



INTERNAL AUDIT REPORT

TRANSPORTATION NETWORK COMPANIES

PILOT PROGRAM OPERATING AGREEMENT

RASIER, LLC dba UBER

LYFT, INC.

WINGZ, INC.

APRIL 1, 2016 – MARCH 31, 2017

ISSUE DATE: February 08, 2018

REPORT NO. 2017-22

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EXECUTIVE SUMMARY

Internal Audit (IA) completed an audit of Lyft, Rasier, LLC (Uber), and Wingz, collectively referred to as Transportation Network Companies (TNCs) for the period April 1, 2016 – March 31, 2017. The objective of this audit was to determine whether TNCs complied with key terms of the Concession Agreement, including the accuracy and completeness of revenue paid to the Port.

We concluded that TNC revenue paid to the Port was materially complete, accurate, and remitted timely. We also concluded that the TNCs generally complied with key terms in the contract. We noted two exceptions that are discussed below:

1. Uber provided IA with a list of drivers that operate at the airport. When IA meshed this with available trip information by month, we noted some discrepancies. Uber recalculated trip activity based on discrepancies noted, and through this process, Uber “self-identified” an underpayment of revenue of \$30,045.
2. TNCs are growing faster than expected and many of the TNC drivers did not display or present a valid King County Decal, a for-hire permit, or the TNC Trade Dress (Uber, Lyft or Wingz Logo). During the time of our audit, King County was behind on issuing Decals and permits, however, drivers appeared to lack a sense of urgency to pick up and display this information.

This was a result of a relatively new program for the Port of Seattle with higher than expected growth rates. As the program evolves, the TNCs, in partnership with Port management, need to assure that their drivers are following local requirements. The Port also needs to design stricter measures to assure that drivers follow the terms of the Concession Agreement and display and/or possess valid documentation.

We extend our appreciation to Port management and staff including Airport Operations, Aviation Commercial Management, and Accounting and Financial Reporting. We also thank the TNCs for their assistance and cooperation during the audit.



Glenn Fernandes, CPA
Director, Internal Audit

RESPONSIBLE MANAGEMENT TEAM

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BACKGROUND

Lyft and Rasier, LLC (Uber) entered into a pilot program with the Port on March 31, 2016 and Wingz entered into a pilot program on April 4, 2016. The agreements expired on March 31, 2017 and all three are now operating on a month to month agreement. The agreements allow Lyft, Uber, and Wingz, collectively known as Transportation Network Companies (TNCs), to pick up and deliver passengers at the airport. During the audit period, TNCs paid the Port \$5.00 per outbound trip or passenger pickup. As of late 2017, the fee was raised to \$6.00 per trip.

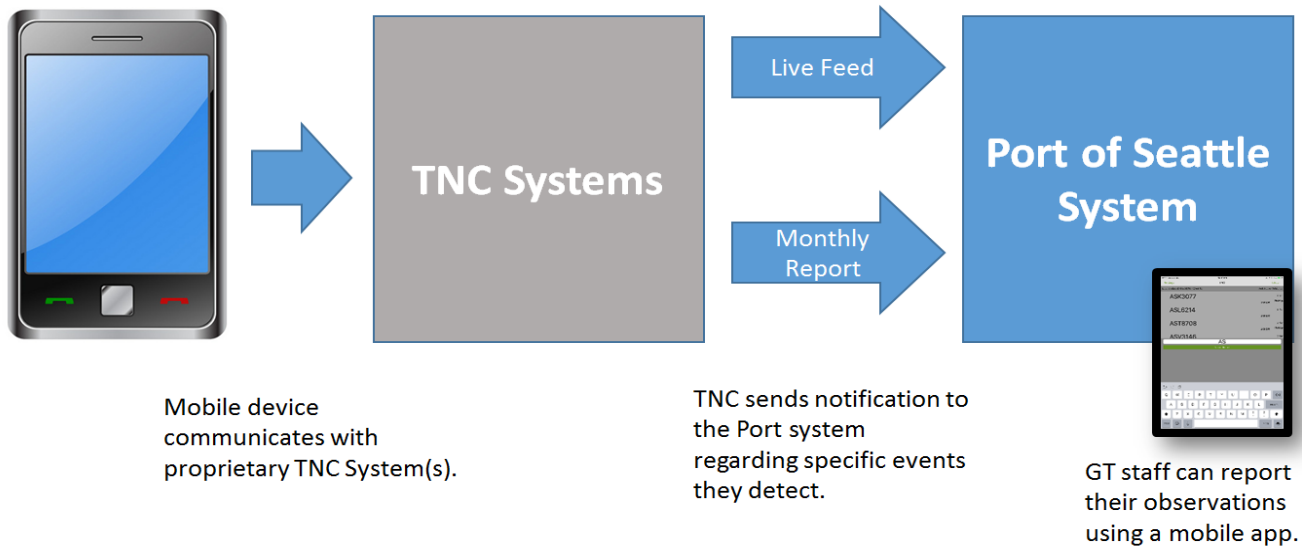
TNCs connect riders and drivers through a mobile application. TNC platforms sometimes referred to as ridesharing, connect passengers with drivers using their personal or non-commercial vehicle. The mobile application has functionality to provide the requestor, or person receiving the ride, with an estimated pick up time, manages the payment process, and provides customers an opportunity to evaluate the driver.

