

Internal Audit Department

O C C O R A N G E C O U N T Y
6 t h L a r g e s t C o u n t y i n t h e U S A

O C C B o a r d o f S u p e r v i s o r s
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Revenue Generating License Agreement Audit: **JWA/Fox Rent A Car, Inc.**

For the Period
July 1, 2010 through June 30, 2011

**\$2.8M GROSS RECEIPTS
ANNUALLY
\$250K FEE TO THE COUNTY
ANNUALLY**

Fox Rent A Car, Inc. operates an off-airport car rental agency and has a license agreement with the County to pick-up customers with car rental reservations from John Wayne Airport (JWA). Over its five (5) year term, this license agreement is estimated to generate approximately \$1.05 million in license fees to the County. Fees are paid based on a percentage of gross receipts derived from JWA customers. We audit the underlying books and records to ensure gross receipts are complete and fees are properly paid as defined by the license agreement. During the 12-month audit period of July 1, 2010 through June 30, 2011, Fox Rent A Car, Inc. reported approximately **\$2.8 million** in gross receipts from airport customers and paid about **\$250,000** in license fees.

The Internal Audit Department found that Fox Rent A Car, Inc.'s records adequately supported reported gross receipts and fees owed were properly paid except for: 1) documentation of OC resident customers originating from JWA and 2) additional fees of \$10,003 owed to the County for the audit period and audit costs of \$5,940 that can be assessed. We identified **one (1) Significant Weakness** related to charging non-airport customers an 11.11% airport concession fee and **eight (8) Control Findings** related to the fees owed and/or compliance with the license agreement. JWA concurred with all nine (9) recommendations.

AUDIT NO: 1134
REPORT DATE: OCTOBER 18, 2012

Director: Dr. Peter Hughes, CPA, CIA
Deputy Director: Eli Littner, 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



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
For the Most Outstanding Article of the Year



2008 Association of Local Government Auditors' Bronze Website Award



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

Independence

Objectivity

Integrity



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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA



Transmittal Letter



Audit No. 1134 October 18, 2012

TO: Alan L. Murphy, Director
John Wayne Airport

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

SUBJECT: Revenue Generating License Agreement
Audit: John Wayne Airport/Fox Rent A
Car, Inc., PM 1121-0296-0050

We have completed our Revenue Generating License Agreement Audit of Fox Rent A Car, Inc., for the period July 1, 2010 through June 30, 2011. The final **Internal Auditor's Report** is attached along with your responses to our recommendations. We performed this Revenue Generating License Agreement Audit in accordance with our *FY 2011-12 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee.

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). As a matter of policy, our **first Follow-Up Audit** will now 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 now 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 recommendations are 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 document to facilitate our review.

Letter from Dr. Peter Hughes, CPA



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 listed on the **OC Internal Auditor's Report** on page 3.



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John Wayne Airport

Fox Rent A Car, Inc.

Audit No. 1134

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OC Internal Auditor's Report



Audit No. 1134

October 18, 2012

Audit Highlight

Fox Rent A Car, Inc. operates an off-airport car rental agency and has a license agreement with the County to pick-up customers with car rental reservations from JWA.

Gross receipts generated from airport customers during the 12-month audit period were approximately **\$2.8 million** and license fees paid to the County were about **\$250,000**. Over its five (5) year term, this license agreement is estimated to generate approximately \$1.05 million in fees to the County.

The Internal Audit Department found that Fox Rent A Car, Inc.'s records adequately supported reported gross receipts and fees owed were properly paid, except for: 1) documentation of OC resident customers originating from JWA and 2) additional fees of \$10,003 owed for the audit period. We identified **one (1) Significant Weakness** and **eight (8) Control Findings** related to the fees owed and/or compliance with the license agreement.

TO: Alan L. Murphy, Director
John Wayne Airport

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

SUBJECT: Revenue Generating License Agreement Audit:
John Wayne Airport, Fox Rent A Car, Inc.,
PM 1121-0296-0050

OBJECTIVE

We have performed an audit of certain records and documents for the period from July 1, 2010 through June 30, 2011, pertinent to the license agreement (Agreement) between the County of Orange (County) and Fox Rent A Car, Inc., dated June 18, 2007. Fox Rent A Car, Inc. operates an off-airport car rental business and the Agreement allows them to pick-up customers with car rental reservations from the premises of the John Wayne Airport terminals. Our audit objectives were:

- (1) The primary objective of our audit is to determine whether Fox Rent A Car, Inc.'s records adequately support their monthly gross receipts reported to the County and license fees owed are properly paid.
- (2) The secondary objective of our audit is to determine whether Fox Rent A Car, Inc. complies with certain other financial provisions of the Agreement, such as accounting methods and monthly gross receipts statement format.

