



Internal Audit Report

Fox Rent-A-Car

Lease and Concession Compliance Audit

January 1, 2008 through December 31, 2009

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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 Fox 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.

Fox Rent-A-Car materially complied with the terms of the Lease and Concession agreement. The agreement itself also complies with applicable state and Port requirements. As reported in the subsequent page of this report, the audit disclosed instances of late payments, underreported gross receipts, and underreported Customer Facility Charge (CFC).

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 Fox 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 agreement requires Fox Rent-A-Car to pay the Port a monthly percentage fee of 4% of its Gross Revenue that is greater than \$40,000. The allowed \$40,000 monthly deduction is adjusted annually to reflect changes in Consumer Price Index (CPI).

The following agreed-upon deductions are allowed in the RAC lease 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 taxing authority.

The privilege fee is payable to the Port no later than 30 days after the end of each 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 Fox Rent-A-Car materially complied with the terms of the Lease and Concession agreement. The audit, however, disclosed Fox Rent-A-Car underreported gross revenues and Customer Facility Charges (CFC) to the Port. Additionally, we noted instances of late payments ranging from 2 to 37 days where no late fee charges had been assessed. These exceptions resulted in underreporting to the Port, and the auditor recommends Port management seek and recover approximately **\$129,291** in additional concession fees, CFC, and late fee charges.

Background

Fox Rent-A-Car is a franchise car rental. The agreement between the Port of Seattle and Fox Rent-A-Car became effective in August 2007. The agreement is operated on a month-to-month basis. The Fox Rent-A-Car is a California corporation, with many independent car rentals in the United States, Canada and around the world.

Fox Rent-A-Car agreement does not require a monthly MAG payment to the Port. It requires the rental car agency to pay the Port a monthly concession percentage fee of 4% of its Gross Revenue that exceeds \$40,000. The allowed \$40,000 monthly deduction is adjusted annually to reflect changes in the Consumer Price Index (CPI).

The concession fee is payable to the Port no later than 30 days after the end of each 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 is Fox Rent-A-Car financial highlights for the last two years:

Year	Reported Gross Revenue	Less Allowable Deduction	Net Concessionable	Paid Concession
2008	6,603,567	(480,000)	6,423,567	217,979
2009	5,976,073	(485,420)	5,490,653	234,926
Total	12,579,640	(965,420)	11,614,220	452,905

Source: PROPWorks and PeopleSoft

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 associated with the RAC agreement.
- Designed and executed audit procedures based on risk.
- Analyzed data (internal & external) to determine completeness & compliance. This included performing the following additional procedures:

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- Reconciliation of the reported gross receipts to the RAC agency accounting records to ensure completeness and consistency.
- Verified that concession fees were paid timely to the Port.
- Recalculated concession revenue and related fees to ensure accuracy.
- Selected the test months that deemed high risks for further details tests.

Conclusion

Fox Rent-A-Car materially complied with the terms of the Lease and Concession agreement. The audit; however, disclosed Fox Rent-A-Car underreported gross revenues and Customer Facility Charges to the Port. Additionally, we noted instances of late payments ranging from 2 to 37 days where no late fee charges were assessed.

The noted exceptions in total resulted in underreporting to the Port, and the auditor recommends Port management seek and recover of approximately **\$129,291** in additional concession fees, CFC, and late fee charges.

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Schedule of Findings and Recommendations

1. Underreported and Reduction of Gross Receipts

Gross revenue is defined under Section 1.E 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; personal accident insurance; any vehicle originally rented at Concessionaire’s Rental Car Concession which exchanged at any other location; the long-term lease; all amount charged to concessionaire’s customers and which are separately stated on the rental agreement as an optional charge for waiver; personal property (including, but not limited to, mobile phones, child seats, ski racks, etc; furnishing and/or replacing fuel; all monies, fees, or other consideration received from airlines, travel agents or other; intercity or drop charges; and recovery fee”

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 taxing authority.

We reviewed Fox Rent-A-Car financial records including monthly sales summary, and noted the following gross revenues were underreported to the Port:

- | | |
|---------------------|-----------------------|
| • Time & mileage | • Miscellaneous |
| • Recovery Fee | • Age different |
| • Drop charges | • Class upgrade |
| • Child seat | • Insurance |
| • Additional Driver | • Road side assistant |
| • Navigation | • Towing |
| • Fuel | |

In addition, we noted customer discount/rebate was offset against gross revenues reported to the Port. The un-allowed discount/rebate offset against reported gross revenue amounted to approximately \$6,631 in 2008 and \$25,518 in 2009.

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The table below summarizes underreported and offset gross revenues.

