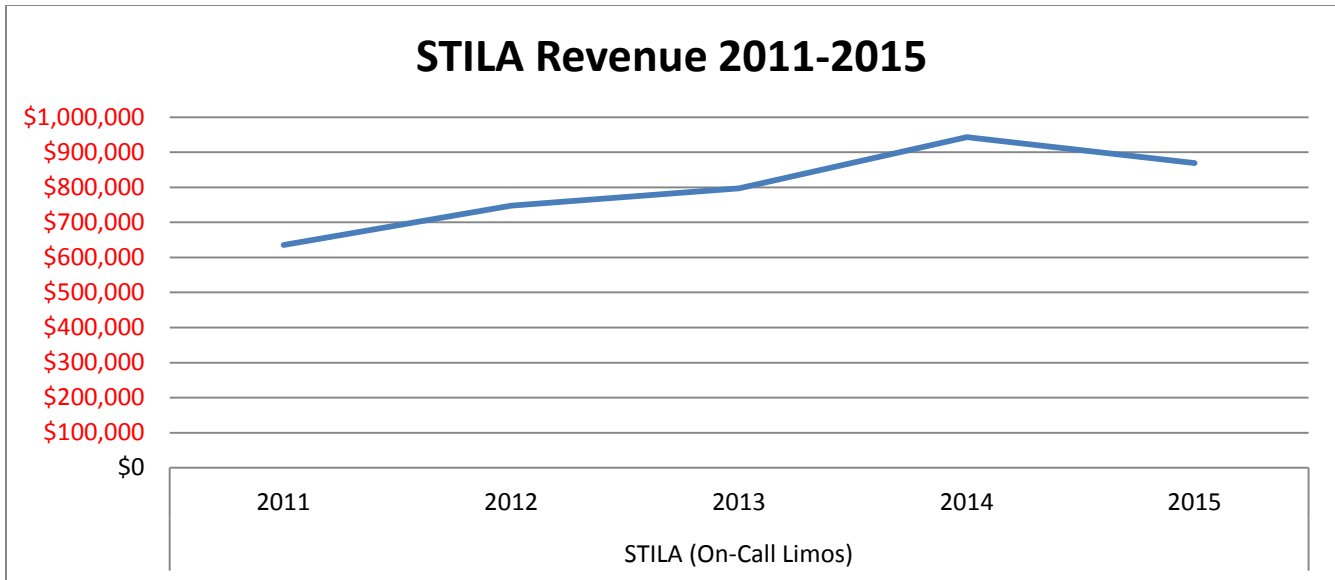
SITE PLAN

SOUTH GT LOT RELOCATION



STILA concession agreement

The Port entered into a five-year concession agreement, effective March 1, 2011, with STILA for “the exclusive right to provide On-call Limousine service from the Airport”. The term of the agreement expired on February 28, 2016 and is currently operating under a month to month agreement. In exchange for the exclusive right, STILA agreed to a Minimum Annual Guarantee (MAG) equal to \$732,000 paid in equal monthly payments payable on or before the first day of each month. In addition to the MAG, STILA agreed to pay an additional trip fee equal to four dollars per outbound trip in excess of 38,000 trips per year. The table below reflects revenue to the Port from 2011-2015.



In late 2014, an increase in public awareness of app-based pre-arranged rider booking most likely accounts for the decrease in STILA rider activity/revenues in 2015.

PSD concession agreement

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 agreement initially was scheduled to expire on October 31, 2015, but was extended by an amendment to the agreement to June 30, 2016. The agreement is currently in hold over status.