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

RESULTS

Objective #1: We found that Fox Rent A Car, Inc.'s records adequately supported reported gross receipts and license fees owed were properly paid, except for: 1) documentation of OC resident customers originating from JWA and 2) additional fees of \$10,003 owed to the County for the audit period and audit costs of \$5,940 that can be assessed to Fox. We identified **one (1) Significant Weakness** related to charging non-airport customers an 11.11% airport concession fee and **seven (7) Control Findings** related to the additional fees owed and/or compliance with the Agreement.

Objective #2: We found that Fox Rent A Car, Inc. complied with certain other financial provisions of the Agreement such as accounting methods and the monthly gross receipts statement format, except for how total gross receipts are reported for all customers (vs. just airport customers) on the monthly Gross Receipts Report submitted to JWA. There is **one (1) control finding** concerning this issue (See Item 8 on page 10).

OC Internal Auditor's Report



The following *Summary of Findings and Recommendations* shows our findings and recommendations 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.	Significant Weakness	Airport concession fee is charged to all customers (airport and non-airport) regardless of origination.	JWA immediately work with Fox to ensure that the airport concession fee is not charged to non-airport customers or that the description of the fee is changed to remove references to the airport.	Yes	Pg. 4
2.	Control Finding	Better identification and documentation of origination is needed for customers that are OC residents.	Fox identify and document OC residents that are airport customers and whose gross receipts are subject to fees paid to the County. At a minimum, procedures should require all OC residents who are exempt from fees sign a certification on rental agreement indicating they did not arrive at JWA via aircraft within past 24 hours.	Yes	Pg. 4-6
3.	Control Finding	Car rental agreements with certain zip codes outside of Orange County were misclassified as exempt from license fees.	Fox pay additional license fees owed of \$4,882 for the 12-month audit period and determine additional amounts owed subsequent to the audit.	Yes	Pg. 6-7
4.	Control Finding	Insurance discounts improperly reduced gross receipts.	Fox pay additional license fees owed of \$2,350 for the 12-month audit period, and determine additional amounts owed subsequent to the audit.	Yes	Pg. 7-8
5.	Control Finding	Miscellaneous rental adjustments improperly reduced gross receipts.	Fox pay additional license fees owed of \$1,991 for the 12-month audit period, and determine additional amounts owed subsequent to the audit.	Yes	Pg. 8
6.	Control Finding	Refueling revenue not reported as gross receipts.	Fox pay additional license fees owed of \$1,788 for the 12-month audit period, and determine additional amounts owed subsequent to the audit.	Yes	Pg. 8-9
7.	Control Finding	Fox made certain one-time errors when compiling June 2011 gross receipts.	Fox is owed a credit of \$1,008 for license fees overpaid.	Yes	Pg. 9
8.	Control Finding	Monthly statement to JWA reports total revenue instead of total gross receipts.	Fox report total gross receipts for all customers on the monthly Gross Receipts Report using the definition of gross receipts contained in the Agreement.	Yes	Pg. 10
9.	Control Finding	Audit costs can be assessed to Fox.	Fox pay audit costs of \$5,940.	Yes	Pg. 10-11

OC Internal Auditor's Report



BACKGROUND

The County entered into an Agreement with Fox Rent A Car, Inc., dated June 18, 2007, which allows Fox Rent A Car, Inc. to pick-up customers with car rental reservations from the premises of the John Wayne Airport terminal. Fox Rent A Car, Inc. is also a franchisee of Payless Car Rental and offers car rentals under that brand. The Payless Car Rental gross receipts are reported to the County along with the Fox Rent A Car, Inc. gross receipts. During the 12-month audit period, Fox Rent A Car, Inc. reported approximately \$2.8 million in gross receipts derived from airport customers and paid the County approximately \$250,000 in fees. Over its five (5) year term, this Agreement is estimated to generate approximately \$1.05 million in fees to the County.

SCOPE

Our audit was limited to certain records and documents that support Fox Rent A Car, Inc.'s gross receipts reported to the County for the 12-month audit period of July 1, 2010 to June 30, 2011. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts.

ACKNOWLEDGEMENT

We appreciate the courtesy and cooperation extended to us by the personnel at Fox Rent A Car, Inc. and John Wayne Airport. If you have any questions regarding our revenue generating license agreement audit, please call me directly at (714) 834-5475 or Autumn McKinney, Senior Audit Manager at (714) 834-6106.

