



**AU15-004**  
**Department of Aviation**  
**Rental Car Agencies**

**City Auditor's Office**  
**Arlena Sones, CPA, CIA, CGAP**  
**City Auditor**

**February 2, 2017**

## Executive Summary

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This is the second of two reports communicating the results of an audit of the Department of Aviation. The first report was released October 6, 2016, and it communicated issues related to general administration of airport leases and the review of a fixed based operator and a restaurant concessionaire at the Corpus Christi International Airport (CCIA).

### **Audit Objective**

The focus of this audit is to determine whether airport management is ensuring concession fee payments from rental car agencies are accurate and timely.

The original scope period of this audit was the fifteen-month period of October 1, 2014 to December 31, 2015; however, significant issues were discovered, and we expanded the scope as described in Appendix A - Methodology.

### **Audit Conclusion**

Overall, improvement is needed for contract management and oversight with emphasis on development of procedures over rental car agency contracts.

Aviation places reliance on the rental car agencies to accurately self-report gross revenue and the subsequent concession fee payment. They do this because the agency is required to provide an annual CPA attestation report as support for its self-reported amounts.

We found that all rental car agencies are self-reporting revenue-net of discounts instead of reporting gross revenue (as defined by the contract). We also find that the CPA attestation reports failed to report the gross revenue. The amount of underpaid concession fees cannot be determined at this point; however, significant penalty and late fees have accrued (over \$1.3 million) which may or may not be collectable.

Aviation management has been very receptive to our recommendations during the course of this audit. We appreciate Aviation staff's courtesy and cooperation. We would like to thank Aviation and the rental car agencies that cooperated with us during this audit.

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

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## Introduction

Due to the magnitude and complexity of the work performed, the results of the audit were split into two reports: Airport Leases and Airport Rental Car Agencies. The first report, AU15-001 Department of Aviation, Airport Leases was released October 6, 2016, and it communicated issues related to general administration of airport leases based on the review of two tenants at the Corpus Christi International Airport (CCIA).

This report, AU15-004 Department of Aviation, Rental Car Agencies, will focus on contract management of the rental car (RAC) agencies located at CCIA, specifically the concession fee payments.

### Background

The CCIA is operated and maintained by the Department of Aviation (Aviation). Its mission is to provide access to air transportation and aeronautical services. Aviation is comprised of five divisions: Finance and Administration, Facilities, Development and Construction Management, Public Safety (police & fire), and Operations. Aviation is staffed by 82 full-time equivalents.

Five contracts exist between RAC agencies and CCIA. Each RAC agency pays rent for office space, counter space, and parking spaces. Each RAC agency collects two fees (airport security fee and customer facility charge) from their customers which are remitted to Aviation. Additionally, each RAC agency pays a percentage of its gross revenue to Aviation as a concession fee.

The table in Exhibit 1 shows the RAC agency concession fee revenue received from each RAC agency at CCIA from FY 2012 through FY 2016.

**Exhibit 1: Rental Car Agency Concession Fees**

RAC Agency	FY2012	FY2013	FY2014*	FY2015	FY2016
RAC A	253,083	277,851	343,931	307,096	268,102
RAC B	239,974	240,357	295,089	282,125	303,590
RAC C	277,927	268,850	315,516	268,836	267,400
RAC D	245,024	253,795	320,235	293,653	301,185
RAC E	316,400	316,400	371,003	316,583	335,818
<b>Total:</b>	<b>1,332,407</b>	<b>1,357,253</b>	<b>1,645,774</b>	<b>1,468,293</b>	<b>1,476,094</b>
Source: PeopleSoft/Infor financial systems (unaudited)					
*FY2014 included 14 reporting periods					

The language for all five RAC agency contracts are identical with regard to contract term, payment calculation, reporting, and penalty fee terms, with the major difference being the agency's minimum annual guaranteed amount (MAG). The original contract term was November 2009 through October 2014. The first amendment to the contract dated March 2013 provides for the use of a newly constructed fueling and maintenance area known as

the Quick Turnaround Facility (QTA). The amendment also extends the term of the original contract until 2018 and provides for two renewal periods.

### **Audit Objective and Conclusions**

The audit objective was to determine if Aviation management is ensuring that concession fee payments from rental car agencies are accurate and timely.

