

Audit Report



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“Vanguard Car Rental USA, Inc., Contract Review”

Report #0508

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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 obtained monthly reports for four years of the five-year (2000-2005) contract with Alamo Rent-A-Car (Alamo) and National Car Rental (National) and the Airport to identify revenues by category. In May 2002, ANC Rental Corporation (ANC) acquired Alamo and National through bankruptcy procedures and operated under the Alamo contract provisions. In October 2003, Vanguard Car Rental USA, Inc., (Vanguard) acquired National and Alamo. Vanguard continues to operate under the Alamo contract provisions. We reviewed the reports 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 for the first four years of the contract totaled approximately \$13.27 million, and the concession fee totaled approximately \$1.36 million;
- As of June 1, 2004, Vanguard had not submitted the annual audit report, as required by contract, for year four that was due April 30, 2004;
- Alamo, National, ANC, and Vanguard provided detailed monthly statements of gross receipts, as allowed by the contract;
- For the year ending January 31, 2004, six of the monthly minimum annual guarantee (MAG) payments (\$16,704), due the first of the month, were submitted an average of 36 days late;
- All of the rental-car companies covered in this report charged customers a concession recoupment fee on revenue categories not authorized in the contract and included these categories in gross receipts. This resulted in an overstatement of gross receipts by \$1.4 million and overcharges to customers of \$15,743; and

- All of the rental-car companies included in this report overpaid the Airport a total of \$136,169, consisting of a carry forward credit of \$10,924, \$15,743 from overcharges to customers for misclassification of items in gross receipts, and \$109,502 for overpayments of the concession fee.

We recommend Airport management clarify the definition of gross receipts and concession recoupment fee to reduce misinterpretation and misapplication.

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

We recommend that Airport management request guidance from the City Attorney for the proper disposition of over remittances to the Airport resulting from the misapplication of the concession recoupment fee and the resulting overcharges to customers.

Furthermore, Vanguard should submit their minimum annual guarantee payments in compliance with the terms of the contract.

Scope, Objectives, and Methodology

Our audit consisted of reviewing monthly reports for the four years of the contract, obtaining and reviewing detailed revenues by category for the four-year contract period ending January 31, 2004, verifying the revenue items included in gross receipts, and reviewing contract compliance with the terms and conditions of the contract. We also reviewed the system of internal control 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 23 judgmentally selected rental-car transactions (13 for Alamo and 10 for National) 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 entered into five-year agreements with Alamo and National effective February 1, 2000. The agreements allowed Alamo and National 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 charges,
- Personal accident insurance,
- Personal effects coverage, and
- Concession recoupment fee.

Alamo and National were consolidated into ANC Rental Corporation in May 2002 under the conditions of the Alamo contract with the Airport and operate out of one counter. In October 2003, Vanguard acquired Alamo and National from ANC Rental Corporation. Vanguard operates both Alamo and National under the contract the Airport has with Alamo. The contract requires Vanguard to recoup from its customers the 10% concession fee by adding it as a separate charge on each rental agreement. The MAG varies by year and was \$200,446 for year four of the contract. The MAG is paid in monthly installments (\$16,704) in advance on the first day of each month. For the four-year period (February 1, 2000, through January 31, 2004) Alamo, National, ANC, and Vanguard reported total gross receipts of \$13,273,539 and paid concession fees of \$1,359,028.

Within 20 days after the close of each calendar month, Vanguard is to submit a statement showing gross receipts collected during the previous month and pay the Airport 10% of its gross receipts or the MAG, whichever is greater. Vanguard also is required to submit to the City, within 90 days following the end of each contract year, a detailed statement of gross receipts prepared by a Certified Public Accountant for the preceding year of operation.

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 Vanguard.

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 the year ending January 31, 2004, and due April 30, 2004, was not received as of June 1, 2004.

Our review of sample rental-car agreements during the month of October 2003 noted that the concession recoupment fee was being applied to several items not contained in the definition of gross receipts included in Addendum #1 to the original bid documents and incorporated in the contract. Alamo and National were present at a pre-bid conference where the need for Addendum #1 was discussed; however the bid proposal from Alamo did not acknowledge receipt of the Addendum. Additional revenue items included in gross receipts were: refuel service, license recoupment fee, loss damage waiver, drop charge, frequent flyer miles, and others. As a result, gross receipts were overstated by \$1.4 million and customers were overcharged \$15,743. These items were clearly identified in prior audit reports as included in gross receipts and should have been, but were not, identified as improper charges by the auditors for Vanguard. In addition, Airport management may have identified the inclusion of these items in the concession recoupment fee if they had reviewed the monthly reports submitted by Vanguard and the audits submitted by Vanguard. The Airport was relying on the audits prepared by Certified Public Accountants who apparently were not familiar with the provisions of Amendment 1 to the original bid documents that spelled out what was included in gross receipts. Vanguard revised their gross receipts report to the Airport in January 2004 to exclude the additional revenue items.

Our review of schedules maintained by Accounts Receivable, annual audit reports, and monthly revenue reports by category submitted by the rental car companies in this report indicates that over the past four years these companies have overpaid the Airport a total of \$125,245. In addition, there was a credit carried forward of \$10,924 for National. These overpayments have not been recorded on the records of the City or the Airport.

Accounts Receivable schedules indicate that for the year ending January 2004, six monthly MAG payments of \$16,704 were an average of 36 days late. There is currently no penalty for late payments.

Vanguard Gross Receipts and Concession Fees		
	Year Four 2/03-1/04	Four Years 2/00-1/04
Reported Gross Receipts	\$2,575,008	\$13,273,539
Items included erroneously in Gross Receipts	(\$299,611)	(\$1,410,138)
Corrected Gross Receipts	\$2,275,397	\$11,863,400
Greater of Correct Concession Fee or MAG	\$227,540	\$1,233,783
Concession Fee or MAG Paid	\$257,710	\$1,359,028
Net Overpayment	\$30,170	\$125,245

resulting from misinterpretation of revenue items in gross receipts.

We recommend that the Airport “true up” the concession fee for past overpayments.

We also recommend that Airport management review monthly reports and annual audits to ensure car-rental companies are accurately applying and reporting concession fees.

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.

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; 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 for 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 (\$15,743)

Copies of this Audit Report #0508 (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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