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Robert J. Franz, Interim County Executive Officer
Loan Leblow, Assistant Airport Director, JWA
Roy Freeman, Deputy Airport Director, JWA/Business Development
Barbara Swift, Administrative Manager, JWA/Business Development
David Leung, Asset Manager, JWA/Business Development
Steve Siemion, Deputy Airport Director, JWA/Finance & Administration
Lisa Kawashima, Accounting Manager, JWA/Accounting
Scott Suzuki, Manager, JWA/Quality Assurance & Compliance
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors

Detailed Findings, Recommendations and Management Responses



1. JWA Concession Fee Charged to All Customers Regardless of Origination (Significant Weakness)

Fox Rent A Car, Inc. (Fox) is an off-airport car rental agency that has a license agreement (Agreement) with the County that allows Fox to pick up customers with reservations from the JWA terminals. For those customers arriving via JWA, the Agreement requires Fox to pay the County a license fee of 9% of gross receipts. As customary to recoup the fees paid to the County, Fox charges JWA customers an 11.11% airport concession fee that is a separate line item on the car rental agreement titled "SNA Conc." SNA is the airport code for JWA.

Finding No. 1: During our audit, we noted that Fox charges the 11.11% airport concession fee to all customers, regardless of whether they arrived via JWA or not. This is misleading to the non-airport customers as Fox does not pay the County a license fee for non-airport customers. We consider this to be significant weakness requiring prompt remediation.

Recommendation No. 1: We recommend that JWA immediately work with Fox to ensure that the airport concession fee is not charged to non-airport customers or that the description of the fee is changed to remove references to the airport.

JWA Response: Concur. This recommendation has been implemented. JWA contacted Fox Rent A Car (Fox) shortly after being advised of this finding and ordered the practice of charging non-airport customers an airport concession fee be discontinued. This demand was later formalized in a letter dated August 8, 2012 to Fox. Fox has agreed with the audit recommendation and discontinued the practice of charging non-airport customers an airport concession fee.

2. Better Identification and Documentation of Origination is Needed for Customers that are OC Residents (Control Finding)

Clause 3 of the Agreement defines Airport Customers as "any person who arrives at the Airport by aircraft and (1) who is transported to Fox's business location for the purpose of entering into a car rental agreement or securing a rental vehicle, (2) who is referred to Fox's business by another rental car company for the purpose of entering into a car rental agreement or securing a rental vehicle, (3) who makes rental car arrangements or reservations using a telephone located at an Airport hotel information board, or (4) who enters into vehicle rental arrangement with Fox within 24 hours of arrival at the Airport."

Clause 3 of the Agreement also states that a person is presumed to be an "Airport Customer" while renting a vehicle from Fox when the permanent mailing, business, or residential address is located or stated as outside of Orange County. The Agreement makes no presumption on customers having permanent addresses within Orange County.

Detailed Findings, Recommendations and Management Responses



Clause 3 of the Agreement also requires the car rental agreement forms to contain the customer's arrival air carrier name and flight number to help facilitate identification of airport customers.

Fox uses the zip code from the customer's address on the car rental agreement to identify and classify whether the customer is "outside" or "within" Orange County.

Finding No. 2: Fox does not have an adequate procedure to identify and document OC residents that are airport customers. Fox has interpreted the Agreement to presume that any customer with an Orange County (OC) zip code is exempt from gross receipts reportable to the County and from the license fees due to the County. Fox does not ask OC residents whether they originated via JWA. Additionally, Fox does not document the customer's arrival air carrier name and flight number as required by the Agreement. What this means is that car rental agreements for customers with an Orange County permanent address that originate from JWA are not being reported as gross receipts subject to the license fee. Any OC resident is presumed to be exempt from the license fees. However, as noted above in Finding No.1, Fox is charging these OC residents a 11.11% airport concession fee.

The Fox car rental agreement form does contain a certification for the customer to sign that states "I certify that I did not exit the Airport on Fox Rent A Car shuttle bus and/or I did not use an Airport courtesy phone to arrange the car rental within twenty-four hours (24) of arrival at the airport." Fox is also a franchisee of Payless Car Rental and their car rental forms do not contain this certification.

For the sample month of June 2011, we tested 44 Fox car rental agreements that had customers with OC zip codes. We found that 15 of the 44 car rental agreements (34%) had a customer signature certifying they were not an airport customer (i.e. did not originate from JWA). The remaining 29 or 66% were missing the customer signature/certification.

Fox informed us that it does not consistently monitor to make sure non-airport customers are signing the certification because Fox solely relies on zip codes to classify airport vs. non-airport customers and the Agreement with the County does not require the certification. Fox indicated the certification exists on the car rental form because certain other airports require the certification in their agreements.

