



Internal Audit Report

Lease and Concession Audit

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

November 1, 2008 – October 31, 2011

Issue Date: November 13, 2012
Report No. 2012-21

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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 Budget 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 Budget Rent A Car System, Inc. (Budget) 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 Budget materially complied with the terms of the Lease and Concession agreement. However, as reported in Findings 1, we determined that certain key records had not been retained in accordance with the terms of the agreement. Further, certain gross receipts were underreported which resulted in approximately \$9,217 of additional concession fees, late fees, and interest charges.

Background

Budget 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 Budget office within the airport is wholly owned by Avis Budget Group. In 2008, Budget 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*	\$24,626,865	\$3,500,400
2009 – 2010*	21,527,526	2,452,727
2010 – 2011	26,263,513	2,626,085
Total	\$72,417,904	\$8,579,212

* 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 Budget. 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 Budget 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 213 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

Budget materially complied with the terms of the Lease and Concession agreement. However, as reported in Findings 1, we determined that certain key records had not been retained in accordance with the terms of the agreement. Further, certain gross receipts were underreported which resulted in approximately \$9,217 of additional concession fees, late fees, and interest charges.

Schedule of Findings and Recommendations

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

Section 7.1 further states:

“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

The Section 7.1 of the agreement states, in part:

“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 Budget had not retained the following key records in accordance with the lease and concession agreement.

Unavailable Key Records	Budget 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 \$197,403 and \$181,522 reported 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
- Tire Wheel Damage Fee
- Security Fee
- Shopping Cart Income
- Employee (Paid) Rental
- Valet/Overdue Charge

Budget 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*	\$24,626,865	\$57,026
2010*	21,527,526	58,760
2011	26,260,852	80,326
Concession Revenue Underreported		196,112
Concession Fees Underpaid		8,038
One Time Late Payment Fee (5%)		212
Interest Accrued (18%)		967
Total Due to the Port		\$9,217
<small>* No fee due on understated revenue for this period because MAG was greater than concession fee.</small>		

Recommendations:

We recommend management:

- Seek and recover approximately \$9,217 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.

BUDGET RENT A CAR SYSTEM, INC
 SCHEDULE A - GROSS REVENUE UNDERREPORTING
 FOR THE 12 MONTHS ENDED OCTOBER 31, 2009

	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
CPA year-end true up Gross Revenue (a)	1,262,496	1,319,203	1,221,486	1,258,937	1,643,688	1,766,131	1,807,011	2,521,303	3,450,565	4,179,233	2,651,927	1,544,885	24,626,865
FINDINGS: ADD													
Valet/Overdue Surcharge	250	200	250	250	350	300	500	600	700	550	600	100	4,650
E - Transactions (Employee Paid Rental)	68	483	413										964
Tire/Wheel Damage	108	220			824	100				1,944	707	217	1,252
Shopping Cart Income					904	996	1,226	177	4,424	3,232	3,257	1,137	2,868
No-show Revenue	1,120	1,026	465	1,010			1,142	3,298	7,796	4,805	(2,481)	(8,657)	18,974
MISC Vendor Recovery - 4204613				-	2,293	1,266	1,574	1,635	1,890	3,132	3,918	2,619	5,903
Foreign Exchange Fee	1,849	933	995										22,104
MBNA Hospitality Division	311												311
Total Additions (b)	3,706	2,862	2,123	1,260	3,547	3,386	4,542	5,710	14,810	13,663	6,001	(4,584)	57,026
Adjusted Gross Revenue (a) + (b) = c	1,266,202	1,322,065	1,223,609	1,260,197	1,647,235	1,769,517	1,811,553	2,527,013	3,465,375	4,192,896	2,657,928	1,540,301	24,683,891
Concession Fee Payable - (c x 10%)	126,620	132,206	122,361	126,020	164,723	176,952	181,155	252,701	346,537	419,290	265,793	154,030	2,468,389
Concession Fee Reported	291,700	291,700	291,700	291,700	291,700	291,700	291,700	291,700	345,057	417,923	291,700	291,700	3,679,980

Credit Issued at Fiscal Year End (179,580)

