

Audit Report



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"Avis Rent-A-Car Contract Review"

Report #0502

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Summary

The purpose of this audit is to report on specific issues noted during a review of rental-car contracts at the Tallahassee Regional Airport (Airport). We reviewed monthly summary reports of revenue for Avis Rent-A-Car (Avis) for the four years ending January 31, 2004, and detail revenue reports by category for the 12-month period ending January 31, 2004, to assess the vendor's contract compliance and management's administration and monitoring of the contract.

Based on our review, we noted that:

- Gross receipts reported by Avis for the first four years of the contract totaled approximately \$17.9 million, and the concession fee totaled approximately \$1.8 million;
- The annual audit report required by the contract to be submitted by April 30 of the following year, was submitted two months late for year one, 12 months late for year two, and timely received for years three and four;
- The Airport did not require Avis to provide a detailed monthly statement of gross receipts as allowed by the contract;
- For the year ending January 31, 2004, Avis submitted three monthly minimum annual guarantee (MAG) payments (\$31,250) more than two weeks late (average 30 days);
- Avis charged customers a concession recoupment fee (10%) on categories not authorized in Addendum #1 to the original bid documents (\$42,598) and included these categories in gross receipts resulting in overpayments of \$4,260 (.2% of total concession fees paid) to the Airport and also resulting in overcharges to customers;
- The Airport has received overpayments of \$8,759 from Avis over the last four years, \$4,499 for concession fee overpayments and \$4,260 based on recoupment fee overcharges to customers; and

Based upon payments to the Airport by Avis amounting

to \$1.796 million over a four year period, we conclude the error of \$4,260 (2/10 of 1 percent of amounts paid) was very insignificant and there was substantial compliance by this vendor.

We recommend Airport management clarify the definition of gross receipts and the concession recoupment fee to reduce misinterpretation. Airport management also should require Avis to submit monthly reports that contain sufficient detail to allow an assessment of the accuracy of the reports. Furthermore, Avis should submit monthly reports and annual audit reports in accordance with the contract.

Scope, Objectives, and Methodology

Our audit consisted of reviewing monthly summary reports for the four years ending January 31, 2004, obtaining and reviewing detail revenue reports by category for the twelve-month period ending January 31, 2004, verifying the revenue items included in gross receipts, and reviewing the compliance with terms and conditions of the contract. We also 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 annual audit reports, monthly reports, and amounts paid are timely and correct. In addition, we tested 13 judgmentally selected rental-car transactions during the month of October 2003 and traced these transactions to the October monthly report.

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

Background

The Airport and Avis entered into a five-year agreement effective February 1, 2000. The agreement allows Avis to operate at the Airport in exchange for: counter space, parking spaces, and the greater of a concession fee equal to 10% of gross receipts or a minimum annual

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

- Time and mileage;
- Personal accident insurance;
- Personal effects coverage; and
- Concession recoupment fee.

The MAG varies by year and was \$375,000 for year four of the contract. The MAG is paid in monthly installments (\$31,250) in advance on the first day of each month. For year four (February 1, 2003, through January 31, 2004), Avis reported gross receipts of \$4,384,394 and paid concession fees of \$442,935.

Avis is authorized to recoup the 10% concession fee from its customers and state the charge as a separate item on each rental contract. Within 20 days after the close of each calendar month, Avis is to submit a detailed statement showing gross receipts collected during the previous month and pay the Airport 10% of its gross receipts or the MAG, whichever is greater. These reports shall show such reasonable detail and breakdown as may be required by the Airport. Avis also is required to submit the audit report to the City within 90 days following the end of each contract year.

The contract further provides that the City has the right during any year to authorize an audit or undertake an audit. The cost of such audit shall be borne by the City unless the audit finds that gross receipts are understated by more than 5% for the 12-month period, in which case the cost shall be borne by Avis.

Issues

To date, Airport management has relied heavily on the monthly report of gross receipts and the audits conducted by Certified Public Accountants to ensure that car-rental agencies accurately submit concession fees. Audit reports are due within 90 days of the end of the contract year, and failure to submit the audit can result in termination of the contract. The annual audit report for year one was submitted two months late and the report for year two was one year late. The contract allows for cancellation if the required audits are not provided; however, there are no financial penalties in the contract for late submittal of the audit or late reporting. The Airport did not take any action to obtain the audit report for year two or cancel the contract. The Airport timely received the annual audit report for years three and four within 90 days of the end of the contract year.

Our review of sample rental-car agreements during the month of October 2003 noted that the concession recoupment fee was being applied to two items not

contained in the definition of gross receipts included in Amendment 1 to the original bid documents and incorporated in the contract: miscellaneous government surcharge and frequent flyer miles, which resulted in overcharging customers (\$4,260) or .2%. Airport management may have identified the inclusion of these items in the concession recoupment fee if they had required the monthly reports to contain sufficient detail so as to identify each revenue item contained in gross receipts; however, the Airport was relying on the audit prepared by a Certified Public Accountant.

Our review of schedules, maintained by Accounts Receivable and the available annual audit reports submitted by Avis, indicate that over the past four years Avis has overpaid the Airport, and, while the contract requires a “true up” to occur after receipt of the annual audit, this has not been occurring. We determined that Avis made overpayments of \$8,759 over the last four years, (\$4,499 for concession fee overpayments and \$4,260 based on recoupment fee overcharges to customers). These overpayments have not been recorded on the records of the Airport.

The Accounts Receivable schedules indicated that for the year ending January 2004, three MAG payments (\$31,250), due the first of each month, were late more than two weeks (average of 30 days).

Avis Gross Receipts and Concession Fees		
	Year Four 2/03-1/04	Four Years 2/00-1/04
Reported Gross Receipts	\$4,384,394	\$17,917,244
Items included erroneously	(\$10,424)	(\$42,598)*
Items excluded erroneously	\$0	\$0*
Corrected Gross Receipts	\$4,374,240	\$17,874,626
Greater of MAG or Concession Fee	\$437,424	\$1,787,462
Concession Fee Paid	\$442,935	\$1,796,221
Amount Overpaid by Avis	\$5,511	\$8,759

* Estimates for the four years based on actual revenue categories for the fourth year.

Recommendations

We recommend that Airport management improve its contract administration and monitoring. Also, the Airport should revise future rental-car contracts to:

- Clarify the definition of gross receipts to reduce any 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;
- Include financial penalties for late reporting, late payments, and late submittal of audit reports.

We further recommend that the Airport provide direction to Accounts Receivable to issue a credit memo to Avis for past overpayments of the concession fee.

We recommend Airport management develop procedures for the “true up” process of balancing out concession fees after the receipt of the annual audit report.

In addition, we 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.

Management’s action plan is contained in Audit Report #0509.

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 Company. The balance of the Action Plan is expected to be complete by March 31, 2005.

Copies of this Audit Report #0502 (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).

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