



**AU21-001 Aviation
On-Airport Rental Car Concession and Lease
Agreement Compliance Review**

**City Auditor's Office
Kimberly L. Houston, CFE
Interim City Auditor**

January 27, 2023

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Executive Summary

In accordance with the CY2021 Annual Audit Plan, we conducted an audit of the City of Corpus Christi's (City) Department of Aviation's (Aviation) contract with Enterprise Rent-A-Car at the Corpus Christi International Airport (CCIA).

Audit Objective

The objective of the audit was to determine if the On-Airport Rental Car Concession and Lease Agreement (Agreement) is being adhered to by the rental car agency.

In doing so, we examined the monthly gross revenue statements and reconciled the statements with the rental car customer transactional data.

Audit Conclusion

We issued seven (7) recommendations Aviation management should implement to enforce Enterprise's compliance with their agreement to ensure accuracy over revenue reporting.

We found that Enterprise lacked consistency in their gross revenue reporting, which resulted in calculation errors for the concession fee payments and adjusted minimum annual guarantee for contract year three. Gross revenue statements were not signed as required in the Agreement and, in some instances, Enterprise failed to submit their gross revenue statements timely.

City and Aviation management agrees with this report. See management's responses following each issue. Management's response can be seen in its entirety in Appendix B.

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Background

In accordance with the 2021 Annual Audit Plan, we conducted an audit of the Department of Aviation's (Aviation) agreement with Enterprise Rent-A-Car's locations at the Corpus Christi International Airport (CCIA).

Aviation has written agreements with five (5) rental car agencies at CCIA. The agreements require payment of a percentage of rental car agency revenue, a concession fee, derived from operations related to CCIA with a minimum annual guarantee (MAG).

The MAG is to be paid on the first day of the month, and in the event that the reportable revenue is greater than the MAG, the difference is to be paid on the 20th of the following month. The MAG is determined to be 85 percent of Enterprise's previous years reportable revenue. This audit reviewed Aviation's oversight of this agreement and Enterprise's compliance with the agreement.

Audit Objective

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Audit Conclusion

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We found that Enterprise lacked consistency in their gross revenue reporting, which resulted in calculation errors for the concession fee payments and adjusted minimum annual guarantee for contract year three. Gross revenue statements were not signed as required in the Agreement and, in some instances, Enterprise failed to submit their gross revenue statements timely.

Management and Auditor Responsibility

City management is responsible for establishing and maintaining a system of internal controls to ensure assets are safeguarded, financial (and non-financial) activity is accurately reported and reliable, and management and employees are in compliance with laws, regulations, and agreements with other entities.

This audit report provides independent, objective analysis, recommendations, and information concerning the activities reviewed. The report is a tool to help management discern and implement specific improvements. The report is not an appraisal or rating of management.

We conducted this performance audit in accordance with generally accepted government auditing standards with exception to the peer review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We

believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit steps were developed to provide sufficient evidence to answer the objectives of this audit. Our methodology can be found in Appendix A - Audit Scope, Methodology and Staffing.

Audit Results and Recommendations

A. Gross Revenue Reported Incorrectly by Rental Car Company

Condition: Monthly revenue statements submitted to Aviation for Enterprise-Rent-A-Car's Corpus Christi International Airport (CCIA) location included errors in calculating and reporting revenue. When comparing Audit's recalculation of gross revenue for the 18-months in the audit scope, no amount matched, as noted in Exhibit 1.

Exhibit 1 - Gross Revenue Calculations by Month

Reported Gross Revenue (GR) - Contract Year 2				
Sample	Business Month	Auditor Calculated	Reported by Enterprise	Variance Over/ (Under)
		Amount (\$)		
1	Oct-20	270,536	269,828	(708)
2	Nov-20	250,273	250,578	305
3	Dec-20	257,054	258,393	1,339
4	Jan-21	280,318	281,566	1,248
5	Feb-21	293,657	295,147	1,490
6	Mar-21	471,556	472,987	1,431
7	Apr-21	484,777	485,979	1,202
8	May-21	469,924	471,877	1,953
9	Jun-21	428,694	431,227	2,533
10	Jul-21	472,777	474,298	1,521
11	Aug-21	388,983	390,444	1,461
12	Sep-21	389,784	390,701	917
	Totals	4,458,333	4,473,025	14,692

