



INTERNAL AUDIT REPORT

Limited Contract Compliance Audit

Seattle-Tacoma International Limousine Association (STILA)

March 1, 2017- December 31, 2020

Issue Date: March 18, 2021

Report No. 2021-02



INTERNAL AUDIT

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Executive Summary

Internal Audit (IA) completed an audit of the Lease Agreement (Agreement) between Seattle-Tacoma International Limousine Association (STILA) and the Port of Seattle (Port), for the period March 1, 2017 through December 31, 2020. The audit was performed to determine whether STILA complied with significant provisions of the Agreement, including whether reported trip counts, and additional per trip fees, were complete and accurate.

Vehicle operators at Seattle-Tacoma International Airport (SEA) have seen significant decreases in their business due to the COVID-19 Pandemic. STILA, like many others, had been hit especially hard. On December 17, 2020, STILA notified the Port that they would cease operations at SEA on December 31, 2020. STILA filed for Chapter 7 Bankruptcy on February 17, 2021.

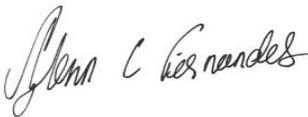
Our audit identified the following two issues:

- 1) **(Medium)** STILA did not maintain the daily activity records, as required by the Agreement, which resulted in a scope limitation. Accordingly, Internal Audit was unable to obtain sufficient and appropriate audit evidence to provide reasonable assurance that the additional per trip fees, billed solely on STILA self-reported trip counts, were accurate and complete.
- 2) **(Low)** Due to a significant decrease in ridership caused by the COVID-19 Pandemic, STILA was unable to make its Minimum Annual Guarantee (MAG) payments after the MAG deferral ended on July 31, 2020. This resulted in approximately \$157,284 owed to the Port, which will be covered by STILA's surety.

The issues are discussed in more detail on page six.

In addition, we noted that the required surety amount of \$183,000 per the lease agreement, which was one fourth of the annual MAG of \$732,000, was not consistent with the Port's RE-2 Policy (RE-2). RE-2 required a surety amount of \$366,000. RE-2 was last updated on October 20, 1995, and is currently under management review, as a result of an Internal Audit report on Concourse Concessions LLC, published in September of 2020.

We extend our appreciation to management and staff of Aviation Business Development, Airport Landside Operations, Aviation Finance and Budget, and Accounting and Financial Reporting (AFR) for their assistance and cooperation during the audit.



Glenn Fernandes, CPA
Director, Internal Audit

Responsible Management Team

Rudy Caluza, Director, Accounting and Financial Reporting
Laurel Dunphy, Director, Airport Operations
Dawn Hunter, Director, Aviation Business Development
Lisa Lam, Assistant Director, Financial Reporting Revenue Services
Linda Nelson, Senior Manager, Aviation Finance & Budget
Jeff Wolf, Senior Manager, Aviation Business Development
Geoff Foster, Aviation Property Manager

Background

The Port entered into a five-year Lease Agreement (Agreement Number AIR001991), effective March 1, 2011, with STILA for “the exclusive right to provide On-call Limousine service from the Airport.” The base term of the agreement expired on February 28, 2016. The Port reserved the right to extend the term for two additional one year periods, but the Port did not exercise the options and elected to move to Holdover, under which STILA has since been operating in a month-to-month arrangement.

On-call limousines were available on the North and South Curb of the third floor Ground Transportation plaza at the SEA. STILA operated with 26 limousines owned by nine companies that belonged to the Association. Certain limousines, used by STILA, provided pre-arranged limousine services under their own agreements/permits with the Port.

In exchange for the exclusive right, STILA agreed to pay a MAG equal to \$732,000, which was paid in equal monthly payments on or before the first day of each month. In addition to the MAG, STILA agreed to pay an additional per trip fee equal to four dollars per outbound trip in excess of 38,000 trips per year. The additional per trip fee was due by the 15th of the following month.

In March 2016, AFR assumed the billing and collection responsibility. In late 2016, the management of the Agreement was transferred from Ground Transportation to Aviation Business Development.

In order to provide relief to concessionaires, because of declined business/business closures related to the COVID-19 pandemic, the Port deferred MAG payments for concessionaires for certain time periods. STILA was given MAG deferral for the period of April 2020 through July 2020. Repayment of the deferred MAG amounts was to be made on or before March 31, 2021, without accrual of interest; otherwise, must automatically be placed onto an extended payment plan. Since August 2020 through December 2020, STILA did not make its regular monthly MAG payments to the Port. In December 2020, STILA officially notified the Port of the contract termination as of December 31, 2020. STILA filed for Chapter 7 Bankruptcy on February 17, 2021.