Net Payment from Avis 3,500,400

BUDGET 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)	1,207,065	1,016,836	823,958	1,044,746	1,161,338	1,320,992	1,525,800	2,220,801	3,211,955	3,769,061	2,597,678	1,627,297	21,527,526
FINDINGS: ADD													
Valet/Overdue Surcharge	50	100	150	100	150	150	250	600	450	150	100	200	2,450
E - Transactions (Employee Paid Rental)			669								310		978
Tire/Wheel Damage											150		150
Vehicle License Fee (VLF)	(2)	2	0	7	735	0	1	6	(1,214)	19	26	97	(322)
Shopping Cart Income	160	191	130	6,614	236	2,809	329	599	9,043	602	335	377	21,425
No-show Revenue	1,196	1,272	841	1,084	664	849	1,030	1,783	2,332	2,546	3,936	2,119	19,652
MISC Vendor Recovery	(8,284)	33	1,107	445	-	376	2,909	(3,396)	387	375	179	134	(5,735)
Foreign Exchange Fee	1,435	836	863	869	1,104	1,199	1,449	1,902	1,920	2,606	3,628	2,217	20,028
MBNA Hospitality Division													134
Total Additions (b)	(5,445)	2,568	3,760	9,119	2,889	5,383	5,968	1,494	12,918	6,298	8,664	5,144	58,760
Adjusted Gross Revenue (a) + (b) = c	1,201,620	1,019,404	827,718	1,053,865	1,164,227	1,326,375	1,531,768	2,222,294	3,224,873	3,775,360	2,606,341	1,632,441	21,586,286
Concession Fee Payable - (c x 10%)	120,162	101,940	82,772	105,386	116,423	132,638	153,177	222,229	322,487	377,536	260,634	163,244	2,158,629
Concession Fee Reported	204,394	204,394	204,394	204,394	204,394	204,394	204,394	222,080	321,196	376,906	259,768	204,394	2,815,101

Credit Issued at Fiscal Year End

(362,374)

Net Payment from Avis

2,452,727

BUDGET RENT A CAR SYSTEM, INC
 SCHEDULE C - GROSS REVENUE UNDERREPORTING
 FOR THE 12 MONTHS ENDED OCTOBER 31, 2011
 INTEREST CALCULATED AS OF 10/31/2012

CPA year-end true up Gross Revenue (a)	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
1,297,600	1,176,830	1,024,996	1,060,434	1,614,332	1,761,160	1,909,189	2,963,090	4,255,304	4,795,070	2,724,661	1,680,847	26,263,513	
FINDINGS: ADD													
Valet/Overdue Surcharge	300	250	100	150	200	250	200	650	600	100	460	420	3,680
E - Transactions (Employee Paid Rental)	93			53				372	564				1,082
Tire/Wheel Damage								50					50
Vehicle License Fee (VLF)	22	3	1	12	6	6	2	10	22	4	5	8	101
Security Fee										140			140
Shopping Cart Income	5,756	(477)	714	881	763	997	1,010	420	2,932	4,264	3,306	1,431	21,997
No-show Revenue	1,674	847	731	1,898	1,165	1,533	1,360	2,384	3,758	4,643	4,545	1,695	26,233
Misc Vendor Recovery	402	38	314	112	158	303	260	451	551	704	891	411	4,595
Foreign Exchange Fee	1,535	1,065	993	1,111	1,391	1,508	1,584	1,458	2,201	3,211	3,719	2,672	22,448
Total Additions (b)	9,782	1,726	2,853	4,164	3,736	4,597	4,416	5,423	10,436	13,630	12,926	6,637	80,326
Adjusted Gross Revenue (a) + (b) = c	1,307,382	1,178,556	1,027,849	1,064,598	1,618,068	1,765,757	1,913,605	2,968,513	4,265,740	4,808,700	2,737,587	1,687,484	26,343,839
Concession Fee Payable - (c x 10%) = (d)	130,738	117,856	102,785	106,460	161,807	176,576	191,360	296,851	426,574	480,870	273,759	168,748	2,634,384
Concession Fee Reported	205,224	205,224	205,224	205,224	205,224	205,224	205,224	296,309	425,530	479,507	272,466	205,224	3,115,604
Add'l Concession Payable (d)	-	-	-	-	-	-	-	542	1,044	1,363	1,293	-	4,241
# of Months to Current	24	23	22	21	20	19	18	17	16	15	14	13	
One Time Late Payment Charge 5%													212
Interest Rate Annually 18% or 1.5% Per Month							138	250	307	271	-	-	967
Total Add'l Concession Payable and Interest Payable (d) + (e)	-	-	-	-	-	-	680	1,294	1,670	1,564	-	-	5,420
													4,241
													3,797
													8,038
													1,179
													9,217