FINANCIAL HIGHLIGHTS

2015 GROUND TRANSPORTATION REVENUE			
SOURCE	AGREEMENT	AMOUNT	PERCENTAGE
Puget Sound Dispatch / Yellow Cab	Concession	\$ 4,516,749	51%
Courtesy Cars	Operating - Per Trip Fee	2,194,717	25
STILA On-Call Limousines	Concession	868,780	10
Pre-Arranged Limousines	Operating - Permit Fee	362,523	4
Charter Buses	Operating - Per Trip Fee	221,797	3
Shared Ride Vans	Per Trip Fee *	195,020	2
Belled-In Taxis	Operating - Permit Fee	132,479	2
Citations	N/A	118,350	1
Space Rental	N/A	89,534	1
Airporter / Parcel Carriers	Operating - Per Trip Fee / Permit	94,126	1
TOTAL		\$ 8,794,075	100%

Data Source: PeopleSoft Financials

* Includes Shuttle Express (Concession) and Crew Vans (Operating)

HIGHLIGHTS AND ACCOMPLISHMENTS

- Lyft and Raiser, LLC (Uber) signed pilot program agreements with the Port on March 31, 2016. Wingz signed the pilot program agreement on April 4, 2016. These agreements allow Lyft, Uber, and Wingz, collectively known as Transportation Network Companies (TNCs), to pick up and deliver passengers at the airport. The agreement expires on March 31, 2017. In April, almost 40,000 and in May approximately 51,500 passenger pickups were generated from these operators. Lyft, Uber, and Wingz self-report total number of inbound and outbound trips to/from the airport. Port Management is actively identifying differences between TNC trip counts and Port counts. These efforts are aimed at developing a method to assess the reasonableness of TNC reported trip data.
- Commencing in January 2016, staff from F&B, GT, Business Development, and PSD have met monthly to discuss discrepancies between PSD and Port trip counts. As a result of these meetings, F&B has refined the methodology to calculate gross revenues. These refinements included removing fares less than the \$3.60 trip minimum and identifying driver behaviors that are accounting for some of the differences in trip counts. The variance between PSD revenue and Port revenue has decreased from January through May 2016.

AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period January 1, 2015 - June 30, 2016 from planning to testing. During planning and testing we performed analytical reviews, interviewed management and staff, reviewed documentation, and observed GT operations. To develop a comprehensive understanding of GT operations we:

- Reviewed the STILA and PSD concession agreements and identified key terms and conditions we deemed critical including environmental and safety requirements and revenue reporting.
- Performed analytical reviews on GT revenues
- Reviewed billing processes: GT obtains the trip counts and provides this data to the Accounting and Financial Reporting Department for processing into PeopleSoft
- Reviewed and documented GT processes for all revenue processes including TNCs
- Observed various GT locations, including the third floor commercial lanes in the parking garage, North and South lots, cell phone holding lots, taxi and TNC waiting and holding lots, the employee parking lots, and the 28th holding lots
- Reviewed job functions of GT staff
- Observed the automatic vehicle identification tracking devices on the South end of the Airport
- Reviewed all operator insurance requirements
- Assessed sufficiency of staffing levels
- Attended meetings where Aviation Finance and Budget (F&B), GT, Business Development and PSD discussed differences between Port of Seattle (Port) and PSD revenues. The scope did not

include an assessment regarding the completeness and accuracy of PSD trip activity and average fare calculation.

After developing a comprehensive understanding, we performed additional audit procedures that we determined the highest risk. Those procedures included:

I. STILA trip count, billing, and payment

- Tested 14 months of STILA billing and payments to determine whether the minimum annual guarantee (MAG) payments were billed and paid prior to the 10th of each month and the additional trip fee(s) in excess of 38,000 were billed and paid on or before the 15th of the following month as required by the Concession Agreement. In January 2016, the Accounting and Financial Reporting Department assumed responsibility for STILA billing.
- Determined whether STILA trip counts agreed to Port automatic vehicle identification (AVI) trip counts.
- Meeting with the President of STILA and obtained trip activity which was compared to the Port's internal AVI trip data in Gate Keeper.
- Determined whether the credit for space rental was applied against the monthly MAG and/or per trip fee.

