



Internal Audit Report

DTG Operations, Inc
D/B/A/Thrifty Rent-A-Car

Lease and Concession Compliance Audit

November 1, 2007 through October 31, 2009

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Table of Contents

Transmittal Letter	3
Executive Summary	4
Audit Scope and Audit Methodology.....	5
Conclusion.....	6
Schedule of Findings and Recommendations.....	7
1. Underreported Customer Facility Charge (CFC)	
2. Concession Overpayment	
Schedule A --- Underreported CFC from Nov. 2007 to Oct. 2009	9
Schedule B --- Concession Overpayment due to Local Customer from Nov. 2007 to Oct. 2008	10

Transmittal Letter

We have completed an audit of the Lease and Concession Agreement, as amended, between the Port of Seattle and DTG Operations, Inc. (DBA/Thrifty Car Rental). 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 November 1, 2007, through October 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.

Thrifty Car Rental materially complied with the terms of the Lease and Concession agreement. However, the audit disclosed underreported Customer Facility Charge (CFC) and a concession overpayment, 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 Thrifty Car Rental for a two-year period from November 1, 2007 through October 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. The agreement further requires a Percentage Fee of ten percent (10%) of Gross Revenue to be paid to the Port, or the Minimum Annual Guarantee whichever is greater.

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

- 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. Non-revenue rentals to employees.
- e. Fees paid to other governmental agencies (excluding the Port).

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 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 Thrifty Car Rental materially complied with the terms of the Lease and Concession agreement. The audit, however, disclosed: 1) Underreported CFC, resulting in additional payments to the Port of approximately **\$26,145**. 2) A concession overpayment of approximately **\$87,565** due back to Thrifty Car Rental for paying concession fee on local customers at the off-airport location. After offsetting the additional payments against the overpayment, the questioned amounts result in a net amount of **\$61,420** due back to Thrifty Car Rental.

Background

The Port of Seattle entered into an agreement with Pacific Northwest Rental & Leasing d/b/a/Thrifty Car Rental (Pacific NW) dated November 8, 2004. The agreement was subsequently assigned to DTG Operations, Inc. (d/b/a Thrifty Car Rental) on February 1, 2007.

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. The agreement further requires a Percentage Fee of ten percent (10%) of Gross Revenue to be paid to the Port, or the Minimum Annual Guarantee whichever is greater.

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 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 four years:

	Reported Gross Revenue	Paid Concession
2006	\$12,822,900	\$1,412,909
2007	12,591,659	1,280,724
2008	13,343,271	1,431,170
2009	12,619,687	1,201,617
Total	\$51,377,517	\$5,326,420

Source: PROPWorks and PeopleSoft

Audit Scope and Audit Methodology

The scope of the audit covered the period of November 1, 2007 through October 31, 2009.

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.
- Analyzed data (internal & external) to determine consistency, completeness, & compliance. This included performing the following additional procedures:
 - We reconciled the gross concession receipts reported to the Port to the lessee's accounting records (general ledger revenue and liability account).
 - We verified that concession fees were paid timely and intact.

- We recalculated concession revenue and related fees to ensure accuracy.
- We reviewed monthly totals of car rental days and calculated CFC that would have been due to the Port. We then compared the result to payment history
- We selected seven of twenty-four months that we deemed high risk and conducted further detailed audit of specific rental car agreements.

Conclusion

Thrifty Car Rental materially complied with the terms of the Lease and Concession agreement. The audit; however, disclosed: 1) Underreported CFC, resulting in additional payments to the Port of approximately **\$26,145**. 2) A concession overpayment of approximately **\$87,565** due back to Thrifty Car Rental for paying concession fee on local customers at the off-airport location. After offsetting the additional payments against the overpayment, the questioned amounts result in a net amount of **\$61,420** due back to Thrifty Car Rental.

Schedule of Findings and Recommendations

1. Underreported 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..."

Section 5.25.B further states that "Concessionaire agrees that the CFC is not income, revenue or any other asset of Concessionaire; that Concessionaire has no ownership or property interest in such CFCs; and that Concessionaire hereby waives any claim to a possessory or ownership interest in the CFCs..."

We reviewed rent days by month and calculated monthly CFC that would have been due to the Port. We compared the result to payment history and noted that the lessee did not report CFC completely. We observed that the lessee underpaid CFC in seven of twenty-four months reviewed.

The underpaid CFC to the Port for the audit period was \$17,382 in principle and \$8,763 in financial charges for a grand total of \$26,145.

Recommendation

We recommend Port management:

- Seek recovery of approximately **\$26,145** of underpaid CFC and interest charges.
- Consider reviewing fiscal years prior to the audit period for potential CFC underreporting.