To give context, for the sample month of June 2011 there were:

	Number	Gross Receipts (as reported by Fox)
Customers with OC zip codes:	474	\$69,740
Customers with non-OC zip codes misclassified as OC residents (See Finding No. 3 below):	32	\$3,523
Customers with non-OC zip codes:	<u>1,442</u>	<u>\$229,445</u>
Total Number of Car Rental Agreements:	<u>1,948</u>	<u>\$302,708</u>

Detailed Findings, Recommendations and Management Responses



To comply with the Agreement, Fox needs to implement procedures to identify and document those OC residents that are airport customers and whose gross receipts should be subject to fees paid to the County. At a minimum, the procedures should include requiring all OC residents exempt from the airport concession fee to sign a certification on the rental agreement indicating they did not arrive at JWA by aircraft within the past 24 hours. The existing customer certification on Fox's car rental agreement will have to be modified to match the JWA agreement definition of an airport customer such as certifying the customer did not arrive at JWA by aircraft (vs. certifying customer did not exit JWA by a shuttle bus or use courtesy phone). Any car rental agreements without the required OC customer signed certification should be reported as gross receipts to the County and fees paid to the County.

Recommendation No. 2: We recommend JWA require Fox to implement procedures to identify and document those Orange County residents that are airport customers and whose gross receipts should be subject to fees paid to the County. At a minimum, the procedures should include requiring all Orange County residents exempt from the airport concession fee to sign a certification on the rental agreement indicating they did not arrive at JWA via aircraft within the past 24 hours.

JWA Management Response: Concur. This recommendation has been implemented. In a letter dated August 8, 2012, JWA discussed appropriate procedures for properly classifying customers, i.e., airport vs. non-airport. Fox has agreed with the audit recommendation and has implemented procedures that require non-airport customers to sign a statement identifying them as non-airport customers.

3. Car Rental Agreements with Certain Non-OC Zip Codes were Misclassified as Exempt from License Fees (Control Finding)

Clause 3 of the Agreement states that a person is presumed to be an "Airport Customer" while renting a vehicle from Fox when the permanent mailing, business, or residential address is located or stated as outside of Orange County. To facilitate the reporting of customers whose addresses are located outside of Orange, Fox has classified and identified those zip codes outside of Orange County as "non-exempt."

Finding No. 3: During our sample month of June 2011, we found Fox misclassified certain zip codes outside of Orange County as "exempt" from fees rather than the correct classification of "non-exempt." The impact is that car rental agreements with the misclassified zip codes were not reported as gross receipts subject to license fees.

There were 88 LA County zip codes, 50 San Diego zip codes, and 1 San Bernardino zip code misclassified as "exempt" from fees. Therefore, for the 12-month audit period, Fox underreported gross receipts by \$54,242 and underpaid fees of \$4,882 ($\$54,242 \times 9\%$) for the misclassified zip codes.

Recommendation No. 3: We recommend that JWA require Fox to ensure that all non-OC residents/zip codes are properly classified as "non-exempt" and pay fees owed of \$4,882 for the 12-month audit period.

Detailed Findings, Recommendations and Management Responses



We also recommend that JWA require Fox to calculate and pay similar fees owed for the period subsequent to the audit period through the month of correction.

JWA Response: Concur. This recommendation has been implemented. On July 18, 2012, JWA provided Fox with a comprehensive listing of all Orange County zip codes which will be used to identify non-airport customers. In a letter dated August 8, 2012, we demanded payment from Fox for the specific amounts identified in the audit and allowed Fox 90 days to calculate fees owed for the period subsequent to the audit through the date of corrective action implementation. Fox has agreed with the audit recommendation and remitted payment for the audit identified amount (recorded August 24, 2012). Fox is calculating additional amounts due to JWA and will remit payment once its self-audit is complete.

4. Insurance Discounts Improperly Reduced Gross Receipts (Control Finding)

Clause 3 of the Agreement states that promotional discounts applied to time and mileage charges can be excluded from reportable gross receipts. However, discounts such as allowances, deductions, hidden credits, and any other reductions not specifically excluded in the Agreement shall not be deducted from gross receipts.

