



**Budget Rent A Car of El Paso, Inc.
Audit Report A2012-10**

Issued by the
Internal Audit Office
November 29, 2012

**City of El Paso
Internal Audit Office
Budget Rent A Car of El Paso, Inc. Audit A2012-10**

EXECUTIVE SUMMARY

The Internal Audit Office has concluded its audit of the “*Concession Agreement*” between the City of El Paso and Budget Rent A Car of El Paso, Inc. in effect as of December 1, 2011. Based on the results of the audit, two (2) findings have been identified.

Listed below is a summary of the findings identified in this report:

1. Budget Rent A Car of El Paso, Inc. under reported gross revenues in the amount of \$5,999.89 for May 2012. Budget Rent A Car of El Paso, Inc. owes the El Paso International Airport \$594.29 in Percentage Fees due and \$42.79 in Interest Penalty for a total of \$637.08.
2. Budget Rent A Car of El Paso, Inc. is consistently overstating Gross Revenues, Rental Sales Tax Exclusions and Sun Bowl Tax Exclusions on the *Rental Car Gross Revenues and Transaction Reporting Form* or “Exhibit D” which is remitted to the Airport monthly.

For a detailed explanation of the findings please refer to the body of this Audit Report.

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BACKGROUND

El Paso International Airport Management has instituted a process to review contract compliance of businesses operating as concessionaires or providing management services within Airport owned property. The Aviation Director requested an audit of the “*Concession Agreement*” between the City of El Paso and Budget Rent A Car of El Paso, Inc. in effect as of December 1, 2011.

AUDIT OBJECTIVES

The objectives of this audit were to determine if Budget Rent A Car of El Paso, Inc. is adhering to the operating terms and conditions as established in the “*Concession Agreement*” dated December 1, 2011, between the City of El Paso and Budget Rent A Car of El Paso, Inc.

AUDIT SCOPE

This is a limited scope audit and the time period covered are all transactions occurring during April, May, and June 2012. Budget Rent A Car of El Paso Inc.’s fiscal year is December 1 to November 30.

AUDIT METHODOLOGY

To achieve our audit objectives we:

- Conducted interviews with El Paso International Airport (EPIA) administration;
- Conducted interviews with Budget Rent A Car of El Paso, Inc. staff;
- Conducted an analysis of the Concession Agreement;
- Reviewed monthly revenue reports;
- Reviewed a copy of the *Certified Public Accountant’s Audit Report*;
- Recalculated reported revenues;
- Performed tests of selected transactions; and,
- Reviewed other deliverables required by the Concession Agreement.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*. 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.

This audit was also conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

FINDINGS

The findings, which follow, relate to compliance and adherence to the terms and conditions of the “*Concession Agreement*” between the City of El Paso and Budget Rent A Car of El Paso, Inc. in effect as of December 1, 2011.

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Finding 1

Gross Revenues Not Reported to Airport

Article VI, Section 6.09 *Records of Concessionaire*: Within 90 days following the end of each Contract Year of operation of the concession a statement showing Gross Revenues for the preceding Contract Year is to be submitted and verified from the records by a Certified Public Accountant. Such statement shall be signed and sworn by a Certified Public Accountant as an accurate report of the Concessionaire's Gross Revenues for the preceding year...

If the annual statement and other records show that the amount due to the City is less than the total payments already made by the Concessionaire, the City will promptly issue payment to the Concessionaire in the amount of such overpayment reduced by any accounts receivable due the City....

Article VI, Section 6.08 *Unpaid Rent and Fees*: Any installment of rent, fees, or other monies accruing under the provisions of this Agreement that are not paid and received by the City by the 20th day of the month in which payment is due, shall bear interest at the maximum rate allowed by law from the date when same was due by the terms hereof, until the same has been paid by the Concessionaire.

Budget Rent A Car of El Paso, Inc. understated Gross Revenues collected in May 2012 by \$5,999.89.

Description	Amount
Gross Revenues reported on the May 2012 Airport Concession Report	\$344,337.50
Gross Revenues reported on the May 2012 <i>Rental Car Gross Revenues and Transactions Report</i> "Exhibit D" remitted to the Airport.	\$338,337.61
Gross Revenues not reported to the Airport.	\$5,999.89

Recommendation

Budget Rent A Car of El Paso, Inc. should remit the following to the Airport:

Description	Amount	Comment
Percentage Fee	\$594.29	As stated on May 2012 Airport Concession Report
Late Fee	\$42.79	18% / 365 days X 146 days late as of 11/13/2012
Total Due Airport	\$637.08	

Budget Rent A Car of El Paso, Inc. should ensure that all revenues except those excluded by the Concessionaire's Agreement are included in their percentage fee calculations.

The El Paso International Airport should ensure that the year-end true up process is conducted per Article VI, Section 6.09; paragraph 4 of the Concession Agreement dated December 1, 2011.

