

# Table of Contents

***Executive Summary* ..... 1**

*We reviewed the activities of seven rental-car companies. .... 1*

*Rental-car companies reported gross receipts of \$55.8 million and paid concession fees of \$5.8 million..... 1*

*Six of the seven rental-car companies overcharged their customers and over remitted concession fees to the Airport. .... 2*

*The City has five on-site rental-car companies. .... 3*

*We reviewed 80 rental-car transactions and found that the concession recoupment fee was being applied to revenue items not included in the contract, resulting in customers being overcharged..... 4*

*Monthly MAG payments are late 28% of the time..... 4*

*Monthly reports did not contain sufficient detail to monitor contract compliance and annual audit reports did not follow revenue categories in the contract. .... 5*

*The City has two off-site rental-car companies..... 5*

*We reviewed 21 rental-car transactions and found that the concession recoupment fee was being applied to revenue items not included in the contract, resulting in customers being overcharged..... 6*

***Scope, Objectives and Methodology* ..... 6**

***Recommendations* ..... 7**

***Response From Appointed Official* ..... 8**

***Appendix A – Action Plan* ..... 9**



# AUDIT REPORT



Sam M. McCall, CPA, CGFM, CIA, CGAP  
City Auditor

## “Airport Rental-Car Contracts – Summary”

Report #0509

October 25, 2004

### *Executive Summary*

*We reviewed the  
activities of seven rental-  
car companies.*

The purpose of this report is to summarize the results of issues identified in seven audit reports (Reports #0502 - #0508) on Tallahassee Regional Airport (Airport) administration and monitoring of rental-car contracts at the Airport. These audits reviewed gross receipts reported and subsequent concession fees paid by ‘on-site’ and ‘off-site’ rental-car companies for accuracy, completeness and compliance with Concession Fee Contracts. We also reviewed the system of internal controls established by airport management and the Accounts Receivable Unit in the Accounting Services Section of the Department of Management and Administration to provide reasonable assurance that annual audit reports, monthly reports and amounts paid are timely and correct. On-site rental-car companies pay for counter space, parking spaces, and the greater of a concession fee equal to 10% of gross receipts or a minimum annual guarantee (MAG). Off-site rental-car companies are allowed to pick up and drop off customers at the Airport. They pay a concession fee on gross receipts received from these Airport customers.

*Rental-car companies  
reported gross receipts  
of \$55.8 million and  
paid concession fees of  
\$5.8 million.*

The City, like nearly all other airport owners, charges rental-car companies, that operate their businesses at the airport, a certain percentage of gross receipts. For the last four years, rental-car companies at Tallahassee Regional Airport (Airport) reported gross receipts of \$55.6 million and have paid concession fees of \$5.8 million.

	On-Site Rental-car Companies					Off-Site Rental-car Companies		Total
	Avis	Budget	Hertz	Vanguard	Dollar	Enterprise	Thrifty	
Reported Gross Receipts	\$ 17,917,244	\$ 6,798,766	\$ 15,767,436	\$ 13,273,539	\$ 1,755,341	\$ 469,740	\$ 652,204	\$ 56,634,270
Greater of MAG or Concession Fee Paid	\$ 1,796,221	\$ 722,552	\$ 1,576,744	\$ 1,359,028	\$ 239,172	\$ 47,004	\$ 54,732	\$ 5,795,453

Contracts between the Airport and rental-car companies authorize the City Auditor, or a reputable firm of certified public accountants satisfactory to the City, to audit the operations of the rental-car companies to determine if gross receipts are reported in accordance with the contract. If the audit for on-site companies reveals an underage of more than five percent for the twelve-month period, the cost of the audit shall be borne by the rental-car company. If the audit for off-site companies reveals an underage of more than two percent for the twelve-month period, the cost of the audit shall be borne by the rental-car company. Our audit of contract management of rental-car contracts was performed as part of our approved annual audit plan.

