



Internal Audit Report

Enterprise Holdings, LLC
DBA/Enterprise Rent-A-Car

Lease and Concession Compliance Audit

November 1, 2007 through October 31, 2010

Issue Date: September 07, 2011
Report No. 2011-18



Internal Audit
Enterprise Holdings, LLC (DBA/Enterprise Rent-A-Car)
November 1, 2007 – October 31, 2010

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Transmittal Letter

We have completed an audit of the Lease and Concession Agreement, as amended, between the Port of Seattle and Enterprise Holdings, LLC (DBA/Enterprise Rent-A-Car). The purpose of the audit was to determine whether:

- 1) Reported concession was complete, properly calculated, and remitted timely to the Port.
- 2) Port and the lessee complied with provisions of the Lease and Concession Agreement, as amended.
- 3) Customer Facility Charges (CFC) were properly collected and remitted timely to the Port.

We examined information related to a three-year period from November 1, 2007, through October 31, 2010.

We conducted the audit using due professional care. We planned and performed the audit to obtain reasonable assurance as to compliance with significant provisions of the agreement, including complete and timely reporting of concessionable revenues.

Enterprise Holdings, LLC materially complied with the terms of the Lease and Concession agreement, as amended.

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



Joyce Kirangi, CPA
Director, Internal Audit

Executive Summary

Audit Scope and Objective The purpose of the audit was to determine the following:

- 1) Reported concession was complete, properly calculated, and remitted timely to the Port.
- 2) Port and the lessee complied with provisions of the Lease and Concession Agreement, as amended.
- 3) Customer Facility Charges (CFC) were properly collected and remitted timely to the Port.

We examined the books and records of Enterprise Rent-A-Car for a three-year period from November 1, 2007 through October 31, 2010. Aviation Business Development, in conjunction with Accounting and Financial Reporting (AFR), has the primary responsibility for administering and monitoring the agreement to ensure compliance with agreed-upon terms.

Agreement Terms The terms of the agreement provide for a Minimum Annual Guarantee (MAG) of 80% 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 payment.

The following are the only agreed-upon deductions allowed in the agreement:

- a. Any tax imposed or collected on behalf of a taxing authority
- b. Any amounts received as insurance proceeds or for damage to vehicles or other property, or for loss, conversion or abandonment of such vehicles
- c. The wholesale transfer of salvage vehicles
- d. All non-revenue rentals to employees
- e. Fees paid to other governmental agencies (excluding the Port), relating to transactions at the Airport

The MAG is payable in advance, on or before the first day 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 untimely payments, the agreement provides for a one-time late fee of 5% of the overdue amount and interest to be accrued at the rate of 18% per annum from the due date until paid.

Audit Result Summary Enterprise Rent-A-Car materially complied with the terms of the Lease and Concession agreement, as amended. However, the audit disclosed minor instances of gross revenue deductions thereby reducing concession fee slightly.

Background

Enterprise Rent-A-Car (ERAC), a wholly-owned subsidiary of Enterprise Holdings, LLC, rents vehicles to consumers under the Enterprise brand. The company also operates Alamo and National Rent-A-Car. Currently, ERAC has two locations at/around the airport that could be subject to concession as defined in the agreement. ERAC has a counter at the Airport and another off-airport location within a three (3) mile radius of the Airport's boundary.

The terms of the agreement provide for a Minimum Annual Guarantee (MAG) of 80% of the total amount paid or payable to the Port in the previous agreement year. Additionally, the agreement requires a Percentage Fee of 10% of gross revenues to the extent the fee is higher than the monthly MAG.

The MAG is payable in advance, on or before the first day of each month, without notice from the Port, and without setoff or deduction. The Percentage Fee, if applicable, is due on or before the 20th of the following month.

For untimely payments, the agreement provides for a one-time late fee of 5% of the overdue amount and interest to be accrued at the rate of 18% per annum from the due date until paid.

Below are the financial highlights for the last three fiscal years:

Fiscal Year	Reported Gross Revenue	Paid Concession
2007-2008	\$18,888,053	\$1,888,807
2008-2009	19,881,323	1,988,131
2009-2010	21,672,584	2,167,258
Total	\$60,441,960	\$6,044,196

Source: PROPWorks and PeopleSoft

Audit Objective

The purpose of the audit was to determine the following:

- 1) Reported concession was complete, properly calculated, and remitted timely to the Port.
- 2) Port and the lessee complied with provisions of the Lease and Concession Agreement, as amended.
- 3) Customer Facility Charges (CFC) were properly collected and remitted timely to the Port.

The scope of the audit covered the period of November 1, 2007, through October 31, 2010.

Audit Scope and Methodology

We conducted the audit to determine whether the parties were in compliance with the lease agreement terms including, but not limited to, proper concession and CFC payments. The audit approach was risk-based from planning to test sampling. We applied additional detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

- Timely Payment
- Insurance liability
- Surety Bond/Security Deposit
- CPA certified Annual Report
- Concessionable revenue
- Customer Facility Charge (CFC)

a. Timely Payment

We reviewed payment records to determine whether the lessee complied with the required due date.

b. Insurance Liability

To determine compliance with insurance requirements, we reconciled insurance requirements to the coverage reflected in the certificate of insurance in force for the audit period.

c. Surety Bond/Security Deposit

We reviewed surety requirements as stipulated in the agreement. We agreed the requirement to Surety Bond to determine compliance.

d. CPA Certified Annual Report

We reviewed audit reports for the audit period to determine compliance with the timely and complete submission of the report.

e. Concession Revenue

To determine whether the lessee completely reported all concessionable revenues, we selected a risk-based sample of 766 closed rental transactions. Each transaction was analyzed, recalculated, and agreed to the rental agreement to determine whether the lessee:

- Completely captured all concession items
- Properly and accurately calculated concession items

Further, we analyzed and agreed the reported monthly concession revenue for the audit period to the lessee's accounting records (general ledger and detailed revenue) to ensure complete reporting to the Port of Seattle.

f. Customer Facility Charge

We reviewed each rental agreement in the risk-based sample of 766 closed rental transactions to ensure proper charging, timely collection, and complete remittance of CFC to the Port as required in the agreement.

Conclusion

Enterprise Rent-A-Car materially complied with the terms of the Lease and Concession agreement, as amended. However, the audit disclosed minor instances of gross revenue deductions thereby reducing concession fee slightly.