



O R A N G E C O U N T Y

AUDITOR-CONTROLLER

I N T E R N A L A U D I T

REVENUE GENERATING LEASE AUDIT:

JOHN WAYNE AIRPORT/ DOLLAR RENT A CAR

For the Period
March 1, 2014 through
February 28, 2015



Audit Number 1438

Report Date: September 28, 2015



O R A N G E C O U N T Y
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I N T E R N A L A U D I T

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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

Audit No. 1438

September 28, 2015

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

SUBJECT: Revenue Generating Lease Audit:
John Wayne Airport/Dollar Rent A Car
PM1121-390-0032

We have completed our revenue generating lease audit of Dollar Rent A Car for the period March 1, 2014 through February 28, 2015. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and a monthly report to the Board of Supervisors (BOS) where I detail any critical 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 AOC and BOS.

Additionally, we will request your department to complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Eric Woolery, Auditor-Controller
- 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
- 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 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



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John Wayne Airport/Dollar Rent A Car
Audit No. 1438**

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Internal Auditor's Report

Audit No. 1438

September 28, 2015

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

FROM: Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

SUBJECT: Revenue Generating Lease Audit:
John Wayne Airport/Dollar Rent A Car, PM1121-390-0032

OBJECTIVES

We have performed an audit of certain records and documents for the period from March 1, 2014 through February 28, 2015, pertinent to the lease agreement (Agreement) between the County of Orange (County) and The Hertz Corporation, operating as the Hertz Rent A Car and the Dollar Rent A Car brands, as amended, dated May 7, 2013. The Agreement is for the operation of an on-airport rental car concession at John Wayne Airport.

1. The primary objective of our audit is to determine whether Dollar Rent A Car's records adequately supported their monthly gross receipts reported to the County.
2. The secondary objective of our audit is to determine whether Dollar 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 Dollar Rent A Car's records adequately supported reported gross receipts and rent was properly paid to the County, except for **one (1) Control Finding** regarding gross receipts being improperly reduced by bad debts.

Objective #2: We found that Dollar 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 County's monthly Gross Receipts Report format.



Detailed Findings, Recommendations and Management Responses

BACKGROUND

The County of Orange (County) entered into a five-year lease agreement with The Hertz Corporation, as amended, dated May 7, 2013, for the operation of a rental car concession at John Wayne Airport. The Hertz Corporation operates as the Hertz and Dollar Rent A Car brands and provides on-airport car rental services. The Hertz Corporation currently maintains a separate rental system and accounting records for Dollar Rent A Car brand. The percentage rent paid to the County is on the combined total gross receipts of both Hertz and Dollar Rent A Car brands. During the twelve-month audit period ending February 28, 2015, Dollar Rent A Car reported approximately \$7.76 million in gross receipts. Over the life of the five-year lease term, the estimated rent payable to the County is approximately \$4.4 million.

SCOPE AND METHODOLOGY

Our audit was limited to certain records and documents that support Dollar Rent A Car's gross receipts reported to the County for the twelve-month audit period from March 1, 2014 through February 28, 2015. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts. Because a separate rental system and accounting records are in place for Dollar Rent A Car, we did not include Hertz Rent A Car in this audit.

FOLLOW-UP PROCESS

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.

The Auditor-Controller Internal Audit Division is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations.

ACKNOWLEDGEMENT

We appreciate the courtesy extended to us by the personnel at The Hertz Corporation/Dollar 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.



Detailed Findings, Recommendations and Management Responses

Finding 1 – Gross Receipts Reduced by Bad Debts (Control Finding)

Lease Clause Section 4.03 states that bad debt losses shall not be reduced from gross receipts.

Finding No. 1: Dollar Rent A Car reports gross receipts based on their general ledger and informed us that bad debts from charge backs were netted into the revenue accounts resulting in underreported gross receipts. For the 12-month audit period, the total bad debt amount was \$34,808. Since Dollar Rent A Car considered this amount immaterial, it did not manually add back the bad debt to the revenue when reporting gross receipts to the County. The bad debt reduction resulted in additional rent owed of \$3,481 (\$34,808 x 10%). Dollar Rent A Car's system and processes will be integrated with Hertz's system and processes in October 2015 and expects this issue be resolved.

Recommendation No. 1: We recommend that JWA require Dollar Rent A Car to properly report gross receipts by not reducing bad debts and pay rent owed of \$3,481. JWA should also require Dollar Rent A Car to pay related rent owed for the period subsequent to our audit period.

John Wayne Airport Management Response:

Concur. JWA will send a letter of audit findings/notice of noncompliance to Dollar Rent A Car. The letter will explain in detail the exact nature of the violations and require Dollar to provide specific action taken with regard to properly recording gross receipts by not deducting bad debts. In addition, the letter will require Dollar Rent A Car to pay the additional rent owed of \$3,481 resulting from bad debts from charge backs during the audit period.