*Six of the seven rental-car companies overcharged their customers and over remitted concession fees to the Airport.*

Overall, we found that six of the seven rental-car companies charged the concession recoupment fee improperly; thereby overcharging their customers by \$100,773, and over remitting concession fees to the Airport by a net \$384,867. The Airport did not require, and most rental-car companies did not provide, monthly reports that identified the detailed revenue categories that were included in gross receipts. Airport management relied heavily on the audits conducted by Certified Public Accountants to ensure that car-rental agencies accurately submitted concession fees. Four of the five on-site rental-car companies submitted 28% of their monthly reports and MAG payments an average of 25 to 36 days late.

	On-Site Rental-car Companies					Off-Site Rental-car Companies		Total
	Avis	Budget	Hertz	Vanguard	Dollar	Enterprise	Thrifty	
Greater of MAG or Concession Fee Due	\$ 1,787,462	\$ 704,633	\$ 1,339,531	\$ 1,233,783	\$ 239,172	\$ 51,024	\$ 54,981	\$ 5,410,586
Greater of MAG or Concession Fee Paid	\$ 1,796,221	\$ 722,552	\$ 1,576,744	\$ 1,359,028	\$ 239,172	\$ 47,004	\$ 54,732	\$ 5,795,453
Customer Concession Fee Overcharge	\$ 4,259	\$ 4	\$ 71,885	\$ 15,743	\$ 7,905	\$ 558	\$ 419	\$ 100,773
% Overcharges to Customers	0.2%	0.0%	5.4%	1.3%	3.3%	1.1%	0.8%	1.9%
Concession Fee Overpayments	\$ 8,759	\$ 17,919	\$ 251,047	\$ 125,245				\$ 402,970
Concession Fee Underpayments			\$ 13,834			\$ 4,020	\$ 249	\$ 18,103
% Over (Under) Payments	.5%	2.5%	15.0%	9.2%	0.0%	(8.6%)	(.5%)	6.6%

In addition, Airport management needs to establish procedures for the process of “true up” of concession fees after the receipt of the annual audit reports submitted by rental-car companies.

*The City has five on-site rental-car companies.*

**On-Site Rental-Car Companies.** These companies (Avis, Budget, Dollar, Hertz, and Vanguard, doing business as Alamo and National) operate from premises inside the terminal and pay a concession fee of 10% of gross receipts or a flat minimum annual guarantee (MAG); whichever is higher. These companies are authorized by the contract to recoup from their customers the concession fee, which must be shown as a separate charge on each rental agreement. Each contract year begins February 1 and ends January 31 of the following year. Companies that operate inside the terminal also pay for the use of counter space in the terminal and on-site parking spaces. In addition, three on-site rental-car companies pay for service facilities located on Airport property.

Gross receipts are defined as all revenues derived from, or in connection with, the rental of vehicles for:

- ▷ Time and mileage charges;
- ▷ Personal accident insurance;

- ▷ Personal effects coverage; and
- ▷ Concession recoupment fee.

The MAG varies by year and by rental-car company. The MAG is paid in monthly installments in advance on the first day of each month.

*We reviewed 80 rental-car transactions and found that the concession recoupment fee was being applied to revenue items not included in the contract, resulting in customers being overcharged.*

Our tests of 80 rental-car transactions for companies operating on-site showed that the concession recoupment fee was being applied to several items not contained in the definition of gross receipts included in Addendum #1 to the original bid documents and incorporated in the contract. While all rental-car companies were present at a pre-bid conference where the need for Addendum #1 was discussed; the bid proposal from several of the companies did not acknowledge receipt of the Addendum. Additional revenue items included in gross receipts varied by rental-car company, resulting in gross receipts being overstated by over \$4 million and over remittances of \$400,000 to the Airport over the four-year period. The application of the concession recoupment fee to these items resulted in customers being overcharged approximately \$100,000. Airport management may have identified the inclusion of these items in the concession recoupment fee if the monthly reports contained sufficient detail so as to identify each revenue item contained in gross receipts; however, the Airport was relying on the annual audits prepared by Certified Public Accountants. While the Airport was relying on the annual audits, the Certified Public Accountants were apparently not familiar with the provisions of Addendum #1 to the original bid documents that spelled out what was included in gross receipts.