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Management's Response

In mid-2010, the Administrative Analyst assigned to manage car rental concession agreements created and actively maintains a Financial Report Tracking Worksheet to assist in ensuring compliance with annual financial reporting requirements of the rental car concessionaires. The worksheet is used to document the true-up process. Information maintained on the worksheet includes the contract year end date, date report is due, date that the reminder letter is to be mailed to concessionaire, date the report is received, date the report reconciliation is completed, date the reconciliation results letter is mailed to the concessionaire, and current status. The worksheet is updated and submitted along with activity reports to Airport management to ensure oversight of the process. A copy of the current tracking worksheet is attached to this report as reference.

Responsible Party

Administrative Analyst, Deputy Director of Aviation Administration (supervision), Director of Aviation (oversight)

Implementation Date

Currently in place; ongoing

Note: See attachment A for a copy of the *Financial Report Tracking Worksheet* used by the Airport.

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Finding 2

Overstating Gross Revenues and Tax Exclusions

Article VI Section 6.09 *Records of Concessionaire*: *With respect to business done by it hereunder, the Concessionaire shall keep true and accurate amounts, records, books, and data which shall show all sales made and services performed for cash, credit, or otherwise, without regard to whether paid or not, and all the Gross Revenues of the Concessionaire as defined hereinabove....*

Article II Section 2.03 paragraph B:... *In the event the Director of Aviation determines reallocation shall occur, the number of each concessionaire’s ready/return parking spaces will be computed by the City based on an equally weighted combination of (i) the percentage of the Concessionaire’s Gross Revenues reported to the City compared to the total Gross Revenues reported by all vehicle rental concessionaire’s during the previous Contract Year (“Market Share”); and (ii) the percentage of the Concessionaire’s Airport Customer transactions reported to the City compared to the total number of Airport Customer transactions of all vehicle rental concessionaires reported to the City during the previous Contract Year.*

Budget Rent A Car of El Paso, Inc. is overstating the following on the monthly *Rental Car Gross Revenues and Transactions Reporting Form* or “Exhibit D” it remits to the Airport:

- “Total Reported Gross Revenues” and;
- “Total Reported Taxes” (Rental Sales Tax Exclusions, and Sun Bowl Tax Exclusions);

These overstatements are the result of Budget Rent A Car of El Paso, Inc. not excluding the taxes collected at their East Side Rental Operations from their Airport Operations. These overstatements do not affect concessional revenue.

The total of Airport Gross Revenue overstatements for the months of April, May, and June 2012 is \$11,925.50.

Month	East Side Sun Bowl Taxes Not Excluded From Airport Operations	East Side Rental Sales Taxes Not Excluded From Airport Operations	Total Overstatement of Reported Airport Gross Revenues
April 2012	\$1,062.82	\$2,125.53	\$3,188.35
May 2012	\$1,078.35	\$2,156.49	\$3,234.84
June 2012	\$1,834.12	\$3,668.19	\$5,502.31
		Total	\$11,925.50

Recommendation

The Airport should continue to monitor the monthly revenue reports for any anomalies.

Management’s Response

Airport management will complete the true-up process at the end of the contract year as required by the concession agreement. The concessionaire’s certified revenue report is due on February 28, 2013, for the contract year ended November 30, 2012. Reconciliation of the account is typically completed by Airport staff within 90 days of the receipt of the report. At that point, Airport staff will take the appropriate action as provided in the concession agreement.

Responsible Party

Administrative Analyst, Deputy Director of Aviation Administration (supervision), Director of Aviation (oversight)

Implementation Date

Currently in place; ongoing

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INHERENT LIMITATIONS

Because of the inherent limitations of Budget Rent A Car Inc.'s procedures and controls, subjective interpretation of the "Concession Agreement," errors or irregularities may occur and not be detected. Also, projections of compliance with terms and conditions to future periods are subject to the risk that Budget Rent A Car of El Paso, Inc.'s procedures may become non-compliant due to changes in conditions or that the degree of compliance with the "Concession Agreement" between the City of El Paso and Budget Rent A Car of El Paso, Inc. in effect as of December 1, 2011 may deteriorate.

CONCLUSION

We have concluded work on the audit objectives of the Budget Rent A Car of El Paso, Inc. revenue audit. In accordance with Generally Accepted Government Auditing Standards we are required to conclude on whether the Budget Rent A Car of El Paso, Inc. met the objectives of this audit.

Budget Rent A Car of El Paso, Inc. is meeting the terms and conditions of the Concession Agreement in the following areas:

- The monthly rental payments, initial ready/return, office/counter space, and the electricity payments were received in full and in a timely manner for the months of April, May, and June 2012.
- Customer Facility Charges were collected and remitted to the Airport accurately and timely for April, May, and June 2012.

