INTERNAL AUDIT REPORT

Operational Audit
TNC (Lyft, Inc. & Rasier, LLC.)

April 2017 – March 2021

Issue Date: August 26, 2021
Report No. 2021-10 & 11

Port of Seattle | INTERNAL AUDIT

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Executive Summary

Internal Audit (IA) has completed an audit of Lyft, Inc. and Rasier LLC., referred to as Transportation Network Company (TNC), for the period April 2017 through March 2021. The audit was performed to evaluate current processes, systems, and related internal controls to assure compliance with policies, procedures and contractual obligations governing the TNC's operations. This audit was performed using both operational and contract compliance procedures.
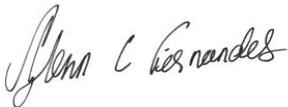
On March 31, 2016, the Port entered into a Pilot Program Operating Agreement (Pilot Agreement) with TNCs. The Pilot Agreement initially required the TNCs to pay a $5 (five) pick-up fee. On November 1, 2017, the fee was changed to $6 (six). Effective January 1, 2021, a new Operating Agreement replaced the Pilot Agreement and introduced a $2 (two) drop-off fee, in addition to the $6 pick-up fee.

The Pilot Agreement provided an opportunity for the program to mature into a more permanent system. Consistent with this evolution, we identified an opportunity that will enhance the internal control environment related to revenue reporting and the associated payments:

(Low) A control to assess the accuracy of TNC reported trip data, when it drops below a defined match rate or threshold, needs to be enhanced. The Port performs observations, traces them to reports provided by the TNCs and compares the trend month over month. However, no research is performed to determine the reason for variances.

This issue is discussed in more detail on page six.

We extend our appreciation to management and staff of Aviation Business Development, Airport Landside Operations and Accounting and Financial Reporting teams for their assistance and cooperation during this audit.

Glenn Fernandes, CPA
Director, Internal Audit

Responsible Management Team
Jeffrey Brown, Chief Operating Officer, Aviation
Laurel Dunphy, Director, Airport Operations
Dawn Hunter, Director, Aviation Commercial Management
Lance Lyttle, Managing Director, Aviation
Linda Nelson, Senior Manager, Aviation Finance and Budget

Background

The Port entered into a Pilot Program Operating Agreement with TNCs on March 31, 2016 to facilitate the operation of one or more vehicles to pick-up and deliver passengers at the airport. Under this Agreement, TNCs were required to pay the Port $5 (five) for every pick-up activity. This rate was applicable until October 31, 2017. On November 1, 2017, the pick-up trip fee increased to $6 (six).

On January 1, 2021, a new Operating Agreement was signed and a drop-off fee of $2 (two) was introduced, in addition to the $6 (six) pick-up fee. It also introduced a drop-off fee reduction if the TNC can meet electric vehicle (EV) utilization metrics designed to improve the overall environmental performance.

During a quality review, Port management identified a drop in the January 2021 EV utilization when compared to the previous quarter and contacted the affected TNC to review the data more closely. Upon investigation, they determined that a correction was made to the vehicle make and model (hybrid vs. hybrid plug-in) and the lower EV utilization was accurate. The TNC revised their fourth quarter 2020 report, which lowered the EV percentage below the requirement. As a result, this TNC did not qualify for the reduced drop-off fee they had received. The TNC was immediately invoiced and confirmed they will be remitting payment.

TNCs connect passengers (riders) and drivers through a mobile application (App). The App has the functionality to provide the requestor (passenger) with an estimated pick-up time and trip duration and manages the payment process. It also provides customers with an opportunity to evaluate the driver. Drivers can obtain real time trip data to determine how much they have earned.

A geo-fence has been established around the perimeter of the airport. The geo-fence interacts with the General Positioning System (GPS) and the TNC App to capture the trip activity.

To track and review the TNC activity, the Port utilizes two reports:

- A monthly activity report that is submitted by the TNCs and contains information such as vehicle registration, time stamp, vehicle model, driver ID, vehicle ID, etc. This report is used by the Port for billing and payments.

- Ground Transportation staff collect observations of vehicles entering the designated pick-up area. These observations are compared to the TNC monthly reports to establish completeness and accuracy of the TNCs self-reported monthly trip activity. This could serve as a primary control to assess the accuracy of self-reported trip data.