Overall, we found the Department of Aviation to be professional and well organized. The first step in contract management is having all contracts in one place. Aviation currently maintains a database for all its contracts, and the database provides management with reporting capabilities such as contractor insurance status and contract expiration dates. We commend Aviation on its innovative database for tracking contracts.

This report provides recommendations for improvement in contract management not only at Aviation, but City-wide.

We further recommend that Aviation immediately enlist the aid of the City Attorney's Office to negotiate with the RAC agencies to clarify item Q.1 and revoke item Q.4 of the 2013 contract amendment.

### **Management and Auditor Responsibility**

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

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

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

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

### **Staff Acknowledgement**

Kimberly Houston, Senior Auditor  
Jacey Reeves, Auditor  
Sarah Arroyo, Assistant Auditor

## Audit Results and Recommendations

### A. Concession Fee Paid on Net Revenue Instead of Gross Revenue

Criteria: Per the contract:

Gross revenues

For the purposes of this Agreement, "Gross Revenues" means the total amount charged by CONCESSIONAIRE, whether by cash, credit, or otherwise, including any separately stated fees and charges, related to CONCESSIONAIRE'S rental car business as authorized by this Agreement, any activities related directly to that business, and any other business of CONCESSIONAIRE in the rental car areas or elsewhere at the Airport, including but not limited to the terminal, fixed base operators, and Airport property...

Discount requirements

Gross Revenues may not be reduced by volume discounts unless the discount is documented for each transaction and the documentation is submitted with CONCESSIONAIRE'S monthly report.

Condition: All of the five rental car (RAC) agencies calculated their self-reported concession fees on net revenue (revenue less discounts) instead of gross revenue as defined by the contract. With proper documentation, certain discounts are allowed to be deducted from gross revenue; however, none of the RAC agencies provided this documentation. As a result, the concession fees were underpaid.

Cause: There is a financial incentive to underreport gross revenues because it results in a smaller concession fee payable to Aviation. Also, sales from a third-party "name your price" vendor complicate the issue because the third-party pays only the final negotiated price.

Effect: We were able to determine the amount of underreported gross revenue for only one RAC agency (referred to as RAC A) because its data files segregated sales discounts from basic time and mileage revenue (gross revenue). The underpaid concession fees reported below in Exhibit 2 include underpayments for discounts and all other errors we discovered (see Issue B). Because underpaid concession fees are subject to penalties of 15% per year or \$500, whichever is greater, we include those as well.

**Exhibit 2: RAC A Underpaid Concession Fees and Related Penalty Fees  
November 2009 - February 2016**

Contract Year	No. of Months Underpaid	Underpaid Concession Fees Due	Penalty Fees Due to Aviation
1	8 of 12	\$ 12,792.12	\$ 12,348.71
2	9 of 12	\$ 35,459.79	\$ 27,461.59
3	3 of 12	\$ 458.53	\$ 1,860.23
4	9 of 12	\$ 1,731.06	\$ 4,500.00
5	12 of 12	\$ 6,416.52	\$ 6,000.00
6	12 of 12	\$ 5,273.05	\$ 6,000.00
7*	4 of 4	\$ 5,703.56	\$ 2,000.00
<b>Total:</b>		<b>\$ 67,834.63</b>	<b>\$ 60,170.53</b>

\*Contract Year 7 only includes 4 months of testwork (November 2015 - February 2016)

The other four RAC agencies did not provide data files with sales discounts segregated from time and mileage revenue. The data files provided to us contained only the net revenue amounts so we were unable to determine the true amount of gross revenue. The RAC agencies claim that they do not track discounts separately from time and mileage fees in their financial system.

Because of time constraints we could not perform testwork on a statistically valid sample of customer receipts (which would have allowed us to extrapolate values for the discounts). Instead, we tested a random sample of 50 customer receipts to gain a sense of the amount of discounts granted. The results show that discounts ranged from 0% to 4.54% of gross revenue for the month of February 2016; however, these results may not reflect a true picture due to the small sample size.

**Recommendation:** Aviation management should determine whether the benefit of enforcing the contract requirement for reporting gross revenue outweighs the cost. If not, the terms of the contract may need to be updated to redefine the revenue to be reported.

