



INTERNAL AUDIT REPORT

Limited Contract Compliance Audit
EAN Holdings, LLC

June 1, 2016 – May 31, 2019

Issue Date: November 26, 2019
Report No. 2019-10

TABLE OF CONTENTS

Executive Summary	3
Background	4
Audit Scope and Methodology	5
Schedule of Findings and Recommendations.....	6
Appendix A: Risk Ratings	7

Executive Summary

Internal Audit (IA) completed an audit of the Consolidated Rental Car Facility Lease Agreement between EAN Holdings, LLC (EAN) and the Port of Seattle (Port). In 2007, EAN, which does business as Enterprise Rent-A-Car (Enterprise) acquired both Alamo Rent-A-Car and National Rent-A-Car. EAN pays the Port approximately \$12 million annually in percentage fees and an additional \$14 million in Customer Facility Charges (CFC).

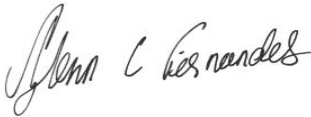
The period audited was June 2016 through May 2019 and was performed to determine whether EAN complied with significant provisions of the Agreement, including whether reported gross revenues and percentage fees were complete and accurate.

Our audit identified one medium rated issue:

1. (Medium) – Internal Audit identified one late payment for the Percentage Fees owed for the month of October 2016. As a result, a late fee of \$6,159 is due to the Port.

This issue is discussed in more detail beginning on page six of this report.

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



Glenn Fernandes, CPA
Director, Internal Audit

RESPONSIBLE MANAGEMENT TEAM

Jim Schone, Director, Aviation Commercial Management
Lance Lyttle, Managing Director, Aviation Director's Office

Background

In 2007, EAN Holdings, which does business as Enterprise Rent-A-Car (Enterprise) acquired Alamo Rent-A-Car (Alamo) and National Rent-A-Car (National). As a result, Enterprise Holdings, Inc. was formed and became the parent company of Alamo, National, and Enterprise.

In 2009, the Port of Seattle (Port) entered into a Consolidated Rental Car Facility Lease Agreement (Agreement) with Enterprise Leasing Company, doing business as Enterprise Rent-A-Car. The Port also entered into separate lease agreements with National and Alamo. In June 2010, the Agreements with both Alamo and National were terminated and incorporated into the Enterprise Leasing Agreement under Exhibit O. This ammended agreement was between the Port and EAN Holdings, LLC.

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. The Percentage Fee, if applicable, is due on or before the 20th of the following month.

The Agreement states that the Operator must bill a daily Customer Facility Charge (CFC) of \$6 on all vehicle rental transactions, and remit the full amount to the Port, regardless of whether or not the full amount is actually collected. The first transaction day provides a twenty five (25) hour period and a twenty four (24) hour period for each successive day.

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

Agreement Year	Gross Revenue	Percentage Fees	CFC Fees
June 2016 – May 2017	115,246,099	11,524,610	13,896,516
June 2017 – May 2018	117,857,108	11,785,711	13,711,296
June 2018 – May 2019	124,578,911	12,457,891	14,056,128
Total	\$357,682,118	\$35,768,212	\$41,663,940

Data Source: PeopleSoft Financials

Audit Scope and Methodology

We conducted the engagement 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 conduct an engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our engagement objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our engagement objectives.

The period audited was June 2016 through May 2019 and included the following procedures:

Revenue Completeness and Accuracy

- Traced concession payments to Port records to verify payments were received by Agreement dates.
- Agreed revenue reported to the Port, to the Operator's monthly revenue reports, charge sheets, and to independently audited schedules.

Customer Facility Charge

- Agreed Operator's audited CFC counts to daily transaction records.
- Re-calculated checkout and return dates to assess the accuracy of CFC charges.

Compliance

- Determined whether the Concessionaire submitted an "Annual Report" for each Agreement Year no later than 90 calendar days following the last day of each Agreement Year.
- Reviewed the Annual Report prepared by the Concessionaire and signed by the Chief Financial Officer, or their designee, attesting the amounts shown.
- Determined if the Annual Report was audited by an independent certified public accounting firm in accordance with GAGAS, attesting that the concession fee paid was properly calculated.
- Determined whether the Operator, through the Fuel Facility Manager, hired an independent third party to conduct an annual Environmental Audit of the Consolidated Rental Facility.
- Determined if the results of the annual Environmental Audit were reviewed with the Port, no later than 30 days following the commencement of each Agreement Year, and any issues were remediated.

Schedule of Findings and Recommendations

1) Rating: Medium

Internal Audit identified one late payment for the Percentage Fees owed for the month of October 2016. As a result, a late fee of \$6,159 is due to the Port.

Section 5.2 of Exhibit O states “If any payment of Concession Fees or other sum or charge otherwise payable by Concessionaire is not received by the Port within ten (10) days of when due, Concessionaire shall pay to the Port a late payment charge equal to five percent (5%) of the overdue amount.”

The percentage fees for each month shall be paid on or before the twentieth (20th) day of the following month. EAN paid the percentage fees for October 2016 on December 5, 2016, which is five days after the allowed grace period of ten days. As a result, a late fee of \$6,159 is due to the Port.

The table below reflects the calculation of the \$6,159 owed:

Period	Date paid	Date Due	Concession Fees	Late fee (5%)
October 2016	12/05/16	11/20/16	\$123,183	\$6,159

Recommendations:

1. Seek and recover \$6,159 in late fee.

Management Response/Action Plan:

Aviation Commercial Management will seek to recover the late fee for October 2016 concession fees, which Internal Audit calculated as \$6,159. Aviation Commercial Management will also reach out to the tenant to ensure awareness that payments should be received by the due date stated in the agreement or outstanding amounts will be subject to late fees. Currently, Port contracts have varying terms regarding due dates and grace periods, among others, which complicates the potential for automating the calculation of late fees. These complications contribute to the current semi-monthly manual process, which calculates fees on prescribed dates. Thus, there is a risk of missed late fees, such as the one identified in this audit report, due to the varying terms in the Port’s agreements. Aviation Commercial Management will work with the Port’s Accounting and Financial Reporting department, which runs the late fee process, to find opportunities to standardize agreement terms when contracts are executed or renewed.

DUE DATE: 12/31/2019

Appendix A: Risk Ratings

Findings identified during the audit are assigned a risk rating, as outlined in the table below. Only one of the criteria needs to be met for a finding to be rated High, Medium, or Low. Findings rated Low will be evaluated and may or may not be reflected in the final report.

Rating	Financial Stewardship	Internal Controls	Compliance	Public	Commission/ Management
High	Significant	Missing or not followed	Non-compliance with Laws, Port Policies, Contracts	High probability for external audit issues and / or negative public perception	Requires immediate attention
Medium	Moderate	Partial controls Not functioning effectively	Partial compliance with Laws, Port Policies Contracts	Potential for external audit issues and / or negative public perception	Requires attention
Low	Minimal	Functioning as intended but could be enhanced to improve efficiency	Mostly complies with Laws, Port Policies, Contracts	Low probability for external audit issues and/or negative public perception	Does not require immediate attention