



## Internal Audit Report

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Car Lease and Concession Audit  
Enterprise Holdings, LLC  
dba National Car Rental (US), Inc.

November 1, 2008 – October 31, 2011

Issue Date: August 7, 2012  
Report No. 2012-14

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## Transmittal Letter

Audit Committee  
Port of Seattle  
Seattle, Washington

We have completed an audit of the Enterprise (EAN) Holdings, LLC dba National Rental (US), Inc. The purpose of the audit was to determine whether:

- 1) The reported concession fees were complete, properly calculated, and remitted timely to the Port.
- 2) The 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 reviewed information relating to a three-year period from November 1, 2008, through October 31, 2011.

We conducted this 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.

National Car Rental (US), Inc. 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 and Financial Reporting for their assistance and cooperation during the audit.



Joyce Kirangi, CPA  
Internal Audit, Director

## Executive Summary

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

- 1) The reported concession fees were complete, properly calculated, and remitted timely to the Port.
- 2) The 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 National Car Rental (US), Inc. for a three-year period from November 1, 2008, through October 31, 2011. Aviation Business Development, in conjunction with Accounting and Financial Reporting, 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) shall be less than of (i) 80% of the total amount paid to the Port in the previous agreement year or the MAG set forth of the first Agreement, whichever is greater, or (ii) 10% of Concessionaire's Gross Revenues for the Agreement Year commencing November 1, 2008 and ending October 31, 2009. Additionally, the agreement requires a Percentage Fee equal to 10% of gross revenues, provided the fee is higher than the monthly MAG payment.

**Audit Result Summary** National Car Rental (US), Inc. materially complied with the terms of the Lease and Concession agreement.

## Background

On August 27, 1947, a group of 24 independent car rental operators with 800 vehicles and 60 locations founded National Car Rental. The company currently operates hundreds of U.S. locations, including locations at/around the Sea-Tac International Airport.

In 2007, Alamo Rent A Car along with National Car Rental, was acquired by privately held Enterprise Holdings which also owns and operates Enterprise brand in North America. With annual revenues of \$14 billion, Enterprise Holdings is the largest and most comprehensive car rental service provider in the world measured by revenue, employees and fleet.

The terms of the agreement provide for a Minimum Annual Guarantee (MAG) shall be less than of (i) 80% of the total amount paid to the Port in the previous agreement year or the MAG set forth of the first Agreement, whichever is greater, or (ii) 10% of Concessionaire's Gross Revenues for the Agreement Year commencing November 1, 2008 and ending October 31, 2009. Additionally, the agreement requires a Percentage Fee equal to 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 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 year from the due date until paid.

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

Fiscal Year	Reported Gross Revenue	Paid Concession
2008 – 2009*	\$26,953,984	\$4,055,120
2009 - 2010	29,592,351	2,959,235
2010 - 2011	32,466,920	3,246,692
<b>Total</b>	<b>\$89,013,255</b>	<b>\$10,261,047</b>

\*MAG is greater than concession for the Agreement Year

## 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. We utilized a risk-based audit approach from planning to test sampling. We gathered information through document requests, interviews, observation and analytical reviews in order to obtain a complete understanding of the financial requirements of the Agreement between the Port of Seattle and National. We applied additional detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

- |                                   |                                   |
|-----------------------------------|-----------------------------------|
| a. Timely Payment                 | e. CPA Certified Annual Report    |
| b. Insurance Liability            | f. Concession Revenue             |
| c. Surety Bond/Security Deposit   | g. Customer Facility Charge (CFC) |
| d. Minimum Annual Guarantee (MAG) |                                   |

a) **Timely Payment**

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

b) **Insurance Liability**

We reconciled insurance requirements to the coverage reflected in the certificate of insurance in force for the audit period to current.

c) **Surety Bond/Security Deposit**

We determined whether the surety bond amount complied with the requirements stipulated in the agreement.

d) **Minimum Annual Guarantee**

We determined whether MAG was properly calculated and Port management obtained Port Commission approval for Exception Relief to MAG.

e) **CPA Certified Annual Report**

We reviewed annual reports to determine compliance with the timely and complete submission of the report.

f) **Concession Revenue**

We interviewed EAN Holdings Personnel about their policies, procedures, and internal control over cash receipts, sales, accounting, and reporting.

The Daily and Business Report (DBR), which is the general ledger, shows the monthly detail per revenue category and link to all closed car rental agreement. The Revenue Report shows the

monthly totals per revenue category. We reconciled the DBR to the CPA report to the Revenue Report.

To determine whether the lessee completely reported all concession revenues, we selected a sample of 155 closed rental agreements deemed high-risk for the audit period. We determined whether the revenue reported on each rental agreement agreed to the amount posted to the DBR.

**g) Customer Facility Charges**

We reconciled the CFC amount reported in the DBR to each rental agreement in the risk-based sample of closed rental transactions to ensure proper calculation of the CFC, timely collection, and complete remittance of CFC to the Port, as required in the agreement.

**Conclusion**

National Car Rental (US), Inc. materially complied with the terms of the Lease and Concession agreement.