



INTERNAL AUDIT REPORT

Limited Contract Compliance Audit
E-Z Rent A Car, Incorporated

June 1, 2016 – May 31, 2019

Issue Date: June 22, 2020
Report No. 2020-06

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Executive Summary

Internal Audit (IA) completed an audit of the Consolidated Rental Car Facility Lease Agreement (Agreement) between E-Z Rent a Car, Incorporated (E-Z) and the Port of Seattle (Port).

The Period audited was June 1, 2016 through May 31, 2019. The audit was performed to determine whether E-Z complied with significant provisions of the Agreement, including whether reported gross revenues and percentage fees were complete and accurate.

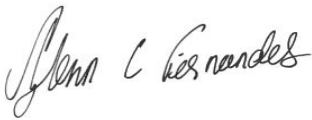
On Tuesday, May 26, 2020, E-Z filed for chapter 11 bankruptcy protection in U.S. Bankruptcy Court in Wilmington, Delaware. Chapter 11 allows for “reorganization” of a company’s obligations and debts as overseen by the court.

Our audit identified the following medium rated issue:

(Medium) - Internal Audit identified \$8,904 in under reported customer facility charges (CFC) and approximately \$7,297 in under reported revenue. As a result, **\$16,201** is due to the Port.

The issue is discussed in more detail on page six.

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



Glenn Fernandes, CPA
Director, Internal Audit

RESPONSIBLE MANAGEMENT TEAM

Jim Schone, Director, Aviation Business Development
Geoffrey Foster, Aviation Property Manager 2

Background

The Port of Seattle (Port) entered into a Consolidated Rental Car Facility Lease Agreement (Agreement) with E-Z Rent A Car, Incorporated in June of 2010.

The terms of the Agreement provide for a Minimum Annual Guarantee (MAG) equal to 85% of the total amount paid to the Port for the previous Agreement Year. Additionally, the Agreement requires a Percentage Fee equal to 10% of gross revenues, provided the fee is higher than the monthly MAG. The MAG is payable in advance, on or before the first day of each month. The Percentage Fee, if applicable, is due on or before the 20th of the following month.

The Agreement states that the Operator must bill a daily Customer Facility Charge (CFC) of \$6 on all vehicle rental transactions, and remit the full amount to the Port, regardless of whether or not the full amount is actually collected. The first transaction day provides for a twenty five (25) hour period and each successive day provides for a twenty four (24) hour period.

The table below reflects the Gross Revenues, Percentage Fees, and CFC fees:

Agreement Year	Gross Revenue	Percentage Fees	CFC Fees
June 2016 – May 2017	4,763,858	476,386	649,974
June 2017 – May 2018	3,992,229	399,223	613,536
June 2018 – May 2019	4,286,887	428,689	630,060
Total	\$13,042,975	\$1,304,298	\$1,893,570

Source: E-Z Rent a Car Monthly Revenue Reports, Peoplesoft Financials, AFR YE documents

Audit Scope and Methodology

We conducted the engagement 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 conduct an engagement to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our engagement objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our engagement objectives.

The period audited was June 2016 through May 2019 and included the following procedures:

Revenue Completeness and Accuracy

- Traced concession payments to Port records to verify payments were received by Agreement dates.
- Agreed revenue reported to the Port, to the Operator's monthly revenue reports, charge sheets, and to independently audited schedules.

Customer Facility Charge

- Using Tableau, tested 100% of transactions, by re-calculating the checkout and return dates to assess the accuracy of CFC's charged and remitted.
- Agreed Operator's audited CFC counts to daily transaction records.

Rent Surety Adequacy

- Compared the Surety posted, to the Provisions of the Agreement, Port Procedures (RE-2 Section E.1.c(2)), and the Revised Code of Washington RCW 53.08.085.

Schedule of Findings and Recommendations

1) Rating: Medium

Internal Audit identified \$8,904 in under reported customer facility charges (CFC) and approximately \$7,297 in under reported revenue. As a result, \$16,201 is due to the Port.

Customer Facility Charge

The Agreement requires the Operator to bill a daily CFC of \$6 on all vehicle rental transactions, and remit the full amount to the Port, regardless of whether or not the full amount is actually collected. The first transaction day provides for a twenty five (25) hour period and each successive day provides for a twenty four (24) hour period.

Using data from the operator, we recalculated the CFC by comparing the check out date and time to the check in date and time. Based on this analysis for the 3-year period under review, we identified 1,484 days or \$8,904 of CFC's not collected from the customer, and not remitted to the Port.

Revenue Completeness

Section 4.2 of the Agreement requires a Percentage Fee equal to 10% of gross revenues, provided the fee is higher than the monthly MAG. The MAG is payable in advance, on or before the first day of each month. The Percentage Fee, if applicable, is due on or before the 20th of the following month.

We performed a reconciliation of accounts between E-Z's general ledger and the revenue reports submitted to the Port. The reconciliation identified under reported revenue totaling \$48,791.14. The Percentage Fee due to the Port is 10% or \$4,879.11.

Excluded General Ledger Accounts

A review of E-Z's chart of accounts identified accounts which should have been included in the monthly reporting of revenue to the Port. The total value of the excluded accounts for the three-year period was \$24,174.61. The Percentage Fee due to the Port is 10% or \$2,417.46.

Table below reflects the excluded accounts:

Account Code	Account Description
4165	EZ Money Credit
4307	Domestic Security Fee
4310	Apt. Transport Fee
4782	Admin-Toll Violation
4780	Admin-Citation/Tolls

Recommendation:

In conjunction with the Port's Legal Department, file a claim, with the appropriate venue, to recover \$16,201 in under reported revenue.

Management Response/Action Plan:

Aviation Commercial Management agrees with the audit findings and will work with Port Legal to seek reimbursement through the bankruptcy process, including relevant late fees and interest charges, to the extent they are recoverable, whether through the bankruptcy process or through the applicable lease security instrument. Aviation Commercial Management staff appreciates the Internal Audit staff for their work during the audit process.

DUE DATE: 10/01/2020

Appendix A: Risk Ratings

Findings identified during the audit are assigned a risk rating, as outlined in the table below. Only one of the criteria needs to be met for a finding to be rated High, Medium, or Low. Findings rated Low will be evaluated and may or may not be reflected in the final report.

Rating	Financial Stewardship	Internal Controls	Compliance	Public	Commission/ Management
High	Significant	Missing or not followed	Non-compliance with Laws, Port Policies, Contracts	High probability for external audit issues and / or negative public perception	Requires immediate attention
Medium	Moderate	Partial controls Not functioning effectively	Partial compliance with Laws, Port Policies Contracts	Potential for external audit issues and / or negative public perception	Requires attention
Low	Minimal	Functioning as intended but could be enhanced to improve efficiency	Mostly complies with Laws, Port Policies, Contracts	Low probability for external audit issues and/or negative public perception	Does not require immediate attention