The table below reflects MAG and additional per trip fees paid based on the trip counts, as reported by STILA to the Port:

Agreement Year (March – February)	Trip Counts	MAG	Additional Per Trip Fees	Total Rent
2017	70,861	\$732,000	\$131,444	\$863,444
2018	69,007	\$732,000	\$124,028	\$856,028
2019	65,348	\$732,000	\$109,392	\$841,392
2020*	1,917	\$61,000*	\$0**	\$61,000

Source: STILA Monthly Trip Counts Reports; PeopleSoft Financials, AFR Concession documents

*March 2020 – December 2020 (contract terminated December 31, 2020); STILA did not pay the required MAG for August through December of 2020.

**March 2020 – December 2020; Additional Per Trip Fees were not incurred as trip counts did not reach the 38,000 thresholds set forth by the Lease Agreement.

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, 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 findings and conclusions based on our engagement objectives.

The period audited was originally three Agreement Years (March 1, 2017 through February 29, 2020), but was extended through to December 31, 2020, which was the date the Agreement was terminated. The audit included the following audit procedures:

Concession Fees Completeness, Accuracy, and Timeliness

- Tested the Concessionaire's billing and payments for all months in the audit period to determine whether the MAG payments and additional per trip fees were billed and paid accurately, completely, and timely.
- Compared the Concessionaire's reported monthly trip counts used for Port billing against the Port Automatic Vehicle Identification (AVI) trip counts.
- Scope Limitation - Internal Audit was unable to determine whether the Concessionaire's reported monthly trip counts used for Port billing of additional per trip fees were supported by its daily activity records. (See Issue #1 for more detail.)

Surety and Insurance Compliance

- Reviewed the Concessionaire's Rent Security Deposits for compliance with the Lease Agreement, Port Policy (Port RE-2) and Washington State Law (RCW 53.08.085).
- Reviewed the Concessionaire's Certificates of Insurance for compliance with the Lease Agreement terms.

Schedule of Findings and Recommendations

1) Rating: Medium

STILA did not maintain the daily activity records, as required by the Agreement, which resulted in a scope limitation. Accordingly, Internal Audit was unable to obtain sufficient and appropriate audit evidence to provide reasonable assurance that the additional per trip fees, billed solely on STILA self-reported trip counts, were accurate and complete.

The Agreement (Section 8.A.) required STILA to maintain its operational records, related to the Agreement, for a period of at least three years beyond the end of each year's Agreement. STILA ceased operations in October 2020 and notified the Port that it would terminate the Agreement at the end of December 2020. Although Internal Audit made multiple attempts to obtain daily activity reports, STILA's former President stated that he did not know who had reports and was no longer in communication with the former partners nor did he know how to contact them. Therefore, Internal Audit was unable to reconcile the reported monthly trip counts to its daily activity records for accuracy and completeness.

As required by the Agreement (Section 7.B.), STILA submitted monthly trip count reports, which summarized trips by limousine for each preceding month. The Port billed any additional per trip fees based solely on those self-reported monthly trip counts. However, the Port did not review supporting documents for the reported monthly counts. By relying on self-reported reports, without adequate review of supporting documents, there was an increased risk that inaccurate concession fee calculations, billing, or payments might have occurred; which would have resulted in a financial loss to the Port.

As an additional procedure, Internal Audit compared STILA's self-reported monthly trip counts to AVI system trip data and noted the following:

- AVI trip count data generally shows variances with STILA reported monthly trip counts to the Port, as it captures, not only on-call limousine service provided under STILA operations, but also pre-arranged limousine services provided by certain independent operators that belong to STILA. The independent operators have their own agreements/permits with the Port but utilize the same AVI tags used for their STILA trips.
- For March 2020 through December 2020, STILA reported trip counts were less than the AVI data (21.1% at aggregate level). This could potentially be due to STILA operators providing more pre-arranged limousine trips. However, we were not able to verify this since STILA was unable to provide us with any records. Airport Landside Operations indicated that they informally use a 2% acceptable variance threshold.
- Regular monitoring and reconciliation of variances between the STILA self-reported monthly counts and AVI trip data had not formally been established. It was noted, however, that Airport Landside Operations has diligently collected trip activity information from STILA especially during 2020, as some inconsistent trip activities were observed.

Recommendations:

For broader consideration for the AVI System and for Ground Transportation as a whole.

Strengthen monitoring controls by:

1. Formalize the review supporting documents; such as, daily activity records, for self-reported monthly counts for accuracy and completeness.

