

Internal Audit Department

O R A N G E C O U N T Y
6th Largest County in the USA

Revenue Generating Lease Audit JOHN WAYNE AIRPORT/ AVIS RENT A CAR

For the Period
December 1, 2013 through November 30, 2014

**\$26.5M REPORTED GROSS RECEIPTS
FOR TWELVE-MONTH AUDIT PERIOD
\$2.9M RENT TO THE COUNTY**

Avis Rent A Car System, LLC (Avis Rent A Car) operates an on-airport rental car concession at John Wayne Airport.

We audited the underlying books and records to ensure reported gross receipts are supported and rent is properly paid as defined by the lease agreement. During the twelve-month audit period of December 1, 2013 through November 30, 2014, Avis Rent A Car reported approximately \$26.5M in gross receipts and paid approximately \$2.9M in rent. Over the life of the five-year lease term, the estimated rent to the County is approximately \$14.4M.

The Internal Audit Department found that Avis Rent A Car's records adequately supported reported gross receipts and rent owed to the County was properly paid. We identified **one (1) Control Finding** regarding compliance with the gross receipts report format and clerical accuracy of the report.

AUDIT NO: 1437
REPORT DATE: JUNE 11, 2015

Director: Dr. Peter Hughes, MBA, CPA, CIA
Senior Audit Manager: Autumn McKinney, CPA, CIA
Audit Manager: Lily Chin, CPA, CGMA

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010, 2013



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach



ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010, 2013

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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 OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1437 June 11, 2015

TO: Lawrence G Serafini, Acting Airport Director
John Wayne Airport

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Revenue Generating Lease Audit of
John Wayne Airport/Avis Rent A Car
PM1121-390-0034

We have completed our revenue generating lease audit of Avis Rent A Car System, LLC for the period December 1, 2013 through November 30, 2014. We performed this audit in accordance with our *FY 2014-15 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors. Our final report is attached for your review.

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). Our **First Follow-Up Audit** will begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **Second Follow-Up Audit** will begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendation is implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed form to facilitate our review.

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendation. Additionally, we will request your department complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

ATTACHMENTS

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 3.

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John Wayne Airport/Avis Rent A Car
Audit No. 1437***

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Audit No. 1437

June 11, 2015

TO: Lawrence G. Serafini, Acting Airport Director
John Wayne Airport

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Revenue Generating Lease Audit of
John Wayne Airport/Avis Rent A Car, PM1121-390-0034

Audit Highlight

Avis Rent A Car System, LLC (Avis Rent A Car) operates on-airport rental car concession at John Wayne Airport.

During the 12-month audit period from December 1, 2013 to November 30, 2014, Avis Rent A Car reported approximately **\$26.5 million** in gross receipts and paid approximately **\$2.9M** in rent to the County.

We found that Avis Rent A Car's records adequately supported reported gross and rent owed to the County was properly paid. We identified **one (1) Control Finding** regarding compliance with the gross receipts report format and clerical accuracy of the report.

OBJECTIVES

We have performed an audit of certain records and documents for the period from December 1, 2013 through November 30, 2014, pertinent to the lease agreement (Agreement) between the County of Orange (County) and Avis Rent A Car System, LLC (Avis Rent A Car), as amended, dated May 7, 2013. The Agreement is for the operation of an on-airport rental car concession at John Wayne Airport. Our audit objectives were:

1. The primary objective of our audit is to determine whether Avis Rent A Car's records adequately supported their monthly gross receipts reported to the County and rent owed is properly paid.
2. The secondary objective of our audit is to determine whether Avis Rent A Car complies with certain other financial provisions of the Agreement, such as monthly gross receipts statement format and annual financial statement requirements.

In addition, while performing the audit we may identify internal control weaknesses for which we will provide suggestions for improvement.

RESULTS

Objective #1: We found that Avis Rent A Car's records adequately supported gross receipts reported to the County and rent owed was properly paid.

Objective #2: We found that Avis Rent A Car complied with most other financial provisions of the Lease Agreement such as the annual financial statement requirements. However, we identified **one (1) Control Finding** regarding compliance with the Monthly Gross Receipts Report format and clerical accuracy of the report.

OC Internal Auditor's Report



The following *Summary of Findings and Recommendations* shows our finding and recommendation for this audit. See further discussion in the *Detailed Findings, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications.