*Monthly MAG payments are late 28% of the time.*

We reviewed the monthly MAG payments (ranging from \$13,960 to \$31,250) for the period February 1, 2003, to January 31, 2004, for

accuracy and timeliness. Based on information from the Accounts Receivable Unit of the Department of Management and Administration, 28% or 17 of the 60 MAG payments due from rental-car companies were late an average of 31 days. The effect of late payments to the Airport is lost interest earnings on deposits. There are no penalty provisions for late MAG payments in the contract.

*Monthly reports did not contain sufficient detail to monitor contract compliance and annual audit reports did not follow revenue categories in the contract.*

Airport management heavily relied on the monthly reports of gross receipts and the annual audit conducted by the rental-car company's Certified Public Accountants to ensure that rental-car companies accurately submitted concession fees. Our review showed that most of the monthly reports submitted by the rental-car companies did not contain sufficient information to determine what was included in gross receipts. Annual audit reports submitted by rental-car companies did not include the revenue categories contained in the contract. In addition, two of the five rental-car companies had not submitted their annual audits that were due April 30, 2004, as of August 5, 2004. One company (Dollar) had requested and received an extension until August 31, 2004. We also noted inconsistency in the type of audit report submitted, and accordingly, the level of assurance provided by company auditors. For example, some audit reports provided an opinion, some did not, and one report was prepared by the company's internal auditor, a Certified Public Accountant, and did not refer to the audit standards followed.

*The City has two off-site rental-car companies.*

**Off-Site Rental-Car Companies.** City Ordinance #89-0-0026 authorizes rental-car companies (Enterprise and Thrifty) to operate off Airport grounds. The Ordinance permits rental-car companies to pick up and drop off customers and to rent their vehicles to Airport customers. These companies also have agreements with the Airport

and pay 10% of gross receipts. Each of these contracts is different. Enterprise entered into a five-year contract effective February 1, 2000. The contract is similar to the on-site contracts by including time and mileage, personal accident insurance, personal effects coverage and the concession recoupment fee as gross receipts. Thrifty entered into a five-year contract effective October 20, 1997. Airport management has extended the contract through January 31, 2005. The contract defines gross receipts as time and mileage, drop charges, personal accident insurance, and credit given customers for out-of-pocket costs for fuel and repairs. The contract also exempts \$25,000 of annual gross receipts prorated monthly.

*We reviewed 21 rental-car transactions and found that the concession recoupment fee was being applied to revenue items not included in the contract, resulting in customers being overcharged.*

Our tests of 21 rental-car transactions for companies operating off-site showed that customers were over-billed through the inclusion of additional revenue categories in the calculation of the concession recoupment fee. Our analysis of monthly revenue reports indicated that customers had been overcharged through the inclusion of additional revenue categories over \$9,770 for the four-year period. The Airport has received \$977 in concession fee overpayments based on these overcharges to customers. Enterprise owes the Airport \$4,020 in concession fees and the cost of the audit since gross receipts were understated by 8.6%, which is in excess of the 2% allowance in the contract. Thrifty owes the Airport \$249 for concession fees.

### ***Scope, Objectives and Methodology***

Our audits consisted of reviewing monthly reports for the four years ending January 31, 2004, obtaining and reviewing detailed revenues by category when available for the four-year period ending January 31, 2004, verifying the revenue items included in gross receipts, and reviewing compliance with terms and conditions of the contract. We reviewed the system of internal controls established by Airport management and Accounts Receivable in the Department of Management and Administration to provide reasonable assurance that audit reports, monthly reports, and amounts paid are timely and



correct. We tested over 100 judgmentally selected rental-car transactions during the month of October 2003 and traced these transactions to the October monthly report.

Our audits were conducted in accordance with Generally Accepted Government Auditing Standards and Standards for the Professional Practice of Internal Auditing, and accordingly included such tests of the records and other auditing procedures as were considered necessary.

## **Recommendations**

We recommend that Airport management improve its contract administration and monitoring. Future rental-car contracts should:

- ▷ Clarify and standardize the definition of gross receipts in both on-site and off-site rental-car contracts to eliminate misinterpretations;
- ▷ Clarify the concession recoupment fee process to reduce misapplication;
- ▷ Require a reporting format that provides sufficient detail to determine if revenue items are correctly reported;
- ▷ Clarify the level of assurance needed in audit reports prepared by auditors; and
- ▷ Include financial penalties for late monthly reports and annual audit reports.

