



Internal Audit Report

Lease and Concession Audit

Avis Budget Group, LLC
dba Avis Rent A Car System, Inc.

November 1, 2008 – October 31, 2011

Issue Date: November 13, 2012
Report No. 2012-20

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Transmittal Letter

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of the Avis Budget Group LLC, dba Avis Rent A Car System, Inc. We reviewed information relating to a three-year period from November 1, 2008, through October 31, 2011.

We conducted this performance 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.

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 Avis Rent A Car, Inc. (Avis) 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) of 80% of the total amount paid to the Port in the previous agreement year. 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 Avis materially complied with the terms of the Lease and Concession agreement. However, as reported in Findings 1 and 2, we determined that records had not been retained in accordance with the terms of the agreement and certain gross receipts were underreported. We recommend Port management seek and recover approximately \$7,671 in additional concession fees, late fees, and interest charges.

Background

Avis is one of three brands offering rental cars/trucks within the Avis Budget Group, LLC. Avis Budget Group is headquartered in Parsippany, N.J., and maintains a local administrative office and fleet maintenance facility near Seattle-Tacoma International Airport. The Avis office within the airport is wholly owned by Avis Budget Group, LLC., and in 2008, Avis entered into a 30-year agreement with the Port to operate from its (future) consolidated rental car facility.

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 equal to 10% of gross revenues, provided the Percentage 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 20th 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	\$40,271,615	\$4,225,757
2009 – 2010*	38,181,518	4,058,000
2010 – 2011*	42,257,572	4,058,000
Total	\$120,710,705	\$12,341,757

* 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. We obtained a complete understanding of the financial requirements of the Agreement between the Port of Seattle and Avis. 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 audit reports for the audit period to determine compliance with the timely and complete submission of the report.

f) **Concession Revenue**

We interviewed Avis Personnel about their policies, procedures, and internal controls over cash receipts, sales, accounting, and reporting.

The Business Adjustment Report (BAR), which is the general ledger, shows the monthly detail per revenue category. The Revenue Report shows the monthly totals summarized by revenue category. We reconciled the BAR to the CPA report to the Revenue Report.

To determine whether the lessee completely reported all concession revenues, we selected a sample of 150 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 BAR.

g) Customer Facility Charges

We reconciled the CFC amount reported in the BAR to each rental agreement in the risk-based sample of closed rental transactions. We determined whether the CFC was properly calculated, timely collected, and remitted in full to the Port, as required in the agreement.

Conclusion

Avis materially complied with the terms of the Lease and Concession agreement. However, as reported in Findings 1 and 2, we determined that records had not been retained in accordance with the terms of the agreement and certain gross receipts were underreported. We recommend Port management seek and recover approximately \$7,671 in additional concession fees, late fees, and interest charges.

Schedule of Findings and Recommendations

1. Avis Did Not Comply With Record Retention Requirements Related to Certain Key Records

The Section 7.1 of the agreement states, in part:

“Concessionaire shall maintain its records relating to the operation permitted by this Agreement for a period of at least three (3) years after the end of each Agreement Year (or until the close of any ongoing audit thereof being conducted by, or on behalf of, the Port)...”.

The above section translates to the following record retention time schedule for the audit period:

Agreement Year	Record Retention for three (3) years <u>after</u> the end of each agreement year		
	1 st Year	2 nd Year	3 rd Year
November 1, 2008 to October 31, 2009	October 31, 2010	October 31, 2011	October 31, 2012
November 1, 2009 to October 31, 2010	October 31, 2011	October 31, 2012	October 31, 2013
November 1, 2010 to October 31, 2011	October 31, 2012	October 31, 2013	October 31, 2014

Section 7.1 further states:

“Concessionaire covenants and agrees that it will establish and maintain an accounting system (specifically including all books of account and records customarily used in the type of operation permitted by this Agreement) in full and complete accordance with generally accepted accounting principles and otherwise satisfactory to the Port for the determination of any Concession Fees or other computations, or both, which may be necessary or essential in carrying out the terms of this Agreement.”

For the fiscal period ended 2009 and 2010, we were unable to verify adjustments to concession revenue because Avis had not retained the following key records in accordance with the lease and concession agreement.

Unavailable Key Records	Avis Report Ref.	12 months ending Oct. 31, 2009	12 months ending Oct. 31, 2010
Time and Mileage (T&M) Adjustments	RA PAYMENT/HISTORY SCREEN	No Availability	Limited Availability
Closed Car Rental Agreements	RECEIPT		
Detail Customer Payment Information Including Refunds	CCB020		

Consequently we could not determine the completeness of the following:

- a. CFC for the 10-month period ending August 31, 2009.
- b. Total adjustments of \$188,653 and \$142,761 to concession revenues in 2009 and 2010, respectively.