Reported Gross Revenue (GR) - Contract Year 3				
Sample	Business Month	Auditor Calculated	Reported by Enterprise	Variance Over/ (Under)
		Amount (\$)		
13	Oct-21	474,968	476,286	1,318
14	Nov-21	477,471	479,628	2,157
15	Dec-21	342,970	344,437	1,467
16	Jan-22	312,156	315,432	3,276
17	Feb-22	346,469	347,503	1,034
18	Mar-22	412,290	413,658	1,368
	Totals	2,366,324	2,376,944	10,620

- For twelve sample months (7-18), we found customer coupons, an allowable contractual exclusion from gross revenue, were double counted. Coupons were subtracted to get "Total Gross Revenue" and again afterwards as an allowable exclusion.
- Four sample months (3-6) did not have coupons reduced from gross revenue and toll pass revenue was excluded.
- Two sample months (1, 2) had adjustment that were not recognized.

These discrepancies were not identified in the year end independent CPA certification statement perform by the firm hired by Enterprise.

Effect: Although immaterial, incorrect calculations in the gross revenue statements resulted in a chain effect by causing incorrect concession fee payments and incorrect adjusted minimum annual guarantee calculation for contract year three.

When comparing auditor calculated concessions fees, we calculated overpayments of \$1,214 for contract year 2 and net underpayments of \$777 in the first six months of contract year 3. These amounts are detailed in Exhibit 2. Since the contractor's Independent Audit report utilized the same amounts submitted to Aviation, their assertion contains the same misstatements.

Exhibit 2 – Concession Fee Payments: Audit Recalculation v. Amount Paid

Concession Fee Pymts - Contract Year 2				
Sample	Business Month	Audit's Calculation	Amount Paid to Aviation	Over/ (Under)
1	20-Oct	33,588	33,588	-
2	20-Nov	33,588	33,588	-
3	20-Dec	33,588	33,588	-
4	21-Jan	33,588	33,588	-
5	21-Feb	33,588	33,588	-
6	21-Mar	51,871	52,029	158
7	21-Apr	53,325	53,458	133
8	21-May	51,692	51,906	214
9	21-Jun	47,156	47,435	279
10	21-Jul	52,006	52,173	167
11	21-Aug	42,788	42,949	161
12	21-Sep	42,875	42,977	102
Totals		509,653	510,867	1,214

Concession Fee Pymts - Contract Year 3				
Sample	Business Month	Audit's Calculation	Amount Paid to Aviation	Over/ (Under)
13	21-Oct	52,247	52,391	144
14	21-Nov	52,522	51,425	(1,097)
15	21-Dec	37,727	37,611	(116)
16	22-Jan	36,186	36,186	-
17	22-Feb	38,112	38,225	113
18	22-Mar	45,352	45,531	179
Totals		262,146	261,369	(777)

Lastly, we found Audit's recalculation of contract year three's adjusted MAG, \$433,204, to be \$1,031 less than the \$434,235 being utilized.

Cause: While the contract does not require customer rental transaction data files to be submitted with monthly gross revenue statements, this is a carryover finding from two prior audit projects (AU15-004 and AU18-F05). Enterprise's rental data files do not consistently populate the monthly gross revenue statements correctly. This is in part due to Enterprise's use of multiple files to develop its monthly revenue totals.

Criteria: Article IV. Section D Guaranteed Concession Revenues of the City's contract with Enterprise specifies what is required to be included and excluded from gross revenue. Revenue derived from tolls should be reported in gross revenue. Coupons may be deducted from gross revenue so long as customer transactions meet certain criteria.

Recommendation(s):

Aviation management should ensure the accuracy of monthly gross revenue statements submitted by rental car companies by:

- 1) Requiring all rental car companies to submit transactional data files with each monthly gross revenue statement.

- 2) Reconciling transactional data files to gross revenue statements to verify accuracy and recalculating amount due.
- 3) Notifying rental car companies in writing when any discrepancy occurs in reporting, including the independent CPA certification statement, with instructions to correct.

