

Audit Report



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“Enterprise Rent-A-Car Contract Review”

Report #0505

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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 Enterprise Rent-A-Car (Enterprise) for the four-year period ending January 31, 2004, and reviewed detailed revenues 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:

- Enterprise reported gross receipts of \$469,740 and paid concession fees of \$47,004;
- Enterprise had not submitted any annual independent audit reports, as required by contract;
- The Airport neither required of Enterprise, nor did Enterprise provide, a detailed monthly statement of gross receipts as allowed by the contract;
- Enterprise submitted monthly summary reports within 20 days after the end of the month;
- The concession recoupment fee charged customers included more items than the ones identified in the definition of gross receipts in the contract, resulting in some customers being overcharged \$558 over the four years;
- The concession recoupment fee was not included in monthly reports as gross receipts, as required by the contract, resulting in gross receipts being under reported by \$46,089;
- Based on items being inappropriately included and excluded from gross receipts, Enterprise understated gross receipts by a net of \$40,504 (8.6%) over the four-year period, and underpaid concession fees by \$4,020.

We recommend that Airport management request guidance from the City Attorney as to how to address with Enterprise the disposition of customer overcharges retained by Enterprise.

We also recommend Airport management clarify the definition of gross receipts to reduce misinterpretation and require Enterprise to submit monthly reports that contain sufficient detail to allow an assessment of the accuracy of the reports. Furthermore, Enterprise should submit annual audit reports in accordance with the contract. The Airport should bill Enterprise for concession fees due and the cost of this audit, in accordance with the contract, for underreporting gross receipts by more than 2%.

In February 2004, Enterprise began including the concession recoupment fee in their monthly reports of gross receipts.

Scope, Objectives, and Methodology

Our audit consisted of reviewing monthly reports for the four years of the contract ending January 31, 2004, obtaining and reviewing detail revenues by category for the 12-month period 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 10 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

Enterprise operates their rental car operations off airport grounds under City Ordinance #89-0-0026. The Ordinance permits rental car companies to pick up and drop off customers and to rent their vehicles to Airport

customers. The Airport and Enterprise entered into an off-grounds five-year agreement effective February 1, 2000. The agreement allows Enterprise to operate under the terms of the Ordinance in exchange for a concession fee equal to 10% of gross receipts received from Airport customers. 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.

For the four-year period (February 2000 through January 2004), Enterprise reported gross receipts of \$469,740 and paid concession fees of \$47,004.

Enterprise is required to recoup the 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, Enterprise is to submit a statement of its gross receipts, in such reasonable detail and breakdown as may be required by the City, collected during the previous month and pay 10% of its gross receipts to the Airport. Enterprise also is required to:

- Make its books and records available to the City throughout each contract year and for at least a three-year period following the end of a contract year;
- Employ the services of an independent Certified Public Accountant who shall:
 - ▷ Furnish a written audit to the City stating that, in their opinion, all required payments paid to the City during the preceding contract year were made in accordance with the applicable terms of this agreement;
 - ▷ Include a list of payments as shown on Enterprise books and records; and
 - ▷ 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 to audit its books and records for the purpose of verifying gross receipts and payments to the City. If the audit finds that gross receipts are understated by 2% or more, the entire direct and indirect expenses of said audit shall be borne by Enterprise.

Issues

To date, Airport management has relied heavily on the monthly report of gross receipts and the audits conducted by independent Certified Public Accountants to ensure that car-rental agencies accurately submit concession fees. The monthly reports were submitted timely; however, Enterprise had not submitted any of the required annual audits. 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. Subsequent to our fieldwork, Airport management sent a letter to Enterprise requesting the audit reports.

Our review of sample rental-car agreements, during the month of October 2003, noted that customers were being charged a concession recoupment fee based on additional charges (vehicle license recovery fees, additional driver fees, and underage driver fees) that were not contained in the definition of gross receipts included in the contract (\$917 for year four). We estimate that these revenue items totaled \$5,585 for the first four years under the contract and resulted in customers being overcharged \$558. The inclusion of these items in the concession recoupment fee may have been identified by an independent Certified Public Accountant in an audit or by Airport management if the monthly reports contained sufficient detail so as to identify each revenue item contained in gross receipts. The contract provides that these reports shall show such reasonable detail and breakdown as may be required by the City.

Our review also confirmed that the actual concession recoupment fee was not included in gross receipts by Enterprise, as required by the contract. We estimate that concession recoupment fees totaling \$46,089 for the first four years of the contract were not included in gross receipts. Based on these inclusions and exclusions, we estimate that gross receipts reported by Enterprise were understated by a net of \$40,504 or 8.6%, for the first four years of the contract ending January 31, 2004.

Enterprise Gross Receipts and Concession Fees		
	Year Four 2/03-1/04	Four Years 2/00-1/04
Reported Gross Receipts	\$77,148	\$469,740
Items included erroneously	(\$917)	(\$5,585)*
Items excluded erroneously	\$7,645	\$46,089*
Corrected Gross Receipts	\$83,876	\$510,244
Understated Gross Receipts	\$6,728	\$40,504
Correct Concession Fee (10% of Gross Receipts)	\$8,387	\$51,024
Concession Fee Paid	\$7,715	\$47,004
Additional Concession Fee Due	\$672	\$4,020

* 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 off-grounds 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; and

- Include financial penalties for late reporting, late payments, and late submittal of audit reports.

In addition, we recommend that Airport management request guidance from the City Attorney for the proper disposition of \$558 in over remittances to the Airport resulting from overcharges to customers.

We further recommend that the Airport invoice Enterprise for underreporting gross receipts and underpaying concession fees and the cost of this audit since gross receipts were understated by 8.6%.

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, which will also apply to the off-grounds Rental-Car Contracts. 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 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 #0505 (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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