Recommendations:

We recommend management:

- Ensure the lessee maintains records in accordance with the lease agreement.
- Consider amending the agreement to specifically address noncompliance with record retention requirements.

Management Response

Management believes that Avis/Budget did materially comply with the Lease requirements regarding record retention. Their policy is to retain the records in questions on a rolling 3 year basis (most recent 36 months). As such, it would be in the Port's best interest to conduct the audits one to two years after the close of the year to ensure we get the information we need. Management does not believe that amending the lease is a viable option, as the Concessionaire would not agree to terms that would add penalties and/or more burdensome record keeping.

2. Concession Revenue Was Underreported

The lease agreement in Section 1.26 stipulates:

"Gross Revenues" shall mean and refer to all consideration of any kind- whether cash, credit or in kind- received, derived and/or billed by the Concessionaire for: (a) 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; (b) all amounts charged to the customer for insurance offered by Concessionaire incidental to the rental of such vehicles, including but not limited to personal accident insurance; (c) all charges attributable to any vehicle originally rented at Concessionaire's Rental Car Concession which is exchanged at any other location; (d) all proceeds from the long-term lease of vehicles from Concessionaire's Rental Car Concession; ... and (j) all amounts charged by Concessionaire for the 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 a taxing authority.

Our analysis and review of the lessee's financial records and detail transaction testing determined that the following gross revenues were underreported to the Port:

- No-Show Revenue
- Miscellaneous Vendor Recovery

- Foreign Exchange Fee
- MBNA Hospitality Division
- Shopping Cart Income
- Parking Garage Storage
- Road Safety Fee
- Transportation Fee
- Environment Fee
- Employee (Paid) Rental
- Valet/Overdue Charge

Avis has acknowledged the amounts cited in the table below, which summarizes underreported gross revenue: (See Schedules A, B, and C, for detail.)

Year-Ended October 31,	Gross Revenue	Total Understatement to the Port
2009	\$42,257,572	\$66,212
2010*	38,181,518	49,232
2011*	40,271,615	67,182
Concession Revenue Underreported		182,626
Concession Fees Underpaid		4,815
One Time Late Payment Fee (5%)		220
Interest Accrued (18%)		2,636
Total Due to the Port		\$7,671
* No fee due on understated revenue for this period because MAG was greater than concession fee.		

Recommendations:

We recommend management:

- Seek and recover approximately \$7,671 in underpaid concession fees, late fees, and interest charges.
- Work with Avis Budget Group, LLC, to ensure that all receipts subject to the concession fee are accurately and completely reported.

Management Response

Concessionaire is in agreement with findings, and Management will collect monies owed accordingly.

SCHEDULE A - GROSS REVENUE UNDERREPORTING
FOR THE 12 MONTHS ENDED OCTOBER 31, 2009
INTEREST CALCULATED AS OF 10/31/2012

CPA year-end true up Gross Revenue (a)	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Total
	2,843,731	2,483,980	2,511,417	2,731,489	3,208,690	3,355,202	3,340,131	3,982,234	5,158,178	5,440,767	4,019,113	3,182,640	42,257,572
FINDINGS: ADD													
E - Transaction (Rental Agreements with Employees for Cars that are Owned by the Renting Location)	384.93	227.74	1,146.32	1,036.19	1,487.68	262.38	631.75	698.73	1,185.47	-	513.20	1,848.55	9,423
F - Transaction (Rental Agreements with Employees for Cars that are Not Owned by the Renting Location)			124		738				1,092				1,954
No-show Revenue - 4204275	2,152	2,038	932	2,726	1,693	1,737	1,548	3,563	4,526	3,825	4,131	2,533	31,404
Misc Vendor Recovery - 4204613						2,028	5,050	6,676	11,630	6,676	(3,589)	(17,745)	4,050
Foreign Exchange Fee - 4404620	3,291	711	1,539	-	3,561	1,897	2,057	2,450	-	1,438	841	909	18,694
MBNA Hospitality Division	687												687
Total Additions (b)	6,515	2,977	3,741	3,762	6,742	4,634	6,265	11,762	18,433	11,939	1,896	(12,454)	66,212
Adjusted Gross Revenue (a) + (b)	2,850,246	2,486,957	2,515,158	2,735,251	3,215,432	3,359,836	3,346,396	3,993,996	5,176,611	5,452,706	4,021,009	3,170,186	42,323,784
Concession Fee Payable - 10%	285,025	248,696	251,516	273,525	321,543	335,984	334,640	399,400	517,661	545,271	402,101	317,019	4,232,378
Concession Fee Reported by Avis (MAG & %)	338,167	338,167	338,167	338,167	338,167	338,167	338,167	398,223	515,818	544,077	401,911	338,167	4,565,363
Add'l Concession Payable	-	-	-	-	-	-	-	1,176	1,843	1,194	190	-	4,403
# of Months to Current	48	47	46	45	44	43	42	41	40	39	38	37	220
One Time Late Payment Charge 5%													
Interest Rate Annually 18% or 1.5% Per Month								723	1,106	698	108	-	2,636
Total Add'l Concession Payable and Interest Payable	-	-	-	-	-	-	-	1,900	2,949	1,892	298	-	7,259