II. Revenue processes

- Documented and evaluated the design and operating effectiveness of all GT revenue processes. Those processes encompass revenues generated from permit sales, citations, and AVI trip counts. Evaluating the revenue processes extended to the Accounting and Financial Reporting departments who processes billing into PeopleSoft after being provided by GT. As a business partner of GT, we also sought input from Aviation F&B.

III. Management internal monitoring controls

- Identified air quality requirements in the STILA and PSD concession agreements and determined whether management has monitoring controls to validate compliance.
- Observed STILA vehicles to verify mileage and number of hybrids within the fleet.
- Reviewed insurance requirements for all operating classes (charter buses, airporters, courtesy cars, on-call limos, etc.) and determined if management has a process to obtain appropriate documentation.
- Reviewed compliance for safety requirements.

CONCLUSION

Environmental requirements have adequately been met and management monitoring controls continue to improve. Although GT management had not monitored this requirement, we verified that STILA has seven hybrid sport utility vehicles within their fleet. The concession agreement requires six.

We also discussed PSD requirements with management from Environmental and generally conclude that monitoring of “green” initiatives is improving to mitigate risk of non-compliance.

However, staffing levels may not be sufficient to meet aviation business goals and essential job functions (see issue 1).

Additionally, management oversight and approval has not been incorporated into the internal control structure. Although no material differences were identified between STILA and Port trip counts, additional trip fee revenue and rent credits were not applied timely as required by the Concession Agreement dated January 12, 2011. We also identified that a process does not exist to obtain insurance documents as required in the STILA and PSD concession agreements and in some operating agreements (see issue 2).

SCHEDULE OF ISSUES

1. RESOURCES MAY NOT BE SUFFICIENT TO MEET 2016 AVIATION BUSINESS GOALS

The 2016 Aviation Business Plan (The Plan), sites dramatic growth in passengers as one of four challenges and projects continued sustained growth. The Plan also sites that in 2014 Sea-Tac was rated at the bottom 40% of peer airports in 18 of 28 categories according to the Airport Service Quality survey and as a result, established a goal to “exceed customer expectations” by becoming one of the top service airports in North America and provide and maintain adequate customer service levels during a period of exceptional growth.

In 2009, as a result of budget cuts, staffing levels were reduced from 18 to 10 Ground Transportation Controllers (GTCs). However, from 2009 to 2015, enplanements (passenger boarding an airplane), increased by 35.2% or 5.5 million (table 1). GT trip activity increased 46.9% or 900,000 trips from 2009 to 2015 (table 2). These figures do not include TNCs activity that has generated over 91,000 trips in the first two month of operation (April and May 2016) further highlighting the need for additional resources.

TABLE 1: ENPLANEMENT TRAFFIC					
YEAR	ENPLANEMENTS (IN 000'S)	CHANGE (IN 000'S)	MONTH OVER MONTH % CHANGE	CUMMULATIVE GROWTH SINCE 2009	
2008	16,085	423	2.7%		
2009	15,610	(475)	(3.0)		0.0%
2010	15,773	163	1.0		1.0
2011	16,396	623	3.9		5.0
2012	16,597	201	1.2		6.3
2013	17,376	779	4.7		11.3
2014	18,717	1,341	7.7		19.9
2015	21,109	2,392	12.8		35.2

Data Source: Aviation Division Performance Reports

TABLE 2: GROUND TRANSPORTATION TRIP ACTIVITY					
YEAR	TRIPS (IN 000'S)*	CHANGE (IN 000'S)	% CHANGE	CUMMULATIVE GROWTH SINCE 2009	
2008	2,146	92	4%		
2009	1,918	(228)	(11)		0%
2010	1,790	(128)	(7)		(6.7)
2011	2,038	248	14		6.3
2012	2,208	170	8		15.1
2013	2,262	54	2		17.9
2014	2,381	119	5		24.1
2015	2,818	437	18		46.9

Data Source: Ground Transportation Operator Activity Report

Provided by Ground Transportation

The customer experience, excluding connecting passengers, is impacted by the GT function. GTCs assist departing and arriving customers, monitor the upper and lower drives to ensure swift traffic flow, interface with public customers by answering questions, offer transportation options, and help customers locate their vehicles.