A "Geo-Fence" (see figure below) was established around the perimeter of the airport. The Geo-Fence interacts with a Global Positioning System to record TNC trip activity.



The Port implemented a two way system for tracking TNC activity. First, a live feed of event information is provided to the Port for vehicles within a defined geographical area. Second, TNCs upload monthly data to a SharePoint site. This monthly file documents trip activity and is used for billing. The system also provides a mobile application for ground transportation staff to receive a live feed of vehicle activity. This mobile application is used by ground transportation staff, as a secondary control, to report their observation of vehicles entering the pickup area. This helps validate whether observed vehicles are materially consistent with the self-reported monthly trip activity.

System Components



AUDIT SCOPE AND METHODOLOGY

We conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. 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.

The period audited was April 2016 – March 2017. We utilized a risk-based audit approach from the planning phase to testing phase of our audit. We gathered information through document requests, research, interviews, observations, and analytical procedures. We assessed significant risks and identified controls to mitigate those risks. Our audit included the following procedures:

Compliance with Contractual Requirements & Laws

To gain an understanding of the Port's processes, industry regulations and TNC Operations we:

- Documented Port management's processes
- Interviewed King County and City of Seattle personnel, about enforcement of TNC regulations, and gained general industry knowledge
- Interviewed external parties, including other airports and cities, to benchmark Port operations

To validate compliance with significant terms of the operating agreement, we reviewed:

- Permitting (King County and City of Seattle)
- Citations
- E-KPI requirements and related calculations

Revenue Completeness & Accuracy

To assess whether TNC reported per-trip fees were complete, properly calculated, and remitted timely, we:

- Randomly observed outbound TNC activity to assess reasonableness of reporting
- Analyzed and recalculated per-trip fees (with available data)
- Reviewed Port records to verify timeliness of concession payments
- Observed 74 TNC vehicles and verified that the application was enabled and captured as trip activity

Indemnity & Insurance Requirements

To verify that insurance requirements were met, we reviewed:

- Insurance documentation

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

1) RATING: MEDIUM

TERMS AND PROVISIONS IN THE OPERATING AGREEMENT WERE NOT ALWAYS FOLLOWED.

During the course of our audit, we requested and received a list of drivers that operate at the airport. When we meshed this with available trip information by month, we noted some discrepancies. We brought these to Uber's attention and requested certain records from Uber's systems. Uber was hesitant to provide us with the requested data, and instead analyzed their own data and recalculated the number of trips during the audit period. This resulted in Uber's owing the Port \$30,045 for 6,009 trips. Uber then provided us with the trip details from their analysis. The majority of these discrepancies were for the period April 2016 through September 2016, when the per trip fee was \$5.

In our testing of trip count data from Wingz, Internal Audit identified \$1,250 in underreported revenue. Wingz could not explain the cause of the discrepancy.

Recommendation:

We recommend Port Management:

- Assure that Uber pays the Port the \$30,015 as promised and seek collection of \$1,250 from Wingz.
- Strengthen "right to audit" language in future contracts with all TNC operators, focusing on timeliness, comprehensiveness and penalties when failing to comply.

