

Audit Report



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

"Dollar Rent-A-Car Contract Review"

Report #0504

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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 by DTG Operations, Inc., d/b/a Dollar Rent-A-Car (Dollar) for the four years ending January 31, 2004, and monthly revenue reports by category for the 10-month period, April 2003 to January 2004, to assess the vendor's contract compliance and management's administration and monitoring of the contract.

Based on our review, we noted that:

- For the four years ending January 31, 2004, Dollar reported gross receipts of \$1,755,341 and paid concession fees of \$239,172, including \$191,918 in minimum annual guarantee (MAG) payments;
- As of June 1, 2004, Dollar had not submitted the annual audit report, as required by contract, for year four that was due April 30, 2004. The Airport granted Dollar an extension until August 31, 2004;
- The Airport did not require Dollar to provide a detailed monthly statement of gross receipts as allowed by the contract;
- Dollar charged customers a concession recoupment fee on more items than the ones identified in the definition of gross receipts as contained in Addendum #1 to the original bid documents that resulted in customers being overcharged \$8,782 for the 10 months ending January 31, 2004;
- Dollar's gross receipts and the resultant 10% concession fee did not exceed the MAG; therefore, any adjustment of gross receipts would not impact the amount paid by Dollar to the Airport. The effect of the above is that Dollar has paid the proper amount owed to the Airport; however, Dollar has overcharged customers \$8,782.

We recommend Airport management provide Dollar with a copy of the signed contract, clarify the definition of gross receipts and the concession recoupment fee

to reduce misinterpretation. Airport management should require Dollar to submit monthly reports that contain sufficient detail to allow an assessment of the accuracy of the reports.

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

Scope, Objectives, and Methodology

Our audit consisted of reviewing monthly summary reports of gross receipts for the four years ending January 31, 2004, obtaining and reviewing detailed revenues by category for the 10-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 were timely and correct. In addition, we tested 15 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

Dollar operated off airport grounds from February 2000, to December 2002, 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 Dollar entered into a five-year agreement effective February 1, 2000, for the off-airport grounds operation.

Space became available in the terminal, and Dollar and the Airport entered into an on-airport grounds agreement for the period January 3, 2003, to January 31, 2005. We requested, but were unable to obtain, a fully executed copy of that agreement. A draft of the agreement indicates that Dollar is allowed to operate in exchange for a concession fee equal to 10% of gross receipts. Gross receipts are defined as all revenues derived from, or in connection with, its rental of vehicles for:

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

For the off-airport contract period of February 2000 through December 2002, Dollar reported gross receipts of \$472,540 and paid concession fees of \$47,254.

For the on-airport contract period of January 2003 through January 2004, Dollar reported gross receipts of \$1,282,801 and paid concession fees of \$191,918.

The on-airport contract requires Dollar to pay the greater of a minimum annual guarantee (MAG) or 10% of its gross receipts collected as a concession recoupment fee from its customers. The MAG varies by year and was \$180,000 for the period January 2003, through January 2004. The MAG is paid in monthly installments (\$15,000) in advance on the first day of each month. Dollar is required to state the concession recoupment fee as a separate item charge on each rental contract. Within 20 days after the close of each calendar month, Dollar is to submit a statement of its gross receipts collected during the previous month in such reasonable detail and breakdown as may be required by the City. Also, Dollar is required to pay the additional amount to the Airport if 10% of its gross receipts exceed the MAG amount. Dollar is required to:

- Make its books and records available to the City throughout each contract year and for at least a three-year period after final payment;
- Submit to the City, within 90 calendar days following the end of the contract term, a detailed statement of gross revenue of the concession for the preceding year of operation. Such statement is to be prepared by a Certified Public Accountant.

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. The cost of such an 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 full cost of the audit shall be borne by Dollar.

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. Dollar had not submitted the statement of gross revenue for the period February 2003 to January 2004. The statement of gross revenue was due within 90 days of the end of the contract year, and failure to submit the statement can result in termination of the contract. The contract allows for cancellation if the required statements of gross revenue are not provided; however, there are no financial penalties in the contract for late submittal of the statement or late reporting. The Airport approved three requests for extension of time for submittal of the statement of gross revenue, the latest extension was to August 31, 2004. Dollar also requested an executed copy of the signed concession contract.

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 Addendum #1 to the original bid documents and incorporated in the contract. These revenue items totaled \$79,050 for the 10 months ending January 31, 2004, and resulted in customers being overcharged \$8,782 (11.11% of \$79,050). The inclusion of these items in the concession recoupment fee may have been identified by a Certified Public Accountant in an audit report 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.

Dollar Gross Receipts and Concession Fees	
	Ten Months 4/03-1/04
Reported Gross Receipts	\$1,046,397
Items Included Erroneously in Gross Receipts	(\$79,050)
Corrected Gross Receipts	\$967,347
Greater of MAG or Concession Fee	\$150,000
MAG/Concession Fee Paid	\$150,000
Amount Over/Under Paid	\$0

Dollar's gross receipts for the 10-month period and the resultant 10% concession fee did not exceed the \$150,000 MAG; therefore, an adjustment to gross receipts will not impact the amount paid to the Airport.

Recommendations

We recommend that Airport management improve its contract administration and monitoring. Also, the Airport should revise future on-grounds and 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 submittal of audit reports.

We also recommend that Airport management request guidance from the City Attorney as to how Airport

management should address with Dollar the disposition of customer overcharges retained by Dollar.

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 collection by the Rental-Car Companies not remitted. The balance of the Action Plan is expected to be complete by March 31, 2005.

Copies of this Audit Report #0504 (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).

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