

# Audit Report



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## "Thrifty Rent-A-Car Contract Review"

Report #0507

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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 by revenue category for the period January 1, 2000, to October 31, 2003, from DIHAR, Inc. d/b/a Thrifty Rent-A-Car Systems (Thrifty). We obtained monthly detailed reports by rental agreement for the period October 1, 2003, through December 31, 2003, from South Florida Transport, Inc., d/b/a Thrifty. We used these monthly reports to determine if revenue categories were accurately reported for Thrifty and 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-year review period, Thrifty reported gross receipts of \$648,927, claimed \$100,000 exemption from gross receipts, and paid concession fees of \$54,664;
- Thrifty submitted the annual audit report, as required by contract, for the first year 12 months late, submitted the next two on time, and DIHAR, Inc. submitted the report for the period January 1, 2003, to October 31, 2003, three months late. As of June 1, 2004, South Florida Transport, Inc. has not submitted an audit report for the period October 1, 2003, to December 31, 2003, that was due March 30, 2004;
- Thrifty provided a detailed monthly statement of gross receipts for almost all of the four years we reviewed, as allowed by contract;
- Thrifty submitted monthly reports within 20 days after the end of the month;
- The concession recoupment fee is not included in the definition of gross receipts as in other off-site and on-site car rental contracts;
- Thrifty has an annual exemption of \$25,000 from gross receipts, unlike other off-grounds car rental companies;

- South Florida Transport, Inc., understated gross receipts by \$884, for the period October 1, 2003, to December 31, 2003;
- South Florida Transport, Inc., calculates the concession recoupment fee based on gross time and mileage charges, without discounts, which resulted in customers being overcharged by \$183 for the three-month period October 1, 2003, to December 31, 2003; and
- Over the four-year period, January 1, 2000, through December 31, 2003, the concession fee was underpaid by \$249 (.5 % of total concession fees paid).

We recommend Airport management renegotiate the contract to exclude the annual \$25,000 exemption, include the concession recoupment fee in gross receipts, clarify the definition of gross receipts to reduce misinterpretation, and require South Florida Transport, Inc., to submit monthly reports that contain sufficient detail to allow the Airport to assess the accuracy of the reports. Furthermore, DIHAR, Inc. should remit \$161 in concession fees.

In addition, Airport management should bill South Florida Transport, Inc., \$88 for concession fees for the year ending December 31, 2003. Airport management should request South Florida Transport, Inc., to submit annual audit reports in accordance with the contract.

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

Based upon payments to the Airport amounting to \$54,664 over a four-year period, we conclude the error of \$249 (5/10 of 1 % of amounts paid) was very insignificant and there was substantial compliance by this vendor.

## Scope, Objectives, and Methodology

Our audit consisted of reviewing monthly reports for the four years of the contract, obtaining and reviewing detail revenues by category for the period January 1, 2000, to December 31, 2003, 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 of 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 20 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

Thrifty 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 Thrifty entered into a five-year agreement effective October 20, 1997. Airport management granted an extension of the contract on January 27, 2003, to extend the contract through January 31, 2005. This will allow Thrifty's contract to coincide with the other rental-car contracts when it expires. The agreement allows Thrifty to operate under the terms of the Ordinance in exchange for a concession fee equal to 10% of gross receipts received from Airport customers. Each calendar year the contract also exempts \$25,000 of annual gross receipts prorated monthly (\$2,083.33). Gross receipts are defined as all revenues derived from, or in connection with, the rental of vehicles for:

- Time and mileage, after discounts;
- Drop charges;
- Personal accident insurance; and
- Credits given to customers for out-of-pocket costs for fuel and repairs.

For the four-year period (January 2000 through December 2003), Thrifty reported gross receipts of

\$653,084, claimed \$100,000 exemption from gross receipts, and paid concession fees of \$54,664.

Within 20 days after the close of each calendar month, Thrifty 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. Thrifty 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 the agreement;
  - ▷ Include a list of payments as shown on Thrifty 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 net gross receipts are understated by 2% or more during the previous annual reporting period, then the entire direct and indirect expenses of said audit shall be borne by Thrifty.

## 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 submitted by DIHAR were timely and contained sufficient detail to allow Airport management to review them for contract compliance. South Florida Transport, Inc. monthly reports do not contain sufficient detail to allow Airport management to determine contract compliance.

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. South Florida Transport, Inc., as of June 1, 2004, has not submitted the annual audit due March 30, 2004. DIHAR

submitted their audit report for the period January 1, 2003, through October 31, 2003, three months late.

Our review of sample rental-car agreements during the month of October 2003 indicates that the concession fee was applied to the gross time and mileage amount before discounts and was not applied to personal accident coverage. We requested the gross amount charged for time and mileage, but the billing system used by South Florida Transport, Inc. only contained the net amount for the period October 1, 2003, to December 31, 2003.

The amount reported as gross receipts for the period October 1, 2003, to December 31, 2003, was understated by \$884; however, for the year, DIHAR overpaid the concession fee by \$88 and South Florida Transport, Inc., underpaid the concession fee by \$88.

Thrifty Gross Receipts and Concession Fees		
	Year Four 2/03-1/04	Four Years 2/00-1/04
Reported Gross Receipts	\$210,097	\$652,204
Underreported Gross Receipts	\$884	\$1,792
Items Included Erroneously in Gross Receipts		(\$4,185)
Gross Receipts Exemption	(\$25,000)	(\$100,000)
Adjusted Net Gross Receipts	\$185,981	\$549,811
Correct Concession Fee (10% of Gross Receipts)	\$18,598	\$54,981
Concession Fee Paid and Credits	\$18,598	\$54,732
Additional Concession Fee Due	\$0	\$249

### 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 include or exclude concession fees to reduce any misinterpretations and improve consistency among off-grounds rental car contracts;
- Require a reporting format that provides sufficient detail to determine if revenue items are correctly reported;
- Include financial penalties for late reporting, late payments, and late submittal of audit reports; and
- Renegotiate the contract to exclude the annual \$25,000 exemption for consistency among off-grounds rental-car contracts.

We recommend that the Airport request DIHAR, Inc. pay \$161 and South Florida Transport, Inc. pay \$88 for concession fees due on gross receipts.

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

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. The balance of the Action Plan is expected to be complete by March 31, 2005.

Copies of this Audit Report #0507 (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](mailto:auditors@talgov.com)).

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