

Final Audit

Follow Up

As of June 30, 2005



“Audit of Airport Rental-Car Contracts”

(Report #0509, Issued October 25, 2004)

Report #0527

July 28, 2005

Summary

The Aviation Department within the Development and Transportation Service Area has completed 11 of the 12 action plan steps identified in our previously issued report #0509, issued on October 25, 2004. In July 2005, the City Attorney provided a legal memorandum to Aviation management to assist them in addressing the one remaining action step. Therefore, we are issuing this report as a final follow up. It is our intent to informally follow up on this last action step prior to September 30, 2005.

In audit report #0509, we identified needed improvements and provided recommendations to the Aviation Department in the areas of rental-car contract administration and monitoring.

Scope, Objectives, and Methodology

The original audit and this subsequent follow up were conducted in accordance with Generally Accepted Government Auditing Standards and Standards for the Professional Practice of Internal Auditing, as appropriate. This follow up audit was for the period October 1, 2004, to March 31, 2005.

Report #0509

The scope of report #0509 was a review of the Aviation Department's concession fee contracts with seven rental-car companies for the first four years of the five-year contracts beginning February 1, 2000. The two primary objectives of the audit were to determine whether:

- 1) gross receipts reported and subsequent concession fees paid by on-site and off-site rental-car companies were accurate, complete, and complied with concession fee contracts; and
- 2) the system of internal controls established by airport management and the Department of Management and Administration provided reasonable assurance that annual reports,

monthly reports, and amounts paid were timely and correct.

Report #0527

This audit follow up focused on the Aviation Department's action plan steps identified in the original audit and due to be implemented by March 31, 2005. To obtain information, we interviewed airport staff and reviewed relevant documents.

Previous Conditions and Current Status

The primary purpose of report #0509 was to assist the City Manager and executive management by identifying areas for improved contract administration and monitoring. Our review of the seven concession fee contracts with rental-car companies and their activities in reporting gross receipts and the payment of concession fees showed that several airport rental-car companies charged the concession recoupment fee improperly. As a result, their customers were overcharged, which in turn resulted in the over remittance of concession fees to the airport. We also identified the four issues below that indicated improvements should be made in administering and monitoring rental car contracts.

- Gross receipts were not clearly defined. The inclusion of items in gross receipts varied. Some companies included inappropriate items in their calculation of gross receipts resulting in gross receipts being overstated by over \$4 million and customers being overcharged \$100,000. Over remittances of \$380,000 were made to the airport over the four-year period and ranged from .5% to 15% of amounts paid by each rental-car company. We recommended the airport clarify and standardize the definition of gross receipts in future contracts and request guidance from the City Attorney for the proper disposition of over remittances to the airport.
- Monthly Minimum Annual Guarantee (MAG) payments were paid late 28% of the time. Seventeen of the 60 MAG payments due from on-site rental-car companies were late on average by

31 days. We recommended the airport include late reporting penalties in future contracts.

- Monthly reports and annual audit reports did not contain sufficient detail for airport management to monitor contract compliance. Reports submitted did not contain adequate information to determine what was included in gross receipts. Annual audit reports submitted by rental-car companies provided differing levels of assurance and did not include the revenue categories contained in the contract. In addition, some annual audits were submitted late while others had not been submitted. We recommended the airport: require a reporting format that provides detail; clarify the assurance level needed in audit reports; develop

procedures to timely “true up” concession fees after receipt of annual audit reports; and include financial penalties for late reports in future contracts.

- Each contract with off-site rental-car companies contained different provisions of gross receipts and exemptions. We recommended the airport standardize the provisions for gross receipts and exemptions in future contracts.

As of June 30, 2005, 11 of the 12 (92%) action plan steps identified for this audit were completed and the one remaining action plan step is in process. Table 1 identifies the action plan steps and describes the current status.

