



Internal Audit Report

CMC Investment, Inc
DBA/Dollar Rent-A-Car

Lease and Concession Compliance Audit

January 1, 2008 through December 31, 2009

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Report No. 2011-02

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Internal Auditor's Report

We have completed an audit of the Lease and Concession Agreement, as amended, between the Port of Seattle and CMC Investment, Inc. (DBA/Dollar 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.
- 3) Lease and Concession Agreement, as amended, complies with applicable state and Port requirements.
- 4) Customer Facility Charges (CFC) were properly collected and remitted timely to the Port.

We examined information related to a two-year period from January 1, 2008, through December 31, 2009.

We conducted our 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.

CMC Investment, Inc. materially complied with the terms of the Lease and Concession agreement. However, the audit disclosed instances of late payments and underreported gross receipts as identified in the audit report.

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.
- 3) Lease and Concession Agreement, as amended, complies with applicable state and Port requirements.
- 4) Customer Facility Charges (CFC) were properly collected and remitted timely to the Port.

We examined the books and records of Dollar Rent-A-Car for a two-year period from January 1, 2008 through December 31, 2009. 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 to be paid to the Port to the extent the fee exceeds the MAG at 10% of gross receipts.

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

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

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 15th of the following month.

For untimely payments, the agreement provides 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 Dollar-Rent-A-Car materially complied with the terms of the Lease and Concession agreement. The audit; however, disclosed that the Dollar Rent-A-Car underreported gross revenue to the Port. Additionally, we noted instances of late payments, ranging from 1 to 24 days. The noted exceptions as a whole resulted in underreporting to the Port, and the auditor recommends recovery of approximately **\$92,233** in additional concession fees, and late fee interest.

Background

Dollar Rent-A-Car is a private company located in Mercer Island, WA. The company incorporated in 1987 and operates a number of rental facilities, including two car rental facilities at the following locations around the airport:

1. Dollar Rent-A-Car at 19707 International Blvd, Seatac, WA.
2. Dollar Rent-A-Car at 17600 Pacific Hwy S, Seatac, WA.

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 to be paid to the extent the fee exceeds the MAG at 10% of gross receipts.

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 15th of the following month.

For untimely payments, the agreement provides 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 years:

Year	Reported Gross Revenue	Paid Concession
2007	\$12,157,119	\$1,200,905
2008	13,700,673	1,428,315
2009	15,371,427	1,504,796
Total	\$41,229,219	\$4,134,016

Source: PROPWorks and PeopleSoft

Audit Scope

The scope of the audit covered the period of January 1, 2008 through December 31, 2009.

Audit Approach

To achieve our audit objective, we performed the following procedures:

- Read and analyzed the lease agreement, as amended.
- Reviewed applicable state and local rules and regulations.
- Identified significant provisions in the agreement.
- Obtained necessary financial and non-financial data from the lessee.
- Assessed relevant risks associate with the agreement.
- Designed and executed audit procedures based on risk.

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- Analyzed data (internal & external) to determine completeness & compliance. This included performing the following additional procedures:
 - Reconciliation of the reported gross receipts to the lessee's accounting records to ensure completeness and consistency.
 - Verified that concession fees were paid timely and intact.
 - Recalculated concession revenue and related fees to ensure accuracy.
 - Selected the test months that deemed high risks for review.

Conclusion

Dollar Rent-A-Car materially complied with the terms of the Lease and Concession agreement. The audit; however, disclosed that the Dollar Rent-A-Car underreported gross revenue to the Port. Additionally, we noted instances of late payments, ranging from 1 to 24 days. The noted exceptions as a whole resulted in underreporting to the Port, and the auditor recommends recovery of approximately **\$92,233** in additional concession fees, and late fee interest.

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Schedule of Findings and Recommendations

1. Underreported Gross Receipts

Gross revenue is defined under Section 1.26 as:

“... all charges, including, but not limited to, time and mileage charges and separately stated fees for rental of vehicles and other related or incidental services or merchandise, and any other items or services, made at or from Concessionaire’s Rental Car Concession, regardless of where the vehicles or services are delivered to or returned...”

All gross revenues from operations are subject to concession, except for the following agreed-upon exclusions.

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

We reviewed the lessee’s financial records to include monthly sales summary and noted that the following incidental gross revenues were not reported to the Port:

- Violation
- Frequent flyer surcharges
- Parking & storage
- Express mail
- Miscellaneous

The table below summarizes underreported gross revenues.

	Underreported	Percentage Fees @10%	Interest (18%/yr)	Total
2008	38,840	3,884	1,650	5,534
2009	59,688	5,969	1,518	7,487
	98,528	9,853	3,168	13,021

Recommendation

We recommend that Port management:

- Seek and recover approximately **\$13,021** in underpaid concession fees and interest.
- Work with Dollar rent-A-Car to ensure all receipts subject to concession are reported.

Management Response

2. Untimely Payments

The agreement, as amended under Section 5, stipulates specific payment terms for MAG and percentage fee payments as follows:

- MAG is payable in advance on or before the first day of each month.
- Percentage fee, if applicable, is due within 20 days following the end of each month.

