INTERNAL AUDIT REPORT

LIMITED CONTRACT COMPLIANCE
DTG OPERATIONS, INC.
DBA THRIFTY CAR RENTAL

JUNE 2014 – MAY 2017

ISSUE DATE: NOVEMBER 7, 2018
REPORT NO. 2018-12

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EXECUTIVE SUMMARY

Internal Audit (IA) completed an audit of the Lease Agreement (Agreement) between Thrifty Car Rental (Thrifty) and the Port of Seattle (Port) for the period June 1, 2014 through May 31, 2017. The audit objective was to determine whether Thrifty complied with significant financial provisions of the Agreement, including whether reported gross revenues and the Customer Facility Charges (CFC) paid to the Port were complete and accurate.

We determined that Thrifty underreported certain gross revenue items and the CFC.

1) Thrifty did not report $103,577 in incidental gross revenue, resulting in approximately $10,358 in additional Percentage Fees owed to the Port.

2) The Agreement requires the Operator to remit the full amount of the CFC regardless of whether or not the full amount is actually collected. In certain instances, Thrifty did not charge the CFC and as a result, did not remit $111,912 to the Port.

The two items resulted in an underpayment to the Port of $122,270, for the three-year period ending May 31, 2017. These issues are discussed in more detail beginning on page six and seven of this report.

Additionally, section 8.2.1 of the Agreement indicates that the full cost of the audit shall be borne by the Operator for a discrepancy of more than one percent (1%) for the CFC for any twelve (12) month audit period. The discrepancy was greater than one percent for the 12-month periods ending May 31, 2015 and 2016. IA provided audit cost details to Port Management.

We extend our appreciation to management and staff of the Aviation Commercial Management Department, Thrifty, and the Accounting and Financial Reporting Department for their assistance and cooperation during the audit.

Glenn Fernandes, CPA
Director, Internal Audit

Responsible Management Team
Lance Lyttle, Managing Director, Aviation
Jim Schone, Director AV Commercial Management
Jason Johnson, Aviation Property Manager 3

BACKGROUND

Dollar Thrifty Automotive Group, Inc. (DTG) is the former holding company of Thrifty Car Rental. DTG was acquired by The Hertz Corporation in November 2012.

In July 2008, the Port entered into a Consolidated Rental Car Facility Lease Agreement (Agreement) with Thrifty. The terms of the Agreement provide for a Minimum Annual Guarantee (MAG) equal to 85% of the total amount paid to the Port for 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.

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.

The Agreement states that the Operator must collect a Customer Facility Charge (CFC) of $6 per rental day.

The table below reflects total Gross Revenues, Percentage Fees, and CFC fees:

Agreement Year	Gross Revenues	Percentage Fees	CFC Fees
2014 - 2015	15,941,988	1,594,199	2,130,900
2015 - 2016	15,136,848	1,513,685	2,151,396
2016 - 2017	14,348,098	1,434,810	2,090,460
Total	$ 45,426,934	$ 4,542,694	$ 6,372,756

Data Source: PeopleSoft Financials and Propworks

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 June 2014 through May 2017. After identifying significant provisions in the Agreement, we performed audit procedures that included:

<u>Revenue Completeness and Accuracy</u>

- Traced concession payments to Port records to verify payments were received by Agreement dates.
- Agreed revenues reported to the Port, to the Operator's general ledger, revenue reports, and to Thrifty's audited schedules.

<u>Customer Facility Charge</u>

- Agreed Operator's audited CFC counts to database records.
- Reviewed checkout and return date records to assess the reasonableness of daily transactions.

<u>Insurance and Rent Security</u>

- Determined whether commercial general liability insurance and rent security requirements complied with Agreement terms.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

1) RATING: MEDIUM

Thrifty did not report $103,577 in incidental gross revenue, resulting in approximately $10,358 in additional Percentage Fees owed to the Port.

Our analysis of the Operator's financial records and testing of transactions, identified the following items that were not included in Gross Revenues, when reported to the Port:

- UMP (Uninsured Motorist)
- Portable GPS
- Toll Road (Plate Pass)
- Early / Late Return Fee
- Travel Tab / Wifi
- Neverlost
- Detail Cleaning Fee
- Impound Recovery Fee

The Operator has acknowledged these items. The underreported revenue is reflected in the table below.

Agreement Year	Gross Revenues	Audited	Difference	Percentage Fee (10%)
2014 - 2015	15,941,988	15,952,358	10,370	1,037
2015 - 2016	15,136,848	15,223,338	86,490	8,649
2016 - 2017	14,348,098	14,354,814	6,716	672
			Total	**$ 10,358**

Data Source: PeopleSoft Financials, Propworks, Thrifty records

Recommendations:
1. Seek and recover $10,358 in underpaid Percentage Fees.
2. Assess the applicability of a one-time late charge and any accrued interest.
3. Communicate with the Operator, to assure that future reported Gross Revenues include the items listed above.

Management Response / Action Plan
Aviation Commercial Management will seek to recover the underpaid Percentage Fees, together with any applicable late fees and interest charges. Aviation Commercial Management will also communicate both verbally and in writing that the revenues identified above, are not permitted exclusions from revenue according to the Agreement. Therefore, effectively immediately, those revenue items are required to be included in their monthly reports of gross revenues provided to the Port. Revised reports that include these excluded gross revenues, as well as payment of any additional Percentage Fees, will be requested for those months that have transpired since the end of the audit period.

DUE DATE: 12/31/2018

2) RATING: MEDIUM

The Agreement requires the Operator to remit the full amount of the CFC regardless of whether or not the full amount is actually collected. In certain instances, Thrifty did not charge the CFC and as a result, did not remit $111,912 to the Port.

The lease Agreement under Section 6.2.1 stipulates:

"*Operator shall collect a daily Customer Facility Charge on all vehicle rental transactions with Airport Customers…Each Operator must collect the Customer Facility Charge at the time the first payment is made for a qualifying vehicle rental transaction, and must remit the full amount of the Customer Facility Charge to the Port regardless of whether or not the full amount of such Customer Facility Charge is actually collected by the Operator from the person who rented the automobile.*"

The Operator acknowledged the differences in CFC, which are summarized in the table below:

Agreement Year	Reported	Audited	Difference
2014 - 2015	2,130,900	2,205,120	74,220
2015 - 2016	2,151,438	2,187,720	36,282
2016 - 2017	2,090,460	2,091,870	1,410
		Total	**$ 111,912**

Data Source: PeopleSoft Financials, Propworks, Thrifty records

Recommendations

1. Seek and recover the $111,912 in underpaid CFC's.
2. Assess the applicability of a one-time late charge and any accrued interest.
3. Communicate with the Operator, to assure that future CFC's are remitted as required by the Agreement.

Management Response / Action Plan

Aviation Commercial Management will seek to recover the underpaid CFC's, together with any applicable late fees and interest charges, as well as the costs attributable to the CFC portion of the audit, which IA calculated as $9,559.00. Aviation Commercial Management will also communicate both verbally and in writing to remind the Operator of their obligations with respect to collection and remittance of the CFC to the Port.

DUE DATE: 12/31/2018

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