Further, Aviation should consult with the City Attorney’s Office to explore options to recover underpaid concession fees and penalty fees from this RAC agency.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Mario Tapia, Assistant Director of Aviation	July 31, 2017
<p><b>Action Plan:</b>                      The Department of Aviation concurs with the overall finding concerning gross revenue and will review options for collections of gross revenue in accordance with contract terms. We will work with the City Attorney’s Office to discuss options for possible collections of underpayment. It should be noted that “net revenue” is a rent a car (RAC) industry standard practice across the nation and we will encounter significant resistance from RAC representatives. We will evaluate the cost/benefit issue.</p>		

**B. Other Reporting Errors in Gross Revenue**

In addition to underreporting gross revenue due to inappropriately applied discounts, we discovered other errors in reporting. RAC agencies underreported gross revenue because they:

- did not include all required revenue streams
- did not include revenue from all locations at CCIA
- made computational errors

Because these other errors ranged from less than 1% to 2.37% of reported revenue, as seen in Exhibit 3, we did not expand testwork for these RAC agencies.

**Exhibit 3: Percentage Gross Revenue was Underreported**

RAC Agency	Percentage Underreported Due to Other Errors
RAC B	1.19%
RAC C	0.68%
RAC D	0.53%
RAC E	2.37%

Effect: When gross revenue is underreported, the concession fee owed to the City is potentially underpaid. Because the annually adjusted MAG is calculated from concession fees paid the prior year, it would also be understated.

RAC agencies underpaid concession fees due to errors (other than inappropriate discounts) by \$9,205.71 from November 2013 through

November 2015. We calculated the total penalty fees due to Aviation for underpayments at \$25,000. The breakdown of the underpayments and penalty fees by RAC agency are shown in Exhibit 4.

**Exhibit 4: Underpaid Concession Fees and Related Penalty Fees  
November 2013 - November 2015**

RAC Agency	No. of Months Underpaid	Underpaid Concession Fees Due to Other Errors	Penalty Fees Due to Aviation
RAC B	19 of 25	\$ 3,308.26	\$ 9,500.00
RAC C	1 of 25	\$ 305.06	\$ 500.00
RAC D	23 of 25	\$ 2,516.58	\$ 11,500.00
RAC E	7 of 25	\$ 3,075.81	\$ 3,500.00
<b>Total:</b>		<b>\$ 9,205.71</b>	<b>\$ 25,000.00</b>

Cause: Aviation management has not developed procedures which would require staff to independently validate and verify the accuracy of the RAC agencies self-reported gross revenue and concession fee payments or assess penalty fees for underpayment.

The lack of a contract management policy is a City-wide problem which has been addressed in multiple audits.<sup>1</sup> Therefore, we include a recommendation for City management as well as a recommendation for Aviation management.

**Recommendation:** Aviation management should develop written procedures for contract management which would include instructions and timelines to:

- identify the contract administrator
- validate and verify the RAC agencies self-reported gross revenue and concession fee payments
- assess penalty fees for underpayment of concession fees
- conduct supervisory reviews and monitoring of this function

<sup>1</sup> Contract management issues are reported in the following audits: AU14-009 CC-NCPHD, 1115 Waiver Projects; AU14-010 Parks and Recreation Department, Beach Operations; AU15-001 Department of Aviation, Airport Leases; AU15-002 Public Works Department, Street Construction



Further, Aviation should consult with the City Attorney’s Office and explore options to recover underpaid concession fees and penalty fees from the RAC agencies.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Mario Tapia, Assistant Director of Aviation	July 31, 2017
<p><i>Action Plan:</i> The Department of Aviation concurs with the overall finding. The self-reporting nature of the industry makes it difficult and time-consuming to verify each month’s receipts. CCIA will develop procedures to identify reporting errors and will request detailed monthly reports from the RAC.</p>		

**City Management Recommendation:** City management should:

- develop a written City-wide contract management policy and training curriculum
- require departments to name a contract administrator for each contract
- require contract administrators to attend training

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<p><i>Action Plan:</i>  <i>City Management did not provide a response until after this audit was released.</i>  <i>See Appendix C.</i></p>		

**C. Incomplete/Untimely Monthly Gross Revenue Statements**

Criteria: Per the contract,

By the 20th day of each month, Concessionaire shall provide City with a certified statement of Concessionaire's Gross Revenues, Concessionaire's transaction information, and other information as required by the City, signed by a business partner or officer for the preceding month ("Gross Revenues Statement"). If such Gross Revenues Statement is not received on time, then Concessionaire agrees to pay an additional fifteen percent (15%) of the Concession Fee or \$500, whichever is greater, subject to applicable laws.