We further recommend that Airport management:

- ▷ Develop the format for a monthly report that would provide sufficient detail to allow Airport staff to assess the accuracy of the reports;
- ▷ Issue credits to rental-car companies that have overpaid concession fees;
- ▷ Issue invoices to those rental-car companies that have not submitted the correct concession fees; and
- ▷ Issue an invoice for the cost of the audit of Enterprise Rent-a-Car for understating gross receipts.

We also recommend that Airport management develop procedures to “true up” concession fees after receipt of annual audit reports.

We further recommend that Airport management request guidance from the City Attorney for the proper disposition of over remittances to the Airport resulting from overcharges to customers and including additional revenue items in gross receipts.

We would like to acknowledge the cooperation and support of the staffs of the Airport and Accounts Receivable of the Department of Management and Administration and each of the rental-car companies during this audit.

***Response From  
Appointed  
Official***

**City Manager:** I appreciate and thank the audit staff for the thoroughness of the audit of Airport Rental-Car Concession Contracts and for their recommendations for improving contract administration and monitoring and improving future Airport Rental-Car contracts. I am happy to report that the Aviation Department has already incorporated recommended contract changes into the Rental-Car Concessionaire’s bids that will be released shortly. The Aviation Department has also begun discussions with the City Attorney’s Office regarding disposition of over remittances to the Airport by the Rental-Car Companies and Enterprise has been invoiced for the cost of your audit. The balance of the Action Plan is expected to be complete by March 31, 2005.

Copies of this audit report #0509 (project #0405) may be obtained from the City Auditor’s web site (<http://talgov.com/citytlh/auditing/index.html>), or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail ([auditors@talgov.com](mailto:auditors@talgov.com)).

Audit conducted by:  
Jim Carpenter, Audit Manager  
Jerry Edwards, CIA, CGAP  
Sam M. McCall, CPA, CGFM, CIA, CGAP, City Auditor

## *Appendix A – Action Plan*

Action Steps	Responsible Employee	Target Date
<b>A. Objective: To improve future Airport rental-car contracts.</b>		
1. Clarify and standardize the definition of gross receipts in both future on-site and off-site rental-car Requests for Bid.	Clara Tait	9/30/04
2. Clarify the concession recoupment fee process for on-site and off-site rental-car Requests for Bid.	Clara Tait	9/30/04
3. Clarify the level of assurance needed in audit reports prepared by auditors in future rental-car Requests for Bid.	Clara Tait	9/30/04
4. Add provisions for financial penalties for late monthly reports and annual audit reports to future rental-car Requests for Bid.	Clara Tait	9/30/04
<b>B. Objective: To ensure accurate concession payments are paid to the Airport.</b>		
1. Develop a reporting format for rental-car companies to use that would provide sufficient detail to allow staff to assess the accuracy of the concession payment.	Clara Tait	9/30/04
2. Establish a process to review monthly reports and annual audit to ensure rental-car companies are accurately applying and reporting concession fees.	Clara Tait	3/31/05
3. Develop procedures to “true up” concession fees after receipt of annual audit reports from rental-car companies.	Clara Tait	3/31/05
<b>C. Objective: To provide for proper disposition of over remittances.</b>		
1. Request guidance from the City Attorney regarding the proper disposition of over remittances to the Airport resulting from overcharges to rental-car customers.	Phil Inglese	12/31/04
2. Request guidance from the City Attorney regarding the proper disposition of over remittance to the Airport as a result of including additional revenue item in gross receipts.	Phil Inglese	12/31/04

<b>Action Steps</b>	<b>Responsible Employee</b>	<b>Target Date</b>
<b>D. Objective: To “true up” rental-car concession fees as of January 31, 2004.</b>		
1. Issue credit memos for past over payments of the concession fee.	Clara Tait	3/31/05
2. Issue invoices for past under payments of concession fee.	Clara Tait	3/31/05
3. Issue invoice to Enterprise for the cost of audit for understating gross receipts by more than 2%.	Clara Tait	9/30/04