  Combined TNC revenues, for the period audited, are reflected below[1]:

2017 (Apr - Dec)	2018	2019	2020	2021 (Jan - Jul)
$914,987	$4,031,466	$12,973,434	$10,280,640	$8,079,650

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[1] Source: Accounting and Financial Reporting

Audit Scope and Methodology

We conducted this 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 April 1, 2017 through March 31, 2021 and included the following audit procedures:

Internal controls and compliance with significant terms of the Agreement

- Assessed the operators' compliance with contractual/commercial terms of the agreement including vehicle inspections, credentialling, and trade dress(Uber / Lyft Signage).
- Evaluated operators' compliance with environmental requirements and reviewed any credits awarded for meeting the environmental key performance indicators (EKPIs).
- Reviewed the TNCs' insurance for compliance with the Operating Agreements.

Completeness and accuracy of self-reported trip data

- Obtained TNC activity trip data through observations for a sample of dates (total of 126 observations collected on 3 different dates) and established completeness of the data by comparing operators' monthly reports to the observed data.
- Reconciled the trip activity reported to the Port, to the Port's quality assurance process conducted by the Business Intelligence team. Determined whether the correct rate was applied.

Internal billing

- Traced TNC self-reported monthly trip data to internal billing and payment records to validate timeliness and completeness.

Schedule of Findings and Recommendations

1) Rating: Low

A control to assess the accuracy of TNC reported trip data, when it drops below a defined match rate or threshold, needs to be enhanced. The Port performs observations, traces them to reports provided by the TNCs and compares the trend month over month. However, no research is performed to determine the reason for variances.

The Port receives a $6 pick-up fee and a $2 drop-off fee which is tracked by the TNC App that the driver uses to charge passengers. When the customer is charged using the App, it is captured in a report that the TNCs then provide to the Port, reflecting the prior months' activity.

Each month 40 hours of observations are performed by the Ground Transportation (GT) team. The GT staff observes the customer pick-ups and uses an in-house developed TNC application to capture information such as the license plate number and time of pick-up. The information is then provided to the Business Intelligence team who compares the observations to the monthly reports provided by the TNCs the following month. The following table reflects the match rates between the Port's monthly counts and those provided by the TNC.

Date	Match Rate
December 2020	90.60%
January 2021	92.80%
February 2021	88.30%
March 2021	89.70%
April 2021	89.40%
May 2021	88.60%

Our testing included 126 observations of TNC pick-up activity. We matched 121 of these observations. We were unable to trace five observations to the TNC report. Three of which, could likely be attributed to data capture errors on our part.

The 40 hours of manual observations and identification of variances have the potential to add value and can be important. However, when no additional efforts are performed to determine the root cause for the differences and whether corrective measures are necessary, some of the benefits from the manual observations are diminished.

Recommendations:
Internal Audit recognizes the high volume of transactions and the need to rely on technology. However, we also recognize that technology can sometimes fail and therefore, we recommend that management should:

- understand the reasons for the variances and adapt processes to minimize these exceptions
- establish a tolerance threshold that would trigger when additional research is needed

Without researching the variances, technology and manual errors are unknown and could result in inaccurate reporting and payment. Furthermore, the program relies on external "self-reporting", highlighting the need to implement a procedure to determine whether an error has occurred.

Management Response/Action Plan:
Aviation Commercial Management staff agrees that implementation of a tolerance threshold, as well as a procedure to research discrepancies when the threshold is triggered, will further enhance the review process of the self-reported TNC trip activity. A threshold and process will be developed with a targeted completion date of the end of October 2021.

In reference to match rates for vehicles, as identified in the 2017/2018 TNC audit (see Report No. 2017-22), there are three main reasons explaining why hourly match rates may not be 100%:

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.

If vehicle matches are viewed on a daily basis instead of hourly (as presented in this audit report above for December 2020 through May 2021), a much higher match rate is achieved as shown below:

DATE	HOURLY MATCH RATE	DAILY MATCH RATE
December 2020	90.6%	95.9%
January 2021	92.8%	96.9%
February 2021	88.3%	96.6%
March 2021	89.7%	97.1%
April 2021	89.4%	97.5%
May 2021	88.6%	99.2%

In regards to the Audit team's testing of 126 vehicles with five vehicles unable to be matched, Aviation Commercial Management staff performed additional research on the five and was able to establish likely matches for three of the five based on the following:

Two vehicles during the observation time periods had license plates that matched 6 of 7 characters with the one unmatched character being a character that could easily resemble the reported license plate for a moving vehicle in a parking garage.

- One vehicle during the observation time period had a license plate not yet in the TNC system. Only one TNC reported unknown license plate vehicle made an appearance during the observation period. This is likely explained by the first description of observation rate limitations discussed in this response.
- Two remaining vehicles were not matched, resulting in a likely observation rate of 98.4% (124 of 126)

DUE DATE: 10/31/2021

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