Fox offers a variety of insurance coverage to its customers (e.g. renter's liability insurance, roadside assistance, supplemental liability insurance, personal effects coverage, collision damage waiver, and loss damage waiver). Each insurance type is listed separately on the car rental agreement. Additionally, Fox offers three insurance packages that allow the purchase of multiple insurance items bundled together and sold at a discounted amount that is less than purchasing the items separately. Three packages are sold: Silver, Gold and Platinum. The discount amounts per day are \$2, \$4, and \$6 on the Silver, Gold, and Platinum Packages, respectively. When a customer purchases an insurance package, the car rental agreement separately identifies each insurance item at the gross amount and then lists the discount amount applied to the package.

Finding No. 4: Fox reduces reportable gross receipts by the discount amount of the insurance packages. For the 12-month audit period, the discount amounts were \$21,623, \$1,022, and \$3,462 for the Silver, Gold and Platinum packages, respectively. The total discount amount of \$26,107 reduced gross receipts and resulted in underpaid fees of \$2,350 (\$26,107 x 9%) for the 12-month audit period.

Recommendation No. 4: We recommend JWA require Fox to discontinue deducting the insurance package discounts from gross receipts and pay fees owed of \$2,350 for the 12-month audit period. We also recommend that JWA require Fox to calculate and pay similar fees owed for the period subsequent to the audit period through the month of correction.

Detailed Findings, Recommendations and Management Responses



JWA Response: Concur. This recommendation has been implemented. In a letter dated August 8, 2012, JWA ordered the practice of deducting insurance package discounts from gross receipts be discontinued, demanded payment for the specific amounts identified in the audit, and allowed Fox 90 days to calculate fees owed for the period subsequent to the audit through the date of corrective action implementation. Fox has agreed with the audit recommendation and remitted payment for the audit identified amount (recorded on August 24, 2012). Fox is calculating additional amounts due to JWA and will remit payment once its self-audit is complete.

5. Miscellaneous Rental Adjustments Improperly Reduced Gross Receipts (Control Finding)

Clause 3 of the Agreement states that bad debt losses shall not be deducted from gross receipts. Allowances, deductions, kickbacks, and any other reductions shall not be deducted from gross receipts.

Finding No. 5: Fox reduces the reportable gross receipts by “Misc Adjustments.” Fox informed us that the “Misc Adjustments” consist of miscellaneous rental adjustments which are write-offs of uncollectible accounts receivable. Examples of this are credit card disputes or disputes related to a package (such as hotel and car rental) reserved on-line by the customer with a third-party company such as Expedia. For the 12-month audit period, Fox reduced reportable gross receipts by \$22,125 resulting in underpaid fees of \$1,991 ($\$22,125 \times 9\%$).

Recommendation No. 5: We recommend that JWA require Fox to discontinue deducting the miscellaneous adjustments from reportable gross receipts and pay fees owed of \$1,991 for the 12-month audit period. We also recommend that JWA require Fox to calculate and pay similar fees owed for the period subsequent to the audit period through the month of correction.

JWA Response: Concur. This recommendation has been implemented. In a letter dated August 8, 2012, JWA ordered the practice of deducting miscellaneous adjustments from gross receipts be discontinued, demanded payment for the specific amounts identified in the audit, and allowed Fox 90 days to calculate fees owed for the period subsequent to the audit through the date of corrective action implementation. Fox has agreed with the audit recommendation and remitted payment for the audit identified amount (recorded on August 24, 2012). Fox is calculating additional amounts due to JWA and will remit payment once its self-audit is complete.

6. Refueling Revenue Not Reported as Gross Receipts (Control Finding)

Clause 3 of the Agreement defines gross receipts as all rental, admission and other fees of any nature or kind charged by Fox. An exclusion from gross receipts is allowed by the Agreement for prepaid fuel (i.e. reimbursements from customers for the cost of fuel furnished at the inception of the rental that is separately identifiable on the original rental agreement). Any fuel reimbursements by customers that are not made under this prepaid fuel exclusion are reportable as gross receipts and are subject to license fees.

Detailed Findings, Recommendations and Management Responses



Finding No. 6: Fox did not report “refueling” revenue as gross receipts as required by the Agreement.

Refueling revenue represents fuel charges assessed to customers who do not prepay fuel (fuel purchase option) and return the car without the required amount of fuel replenished. For the 12-month audit period, refueling revenue of \$19,866 was not reported as gross receipts resulting in underpaid fees of \$1,788 (\$19,866 x 9%).

Recommendation No. 6: We recommend that JWA require Fox to begin reporting the refueling revenue as gross receipts and pay fees owed of \$1,788 for the 12-month audit period. We also recommend that JWA require Fox to calculate and pay similar fees owed for the period subsequent to the audit period through the month of correction.