Description	2008	2009	Total
Fox Reported Gross Revenue	6,306,567	5,976,073	12,282,640
Plus Underreported	162,714	58,720	221,434
Plus Discount/Rebate	6,631	25,518	32,149
Less Allowance	(480,000)	(485,420)	(965,420)
Concessionable Revenue Net of Allowance	5,995,912	5,574,891	11,570,803
Percentage Fees Payable @4%	239,836	222,996	462,832
Less Concession Fee Paid	(233,063)	(219,843)	(452,906)
Underpaid	6,773	3,153	9,926
Interest (18%/yr)	1,778	737	2,598
Grand Total Owed	8,551	3,890	12,441

Recommendation

We recommend that management:

- Seek and recover approximately **\$12,441** in underpaid concession fees and late fee interest charges
- Work with the Fox Rent-A-Car to ensure that all receipts subject to concession fee are accurate and completely reported.

Management Response

2. Underpaid Customer Facility Charge (CFC)

Section 5.25.A of the agreement states, in part, that the company “...must collect the CFC at the time the first payment is made under a Rental Car Contract, and must remit the full amount of the CFC to the Port regardless of whether or not the full amount of such CFC is actually collected by the Concessionaire...”

Further, the Port notification letter sent out to Fox Rent-A-Car on July 03, 2008, gave the rental car company a 45-day notice to start collecting the CFC charges effective on August 18, 2008.

We reviewed the monthly transaction totals against the CFC payment history and noted that from August 2008 through December 2009, Fox Rent-A-Car inconsistently collected the CFC charges, and or did not properly remit all CFC owed the Port. The total CFC underreported to the Port was \$58,756. We further applied 18% on the underreported CFC

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payments and this totaled to \$21,615 of late fee financial charges. A grand total of \$80,371 of additional CFC and late fee charges is now owed the Port.

Recommendation

We recommend Port management:

- Seek recovery of approximately **\$80,371** of underpaid CFC and late fee interest charges.

Management Response

3. Untimely Payments

The agreement, as amended under Section 4.a, stipulates specific payment terms for percentage fee payments as follows:

- Percentage fee is due no later than thirty (30) days after the end of each month.

Late payments, as stipulated under Section 8 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 six and four instances of late payments in 2008 and 2009, respectively and no late fee financial charges were applied.

The table below summarizes untimely payments and 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	Concession	3 to 37	6	6,007	918	6,925
	CFC		4	12,430	4,099	16,529
2009	Concession	2 TO 32	4	1,859	669	2,528
	CFC		4	7,810	2,687	10,497
				28,106	8,373	36,479

Recommendation

We recommend that Port management:

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- Seek and recovery approximately **\$36,479** in one-time late charge and in interest/finance charges.
- Work with the Fox Rent-A-Car to ensure timely payments.

Management Response

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FOX RENT A CAR
SCHEDULE OF FINDINGS
FOR THE TWELVE MONTHS ENDED DECEMBER 2008
INTEREST CALCULATED AS OF 11/30/10

Dates	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
Fox Reported Gross Revenue	255,035	291,208	333,352	311,658	458,934	571,737	1,040,433	1,227,145	709,124	383,645	307,207	417,089	6,306,567
FINDINGS: ADD													
Time & Mileage					516				173	2,885	290	(235)	231
Customer Rebate	1,874			(50)						14		320	5,542
Child Seat										145			14
Navigation			37							189			145
Fuel										260			226
Age Different										15			260
Add'l Driver										90			15
GARS										(63)	(8)		90
Late charge									(70)	250	75	150	(141)
Recovery Fee	151	(87)	12,079	11,246	15,193	19,809	37,933	45,590	3,436				145,827
Towing													-
Insurance						338				700			1,037
Class Upgrade										12			12
Road Assistant (transporation)										622			622
VLF										69			69
Miscellaneous (P Type)	2,008		703	948	937	93	4,177	5,244					14,109
Airport transfer fee (TRANS)												10	10
LMV17													-
TAI & TRAI													189
Discount										89	400	600	1,089
Total Additions	4,032	(87)	12,820	12,144	16,646	20,240	42,110	50,833	3,539	5,276	757	1,034	169,345
Adjusted Gross Revenue	259,067	291,121	346,172	323,802	475,580	591,977	1,082,543	1,277,979	712,663	388,921	307,964	418,124	6,475,912
Less Allowance	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)	(480,000)
Concessionable Revenue net of allowance	219,067	251,121	306,172	283,802	435,580	551,977	1,042,543	1,237,979	672,663	348,921	267,964	378,124	5,995,912
Concession Fee Payable - 4%	8,763	10,045	12,247	11,352	17,423	22,079	41,702	49,519	26,907	13,957	10,719	15,125	239,836
Concession Fee Reported by Fo	8,601	10,048	11,734	10,866	16,757	21,269	40,017	47,486	26,765	13,746	10,688	15,084	233,063
Add'l Concession Payable	161	(3)	513	486	666	810	1,684	2,033	142	211	30	41	6,774
# 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	56		162	146	190	219	430	488	32	44	6	7	1,778
Total Add'l Concession Payable and Interest Payable	217		674	632	856	1,028	2,114	2,521	173	255	36	49	8,552

