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INTERNAL AUDIT REPORT
Limited Contract Compliance Audit
Avis Budget Car Rental LLC

June 2018 – May 2021

Issue Date: August 22, 2022
Report No. 2022-10

Avis Budget Car Rental LLC
June 2018 – May 2021

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Avis Budget Car Rental LLC
June 2018 – May 2021
Executive Summary

Internal Audit (IA) completed an audit of the Consolidated Rental Car Facility Lease Agreement (Agreement) between Avis Budget Car Rental LLC (Avis) and the Port of Seattle (Port). The period audited was June 1, 2018, through May 31, 2021. The audit was performed to determine whether Avis reported Concession Fees were complete, properly calculated, and remitted timely to the Port. We also assessed whether Avis complied with significant contract provisions, and whether the Customer Facility Charge (CFC) was properly collected and remitted.

We concluded that Avis generally complied with the terms of the Agreement and that the reported concession fees were accurate, complete, and remitted timely to the Port. However, we identified the following low-rated issue briefly described below:

(Low) – Internal Audit identified approximately \$2,645 of CFCs not billed to the customer and subsequently not remitted to the Port. The Agreement requires the Operator to bill a daily CFC on vehicle rental transactions, and to remit the full amount to the Port, regardless of whether or not the full amount is actually collected.

This issue is discussed in more detail on page six.

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

Jeffrey Brown, Aviation Interim Chief Development Officer
Geoffrey Foster, Aviation Property Manager, Aviation Business Development
Dawn Hunter, Director, Aviation Commercial Management
Lance Lyttle, Managing Director, Aviation
Jeff Wolf, Senior Manager, Aviation Business Development

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Avis Budget Car Rental LLC

June 2018 – May 2021

Background

Avis Budget Car Rental LLC, a subsidiary of Avis Budget Group, operates the Avis, Budget, Payless and Zipcar vehicle rental brands throughout North and South America, Europe, Africa, the Middle East, and Asia. The Port of Seattle (Port) entered into a Consolidated Rental Car Facility Lease Agreement (Agreement) with Avis Budget Car Rental LLC (Avis) in June 2008.

In a memo to Port Commission, dated March 29, 2020, a proposal was made from the Executive Director (ED) and Seattle-Tacoma International Airport (SEA) leadership to offer relief measures to airport tenants and concessionaires that had been significantly impacted by the COVID-19 pandemic. The following was included in the proposal:

1) Rent, Minimum Annual Guarantee (MAG) or similar charges may be deferred and repaid in full through a payment schedule commencing in 2021.

2) The Port and tenant or concessionaire shall enter into an agreement detailing the arrangement that includes a payment plan with interest to be paid on deferred amounts and a waiver of other late fees and finance charges if the payment plan is satisfied.

Following the proposal, Port Commission adopted a Motion (2020-7) directing the ED to take steps to implement economic relief during the COVID-19 crisis. The Motion authorized the ED to implement immediate financial relief to Port tenants and concessionaires in a manner that is legally consistent with advancing the Port's financial interests and thereby creating ongoing benefit to the residents of King County.

The terms of the Agreement provide for a 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 percent 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 Charges (CFC) of \$6 on 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 for a twenty five (25) hour period and each successive day provides for twenty four (24) hour periods.

The CFC was revised to \$6.50, effective on January 1, 2021. Although outside of the scope of this audit, the CFC was increased to \$7.00, effective on January 1, 2022.

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

Agreement Year Gross Revenues Percentage Fees CFC Fees

June 2018 – May 2019 76,021,514 7,602,151 8,658,651

June 2019 – May 2020 66,850,232 6,685,023 7,600,142

June 2020 – May 2021 34,640,146 3,464,014 3,803,590

Total \$177,511,892 \$17,751,188 \$20,062,383

Source: Concessionaire's Monthly Revenue Reports, PeopleSoft Financials, AFR YE documents.

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Avis Budget Car Rental LLC

June 2018 – May 2021

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 2018 through May 2021 and included the following procedures:

Revenue Completeness and Accuracy

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

Customer Facility Charge

- Using Tableau, tested 100 percent of transactions, by re-calculating the checkout and return dates to assess the accuracy of CFCs charged and remitted.
- Testing assumed a twenty five (25) hour period for the first transaction day.

Rent Surety and Insurance Adequacy

- Compared the surety posted, to the provisions of the Agreement, Port Procedures (RE-2 Section E.1.c(2)), and the Revised Code of Washington 53.08.085.
- Compared insurance coverage to the provisions of the Agreement.

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Avis Budget Car Rental LLC

June 2018 – May 2021

Schedule of Findings and Recommendations

1) Rating: Low

Internal Audit identified approximately \$2,645 of CFCs not billed to the customer and subsequently not remitted to the Port. The Agreement requires the Operator to bill a daily CFC on vehicle rental transactions, and to remit the full amount to the Port, regardless of whether or not the full amount is actually collected.

We also identified approximately \$109,835 of CFCs that appeared to be overcharged to the customers. This represents 17,435 tickets and could reflect that billing processes and systems need to be adjusted to align to the Agreement requirements.

The Agreement allows for "up to a twenty five (25) hour period (or fraction thereof) for the first Transaction Day and successive twenty four (24) hour periods (or fraction thereof) for each successive Transaction Day..." From June 1, 2018 through December 31, 2020, the CFC was \$6.00. On January 1, 2021, the CFC daily rate increased to \$6.50. According to the Agreement, the Operator must collect CFC at the time the first payment is made for a qualifying vehicle rental transaction, and must remit the full amount of the CFC to the Port, regardless of whether or not the full amount is collected.

Using data from the Operator, we recalculated the CFC by comparing the check-out date and time to the check-in date and time.

Recommendations:

We recommend collecting \$2,645.60 plus any accrued interest and/or penalties.

We also recommend Aviation Commercial Management request an explanation regarding what caused the overbilling of \$109,835.50 to determine whether systems and processes need to be adjusted.

Management Response/Action Plan:

Aviation Commercial Management staff agrees with the findings and will pursue the collection of underreported CFCs. We will continue to work with Avis/Budget and Internal Audit on the potential overbilling to better understand their methodology for calculating CFCs, including the "up to" provision, which may significantly lower the final figures. We will also work to have the tenant rectify any identified errors in their calculation parameters.

DUE DATE: 12/31/2022

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Avis Budget Car Rental LLC

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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.

Financial Internal Commission/

Rating Compliance Public

Stewardship Controls Management

High probability

Non-compliance

Missing or not for external audit Requires

with Laws, Port

High Significant followed issues and / or immediate

Policies,

negative public attention

Contracts

perception

Moderate

Partial

Partial controls probability for

compliance with

external audit Requires

Medium Moderate Laws, Port

Not functioning issues and / or attention

Policies

effectively negative public

Contracts

perception

Low probability

Functioning as Mostly complies Does not

for external audit

intended but with Laws, Port require

Low Minimal issues and/or

could be Policies, immediate

negative public

enhanced Contracts attention

perception

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