GTCs are also responsible for enforcement activity on the upper and lower drives. This activity includes verifying that operators are not soliciting airport customers, monitoring for appropriate permits and AVI tags, and when necessary issuing citations.

During the audit we frequently observed the upper and lower drives with no GTC presence. When discussed with GT management, management provided a 2016 Budget Request Form requesting an additional seven GTCs. However, this request has not been approved.

The request states “Given the current and anticipated growth in Ground Transportation activity, we would like to expand our enforcement to 24/7. We currently have no enforcement on the drives between the hours of 02:00-07:00 so we are unable to manage the peak activity that occurs on the drives during peak enplanement activity. If we had additional staffing, we could provide more consistent management of and enforcement of the drives. We have reached a point in which it’s not feasible to meet operational demands with the current headcount...our volumes have substantially increased and we are seeing more and more activities on our airport drives that require active enforcement.”

Recommendation

Although additional resources have been requested, management should continue to evaluate the risks and impacts of not hiring additional staff.

Management Response

We concur with the audit finding and recognize that additional staff would provide enhancements in enforcement and hours of presence. The team has submitted a mid-year budget request for additional full-time equivalents for 2016.

2. MANAGEMENT OVERSIGHT OF CONTRACT REQUIREMENTS SHOULD BE IMPROVED SO THAT CONTRACT TERMS ARE ENFORCED.

I. Billing

In 2015, GT revenues were approximately \$8.8 million. These revenues are generated from various methods such as permit sales, citations, AVI trip count readings, and concessions revenues. Some of these processes, such as billing for charter buses and permits are highly manual which are more susceptible to error, and highlight the need for management oversight.

Management review and approval is a fundamental component of an internal control framework. Internal control is a process for assuring achievement of an organization’s objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies. More broadly defined, internal controls are everything that controls risks to an organization. Management review, when performed effectively, can identify errors that may otherwise go undetected.

During the audit we performed a comprehensive review of GT billing processes. A key component that was absent from the department internal control environment was management oversight and review.

A review of STILA contractual requirements to billing and payment history identified the following discrepancies:

- ✓ In addition to the Minimum Annual Guarantee, “*Concessionaire is required to pay the Port an additional per trip fee equal to Four Dollars...per outbound trip in excess of 38,000 trips per year.*” These payments are due on or before the 15th day of the following month.

The billing for these additional trip fees was not conducted monthly as required by the agreement. The items below reflect delays in billings:

- \$16,092 paid in July 2012 for the period March 2011 through February 2012
- \$64,364 paid in March 2013 for contract period March 2012 through February 2013
- \$107,140 paid in March 2014 for contract period March 2013 through February 2014

The above condition of untimely billing was also identified in a prior department audit and the issue communicated to management at the time.

- ✓ The contract requires STILA to pay base rent for exclusive use as a dispatch center. The amount of the monthly rent payment is \$703 or \$8,440 annually. According to the contract, “*Concessionaire may apply the Rent Credit against any Minimum Annual Guaranty and/or Per Trip Fee owed by Concessionaire to the Port*”. The rent credit for the period March 1, 2011 through December 31, 2015 of \$40,791 was not applied to the STILA account until February 2016.
- ✓ Although required by the terms of the agreement, Ground Transportation was not aware of the requirement and therefore did not charged STILA \$50 dollars for each Automatic Vehicle Identification (AVI) tag.

An effective management review could have detected and prevented the billing discrepancies identified above.

II. Insurance

Terms and Conditions within the Operating Agreement require an additional insured endorsement to accompany the evidence of commercial general liability insurance. The additional insured endorsement is a contractual agreement between the Port and the Operators commercial general liability insurance carrier. Unlike certificates of insurance which “confers no rights upon the certificate holder,” an additional insured endorsement provides the Port the legal right to be treated as an insured under the Operators general liability policy.