JWA Response: Concur. This recommendation has been implemented. In a letter dated August 8, 2012, JWA ordered Fox to include refueling revenues in gross receipts, demanded payment for the specific amounts identified in the audit, and allowed Fox 90 days to calculate fees owed for the period subsequent to the audit through the date of corrective action implementation. Fox has agreed with the audit recommendation and remitted payment for the audit identified amount (recorded on August 24, 2012). Fox is calculating additional amounts due to JWA and will remit payment once its self-audit is complete.

7. Certain One-Time Errors Made When Compiling June 2011 Gross Receipts (Control Finding)

Clause 3 of the Agreement allows amounts charged to customers for collision damage waiver (CDW) and loss damage waiver (LDW) insurance to be excluded from gross receipts. Clause 3 of the Agreement requires amounts charged to customers for vehicle license fees (VLF) to be included as gross receipts.

Finding No. 7: For the sample month of June 2011, Fox improperly included amounts charged for CDW and LDW insurance in gross receipts, improperly deducted amounts charged for VLF fees from gross receipts, and there was a timing difference in miscellaneous adjustments deducted from gross receipts. According to Fox, these were inadvertent one-time errors made when compiling reportable gross receipts. These errors resulted in net over reported gross receipts of \$11,195 and overpaid fees of \$1,008 (\$11,195 x 9%).

Recommendation No. 7: We recommend that JWA allow Fox a \$1,008 credit in fees due to one-time errors Fox made when compiling reported gross receipts for June 2011.

JWA Response: Concur. This recommendation has been implemented. JWA has credited Fox the amount identified in the audit. Fox has agreed with the audit recommendation, improved its internal billing procedures, and applied the credit in its payment to JWA (recorded on August 24, 2012).

Detailed Findings, Recommendations and Management Responses



8. Monthly Statement to JWA Reports Total Revenue Instead of Total Gross Receipts (Control Finding)

Clause 3 of the Agreement requires Fox to submit a monthly statement accompanying the monthly license fees paid that shows the total gross receipts for all customers (airport and non-airport) and the total gross receipts for airport customers subject to the license fees.

Finding No. 8: During our review of the June 2011 Gross Receipts Report submitted to JWA, we noted that the Total Gross Receipts amount for all customers represents the amounts collected from customers (revenue) rather than reportable gross receipts. Certain amounts collected from customers are not reportable as gross receipts, such as sales tax, pre-paid fuel, and CDW/LDW insurance.

To allow for comparability, reportable gross receipts for “all customers” and for “airport customers” listed on the monthly Gross Receipts Report should be calculated in the same manner using the definition of gross receipts contained in the Agreement.

Recommendation No. 8: We recommend that JWA require Fox to report Total Gross Receipts for all customers on the monthly Gross Receipts Report using the definition of gross receipts contained in the Agreement.

JWA Response: Concur. This recommendation has been implemented. JWA has provided Fox with the appropriate gross receipt reporting form on which Fox will report gross receipts from airport customers. Fox has agreed with the audit recommendation and will use the new form going forward.

9. Audit Costs Can Be Assessed to Fox (Control Finding)

Clause 4 of the Agreement states that the County is authorized to audit the business records and accounts of Fox regarding passenger vehicle rentals. If the audit reveals additional license fees owed that are 2% greater than amounts paid by Fox, then the County can assess Fox the audit costs.

Finding No. 9: Based on the total amount owed of \$10,003 for the 12-month audit period, JWA can assess the audit costs to Fox. Below is a summary of audit findings:

Finding No.	Description	Fees Owed (Credit Due)
3	Non-OC Zip Codes Misclassified	\$4,882
4	Insurance Discounts Deducted	\$2,350
5	Miscellaneous Adjustments Deducted	\$1,991
6	Refueling Revenue Not Reported	\$1,788
7	One-Time Errors for June 2011	(\$1,008)
	Total Additional Fees Owed	\$10,003

Detailed Findings, Recommendations and Management Responses



The percentage difference between the additional fees owed and the total fees due as determined by the audit is calculated as:

$$\text{Additional Fees Owed/Total Fees Due} = 10,003 / 260,109 \text{ (250,106 paid+10,003)} = 3.85\%$$

As the percentage difference of 3.85% is more than the 2% threshold in the Agreement, audit costs of \$5,940 can be assessed to Fox Rent A Car, Inc.

Recommendation No. 9: We recommend that JWA assess Fox audit costs of \$5,940.

JWA Response: Concur. This recommendation has been implemented. In a letter dated August 8, 2012, JWA demanded payment for the audit cost in accordance with the license. Fox has agreed with the audit recommendation and remitted payment for the audit (recorded on August 24, 2012).