**Table 1
Action Plan Steps from Report #0509 and Current Status**

Action Plan Steps	Current Status
Improve future airport rental-car contracts	
<ul style="list-style-type: none"> • Clarify and standardize the definition of gross receipts in future on-site and off-site rental-car requests for bid. 	✓ Aviation Department clarified and standardized the definition of gross receipts in the on-site and off-site rental-car request for bid dated October 2004.
<ul style="list-style-type: none"> • Clarify the concession recoupment fee process in future on-site and off-site rental-car requests for bid. 	✓ Aviation Department clarified the concession recoupment fee process in the on-site and off-site rental-car request for bid dated October 2004.
<ul style="list-style-type: none"> • Clarify the level of assurance needed in audit reports in future rental-car requests for bid. 	✓ Aviation Department clarified the level of assurance needed in audit reports in the request for bid dated October 2004.
<ul style="list-style-type: none"> • Add provisions for financial penalties for late monthly reports and late annual audit reports in future rental-car requests for bid. 	✓ Aviation Department included provisions for financial penalties for late monthly reports and late annual audit reports in the request for bid dated October 2004. The penalties are: <ul style="list-style-type: none"> • 18% on fees not paid by the due date; and • \$10 for the first calendar day and \$50 for every additional calendar day that each report is late.
Ensure accurate concession payments are paid to the airport	
<ul style="list-style-type: none"> • 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. 	✓ Aviation Department developed a reporting format for rental-car companies to use that provides sufficient detail to allow staff to assess the accuracy of the concession payment.
<ul style="list-style-type: none"> • Establish a process to review monthly reports and annual audit reports to ensure rental-car companies are accurately applying and reporting concession fees. 	✓ Aviation Department established a process to review monthly reports and annual audit reports to ensure rental-car companies are accurately applying and reporting concession fees.
<ul style="list-style-type: none"> • Develop procedures to “true up” concession fees after receipt of annual audit reports from rental-car companies. 	✓ Aviation Department developed procedures to “true up” concession fees after receipt of annual audit reports so that airport staff could inform rental-car companies of credits due them in a timely manner.
Provide for proper disposition of over remittances	
<ul style="list-style-type: none"> • Request guidance from the City Attorney regarding the proper disposition of over remittances to the airport. 	✓ Aviation Department received a legal memorandum from the City Attorney in July 2005.

“True up” rental-car concession fees as of January 31, 2004	
<ul style="list-style-type: none"> ● Issue credits for past overpayments of the concession fee. 	<ul style="list-style-type: none"> ◇ Aviation Department intends to take the appropriate action to address the issue regarding the credits for the overpayment of concession fees consistent with the legal memorandum provided by the City Attorney.
<ul style="list-style-type: none"> ● Issue invoices for past underpayments of concession fees. 	<ul style="list-style-type: none"> ✓ Aviation Department issued invoices and received all payments for the underpayments of concession fees, totaling \$4,297.
<ul style="list-style-type: none"> ● Issue invoice to Enterprise for the cost of the Office of the City Auditor audit that showed Enterprise had understated gross receipts by more than 2%. 	<ul style="list-style-type: none"> ✓ Aviation Department issued an invoice and received payment of \$4,133 for the cost of the audit.

Table Legend:

- Issue addressed in the original audit
- ✓ Issue addressed and resolved
- ◇ On-going activities are in process

Conclusion

As noted in Table 1, the Aviation Department has completed 11 of the 12 action plan steps that were due as of March 31, 2005. In July 2005, the City Attorney provided a legal memorandum to Aviation management to assist them in addressing the one remaining action step. Therefore, we are issuing this report as a final follow up. It is our intent to informally follow-up on this last action step prior to September 30, 2005. We appreciate the cooperation and assistance provided by Aviation Department staff in this audit follow up.

Appointed Official Response

City Manager:

We appreciate the assistance provided by the City Auditor and his staff in recommending actions to help the Airport improve its rental car contracts. I am very pleased with the progress we have made and know that the Airport staff is committed to continued improvement of rental car contract management and oversight. They have done an exceptional job in developing processes and procedures to improve management of the new rental car contracts and have already gained reporting and revenue collection advantages with the implementation of improved procedures.

Copies of this Audit Follow Up #0527 or audit report #0509 may be obtained from the City Auditor’s web site (<http://talgov.com/auditing/index.cfm>) 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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