

# INTERNAL AUDIT REPORT

LIMITED CONTRACT COMPLIANCE  
CMC INVESTMENTS, INC. DBA DOLLAR RENT-A-CAR

JUNE 2014 – MAY 2017

ISSUE DATE: MAY 30, 2018  
REPORT NO. 2018-04

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## EXECUTIVE SUMMARY

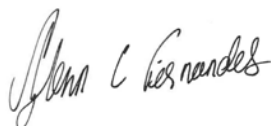
Internal Audit (IA) completed a rental car concession agreement audit of CMC Investments, Inc. d/b/a Dollar Rent A Car, Inc. (Concessionaire), for the period June 1, 2014 through May 31, 2017. The audit objective was to determine whether the Concessionaire complied with significant financial provisions of the concession agreement, including whether reported gross revenues and the Customer Facility Charges (CFC) paid to the Port were complete and reasonable.

We concluded that the Percentage Fees paid to the Port materially complied with the terms of the Rental Car Lease and Concession Agreement. However, we determined that the Concessionaire underreported certain gross revenue items and over-reported the CFC:

- 1) The Concessionaire did not report \$343,326 in incidental gross revenues to the Port, resulting in \$34,333 in Percentage Fees owed to the Port.
- 2) The CFC was over-reported to the Port, by \$19,596 for the audit period. This was primarily due to a mistake by Concessionaire in November 2015, which resulted in an overpayment of that month's CFC to the Port.

These two items resulted in an underpayment to the Port of approximately \$14,737 for the three-year period ended May 31, 2017. These issues are 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, the Concessionaire, 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

James Jennings, Sr. Manager, AV Properties Group

## BACKGROUND

CMC Investments, Inc. is a private company categorized under Automobile Renting and Leasing, in Mercer Island, WA. The company was established in 1987, and operates under the name Dollar-Rent-A Car at Seattle Tacoma International Airport and Portland International Airport.

The terms of the agreement provide for a Minimum Annual Guarantee (MAG) of the higher of: (1) 85% of the total amount paid to the Port in the previous agreement year, or (2) the Initial MAG bid by the Concessionaire of \$1,333,399. Additionally, the agreement requires a Percentage Fee equal to 10% of Concessionaire’s 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 20<sup>th</sup> of the following month.

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

The table below reflects total gross revenue, concession fees, and CFC fees:

REPORTED GROSS REVENUE AND CONCESSION CALCULATION			CUSTOMER FACILITY CHARGE
AGREEMENT YEAR	REPORTED GROSS REVENUES	CONCESSION FEES	REPORTED CFC FEES
2014 - 2015	\$16,093,271	\$1,609,327	\$1,943,754
2015 - 2016	16,071,679	1,607,168	2,042,244
2016 - 2017	16,555,626	1,655,563	2,207,856
<b>TOTAL</b>	<b>\$48,720,576</b>	<b>\$4,872,058</b>	<b>\$6,193,854</b>

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 1, 2014 – May 31, 2017. After identifying significant provisions in the Agreement, we performed the following audit procedures:

### Insurance & Security Deposit

- Identified the insurance requirements in the agreement.
- Verified the insurance certificates, as required in the agreement, were provided to the Port for the audit period.
- Tested three years of insurance coverage and endorsements as required.
- Identified the Security requirement in the agreement.
- Verified and tested three years of Security amounts as required

### Customer Facility Charge (CFC)

- Calculated a number of transaction (i.e., rental) days and CFC from the Concessionaire's system reports.
- Reconciled the reported amount to those certified by Concessionaire's Controller.
- Reconciled the calculated numbers to what the Concessionaire reported for the audit period.
- Tested a risk-based sample of 113 closed rental agreements to determine whether the CFC calculation was based on the correct checkout and return date, and was accurate.