FOX RENT A CAR
SCHEDULE OF FINDINGS
FOR THE TWELVE MONTHS ENDED DECEMBER 2009
INTEREST CALCULATED AS OF 11/30/10

Dates	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
Fox Reported Gross Revenue	378,054	318,382	315,406	316,819	382,694	583,443	993,521	1,110,232	629,113	401,715	259,060	287,633	5,976,073
FINDINGS: ADD													
Time & Mileage	(205)	1,260	1,065	746	3,587	4,227	1,316	1,507	7,020	1,991	2,390	845	25,750
Customer Rebate	1,330	3,996	505	505	(476)		3,655	6,586	5,225		800	2,411	24,032
Child Seat									77		102		77
Navigation				(100)					133			98	135
Fuel							6		640				745
Age Different						220			260				480
Add'l Driver						(60)			125				65
Drop Charge								75	133	12,528	7,243	4,700	24,679
GARS									(20)				(963)
Late charge			114	(82)	(300)	(104)	(295)	225	314	(303)	(60)	(22)	742
Recovery Fee	15				(11)	264	31	16	900				922
Towing								22	818				416
Insurance						26	(428)		353				381
Class Upgrade						28			9				42
Road Assistant (transportation)						33			100		(9)		138
VLF						47							-
Miscellaneous													(75)
Claim	(75)												1,309
ASV17	369		9	931									-
LMV17													511
TAI & TRAI	21				23	297				170			786
UAF17	250	536											-
AHC17										610			1,696
FSS17		25				1,061							335
WRS17						335							549
WPD17													1,485
Discount	130		25			248				1,083			84,238
Total Additions	1,835	1,821	5,209	2,000	2,823	6,621	4,285	8,432	16,086	16,079	10,466	8,581	84,238
Adjusted Gross Revenue	379,889	320,204	320,615	318,819	385,517	590,064	997,806	1,118,664	645,199	417,794	269,526	296,214	6,060,311
Less Allowance	(40,000)	(40,000)	(40,542)	(40,542)	(40,542)	(40,542)	(40,542)	(40,542)	(40,542)	(40,542)	(40,542)	(40,542)	(485,420)
Concessionable Revenue net of allowance	339,889	280,204	280,073	278,277	344,975	549,522	957,264	1,078,122	604,657	377,252	228,984	255,672	5,574,891
Concession Fee Payable - 4%	13,596	11,208	11,203	11,131	13,799	21,981	38,291	43,125	24,186	15,090	9,159	10,227	222,996
Concession Fee Reported by Fox	13,522	11,135	11,016	11,073	13,708	21,738	38,141	42,809	23,565	14,469	8,762	9,905	219,843
Add'l Concession Payable	73	73	187	58	91	243	150	316	622	621	397	322	3,153
# 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	25	24	59	17	26	66	38	76	140	131	77	58	737
Total Add'l Concession Payable and Interest Payable	99	97	245	76	117	309	188	391	762	752	474	379	3,890

FOX RENT A CAR
 SCHEDULE OF FINDINGS - CFC
 FOR THE SEVENTEEN MONTHS ENDED DECEMBER 2009
 INTEREST CALCULATED AS OF 11/30/10

Month	08/08	09/08	10/08	11/08	12/08	01/09	02/09	03/09	04/09	05/09	06/09	07/09	08/09	09/09	10/09	11/09	12/09	Total
# of Transaction Days	5,088	20,564	17,169	14,232	14,092	11,494	11,583	8,749	8,425	10,708	12,592	17,432	18,458	14,817	12,766	8,515	9,337	
\$ Rate	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	
CFC Payable	25,440	102,820	85,845	71,160	70,460	57,470	57,915	43,745	42,125	53,540	62,960	87,160	92,290	74,085	63,830	42,575	46,685	1,080,105
Per activity reported	19,560	78,535	79,471	70,207	70,210	57,255	47,780	43,915	42,070	45,310	62,560	87,275	91,780	72,780	63,440	42,370	46,605	
CFC Payment	19,560	78,535	79,471	70,207	70,210	57,255	47,780	43,915	42,070	45,535	62,560	87,275	91,780	72,780	63,440	42,370	46,605	1,021,349
Add'l CFC Payable	5,880	24,285	6,374	953	250	215	10,135	(170)	55	8,005	400	(115)	510	1,305	390	205	80	58,756
# of Months to Current Interest Rate Annually 18% or 1.5% Per Month	28	27	26	25	24	23	22	21	20	19	18	17	16	15	14	13	12	
	2,469.60	9,835.33	2,485.86	357.26	90.00	74.18	3,344.55	16.50	2,281.43	108.00	122.40	293.63	81.90	39.98	14.40	21.615		
Total Add'l CFC Payable and Interest	8,349.60	34,120.09	8,859.86	1,309.95	340.00	289.18	13,479.55	71.50	10,286.43	508.00	632.40	1,598.63	471.90	244.98	94.40	80,371		