2. Formalize and regularly review and reconcile variances beyond acceptable thresholds, between self-reported monthly counts and AVI trip data.

Management Response/Action Plan:

1. Internal Audit recommends that Ground Transportation strengthen monitoring controls by reviewing on-demand limousine records that support self-reported monthly counts.

Since STILA is no longer serving SEA, Commercial Management will revise future Port contracts to ensure that any new on-demand limousine contract(s) will include improved operational and accounting controls for both the Operator and the Port. This will include, but is not limited to, monitoring and reviewing daily and monthly trip counts and ensuring accuracy.

2. Internal Audit recommends that Landside Operations formalize a regular review and reconciliation of variances (between the self-reported monthly activity and AVI trip activity) that are beyond acceptable thresholds.

While on the surface the variance of 21% may seem high, we believe it is rational due to the sudden decline of STILA's on-demand business and vehicles also being used for pre-arranged transportation which were not included in scope of this audit. The Port will evaluate whether allowing an operator to use the same AVI tag for two different types of operations should be sustained in the future. Whether we used STILA's monthly reported totals or the AVI tags, in no case did STILA come close to the 38,000 trips that would result in additional pre-trip charges in 2020.

Ground Transportation has traditionally and consistently reviewed the variance between STILA's self-reported and monthly activity reports and the AVI system. In the future, we will identify an appropriate Port of Seattle oversight partner for reconciling on-demand limousine services.

DUE DATE: N/A

2) Rating: Low

Due to a significant decrease in ridership caused by the COVID-19 Pandemic, STILA was unable to make its Minimum Annual Guarantee (MAG) payments after the MAG deferral ended on July 31, 2020. This resulted in approximately \$157,284 owed to the Port, which will be covered by STILA's surety.

The Agreement (Section 7.A.) required STILA to pay a MAG equal to \$732,000, in equal monthly payments, on or before the first day of each month. In May 2020, because of declined business due to the COVID-19 pandemic, the Port provided relief to STILA by deferring MAG payments from April 2020 through July 2020. Repayment of the deferred MAG amounts was to be made on, or before, March 31, 2021 without the accrual of interest; otherwise, must automatically be placed onto an extended payment plan.

After the deferral period ended, STILA did not pay the monthly MAG for August 2020 through December 2020. As of December 31, 2020, the date the Agreement was terminated, the total MAG amount owed to the Port is estimated to be \$157,284. The Agreement (Section 11) required the Port to refund upon the agreement termination except to the extent any amounts are drawn upon by the Port to satisfy any obligation of Concessionaire which is overdue at the time of termination. It is likely that the Port will be able to recover the outstanding MAG through the rent security of \$184,870 that the Port has on hand. The table below details the calculated outstanding MAG balance as of December 31, 2020:

Description	Month	Amount
Deferred	April - July 2020	\$ 51,425.73*
Delinquent	August - December 2020	\$ 101,410.06*
Late Fees & Interest Charges	August - December 2020	\$ 4,448.18
Total Due to the Port		\$ 157,283.97
Diff. (To be refunded to STILA)		\$ 27,585.88
Surety on Hand		\$ 184,869.85

Source: PeopleSoft Financials, AFR outstanding balance calculation spreadsheet provided by the Aviation Property Manager.

*Adjusted based on declined enplanement passenger data for each month per the Lease Agreement Section 7.D.

In addition to the MAG, STILA was required to pay an additional per trip fee equal to four dollars per outbound trip in excess of 38,000 trips per year. The additional per trip fee was due by the 15th of the following month. The fees were based on STILA reported monthly trip counts and paid by STILA timely for the three agreement years (March 1, 2017 – February 29, 2020). No additional per trip fees were incurred from March 1, 2020 through December 31, 2020, because of the decline in passengers and STILA not reaching the 38,000 annual trip thresholds set forth by the Agreement.

Recommendation:

As planned, in consultation with the Port's Legal Department, seek and recover the total outstanding balance of \$157,284 (estimate), utilizing the rent security on hand.

Management Response/Action Plan:

Aviation Commercial Management staff will continue to work with the Port's Accounting and Legal departments to complete the closeout of the agreement and recover the outstanding balance owed to the Port. As noted in this report, the Port currently maintains a cash security deposit in excess of the total amount due. However, the Port was made aware that STILA has filed for Chapter 7 bankruptcy and we are actively working with Port Legal to ensure our ability to complete the agreement close-out process, including the application of available security, is preserved.

DUE DATE: 3/31/2021

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