Finding No.	Finding Classification - See Attachment A	Finding Description	Recommendation	Agreement by Management?	Page No. in Audit Report
1.	Control Finding	Avis did not comply with monthly gross receipts report format and did not ensure clerical accuracy of the report.	We recommend JWA require Avis Rent A Car comply with monthly gross receipts report format and ensure its clerical accuracy.	Yes	4

BACKGROUND

The County of Orange (County) entered into a 5-year lease agreement with Avis Rent A Car System, LLC (Avis Rent A Car), as amended, dated May 7, 2013, for the operation of rental car concession at John Wayne Airport. Avis Rent A Car provides on-airport car rental services. During the 12-month audit period ending November 30, 2014, Avis Rent A Car reported approximately **\$26.5** million in gross receipts and paid the County approximately **\$2.9M** in rent.

SCOPE

Our audit was limited to certain records and documents that support Avis Rent A Car's gross receipts reported to the County for the twelve-month audit period from December 1, 2013 through November 30, 2014. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts.

Acknowledgment

We appreciate the courtesy extended to us by the personnel at Avis Rent A Car and John Wayne Airport during our audit. If you have any questions regarding our revenue generating lease audit, please contact me directly at 834-5475, or Autumn McKinney, Senior Audit Manager at 834-5430.



Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Frank Kim, County Executive Officer
Mark Denny, Chief Operating Officer
Jessica O'Hare, Assistant to the Chief Operating Officer
Ralph Sanchez, Deputy Airport Director, JWA/Business Development
Barbara Swift, Manager, JWA/Business Development/Asset Management
Mariane Teschner, Deputy Airport Director, JWA/Finance & Administration
Daniel Leung, Asset Manager, JWA/Business Development/Asset Management
Megan Vu, Section Manager, JWA/Accounting Services
Jessie Zhu, Manager, JWA/Accounting Services
Kenneth Wong, Manager, JWA/Quality Assurance & Compliance
Foreperson, Grand Jury
Robin Stieler, Interim Clerk of the Board of Supervisors
Macias Gini & O'Connell LLP, County External Auditor



Finding 1 – Compliance with Monthly Gross Receipts Report Format and Clerical Accuracy (Control Finding)

Lease Clause Section 4.04 requires Avis to provide an accurate statement of gross receipts in a form prescribed by the County. The County Monthly Gross Receipts Report form requires car rental companies to report gross receipts from all sources before exclusions and separately report or list the seven (7) permitted exclusions or deductions from gross receipts.

Finding No. 1: While Avis Rent A Car's underlying books and records adequately supported the reported gross receipts and percentage rent was properly paid, we found the following items of noncompliance and clerical errors impacting the proper presentation of line items on the County Monthly Gross Receipts Report.

- Avis Rent A Car (Avis) did not separately report the amount of discounts applied to time and mileage revenue that are separately identifiable on the rental agreement. Instead, Avis reported the net amount of time and mileage revenue. No rent is owed as these discounts are allowed to be deducted from gross receipts and the overall net amount of gross receipts was correct.
- For the two sample months of January and August 2014, Avis included Loss Damage Waiver (LDW) revenue twice in gross receipts (before the exclusions line item) and then reported it once as a deduction from gross receipts. The LDW revenue is not an allowed deduction from gross receipts. However, since gross receipts were overstated by the LDW amount deducted, the overall net amount of gross receipts was correct.
- Avis reported the Tourism Commission Assessment (a permitted deduction from gross receipts) as a separate line item on the Monthly Gross Receipts Report, as required. However, Avis reported the same amount (\$38,435) from December 2013 through June 2014, and the same amount (\$56,685) for August 2014 through November 2014. The Tourism Commission Assessment amount is calculated as 2.6% of time and mileage charges, and therefore should vary each month. According to Avis, the links were inadvertently broken in their excel file used to prepare the Monthly Gross Receipts form. For the sample month of January 2014, the Tourism Commission Assessment amount per Avis' underlying system reports (Business and Adjustment Report) was \$4,994 more than the amount reported to the County. For the sample month of August 2014, the correct Tourism Commission Assessment amount was reported to the County, but it appears the links were again broken as the subsequent monthly amounts reported to the County remained the same. Rent does not appear to be over or underpaid to the County as a result of these discrepancies during the twelve-month audit period because Avis paid the minimum annual rent during this period, which was higher than percentage rent.
- The Year-to-date totals on the sampled August 2014 monthly gross receipts report were not mathematically accurate. However, the individual monthly amounts were correct and rent was properly paid.