We have determined that the Budget Rent A Car of El Paso, Inc. is not complying with the Terms and Conditions of the "Concession Agreement" between the City of El Paso and Budget Rent A Car of El Paso, Inc. dated December 1, 2011. This Audit Report identifies two areas of non-compliance by Budget Rent A Car of El Paso, Inc. they are as follows:

Budget Rent A Car of El Paso, Inc.:

1. Budget Rent A Car of El Paso, Inc. under reported Gross Revenues and owes the El Paso International Airport a total of \$637.08.
2. Budget Rent A Car of El Paso, Inc. overstates Gross Revenues and Tax Exclusions which does not affect concessional revenue but does result in inaccurate reporting to the El Paso International Airport.

Airport Management should collaborate with the Budget Rent A Car of El Paso, Inc. to address the Concession Agreement requirements described in this Audit Report. Adherence to the Agreement Terms and Conditions is critical to a mutually successful business relationship.

We wish to thank the Budget Rent A Car of El Paso, Inc. management and staff for their assistance and numerous courtesies extended during the completion of this audit.

Signature on File
Edmundo S. Calderón, CIA, CGAP, CRMA, MBA
Chief Internal Auditor

Signature on File
Daryl Olson
Senior Auditor

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Distribution:

Financial and Audit Oversight Committee

Joyce A. Wilson, City Manager

William F. Studer Jr., Deputy City Manager

Monica Lombraña, Director of Aviation

Mike Maloney, President – Budget Rent A Car of El Paso, Inc.

Attachment A

Financial Report Tracking Worksheet

Source: El Paso International Airport

Certified* Financial Reports Tracking Worksheet

CAR RENTAL CONCESSIONS	End of Concession Contract Year	# Days After End of Each Contract Year	Date Due to EPIA Props Admin	Annual Reminder Letter To Be Mailed	Reminder Sent Date	Date Received	Reconciliation Date	Results Letter Mailed	Current Status
Avis	Nov 30 2012	90	Feb 28 2013	Jan 29 2013	Jan 9 2013				
Budget	Nov 30 2012	90	Feb 28 2013	Jan 29 2013	Jan 9 2013				
Dollar/Thrifty	Nov 30 2012	90	Feb 28 2013	Jan 29 2013	Jan 9 2013				
Enterprise	Nov 30 2012	90	Feb 28 2013	Jan 29 2013	Jan 9 2013				
National	Nov 30 2012	90	Feb 28 2013	Jan 29 2013	Jan 9 2013				
Alamo	Nov 30 2012	90	Feb 28 2013	Jan 29 2013	Jan 9 2013				
Hertz/Advantage	Nov 30 2012	90	Feb 28 2013	Jan 29 2013	Jan 9 2013				

HOTELS	Start of Lease Year/FY	# Days After End of Lease Year/FY	Date Due to EPIA Props Admin	Annual Reminder Letter To Be Mailed	Reminder Sent Date	Date Received	Reconciliation Date	Results Letter Mailed	Current Status
Chase Suites**	Jan 1	90	Apr 1	Jan 1	02/08/2012	09/19/2012	09/20/2012	11/06/2012	9/20/12 - with Claudia for review
Guesthouse Inn & Suites	Jan 1	90	Apr 1	Jan 1	02/08/2012	04/17/2012	06/13/2012	06/28/2012	Reconciled
Radisson**	Jan 1	90	Apr 1	Jan 1	02/08/2012	04/11/2012	06/13/2012	06/28/2012	Reconciled
Hawthorn Suites by Wyndham	Feb 1	90	May 2	Feb 1	02/08/2012	05/08/2012	06/14/2012	06/28/2012	Reconciled
Hawthorn Suites by Wyndham due to Lease Termination eff 10/31/2012	Feb 1	90	Jan 30	Dec 1	01/09/2013				
Microtel	Apr 1	90	Jun 30	Apr 1	04/17/2012	04/25/2012	06/01/2012	06/29/2012	Reconciled - waiting for signed tax return
Wyndham***	Sep 29	30	Oct 29	Aug 30	09/20/2012	10/22/2012			11/5/2012 - Letter - Rejection of report submitted

Marriott	Beginning of Quarter	End of Quarter	# days after close of each Quarter	CY 2010 Due Dates	Annual Reminder Letter To Be Mailed	Reminder Sent Date	Status	Status Date	Current Action
	Q1 - 1/1	Mar 31 2012	60	May 30 2012			Received	04/27/2012	
	Q2 - 4/1	Jun 30 2012	60	Aug 29 2012			Received	07/18/2012	
	Q3 - 7/1	Sep 30 2012	60	Nov 29 2012			Received	11/19/2012	
	Q4 - 10/1	Dec 31 2012	60	Mar 1 2013					
	FYE Report - 2012	Dec 31 2012	90	Mar 31 2013	Jan 1	01/09/2012			

* Per car rental and hotel concession agreements, CPA-certified financials are required. Audited financials are only an option if there is a discrepancy of more than 5% between EPIA sums and the concessionaire's and we cannot come to a mutual agreement.

** CPA-cert report due 90 days after FYE per the Azar-Coleman Properties Master Lease; FYE for both hotels is 12/31

*** Section 3.01.05 of the restated lease sets a 60-day limit to contest CPA-cert report