Our audit identified that a process does not exist to obtain these additional insured endorsements. As a

result, all Operators required to have an endorsement, are providing service to airport customers without an endorsement naming the Port as an additional insured.

If a claim is made against the Port arising out of Operator negligence, the Port may incur more costs to respond, investigate, and even settle the claim if the Port is not included as an additional insured on the commercial general liability policy. If added as an additional insured onto the Policy of the Operator, the Operator’s insurance carrier would be responsible, in most cases, to take on the claim on behalf of the Port and cover all claim costs, including litigation and settlement.

An additional insured endorsement may also create requirements onto the Port relative to reporting notice of claim or incident, and may also include additional restrictions on how a claim is handled as an additional insured. Thus, without the endorsement, the Port does not know if the insurance carrier has actually listed the Port as an additional insured, nor is the Port aware of specific conditions of being an additional insured. Without the additional insured endorsement, the insurance carrier may deny coverage, including defense and investigation, thus shifting those costs to the Port.

The table below reflects operating class, required coverage, and approximate number of vehicles without an endorsement on file.

GAP ANALYSIS - GROUND TRANSPORTATION INSURANCE ENDORSEMENT				
OPERATOR	COMMERCIAL GENERAL LIABILITY	NUMBER OF OPERATORS	NUMBER OF VEHICLES	
Pre-Arranged Limousines utilizing more than on vehicle	\$ 1,000,000	222	500 - 750	
Charter Buses	1,000,000	175	808	
Airporters	1,000,000	13	206	
STILA	2,000,000	1	26	
Puget Sound Dispatch, LLC dba Yellow Taxi	2,000,000	1	239	
Shuttle Express / Speedi Shuttle	1,000,000	2	92	
TOTAL		414	1,871-2,121	

Data Source: Gatekeeper

Additionally, for the Operators listed above, a sustainable and repeatable process needs to be developed to ensure all Operators have a current certificate of insurance and that the insurance limits are sufficient.

Recommendation

We recommend incorporate management oversight into the internal control framework to reduce the likelihood of errors. This process should include management review and approval prior to final processing.

We also recommend GT management improve their monitoring process over vehicle operators’ insurance requirements. Further, because of the complexity and insurance risk exposures, we recommend that the Risk Management Department provide insurance training to GT.

Management Response

We will incorporate management review into all GT billing processes which will be evidenced by the manager’s signature. Management has already notified billing staff that effective August 2016, all billing statements must be sent to the manager for review prior to processing by the accounting

department. We recognize that management is ultimately responsible for the accuracy of information that is produced in GT.

It is important to note that as of March 2016, responsibility for the rent credit transitioned to Aviation Properties. In October 2014, F&B began monitoring the additional trip fee(s) and in January 2016, Accounting and Financial Reporting assumed billing and collection responsibility.

Since May 2016, GT has been working with Aviation Business Development and Aviation Properties with the goal of a developing a process to ensure that the correct insurance document is obtained for the required limits. Most likely, the collection of the insurance documents will be performed by GT and provided to Aviation Properties - for those operator groups that do not have POS operating permits which are renewed annually. Properties will maintain a database to monitor the completeness and sufficiency of insurance coverage.

In a separate, but related exercise, we have been proactively working with various other departments at the Airport and at Corporate, such as Finance and Budget, Environmental, Corporate Accounting, and ICT, to develop a responsibility matrix which identifies contractual requirements that will be monitored by these various departments. We will continue to develop and use this matrix as a tool to ensure compliance with all contractual elements.

We have had several meetings in the past two months with Risk Management staff and they have agreed to provide training to GT staff regarding required insurance documentation.

We appreciate the opportunity to provide a response to the audit findings and will continue to work with Finance and Budget, and Risk Management to strengthen our internal controls and required insurance documentation.