

INTERNAL AUDIT REPORT

LIMITED CONTRACT COMPLIANCE
SIXT RENT A CAR

JUNE 2015 – DECEMBER 2018

ISSUE DATE: FEBRUARY 25, 2019
REPORT NO. 2019-3

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EXECUTIVE SUMMARY

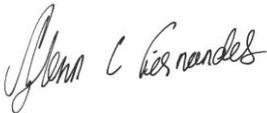
Internal Audit (IA) completed an audit of the Lease Agreement (Agreement) between Sixt Rent A Car (Sixt) and the Port of Seattle (Port) for the period June 1, 2015 through December 31, 2018. The audit was performed to determine whether Sixt complied with significant provisions of the Agreement including whether reported gross revenues and the Customer Facility Charges (CFC) paid to the Port were complete and accurate.

We determined that Sixt underreported certain gross revenue items.

1) Sixt did not report \$432,991 in incidental gross revenues, resulting in \$43,299 in additional Percentage Fees owed to the Port for the period under audit.

This issue is discussed in more detail on page six.

We extend our appreciation to management and staff of the Aviation Business Development Department, Sixt, and the Accounting and Financial Reporting Department for their assistance and cooperation during the audit.



Glenn Fernandes, CPA
Director, Internal Audit

RESPONSIBLE MANAGEMENT TEAM

Geoffrey Foster, Aviation Property Manager
Lance Lyttle, Managing Director, Aviation
Jim Schone, Director, Aviation Business Development

BACKGROUND

Founded in 1912 in Munich, Germany, Sixt has grown its vehicle rental and leasing business worldwide. Today, the Sixt brand is represented in over 105 countries with branches in over 2,200 locations. Sixt entered the US market in 2011 with a strategy to focus and expand on strong-growth airport and downtown stations, which included the Seattle-Tacoma International Airport location.

In December 2012, the Port entered into a Consolidated Rental Car Facility Lease Agreement (Agreement) with Sixt. 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 collect a Customer Facility Charge (CFC) of \$6 per rental day, and remit the full amount to the Port regardless of whether or not the full amount is actually collected.

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

Agreement Year	Gross Revenue	Percentage Fees	CFC Fees
June 2015 – May 2016	\$11,789,036	\$1,178,904	\$1,373,892
June 2016 – May 2017	11,905,434	1,190,543	1,227,552
June 2017 – May 2018	13,650,284	1,365,028	1,357,818
<i>June 2018 – Dec. 2018*</i>	11,969,600	1,196,960	1,042,020
Total	\$49,314,354	\$4,931,435	\$5,001,282

Data Source: PeopleSoft Financials and PropWorks

* Reflects a period of seven months that was added to scope.

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 originally from June 2015 through May 2018; during the course of our work we expanded the period under audit, to December 2018. After identifying significant provisions in the Agreement, we performed audit procedures that included:

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 general ledger, revenue reports, and to the independently audited schedules.

Customer Facility Charge

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

Insurance and Rent Security

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

1) RATING: MEDIUM

Sixt did not report \$432,991 in incidental gross revenues, resulting in \$43,299 in additional Percentage Fees owed to the Port for the period under audit.

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:

- Reservation cancellation fees
- Administrative fee for tolls
- Tickets
- Vehicle upkeep recovery
- Counter processing recovery

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

Agreement Year	Gross Revenues	Audited	Difference	Percentage Fee
June 2015 - May 2016	\$11,789,036	\$11,805,856	\$16,820	\$1,682
June 2016 - May 2017	11,905,434	12,056,530	151,096	15,109
June 2017 - May 2018	13,650,284	13,801,722	151,438	15,144
June 2018 - Dec 2018*	11,969,600	12,083,237	113,637	11,364
Total	\$49,314,354	\$49,747,345	\$432,991	\$43,299

Data Source: PeopleSoft Financials, Propworks, and Sixt records

* Reflects a period of seven months that was added to scope.

Recommendations:

1. Seek and recover \$43,299 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 staff will seek to recover the underpaid Percentage Fees, together with any applicable late fees and interest charges. Aviation Commercial Management staff will also clearly communicate to the tenant 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.

Since gross revenue exclusions appear to be a common point of audit findings, Aviation Commercial Management staff will reengage with all rental car tenants at the Consolidated Rental Car Facility regarding the acceptable gross revenues exclusions. The goal of this reengagement is to reduce similar findings concerning acceptable gross revenue exclusion during future audits.

DUE DATE: 5/31/2019

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				