Detailed Findings, Recommendations and Management Responses



ATTACHMENT A: Report Item Classifications

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

► **Critical Control Weaknesses:**

Audit findings or a combination of Significant Control Weaknesses that represent serious exceptions to the audit objective(s) and/or business goals. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

► **Significant Control Weaknesses:**

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

► **Control Findings:**

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.

Detailed Findings, Recommendations and Management Responses



ATTACHMENT B: John Wayne Airport Responses


JOHN WAYNE AIRPORT
ORANGE COUNTY

Alan L. Murphy
Airport Director

**RECEIVED
INTERNAL AUDIT DEPARTMENT**

Memo 2012 OCT 17 PM 2:21

(ADM:)

DATE: October 17, 2012

TO: Dr. Peter Hughes, Internal Audit Director
Internal Audit Department

FROM: Alan L. Murphy, Airport Director
John Wayne Airport

SUBJECT: Management Response to the Internal Audit Department's Report
on Revenue Generating License Agreement Audit of Fox Rent A
Car, Inc., Audit No. 1134

This memo is in response to the Internal Audit Department's Report on Revenue Generating License Audit of Fox Rent A Car, Inc., Audit No. 1134.

Attached is our management response which was reviewed and approved by the County Executive Office. We have implemented the report's recommendations and will have supporting documentation available for your subsequent follow-up audit.

Attachment

cc: Loan Leblow
Roy Freeman
Steve Siemion
Lisa Kawashima
Scott Suzuki
Barbara Swift
Daniel Leung

3160 Airway Avenue
Costa Mesa, CA
92626-4608
(949) 252-5171
(949) 252-5178 FAX
www.ocair.com



Detailed Findings, Recommendations and Management Responses



ATTACHMENT B: John Wayne Airport Responses (continued)



Alan L. Murphy
Airport Director

Memo

DATE: September 6, 2012

TO: Robert J. Franz, Interim County Executive Officer

FROM: Alan L. Murphy, Airport Director, John Wayne Airport

SUBJECT: Draft Response to the Internal Audit Department's Report on Revenue Generating License Agreement of Fox Rent A Car, Inc., Audit No. 1134

Attached for your review is John Wayne Airport's management response to the Internal Audit Department's Report on Revenue Generating License Agreement of Fox Rent A Car, Inc., Audit No. 1134. If you concur with our response, please indicate so by signing below and returning this memo to our office.

Thank you for your assistance in this process. Please do not hesitate to call if you require additional information or have questions. I can be reached at (949) 252-5183.

Attachments

Concurrence:

Robert J. Franz
Interim County Executive Officer

9/12/12

3160 Airway Avenue
Costa Mesa, CA
92626-4608
(949) 252-5171
(949) 252-5178 FAX
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Detailed Findings, Recommendations and Management Responses



ATTACHMENT B: John Wayne Airport Responses (continued)

JOHN WAYNE AIRPORT
Response to the Internal Audit Department's Report on
Revenue Generating License Agreement Audit of Fox Rent A Car, Inc.
Audit No. 1134

Recommendation No. 1: We recommend that JWA immediately work with Fox to ensure that the airport concession fee is not charged to non-airport customers or that the description of the fee is changed to remove references to the airport.

JWA Management Response: Concur. This recommendation has been implemented. JWA contacted Fox Rent A Car (Fox) shortly after being advised of this finding and ordered the practice of charging non-airport customers an airport concession fee be discontinued. This demand was later formalized in a letter dated August 8, 2012 to Fox. Fox has agreed with the audit recommendation and discontinued the practice of charging non-airport customers an airport concession fee.

Recommendation No. 2: We recommend JWA require Fox to implement procedures to identify and document those Orange County residents that are airport customers and whose gross receipts should be subject to fees paid to the County. At a minimum, the procedures should include requiring all Orange County residents exempt from the airport concession fee to sign a certification on the rental agreement indicating they did not arrive at JWA via aircraft within the past 24 hours.

JWA Management Response: Concur. This recommendation has been implemented. In a letter dated August 8, 2012, JWA discussed appropriate procedures for properly classifying customers, i.e., airport vs. non-airport. Fox has agreed with the audit recommendation and has implemented procedures that require non-airport customers to sign a statement identifying them as non-airport customers.

Recommendation No. 3: We recommend that JWA require Fox to ensure that all non-OC residents/zip codes are properly classified as "non-exempt" and pay fees owed of \$4,882 for the 12-month audit period. We also recommend that JWA require Fox to calculate and pay similar fees owed for the period subsequent to the audit period through the month of correction.