Management's Response:

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Kimberly Miller, Finance Manager	4/1/2023
<i>Action Plan:</i> 1) Individual data files are received each month from all (5) Rental Car Companies in addition to the required Gross Sales Report (Exhibit F). 2) Monthly reconciliations are complete for Enterprise (June 2021-Feb 2022) & National (Oct 2021 – Feb 2022). Data files are not currently in the format needed to complete this task each month. For reconciliation purposes, RACs will now be required to send data files in an acceptable format beginning March 1, 2023. The CCIA Financial Accountant will compare the data files to the Gross Sales Report for accuracy. 3) Upon receipt of the annual CPA report, the Finance Manager compares the report with internal data from the CCIA financial system. If discrepancies are identified, notifications are prepared in writing and the Rental Car company is notified. CCIA will continue to work with the RAC to make any necessary adjustments. A final “revised” report is requested from the RAC/CPA.		

B. Interest Assessment for Untimely and Underpaid Concession Fees

Condition: Enterprise was not assessed interest for late payment remittance or underpayment of concession fees.

Untimely Payments

For the audit scope, Enterprise's first of the month payments were timely made 67% (12/18) of the time. No late fees were assessed for the six (6) (Oct – Dec 2020, Feb – Mar 2021 and July 2021) concession fee payments submitted late. One payment was made 64 (June 2021) days late. Accrued interest for these late payments is \$3,089.

For payments due on the 20th of the month, 94% (17/18) of the payments were made on time. The accrued interest for the late payment is \$500.

Underpayments

Using the Auditor concession fees calculations presented in Finding A, we found three (3) (Oct 2021 – Dec 2021) underpaid concession payments in contract year three. While the contract includes provisions for contract year-end true up for under and overpaid concession fees, we calculated accrued interests for the under payment to be \$1,500.

Cause: Enterprise's administration stated untimely payments were made due to staff vacancy.

Criteria: Article VII. Section E, *Payable When Due*, of Enterprise' contract states that *any amount payable to the City which ...has not been paid...when due shall bear interest at the rate of 10% per [year] or \$500.00, whichever is greater*. Allowances are made for due dates that reside on a weekend or City Holiday; provided, payment is received the next business day.

Recommendation(s):

Aviation's management should:

- 1) Assess interest fees when concession fees payments are not made in accordance with contract due dates or when underpaid.
- 2) For underpaid concession fees in contract year three, ensure during the year-end true up that any underpayments are recaptured so the City is made whole. In doing this, utilize rental car customer transactional data files as recommended in Finding A.

Management's Response:

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Kimberly Miller, Finance Manager	5/1/2023
<i>Action Plan:</i> 1)A monthly review of payment dates will be implemented on 1/20/23 and performed by the Finance Sr Mgmt. Asst. Late fees will be calculated based on the lease terms. Invoices will be sent the following month. 2) Annual true ups for Contract Year 3 will be performed for each RAC during the 2nd quarter of FY23. Data file revenues will be compared to the CPA report submitted. If an underpayment is due to the City, CCIA will invoice the RAC within (60 days) of finalizing the annual report.		

C. Attesting the Accuracy of Gross Revenue Statement

Condition: Enterprise submitted gross revenue statements without signatures, manual or electronic, attesting to accuracy. For the period of October 2020 to March 2022, none of the 18 statements submitted by Enterprise were signed. Most signatures were typed.

We also found Enterprise did not utilize the contract template for reporting monthly gross revenue until April 2021.

For this testing only, we expanded our scope to gain understating of the degree of compliance across other rental car companies. We reviewed 12 monthly gross revenue statements during the period of October 2020-September 2021 (contract year 2) for each of the other four rental car companies (Alamo/National, Avis, Dollar/Thrifty, and Hertz) the City has a contract with at CCIA.

We confirmed whether 1) the contract template was used to report gross revenue and 2) existence of signatures from a management representative of the rental car company. Avis was found to be the only rental car company to 100% meet both criteria.