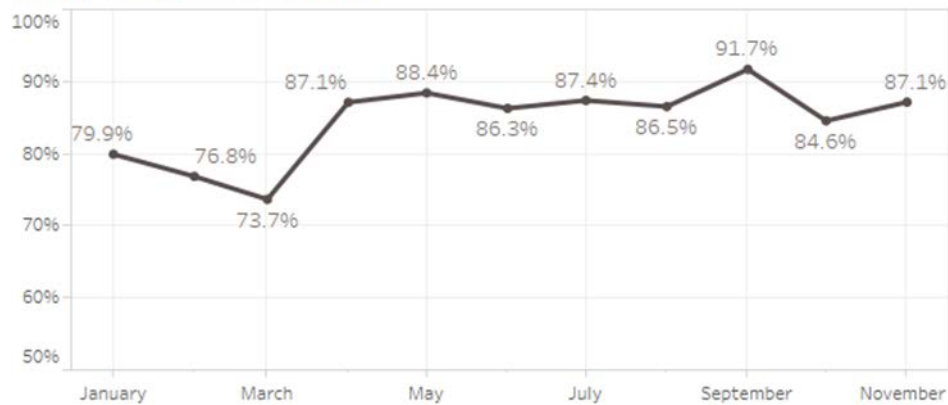
Management Response/Action:

- Aviation staff agrees with the Audit team's recommendation to seek recovery of underreported revenue. Staff will pursue collection of the \$30,045 from Uber and \$1,250 from Wingz.

As identified as part of the implementation of the TNC Pilot Agreement, self-reported data (by TNCs) as the basis of trip fees would have limitations associated with verification by Port staff. Due to these limitations, and as noted by the Audit team (see page 5 above), Port staff worked closely with Information Communications & Technology (ICT) to develop a trip auditing system utilizing an iPad application system used by Ground Transportation (GT) staff. As part of this system, the Port's Business Intelligence team also developed a random sampling schedule that would provide statistically significant samples of TNC pick-up trip data, collected by GT staff. The collection of data occurs regularly and at each month end, Business Intelligence staff analyze the trip count data and compare it to actual data as reported by TNCs.

The chart below shows the "match" rates between data collected by GT staff and self-reported data from the TNCs.

Observer Match Rate for 2017



As indicated by the chart, typical monthly match rates ranged between 85-90% for most of 2017. Three primary reasons that the match rates are not closer to 100% include:

- 1) Turnover of TNC vehicles/drivers is very high. New drivers/vehicles are continuously getting permitted and accessing the Airport for pick-up trips. Many of these new entrants have vehicles with temporary license plates. When permanent plates arrive and drivers replace the temporary plates with permanent plates, TNC companies are often delayed in updating their database/systems with the new plate information. When Port GT staff collects real-time trip info with permanent plate info, yet TNCs report at month-end the temporary plate info, the result is a “non-match.”
- 2) As mentioned, GT staff collects data at random times, and for certain time increments (e.g.- one hour). Due to the potential time delays associated with GPS data and the real-time systems, data collected close to the start and finish of time increments can lead to non-matches. An example would be GT staff collecting data associated with a pick-up at 11:59am, and due to slight data transfer delays with the TNC systems, at month-end the TNC reports the pick-up time at 12:01pm, leading to a non-match when analyzed by Business Intelligence.
- 3) TNC drivers utilize their application to indicate when they have picked up a passenger. This information is then sent to the TNCs. Often, drivers will send notification before or after the actual pick-up (e.g.- a TNC driver may pick up his/her passenger and then several minutes later send the notification while en route to the destination). When this occurs, typically it results in a non-match.

The process outlined above and resulting match rates shown in the chart are an attempt by Port staff to continuously monitor the self-reported data from the TNCs to ensure accurate reporting of trips and fees. Port staff continues to evaluate other monitoring methodologies and technologies, including the use of RFID stickers on TNC vehicles.

- Port staff also agrees with the Audit team’s recommendation to strengthen audit language. This change can either be done through an amendment to the current Pilot Agreement and/or implemented as part of a new Agreement yet to be negotiated. Port staff will look to the Audit team to provide any and all audit language associated with an update.