Management Response

Aviation Business Development (ABD) agrees with Internal Audit's (IA) finding in Section 1 and will forward an invoice to Thrifty for \$26,145 to collect the underreported CFC's and associated interest. In addition, ABD will request additional information from Thrifty to ascertain whether CFC's were paid correctly from the time the CFC was first implemented on 2/1/06.

2. Concession Overpayment

Under Section 1.5, Airport Customer is defined to exclude "...any person who does not arrive through the Airport and enters into a motor vehicle rental agreement with Concessionaire at any of Concessionaire's rental car operations outside the Airport's boundary line..." These customers are commonly referred to as local customers.

Thrifty Car Rental during the audit period had two locations subject to the terms of the agreement. One location is at the Airport, and other location is off airport and is outside the Airport's boundary. Rental agreements with local customers at the off-airport location should not have been subject to concession fee. However, we noted that Thrifty Car Rental reported and paid concession fee on all customers at the out-of-airport boundary. For the audit period, Thrifty Car Rental overpaid concession fee to the Port by approximately **\$87,565**.

Recommendation

We recommend Port management:

- Work with Thrifty Car Rental to determine the full extent of the potential overpayment to the Port.

Management Response

ABD agrees with the audit findings and will issue a credit to Thrifty of \$87,565 accordingly.

DTG OPERATIONS, INC (D/B/A THRIFTY CAR RENTAL)
SCHEDULE A - UNDERREPORTED CFC
 FOR THE TWENTY-FOUR MONTHS ENDING OCTOBER 2009
 INTEREST CALCULATED AS OF 02/28/2011

	11/1/2007	12/1/2007	1/1/2008	5/1/2008	7/1/2009	9/1/2009	10/1/2009	TOTAL
OFF AIRPORT LOCATION	9,499	7,005	7,640	13,612	15,491	12,318	10,065	75,630
ON AIRPORT LOCATION	10,006	8,167	9,933	13,748	16,165	16,820	14,362	89,201
LOCAL CUSTOMERS (Non-airport user)	(1,282)	(1,002)	(1,728)	(2,378)	(1,080)	(611)	(878)	(8,959)
TOTAL NUMBER RENTAL DAYS	18,223	14,170	15,845	24,982	30,576	28,527	23,549	155,872
DAILY CFC RATE	4	4	4	4	5	5	5	5
CFC PAYABLE	72,892	56,680	63,380	99,928	152,880	142,635	117,745	706,140
CFC PAYMENT REMITTED	67,088	56,384	63,760	91,844	152,952	139,050	117,680	688,758
(OVER)UNDER PAID	5,804	296	(380)	8,084	(72)	3,585	65	17,382
NUMBER OF MONTHS ELAPSED AS OF 2/28/2011	40	39	38	34	20	18	17	
INTEREST RATE ANNUALLY 18% OR 1.5% PER MONTH	3,482	173	0	4,123	0	968	17	8,763
OR 1.5% PER MONTH								
ADDITIONAL AMOUNT DUE (CFC AND INTEREST)	9,286	469	(380)	12,207	(72)	4,553	82	26,145

DTG OPERATIONS, INC (D/B/A THRIFTY CAR RENTAL)
SCHEDULE B - AMOUNT DUE BACK TO THRIFTY
 FOR THE TWELVE MONTHS FROM NOVEMBER 2007 THROUGH OCTOBER 2008

	11/2007	12/2007	01/2008	02/2008	03/2008	04/2008	05/2008	06/2008	07/2008	08/2008	09/2008	10/2008	TOTAL
Report Gross	766,909	581,644	632,354	648,184	808,574	784,931	953,538	1,574,346	2,020,084	2,356,593	1,375,817	946,573	13,449,547
Less Local Revenue	(48,426)	(39,621)	(73,712)	(64,294)	(73,552)	(83,937)	(86,759)	(95,509)	(110,509)	(76,941)	(65,559)	(56,711)	(875,529)
Grand Total	718,483	542,023	558,642	583,890	735,022	700,994	866,779	1,478,837	1,909,575	2,279,652	1,310,259	889,862	12,574,018
Concessionable													c = a + b
Concession Fee @ 10% Payable	71,848	54,202	55,864	58,389	73,502	70,099	86,678	147,884	190,957	227,965	131,026	88,986	1,257,402
MAG Payment	85,444	85,444	85,444	85,444	85,444	85,444	85,444	85,444	85,444	85,444	85,444	85,444	1,025,325
Concession Payable	-	-	-	-	-	-	9,910	71,991	116,561	150,210	52,137	9,212	410,020
Total Billings & Payment	85,444	85,444	85,444	85,444	85,444	85,444	95,354	157,434	202,005	235,653	137,581	94,656	1,435,345
													g = e + f
													Overpaid Concession Fee (177,944) h = d - g
													Credit issued on LEASS-303309 90,379 i
													Credit due to Thrifty (87,565) j = h-i