



## **Port of Seattle**

### Internal Audit Report

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Lease and Concession Compliance Audit

Simply Wheelz  
DBA/Advantage Rent-A-Car

May 1, 2009 through October 31, 2010

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Report No. 2012-04

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### Transmittal Letter

Audit Committee  
Port of Seattle  
Seattle, Washington

We have completed an audit of the Lease and Concession Agreement, as amended, between the Port of Seattle and Simply Wheelz, LLC. (DBA/Advantage 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) Customer Facility Charges (CFC) were properly collected and remitted timely to the Port.

We examined information related to an eighteen month period from May 1, 2009, through October 31, 2010.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Simply Wheelz materially complied with the terms of the Lease and Concession agreement.

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) Customer Facility Charges (CFC) were properly collected and remitted timely to the Port.

We examined the books and records of Simply Wheelz, LLC. (DBA/Advantage Rent-A-Car) for an 18-month period from May 1, 2009 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) to be paid to the Port on a monthly basis. Additionally, the agreement requires a Percentage Fee of 10% on concession gross receipts to the extent the fee exceeds the MAG.

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 20<sup>th</sup> 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** Simply Wheelz materially complied with the terms of the Lease and Concession agreement. Port management administered the lease in compliance with the terms and conditions of the agreement, except for minor exceptions related to finance charges and interest.

## Background

Simply Wheelz is a subsidiary of The Hertz Corporation. Simply Wheelz began as Advantage Rent-A-Car at Seattle-Tacoma International Airport in May 2009 after Hertz had acquired Advantage Rent-A-Car out of bankruptcy. The Sea-Tac location is the only Advantage Rent-A-Car location in the State of Washington.

The terms of the agreement provide for a Minimum Annual Guarantee (MAG) to be paid to the Port on a monthly basis. Additionally, the agreement requires a 10% Percentage Fee to the extent the fee exceeds the MAG.

For the first year of the audit period, between November 1, 2008 and October 31, 2009, the lease and concession agreement defined the MAG as 80% of the concession reported for the previous agreement year or the MAG of the first agreement year (\$300,012), whichever was greater. Subsequent to an amendment to the agreement, the MAG for the period between November 1, 2009 and October 31, 2010 was defined as 80% of the concession reported for the previous agreement year or the MAG of the first agreement year (\$300,012), whichever was greater, or 10% of the Concessionaire's Gross Revenues for the period between November 1, 2008 and October 31, 2009.

The MAG and Space Rental are 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 20<sup>th</sup> of the following month.

For untimely payments, the agreement provides for a one-time late fee of 5% of the overdue amount payable if the payment is not received within 10 days of the original due date and interest to be accrued at the rate of 18% per annum if the payment is not received within 15 days of the original due date.

### **Below are the financial highlights for the last three years:**

Agreement Year	Reported Gross Revenue	Paid Concession
2009	2,016,799	339,972
2010	5,175,706	517,570
Total	\$7,192,505	\$857,542

Source: PROPWorks

## 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.
- 3) Customer Facility Charges (CFC) were properly collected and remitted timely to the Port.

## **Audit Scope and Methodology**

The scope of the audit covered the period of May 1, 2009 through October 31, 2010, because Simply Wheelz began operations in May 2009.

We conducted the audit to determine whether the lessee was in compliance with the lease agreement terms including, but not limited to, monthly rent and concession payments. The audit 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:

1. **Completeness of Reported Revenue**

We developed an understanding of lessee accounting and operating procedures. We reviewed financial records including the lessee's rental agreement data and monthly revenue reports. In addition, we selected a risk-based sample of 48 rental agreements and traced the rates and charges to the rental agreement data and reconciled the rental agreement data with revenues reported to the Port and the lessee's general ledger.

2. **Timely Submission of Rent and Percentage Fee**

We reviewed the Port's records to determine whether the rent payments were received timely. In the event that payments were later than the stipulated grace periods in the agreement, we calculated the late charge and interest.

3. **Compliance with Insurance Requirement**

We identified the insurance coverage required by the agreement and determined whether the lessee had obtained sufficient coverage and submitted evidence to the Port.

4. **Compliance with Security Requirement**

We identified the surety amount required by the agreement and determined whether the lessee had obtained a security in the appropriate amount and submitted evidence to the Port.

5. **Compliance with Annual Reporting Requirement**

We identified the annual reports required by the lease and concession agreement and determined whether the lessee had submitted the audited reports on time and in accordance with the agreement.

## **Conclusion**

Simply Wheelz materially complied with the terms of the Lease and Concession agreement. Port management administered the lease in compliance with the terms and conditions of the agreement, except for minor exceptions related to finance charges and interest.