2) RATING: MEDIUM

FOR-HIRE PERMITS, DECALS, AND TRADE DRESS

TNC Drivers are required by various Regulations and the Pilot Program Operating Agreement to:

1. Display a King County Decal on their windshield
2. Hold a valid for-hire permit
3. Properly display the TNC Trade Dress (Uber, Lyft, or Wingz Logo)

Our testing and observations found that a significant number of drivers did not display or have available, the above mentioned three items (see Appendix B, Exhibit 2). A part of the lack of compliance was because King County was significantly behind in issuing decals and permits. As of 12/31/2017 King County has indicated that they are now caught up on issuance of windshield decals, but it is up to the driver to pick these up and display them. King County has also indicated that they now have a 7–10 day turnaround on for-hire permit approvals. Ground Transportation periodically issues citations to drivers for noncompliance with the above requirements; however, a continued sense of importance to meeting these contractual requirements needs to be reinforced with the TNC Drivers.

Recommendation:

We recommend Port Management:

- Work with TNC companies to continue to stress the importance of drivers adhering to these elements of the concession agreement
- Continue to utilize the current process of issuing citations, but also consider other measures that might prevent vehicles, that do not adhere to contract requirements, from servicing airport customers

Management Response/Action:

- Port staff agrees with the Audit team's recommendation to continue to stress the importance of adhering to licensing and permitting requirements as laid out in the TNC Pilot Agreement. Staff has been proactive in working with all stakeholders, including TNCs, King County, and the City of Seattle in creating a working group to address delays in permitting and licensing. Due to the previous back-log of TNC decals from King County, Staff had developed a system in which information associated with vehicles that had been cited (and sometimes fined) was sent to King County for verification of driver/vehicle licensing. In addition, staff continues to work with each TNC to communicate to newly licensed drivers, the importance of physically picking up their licenses and decals from King County in a timely manner.
- In response to the Audit team's second recommendation, staff will continue to consider alternatives that will help ensure that only drivers and vehicles that have proper licensing and decals access Port property. In early January, Port staff communicated with TNCs regarding consistent enforcement of credentials. Enhanced enforcement is underway (February 1, 2018) in agreement from King County.

Appendix

APPENDIX A: RISK RATINGS

Findings identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance or reputational impact the issue identified has on the Port. Items deemed “Low Risk” will be considered “Exit Items” and will not be brought to the final report.

Rating	Financial	Internal Controls	Compliance	Public	Port Commission/ Management
HIGH	Large financial impact Remiss in responsibilities of being a custodian of public trust	Missing, or inadequate key internal controls	Noncompliance with applicable Federal, State, and Local Laws, or Port Policies	High probability for external audit issues and/or negative public perception	Important Requires immediate attention
MEDIUM	Moderate financial impact	Partial controls Not adequate to identify noncompliance or misappropriation timely	Inconsistent compliance with Federal, State, and Local Laws, or Port Policies	Potential for external audit issues and/or negative public perception	Relatively important May or may not require immediate attention
LOW/ Exit Items	Low financial impact	Internal controls in place but not consistently efficient or effective Implementing/enhancing controls could prevent future problems	Generally complies with Federal, State and Local Laws or Port Policies, but some minor discrepancies exist	Low probability for external audit issues and/or negative public perception	Lower significance May not require immediate attention
Efficiency Opportunity	An efficiency opportunity is where controls are functioning as intended; however, a modification would make the process more efficient				

APPENDIX B: (Exhibit 1) Various Rules, Regulations & Policies for TNC Operators.

The TNC Pilot Program Operating Agreements states:

Section 2: *“Operator and Operator’s operations must, at all times, be in compliance with State of Washington, King County, City of Seattle and City of SeaTac laws and regulations, as applicable.”*

Section 3: *“Operator shall comply with the Terms and Conditions of this Pilot Program Agreement and the Operating Instructions applicable to the Operator and its particular class of service...”*

Section 4: *“Operator shall also comply with the then-current Port tariffs, rules and regulations, and procedures and directives pertaining to the Operation of vehicles at the Airport...”*

The City of Seattle and King County Codes 6.310 and 6.64 respectively, state:

*“A decal must be affixed to the windshield of the TNC vehicle...
Must hold a valid for-hire permit and operate a licensed for-hire or a TNC with a vehicle endorsement – it is unlawful for any person to drive a TNC endorsed vehicle without first having obtained a valid for-hire driver’s license...
Drivers violate the law if they drive for a TNC without picking up a for-hire permit and decal within 30 days from the date of King County notification to the TNC...”*

RCW 46.72.020 states:

No for hire operator shall cause operation of a for hire vehicle upon any highway of this state without first obtaining a permit from the director of licensing, except for those for hire operators regulated by cities or counties in accordance with chapter 81.72 RCW. Application for a permit shall be made on forms provided by the director and shall include (1) the name and address of the owner or owners, and if a corporation, the names and addresses of the principal officers thereof; (2) city, town or locality in which any vehicle will be operated; (3) name and motor number of any vehicle to be operated; (4) the endorsement of a city official authorizing an operator under a law or ordinance requiring a license; and (5) such other information as the director may require.