Effect: Without proper signatures, there is no evidence that the statements were reviewed and verified for accuracy by Enterprise management prior to submittal. Enterprise was not in compliance with their agreement when they did not utilize the contract's template for reporting gross revenue. The contract template is designed to ensure accuracy in reporting revenue and allowable deductions.

Cause: Enterprise is submitting typed-in signatures due to the work condition restrictions caused by the COVID-19 pandemic and had not considered using electronic signatures.

Criteria: Article IV. Section C of the Concession and Lease Agreement states, gross revenue statements are required to be *signed by a responsible manager* of the rental car company *attesting to the accuracy of the data and information presented*. It also requires the gross revenue statement template in the agreement to be used in reporting monthly gross revenue.

Recommendation(s):

To ensure authenticity and validity of gross revenue statements, Aviation management should:

- 1) Notify rental car companies timely when submitted statements are not using the contract template or when they are not signed by a management representative.
- 2) Assess administrative late fees for submitting incomplete statements for continued non-compliance.

Management's Response:

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Kimberly Miller, Finance Manager	3/1/2023
Action Plan: 1) This process went into effect 4/1/2022 and continues to be part of the monthly report monitoring. Enforcement is performed by the CCIA Financial Accountant. 2) This process is currently being tracked by the Financial Accountant. CCIA will follow up and bill late fees applicable for June 2022 – November 2022. These late fees will be invoiced no later than February 28, 2023. Effective, 12/1/2022, bills will be generated each month following the prior month's late reports.		

Appendix A – Audit Scope, Methodology, and Staffing

The audit scope included a review of Enterprise-Rent-A-Car's Corpus Christi International Airport (CCIA) location performance under their *On-Airport Rental Car Concession and Lease Agreement* with the Department of Aviation. The scope included a review of 18-months of Enterprise's revenue reporting and collection for the period of October 1, 2020, through March 31, 2022.

Our methodology included inquiries with Aviation, City Attorney's Office, and Enterprise staff. We developed audit steps to evaluate and test contract compliance by identifying key agreement terms and performing data analysis and tests on rental customer transactions through reviewing compliance over revenue reporting, accuracy of concession payments, recalculating adjusted MAG, and reviewing certification of gross revenue statements. Additionally, we examined existence and accuracy of annual CPA attestation reports.

We did not test rent payments for office space, counter, or parking spaces nor submission of security fees and customer facility charges.

We relied on transactional monthly data files provided by Enterprise to recalculate gross revenue, concession fees due, adjusted minimum annual guarantee, and penalty or late fees, where applicable.

We relied on data from the City's financial system, Infor, and Aviation's system of record, QuickBooks. We did not perform general or application control tests on the financial system; instead, we performed direct tests on the financial data. We do not believe our lack of testing controls affected the outcomes of this report.

In conducting our audit, we relied on the On-Airport Rental Car Concession and Lease Agreement as the authoritative guidance to serve as criteria for the audit.

We believe this testwork provides sufficient and appropriate evidence for our audit conclusion and finding.

Staff Acknowledgment

Joseph P. Lopez, Auditor
Patrice Randle, CPA Contractor
Brianna Annas, CFE Auditor

Appendix B – Management Response



January 11, 2023


Kimberly L. Houston, CFE
Interim City Auditor
Corpus Christi, Texas

Re: AU21-001 Department of Aviation, On-Airport Rental Car Concession and Lease Agreement Compliance Review

We have carefully reviewed the findings presented in the audit report referenced above, and our action plans to address the findings are described on the following pages.

We are committed to correcting the issues in the audit report by implementing the action plans in a timely fashion.


Regards,



Kevin Smith
Director

1-17-23


Date



Nadia Chandler-Hardy
Assistant City Manager

1-19-2023

Date



Peter Zanoni
City Manager

1.25.23

Date

A. Gross Revenue Reported Incorrectly by Rental Car Company

Recommendation(s):

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B. Assessment for Untimely and Underpaid Concession Fees

Recommendation:

Aviation's management should:

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- 2) For underpaid concession fees in contract year three, ensure during the year-end true up that any underpayments are recaptured so the City is made whole. In doing this, utilize rental car customer transactional data files as recommended in Finding A.

Management's Response:

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