### Revenue completeness and reasonableness

- Reviewed the Concessionaire's chart of accounts, to determine whether unusual revenue accounts were included in the determination of Gross Revenue reported to the Port.
- Reconciled the reported revenues to:
  - The Daily Business Report (DBR) GL by revenue item. Additionally, the revenue items were reviewed to determine whether all items subject to the Percentage Fee were included in the reported Gross Revenue.
  - The Certified Audit Statement of Gross Revenues, independently verified by a CPA.
- Tested a risk-based sample of 16 closed rental agreements in the audit period to determine whether:
  - All revenue items on the face of the rental agreement agreed to the amount posted to the DBR.
  - Disallowed commercial discounts/rebates reduced reported Gross Revenues.
- Analyzed Port records to determine whether payments were received in a timely manner and were complete.

## SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**1) RATING: MEDIUM**

The Concessionaire did not report \$343,326 in incidental Gross Revenues to the Port, resulting in \$34,333 in Percentage Fees owed to the Port.

This is a repeat finding from a previous audit, which the Concessionaire acknowledges and has agreed to incorporate into their monthly gross revenue reporting to the Port. The amounts cited in the table below summarize the underreported gross revenues.

Year-Ended May 31	Reported Gross Revenue	Audited Gross Revenue	Under Reported
2015	16,093,271	16,196,832	\$ 103,561
2016	16,071,679	16,184,932	113,253
2017	16,555,626	16,682,138	126,512
Concession Revenue Underreported			343,326
Concession Fees Underpaid			\$34,333

Data Source: CMC Investments' DBR records, PROPworks & PeopleSoft Financials

Our analysis of the Concessionaire's financial records and ensuing detail transaction testing, determined that Gross Revenues from the following account line items were not reported to the Port:

- Admin. Fees
- Pickup Fees
- Roadside Services Fees
- Lost/Found Handling Fees
- Cleaning Fees
- Lost Key Charges

**Recommendations:**

1. Seek and recover approximately \$34,333 in underpaid Percentage Fees.
2. Assess the applicability of the one-time late charge and any accrued interest.
3. Communicate with the Concessionaire to assure Gross Revenues are accurately reported and that the associated Percentage Fees are collected.

**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.

Lastly, Aviation Commercial Management will advise Accounting and Financial Reporting that the Minimum Annual Guarantee under the Lease for the 2017-2018 Agreement Year should be increased to \$1,417,981.73 to account for these under-reported Gross Revenues in the 2016-2017 Agreement Year.

**DUE DATE: 9/30/2018**

**2) RATING: MEDIUM**

The CFC was over-reported to the Port, by approximately \$19,596 for the audit period. This was primarily due to a mistake by the Concessionaire in November 2015, which resulted in an overpayment of that month’s CFC to the Port.

When we reviewed monthly transaction totals against CFC payment history, we also determined that the Concessionaire inconsistently collected the CFC from customers in other months.

The lease agreement under Section 6.2.1 stipulates:

*“Concessionaire shall collect a daily CFC on all vehicle rental transactions originating at the Consolidated Rental Car Facility... Each Concessionaire must collect the CFC at the time of the first payment is made under a Rental Car Contract, and must remit the full amount of the CFC to the Port regardless of whether or not the full amount of such CFC is actually collected by the Concessionaire from the person who rented the Automobile under such Rental Car Contract.”*

The Concessionaire acknowledged the amounts cited in the table below, which summarizes the over-reported CFC. Additionally, the Concessionaire developed enhancements to their internal controls to prevent their sales representatives from modifying the CFC.

Year-Ended May 31	Audited CFC	Reported CFC	Under Reported
2015	\$1,944,336	\$1,943,754	\$ 582
2016	2,020,482	2,042,244	(21,762)
2017	2,209,440	2,207,856	1,584
Total Due to the Concessionaire.			\$ (19,596)

Data Source: CMC Investments’ Rental Agreement report & PeopleSoft Financials

**Recommendations**

1. Refund the Concessionaire \$19,596 for the CFC overpayment.

**Management Response/Action Plan**

Aviation Commercial Management will refund the overpaid CFC’s.

**DUE DATE: 9/30/2018**

## 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
<b>HIGH</b>	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
<b>MEDIUM</b>	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
<b>LOW/ Exit Items</b>	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