Port of Seattle Transportation Requirements – Airport Operations – Ground Transportation, Operating Instructions Handbook states:

TRANSPORTATION REQUIREMENTS – “Driver shall strictly comply with the following transportation requirements as well as those outlined in the SeaTac Airport Ground Transportation Operating Agreement and Rules & Instructions directives...”

B. Always properly display TNC Trade Dress

APPENDIX B: (Exhibit 2) Testing Results

On August 10, 2017, the audit team performed live observations on the third-floor of the Airport parking garage where TNC drivers pick up their customers. The audit team randomly observed vehicles to determine whether they displayed: a current for-hire permit, a King County Decal, and the appropriate trade dress. The results of our observations are highlighted below.

Display of for-hire permit:

In 95.9% of cases tested, the For-Hire Permit was not available and was not adequately displayed while the vehicle was on the TNC app. Additionally, two out three permits on display, were expired. (See table-1 for details)

Table - 1

TNC	Present	Absent	% Absent
UBER	2*	40	95.2%
LYFT	1	16	94.1%
Unknown TNC	0	15	100.0%
Total	3	71	95.9%

Decal affixed to the windshield:

In 44.6% of observed vehicle, the City of Seattle/King County decal was not affixed to the windshield. (See table-2 for details)

Table - 2

TNC	Decal Affixed	W/O Decal	% Decal Lacked
UBER	22	20	47.6%
LYFT	6	11	64.7%
Unknown TNC	13	2	13.3%
Total	41	33	44.6%

Display Trade Dress:

Out of 74 vehicles observed, 15 vehicles or 20.3% did not display the TNC Trade Dress(Uber, Lyft or Wingz emblem) while the drivers were on a TNC platform at the airport. (See table-3 for more details)

Table - 3

Company / Trade Dress	Vehicle Count	%
Uber	42	56.8%
Lyft	17	23.0%
Wingz	0	0.0%
No Trade Dress Displayed	15	20.3%
Total	74	100.0%

Lack of compliance by the TNC Operators, in the above areas, has resulted in Port management putting forth excessive efforts to monitor TNC vehicles and write citations for violations.

APPENDIX B: (Exhibit 3) Ground Transportation Monitoring

Business Intelligence (BI) assists GT by using a stratified random selection to come up with an observation schedule that is not more than one hour per observation and four times per day. GT Controllers perform an increment of 60 minutes of observations either at the staging area or at the Port parking garage on the third-floor, and issues a citation to any driver that is not in compliance with the requirements.

The TNC citations issuance analysis showed GT issued 511 citations for various reasons. The increase in citations in 2017 was primarily due to a significant increase in TNC drivers. Table-1 highlights citations for three key areas.

Table-1

Period	Decal	Permit	Trade Dress	Others Violation	Total
	Lacked				
04/01/2016 - 12/31/2016	0	4	14	126	144
01/01/2017 - 10/31/2017	86	55	25	201	367
Total No. of Citations	86	59	39	327	511
Percentage of Total	16.8%	11.5%	7.6%	64%	100%

Source: Citation system

The Port has also implemented a process whereby violations are sent to King County on a weekly basis to ascertain whether the violation was due to King County's backlog, a paperwork error, or a true violation. The results of King County's response are reflected in table-2.

Table-2

Period	# Vehicle KC Validation	Authorized Driver		Unable to Validate Driver	Authorized Vehicle		Permit Expired
		Yes	No		Yes	No	
June - 17	15	12	3		11	4	4
July - 17	34	31	3		28	6	2
Aug. - 17	43	37	4	2	34	9	
Total	92	80	10	2	73	19	6
Percentage		87.0%	10.9%	2.2%	79.3%	20.7%	6.5%