Late payments, as stipulated under Section 6 of the agreement, are to be assessed a one-time late fee of 5% on the overdue amount, and interest of 18% per annum or the maximum allowed by the law, whichever is less.

We reviewed payment history, and noted 12 and 6 instances of late payments in 2008 and 2009, respectively.

The table below summarizes Dollar Rent-A-Car untimely payments and Calculated related late fee and interest charges

Year	Type of Payment	Range of Days Late	# of Instances of Late Payments	One-Time Charge @ 5%	Interest Charge (18%/yr)	Total
2008	MAG	1 to 11	11	50,487	770	51,257
	CFC	24	1	10	2	12
2009	MAG	1 to 4	6	27,943		27,943
				78,440	772	79,212

Recommendation

We recommend that Port management:

- Seek and recover approximately \$79,212 in one-time late charge and in interest/finance charges.
- Work with Dollar Rent-A-Car to ensure timely payments.

Management Response

CMC INVESTMENT, INC - DOLLAR RENT A CAR
 SCHEDULE OF FINDINGS
 FOR THE TWELVE MONTHS ENDED DECEMBER 2008
 INTEREST CALCULATED AS OF 11/30/10

	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Total
Dollar Reported Gross Revenue	688,197	711,020	810,729	772,865	956,228	1,444,267	2,055,830	2,146,847	1,283,397	968,738	788,771	1,073,784	13,700,673
FINDINGS: ADD													
Express Mail	47	29		13	14	73	17	134	105	18	29	62	542
Ticket	2,905	1,614	1,400	1,460	2,310	1,645	2,380	3,045	3,325	2,870	2,205	2,790	27,949
Frequent Flyer Surcharge									276	2,771	2,149	1,732	6,928
Parking & Storage	41	105	6	7	26	7	69	7			2	13	283
Miscellaneous	7	73	50		62	390	1,699	66	447	20	69	256	3,138
Total Additions	3,000	1,821	1,456	1,480	2,412	2,115	4,165	3,252	4,154	5,679	4,454	4,853	38,840
Adjusted Gross Revenue	691,197	712,841	812,185	774,345	958,640	1,446,382	2,059,994	2,150,099	1,287,551	974,417	793,225	1,078,637	13,739,513
Concession Fee Payable - 10%	69,120	71,284	81,219	77,435	95,864	144,638	205,999	215,010	128,755	97,442	79,322	107,864	1,373,951
Concession Fee Reported by CMC	68,820	71,102	81,073	77,287	95,623	144,427	205,583	214,685	128,340	96,874	78,877	107,378	1,370,067
Add'l Concession Payable	300	182	146	148	241	212	416	325	415	568	445	485	3,884
# of Month to Current	35	34	33	32	31	30	29	28	27	26	25	24	
Interest Rate Annually 18% or 1.5% Per Month													
Total Add'l Concession Payable and Interest Payable	158	93	72	71	112	95	181	137	168	221	167	175	1,650
	458	275	218	219	353	307	598	462	584	789	612	660	5,534

CMC INVESTMENT, INC - DOLLAR RENT A CAR
 SCHEDULE OF FINDINGS
 FOR THE TWELVE MONTHS ENDED DECEMBER 2009
 INTEREST CALCULATED AS OF 11/30/10

	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Total
Dollar Reported Gross Revenue	922,703	788,014	1,001,550	1,106,610	1,213,085	1,518,624	2,035,720	2,455,229	1,540,201	1,047,447	823,986	918,285	15,371,454
FINDINGS: ADD													
Express Mail	33												33
Ticket		78		1,750	3,045	2,860	3,710	4,393	5,040	3,570	2,140	3,465	30,051
Frequent Flyer Surcharge	1,733	1,499	1,821	1,987	1,997	2,116	1,991	1,965	1,995	2,217	1,720	2,044	23,084
Parking & Storage	2,030	2,730											4,760
Pickup	35	10											96
Miscellaneous		62		380	19	271	425	25	242			200	1,664
Total Additions	3,831	4,378	1,821	4,117	5,060	5,273	6,126	6,447	7,277	5,787	3,860	5,709	59,688
Adjusted Gross Revenue	926,534	792,392	1,003,371	1,110,727	1,218,145	1,523,897	2,041,846	2,461,676	1,547,478	1,053,234	827,846	923,994	15,431,142
Concession Fee Payable - 10%	92,653	79,239	100,337	111,073	121,815	152,390	204,185	246,168	154,748	105,323	82,785	92,399	1,543,114
Concession Fee Reported by CMC	92,270	78,801	100,155	110,661	121,309	151,862	203,572	245,523	154,020	104,745	82,398	91,829	1,537,145
Add'l Concession Payable	383	438	182	412	506	527	613	645	728	579	387	571	5,969
# of Months to Current	23	22	21	20	19	18	17	16	15	14	13	12	
Interest Rate Annually 18% or 1.5% Per Month	132	144	57	124	144	142	156	155	164	122	75	103	1,518
Total Add'l Concession Payable and Interest Payable	515	582	240	535	650	670	769	799	891	700	462	674	7,488