Concession Fee Per Audit 4,403
Credit Over Issued At Year End True Up 412
Concession Fee Due To The Port 4,815
Plus Late Fee & Interest Accrued 2,856
Amount Due to the Port 7,671

AVIS RENT A CAR SYSTEM, INC
SCHEDULE B - GROSS REVENUE UNDERREPORTING
FOR THE 12 MONTHS ENDED OCTOBER 31, 2010

	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Total
CPA year-end true up Gross Revenue (a)	2,362,447	2,078,303	2,119,821	2,555,711	2,712,429	2,738,143	2,936,764	3,546,975	4,653,004	5,223,437	3,910,254	3,344,231	38,181,518
FINDINGS: ADD													
No-show Revenue	2,003	1,342	2,459	1,620	1,297	1,026	1,679	2,627	2,509	2,673	3,041	2,432	24,708
Misc Vendor Recovery	(7,563)	55	175	915	-	1,151	5,677	(5,978)	275	597	630	581	(3,485)
Foreign Exchange Fee	599	702	662	699	834	941	780	944	877	1,185	18,594	917	27,734
MBNA Hospitality Division	-	275											275
Total Additions (b)	(4,961)	2,374	3,296	3,234	2,131	3,118	8,136	(2,407)	3,661	4,455	22,265	3,930	49,232
Adjusted Gross Revenue (a) + (b) = c	2,357,486	2,080,677	2,123,117	2,558,945	2,714,560	2,741,261	2,944,900	3,544,568	4,656,665	5,227,892	3,932,519	3,348,161	38,230,750

Concession Fee Payable - (c) x 10%	235,749	208,068	212,312	255,895	271,456	274,126	294,490	354,457	465,666	522,789	393,252	334,816	3,823,075
Concession Fee Reported	338,167	338,167	338,167	338,167	338,167	338,167	338,167	354,698	465,300	522,344	391,025	338,167	4,438,700

Credit Issued at Fiscal Year End (380,700)

Net Payment from Avis 4,058,000

AVIS RENT A CAR SYSTEM, INC
SCHEDULE C - GROSS REVENUE UNDERREPORTING
FOR THE 12 MONTHS ENDED OCTOBER 31, 2011

	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Total
CPA year-end true up Gross Revenue (a)	2,591,940	2,317,899	2,205,133	2,607,471	3,126,428	2,937,765	2,960,724	3,975,219	5,062,395	5,457,534	3,944,533	3,084,575	40,271,615
FINDINGS: ADD													
Parking garage storage	100	100	50	50	100	50	100	150	150	200	6	180	50
Valet/Overdue charge	4	(11)	(13)	(11)	(18)	100	(6)	8	9	8		7	1,280
VLF - 4205597													(24)
Transportation fee													7
Environment Fee - 4204276													5
State Surcharge							(76)						(76)
Shopping Cart Income - 4204269		122	205	618	462	641	728	923	1,212	1,611	1,689	2,099	10,310
No-show Revenue - 4204275	1,954	351	315	3,818	1,397	1,792	1,674	2,096	2,451	2,998	3,414	1,612	23,872
Misc Vendor Recovery - 4204613	392	36	598	224	232	278	362	490	469	1,007	931	450	5,469
Foreign Exchange Fee - 4404620	1,034	973	1,821	810	(83)	967	2,540	2,220	3,073	4,611	4,764	3,560	26,290
Total Additions (b)	3,484	1,571	2,976	5,509	2,090	3,828	5,322	5,887	7,364	10,435	10,804	7,912	67,182
Adjusted Gross Revenue (a) + (b) = c	2,595,425	2,319,469	2,208,109	2,612,980	3,128,518	2,941,593	2,966,046	3,981,106	5,069,758	5,467,969	3,955,337	3,092,487	40,338,797
Concession Fee Payable - (c) x 10%	259,542	231,947	220,811	261,298	312,852	294,159	296,605	398,111	506,976	546,797	395,534	309,249	4,033,880
Concession Fee Reported	338,167	338,167	338,167	338,167	338,167	338,167	338,167	397,522	506,239	545,753	394,453	338,167	4,549,301
											Credit Issued at Fiscal Year End		(491,301)
											Net Payment from Avis		4,058,000