JWA Management Response: Concur. This recommendation has been implemented. On July 18, 2012, JWA provided Fox with a comprehensive listing of all Orange County zip codes which will be used to identify non-airport customers. In a letter dated August 8, 2012, we demanded payment from Fox for the specific amounts identified in the audit and allowed Fox 90 days to calculate fees owed for the period subsequent to the audit through the date of corrective action implementation. Fox has agreed with the audit recommendation and remitted payment for the audit identified amount (recorded August 24, 2012). Fox is calculating additional amounts due to JWA and will remit payment once its self-audit is complete.

Detailed Findings, Recommendations and Management Responses



ATTACHMENT B: John Wayne Airport Responses (continued)

John Wayne Airport Management Response
Internal Audit Department Report on Fox Rent A Car, Inc.
Page 2 of 3

Recommendation No. 4: We recommend JWA require Fox to discontinue deducting the insurance package discounts from gross receipts and pay fees owed of \$2,350 for the 12-month audit period. We also recommend that JWA require Fox to calculate and pay similar fees owed for the period subsequent to the audit period through the month of correction.

JWA Management Response: Concur. This recommendation has been implemented. In a letter dated August 8, 2012, JWA ordered the practice of deducting insurance package discounts from gross receipts be discontinued, demanded payment for the specific amounts identified in the audit, and allowed Fox 90 days to calculate fees owed for the period subsequent to the audit through the date of corrective action implementation. Fox has agreed with the audit recommendation and remitted payment for the audit identified amount (recorded on August 24, 2012). Fox is calculating additional amounts due to JWA and will remit payment once its self-audit is complete.

Recommendation No. 5: We recommend that JWA require Fox to discontinue deducting the miscellaneous adjustments from reportable gross receipts and pay fees owed of \$1,991 for the 12-month audit period. We also recommend that JWA require Fox to calculate and pay similar fees owed for the period subsequent to the audit period through the month of correction.

JWA Management Response: Concur. This recommendation has been implemented. In a letter dated August 8, 2012, JWA ordered the practice of deducting miscellaneous adjustments from gross receipts be discontinued, demanded payment for the specific amounts identified in the audit, and allowed Fox 90 days to calculate fees owed for the period subsequent to the audit through the date of corrective action implementation. Fox has agreed with the audit recommendation and remitted payment for the audit identified amount (recorded on August 24, 2012). Fox is calculating additional amounts due to JWA and will remit payment once its self-audit is complete.

Recommendation No. 6: We recommend that JWA require Fox to begin reporting the refueling revenue as gross receipts and pay fees owed of \$1,788 for the 12-month audit period. We also recommend that JWA require Fox to calculate and pay similar fees owed for the period subsequent to the audit period through the month of correction.

JWA Management Response: Concur. This recommendation has been implemented. In a letter dated August 8, 2012, JWA ordered Fox to include refueling revenues in gross receipts, demanded payment for the specific amounts identified in the audit, and allowed Fox 90 days to calculate fees owed for the period subsequent to the audit through the date of corrective action implementation. Fox has agreed with the audit recommendation and remitted payment for the audit identified amount (recorded on August 24, 2012). Fox is calculating additional amounts due to JWA and will remit payment once their self-audit is complete.

Detailed Findings, Recommendations and Management Responses



ATTACHMENT B: John Wayne Airport Responses (continued)

John Wayne Airport Management Response
Internal Audit Department Report on Fox Rent A Car, Inc.
Page 3 of 3

Recommendation No. 7: We recommend that JWA allow Fox a \$1,008 credit in fees due to one-time errors Fox made when compiling reported gross receipts for June 2011.

JWA Management Response: Concur. This recommendation has been implemented. JWA has credited Fox the amount identified in the audit. Fox has agreed with the audit recommendation, improved its internal billing procedures, and applied the credit in its payment to JWA (recorded on August 24, 2012).

Recommendation No. 8: We recommend that JWA require Fox to report Total Gross Receipts for all customers on the monthly Gross Receipts Report using the definition of gross receipts contained in the Agreement.

JWA Management Response: Concur. This recommendation has been implemented. JWA has provided Fox with the appropriate gross receipt reporting form on which Fox will report gross receipts from airport customers. Fox has agreed with the audit recommendation and will use the new form going forward.

Recommendation No. 9: Based on the total amount owed of \$10,003 for the 12-month audit period, JWA can assess the audit costs to Fox.

JWA Management Response: Concur. This recommendation has been implemented. In a letter dated August 8, 2012, JWA demanded payment for the audit cost in accordance with the license. Fox has agreed with the audit recommendation and remitted payment for the audit (recorded on August 24, 2012).