Recommendation No. 1: We recommend that JWA require Avis Rent A Car to comply with County monthly gross receipts report format by properly reporting the permitted deduction items and ensuring the clerical and mathematical accuracy of the report.



John Wayne Airport Management Response:

Concur. JWA will send a letter of audit findings/notice of noncompliance to Avis Rent A Car. The letter will explain in detail the exact nature of the violations and require Avis to provide specific action taken with regard to the noncompliance and clerical errors and state the date each corrective action taken to correct the violations. In addition, the letter will request that Avis provide the documentation supporting the monthly gross receipts reported during the audit period. JWA will recalculate the monthly gross receipts less allowable deductions and determine whether the payments due to County were accurately reported as required by the rental car concession lease.



ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we will classify audit report items into three distinct categories:

▶ **Critical Control Weaknesses:**

These are Audit Findings or a combination of Auditing Findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the Department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

▶ **Significant Control Weaknesses:**


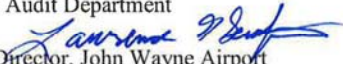
These are Audit Findings or a combination of Audit Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.

▶ **Control Findings:**

These are Audit Findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.



ATTACHMENT B: John Wayne Airport Management Response

 <p>JOHN WAYNE AIRPORT ORANGE COUNTY</p>	<p>RECEIVED INTERNAL AUDIT DEPARTMENT Memorandum JUN 9 2015 2:41 PM</p>
<p>Lawrence G. Serafini, P.E. Acting Airport Director</p>	<p>DATE: June 3, 2015</p> <p>TO: Dr. Peter Hughes, Director, Internal Audit Department</p> <p>FROM: Lawrence Serafini, Acting Airport Director, John Wayne Airport </p> <p>SUBJECT: Report on Revenue Generating Lease Audit of John Wayne Airport/Avis Rent A Car, Audit No. 1437</p>
<p>This memorandum is in response to the Internal Audit Department's Report on Revenue Generating Lease Audit of John Wayne Airport/Avis Rent A Car, Audit No. 1437. Avis Rent A Car operates an on-airport rental car concession at John Wayne Airport.</p>	
<p>The audit was comprised of an audit of certain records and documents for the period from December 1, 2013 through November 30, 2014. The audit found that Avis Rent A Car's records adequately supported reported gross receipts and rent owed to the County was properly paid; however, one control finding regarding compliance with gross receipts report format and clerical accuracy of the report was identified.</p>	
<p>The attached management response was reviewed and approved by the County Executive Officer on June 1, 2015.</p>	
<p>We thank the Internal Audit Department for the audit performed and providing the recommendation to improve oversight and management of our lease agreement.</p>	
<p>Attachment</p>	
<p>cc: Ralph Sanchez, Deputy Airport Director, JWA/Business Development Barbara Swift, Manager, JWA/Business Development Asset Management Daniel Leung, Asset Manager, JWA/Business Development Asset Management Mariane Teschner, Deputy Airport Director, JWA/Finance & Administration Megan Vu, Section Manager, JWA/Accounting Services Jessie Zu, Manager, JWA/Accounting Services Kenneth Wong, Manager, JWA/Quality Assurance & Compliance</p>	
<p>3160 Airway Avenue Costa Mesa, CA 92626-4608 949.252.5171 949.252.5178 fax www.ocair.com</p>	



ATTACHMENT B: John Wayne Airport Management Response (continued)

**INTERNAL AUDIT DEPARTMENT
REVENUE GENERATING LEASE AUDIT
JOHN WAYNE AIRPORT AND AVIS RENT A CAR
AUDIT NO. 1437
MANAGEMENT RESPONSE**

Recommendation No. 1: We recommend that JWA require Avis Rent A Car to comply with County monthly gross receipts format by properly reporting the permitted deduction items and ensuring the clerical and mathematical accuracy of the report.

John Wayne Airport Management Response:

Concur. JWA will send a letter of audit findings/notice of noncompliance to Avis Rent A Car. The letter will explain in detail the exact nature of the violations and require Avis to provide specific action taken with regard to the noncompliance and clerical errors and state the date each corrective action taken to correct the violations. In addition, the letter will request that Avis provide the documentation supporting the monthly gross receipts reported during the audit period. JWA will recalculate the monthly gross receipts less allowable deductions and determine whether the payments due to County were accurately reported as required by the rental car concession lease.