

Audit Report



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“Budget Rent-A-Car Contract Review”

Report #0503

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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 reports of revenues for Budget Rent-A-Car (Budget) for the four years ending January 31, 2004, and monthly revenue reports by category for the year 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 Budget for the first four years of the contract totaled approximately \$6.8 million, and the concession fee totaled approximately \$704,000;
- Budget submitted the annual audit report for year four that was due April 30, 2004, on August 3, 2004;
- The Airport did not require Budget to provide a detailed monthly statement of gross receipts as allowed by the contract;
- For the year ending January 31, 2004, Budget submitted four monthly minimum annual guarantee (MAG) payments (\$13,960) more than two weeks late (average 30 days); and
- Budget overpaid the concession fee by \$17,915 over the last four years.

We conclude that the overpayment of \$17,919 occurred over a four-year period and was a result of not performing a “true up” of the contract at the end of each contract year. Importantly, the overpayment was not a result of overcharges to customers. In summary, there was substantial compliance by this vendor.

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

report.

We also recommend Airport management require Budget to submit monthly reports that contain sufficient detail to allow an assessment of the accuracy of the reports. Furthermore, Budget should submit monthly reports and annual audit reports in accordance with the contract.

Scope, Objectives, and Methodology

Our audit consisted of obtaining and reviewing monthly revenue reports for the four-year period ending January 31, 2004, reviewing monthly detail revenue reports for the year ending January 31, 2004, verifying the revenue items included in gross receipts, and reviewing compliance with the 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 Budget entered into a five-year agreement effective February 1, 2000. The agreement allows Budget 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 \$167,527 for year four of the contract. The MAG is paid in monthly installments (\$13,960) in advance on the first day of each month. For year four (February 1, 2003, through January 31, 2004), Budget reported gross receipts of \$1,517,374 and paid concession fees of \$172,369.

Budget 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, Budget 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. Budget also is required to submit an annual 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 Budget.

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. On August 3, 2004, Budget submitted the required annual audit that was due April 30, 2004. 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 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.

Our review of sample rental-car agreements during the month of October 2003 noted that the concession recoupment fee was primarily being applied to the authorized items contained in the definition of gross receipts included in Addendum #1 to the original bid documents and incorporated in the contract. Airport management may have identified these charges 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 audit prepared by a Certified Public Accountant.

Our review of schedules maintained by Accounts Receivable and the available annual audit reports submitted by Budget indicate that over the past four years Budget 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 Budget made \$17,919 in overpayments over the last four years (\$4 for items erroneously included in gross receipts and \$17,915 for overpayments of concession fees). These overpayments did not result in overcharges to customers. We also noted that these overpayments have not been recorded on the records of the Airport.

The Accounts Receivable schedules indicated that for the year ending January 2004, four MAG payments (\$13,960), due the first of each month, were late more than two weeks (average of 30 days).

Budget Gross Receipts and Concession Fees		
	Year Four 2/03-1/04	Four Years 2/00-1/04
Reported Gross Receipts	\$1,517,374	\$6,798,766
Items included erroneously	(\$80)	(\$358)*
Corrected Gross Receipts	\$1,517,294	\$6,798,408
Greater of MAG or Concession Fee	\$167,527	\$704,633
Concession Fee/MAG Paid	\$172,369	\$722,552
Amount Overpaid	\$4,842	\$17,919

* 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:

- Require a reporting format that provides sufficient detail to determine if revenue items are correctly reported; and
- Include financial penalties for late reporting, late payments, and late submittal of audit reports.

We recommend Airport management develop procedures for the “true up” process of balancing out

concession fees after the receipt of the annual audit report.

We further recommend that the Airport “true up” the concession fee for past overpayments of \$17,915.

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

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.

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

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