Finding 2 – Compliance with Monthly Gross Receipts Report Form (Control Finding)

Lease Clause Section 4.04 requires Dollar Rent A Car to provide an accurate statement of gross receipts in a form prescribed by the County. The County's 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. 2: While Dollar Rent A Car's underlying books and records adequately supported the reported gross receipts to County, we found the following items of noncompliance impacting the proper presentation of line items on the County's Monthly Gross Receipts Report.

- For the sample month of February 2015, the reported "Gross Receipts – All Sources Before Deductions" of \$529,556 was the net amount reportable gross receipts after permitted deductions, rather than the required gross amount.
- Dollar Rent A Car did not separately report or list the following permitted deduction items on the monthly gross receipts report as required. Instead, the deductions below were netted on the report:
 - Sales tax
 - Reimbursement of towing fees, impound fees, parking tickets and toll road fees
 - Tourism Commission Assessment



Detailed Findings, Recommendations and Management Responses

Recommendation No. 2: We recommend that JWA require Dollar Rent A Car to comply with the County's monthly gross receipts report format by properly reporting the gross receipts before deductions and separately reporting or listing the permitted deduction items.

John Wayne Airport Management Response:

Concur. JWA will send a letter of audit findings/notice of noncompliance to Dollar Rent A Car. The letter will explain in detail the exact nature of the violations and require Dollar to provide specific action taken with regard to preparing the monthly gross receipts report in the proper format.

Other Matters

Dollar Rent A Car charges customers for collision damage waiver fees and prepaid fuel sold at inception of the rental. We found that these items were not reported as gross receipts to the County. For the sample month of February 2015, the unreported amounts were \$53,417 for collision damage waiver and \$16,635 for prepaid fuel sale. Dollar Rent A Car had also already identified these unreported items and had taken corrective actions by properly reporting them as gross receipts beginning with the month of April 2015. For the three months (December 2014 through February 2015) of the twelve-month audit period and for March 2015, Dollar Rent A Car corrected reportable gross receipts and paid rent owed in April 2015. For the other nine months of the twelve-month audit period (March 2014 through November 2014), the unreported gross receipts and rent owed was corrected in the Hertz Corporation's annual gross receipts financial audit. Since corrections have been made, we have no further comment on this matter.



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:**

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.



Detailed Findings, Recommendations and Management Responses

ATTACHMENT B: John Wayne Airport Management Responses




Lawrence G. Serafini, P.E.
Acting Airport Director

Memorandum

DATE: September 10, 2015

TO: Toni Smart, Director, Auditor-Controller Internal Audit

FROM: Lawrence Serafini, Acting Airport Director, John Wayne Airport 

SUBJECT: Report on Revenue Generating Lease Audit of John Wayne Airport/Dollar Rent A Car, Audit No. 1438

This memorandum is in response to Internal Audit's Report on Revenue Generating Lease Audit of John Wayne Airport/Dollar Rent A Car, Audit No. 1438. Dollar Rent A Car operates an on-airport rental car concession at John Wayne Airport.

The audit was comprised of an audit of certain records and documents for the period from March 1, 2014 through February 28, 2015. The audit found that Dollar Rent A Car's records adequately supported reported gross receipts and rent owed to the County was properly paid; however, two control findings regarding gross receipts being improperly reduced by bad debts and compliance with the County's monthly gross receipts report format were reported.

The attached management response was reviewed and approved by the County Executive Officer on September 3, 2015.

We thank Auditor-Controller Internal Audit for their work and acceptance of the management response from John Wayne Airport.

Attachment

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

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Detailed Findings, Recommendations and Management Responses

ATTACHMENT B: John Wayne Airport Management Responses (continued)

**INTERNAL AUDIT DEPARTMENT
REVENUE GENERATING LEASE AUDIT
JOHN WAYNE AIRPORT AND DOLLAR RENT A CAR
AUDIT NO. 1438**

Recommendation No. 1: We recommend that JWA require Dollar Rent A Car to properly report gross receipts by not reducing bad debts and pay rent owed of \$3,481. JWA should also require Dollar Rent A Car to pay related rent owed for the period subsequent to our audit period.

John Wayne Airport Management Response:

Concur. JWA will send a letter of audit findings/notice of noncompliance to Dollar Rent A Car. The letter will explain in detail the exact nature of the violations and require Dollar to provide specific action taken with regard to properly recording gross receipts by not deducting bad debts. In addition, the letter will require Dollar Rent A Car to pay the additional rent owed of \$3,481 resulting from bad debts from charge backs during the audit period.

Recommendation No. 2: We recommend that JWA require Dollar Rent A Car to comply with the County's monthly gross receipts report format by properly reporting the gross receipts before deductions and separately reporting or listing the permitted deduction items.

John Wayne Airport Management Response:

Concur. JWA will send a letter of audit findings/notice of noncompliance to Dollar Rent A Car. The letter will explain in detail the exact nature of the violations and require Dollar to provide specific action taken with regard to preparing the monthly gross receipts report in the proper format.