Condition: Management has not enforced the contract requirement for the RAC agencies to provide a complete gross revenue statement by the 20th of the month. The gross revenue statements generally are not certified (signed by a business partner or officer) as to accuracy, and the reports do not contain detailed transaction information.

We tested 76 monthly gross revenue statements from each RAC agency (November 2009 to February 2016), and only two gross revenue statements had been certified by signature, included the required transaction information, and were submitted on time. For testwork

purposes if the gross revenue statement did not contain all required documentation or was not certified it was considered incomplete/untimely.

Had management enforced the requirement and penalized the RAC agencies for each month the gross revenue statement was incomplete, they potentially could have assessed penalty fees of over \$1.3 million. Exhibit 5 documents the number of months an incomplete gross revenue statement was provided and the potential penalty fees due to Aviation from each RAC agency (15% of the concession fee or \$500 whichever is greater).

Effect: Requiring a business partner or officer of the company to sign and certify the gross revenue statement provides an additional measure of assurance that the statement is accurate.

**Exhibit 5: Penalty Fees for Late Submission of Gross Revenue Statements November 2009 to February 2016**

RAC Agency	No. of Months Incomplete GRS	Penalty Fees Due to Aviation
RAC A	74 of 76	\$ 257,292.83
RAC B	76 of 76	\$ 240,116.89
RAC C	76 of 76	\$ 258,152.20
RAC D	76 of 76	\$ 243,230.81
RAC E	76 of 76	\$ 303,386.54
	<b>Total:</b>	<b>\$1,302,179.27</b>

Without the detailed transaction report provided in a suitable format, Aviation cannot verify that the gross revenue is reported in full or confirm that concession fees are accurately calculated and paid.

Cause: Aviation management has not developed procedures which would require staff to verify that each RAC agency submits a complete gross revenue statement each month. Further there are no procedures for assessing or collecting penalty fees.

**Recommendation:** Aviation management should develop written procedures for contract management which would include instructions and timelines to:

- verify the gross revenue statement has been certified by a (pre-determined) company officer or business partner
- verify that the required detailed transaction report has been provided in a format that is usable by Aviation staff (e.g. Excel spreadsheet)
- verify the gross revenue statement is submitted by the due date
- assess and collect penalty fees for non-compliance
- conduct supervisory reviews and monitoring of this function

Further, Aviation should consult with the City Attorney's Office to explore options to recover these penalty fees.

<b>Agree/Disagree</b>	<b>Responsible Party, Title</b>	<b>Completion Date</b>
Agree	Mario Tapia, Assistant Director of Aviation	July 31, 2017
<b>Action Plan:</b> The Department of Aviation will develop written procedures for contract management to address the incomplete/late monthly gross revenue statement including assessment of late fees.		

**D. Untimely and Unreliable Annual CPA Attestation Reports**

Criteria: Per the contract,

Concessionaire shall employ an independent certified public accountant who shall furnish within ninety (90) days after the close of each Agreement year a written statement to City stating that, in their opinion, the Percentage Fee paid by Concessionaire to City during the preceding year pursuant to this Agreement was made in accordance with the terms of this Agreement. Such statement shall also contain a list of the Gross Revenues as shown on the books and records of Concessionaire and which were used to compute the fees paid to City during the period covered by the statement. If the statement reveals after review and verification by the City, that the Concessionaire has overpaid its Percentage Fee to the City, the amount shall be handled by a credit memo issued by the Department of Aviation on the next payment following the statement. Failure on the part of Concessionaire to submit this required statement within ninety (90) days after the close of each Agreement year will result in the City assessing a late processing fee of two hundred dollars (\$200) for each month or fraction of a month that the statement is past due.

Condition: We compared our calculations of gross revenue against the gross revenue reported in the required CPA attestation reports. The attestations did not:

- report gross revenue as defined by contract (they reported revenue net of discounts)
- include the required list of the gross revenues (revenue streams) as shown on the books of the RAC agency
- indicate which revenue streams were used to compute the concession fees due to Aviation

Further, Aviation is not enforcing contract stipulations by requiring RAC agencies to submit its CPA attestation report annually, and they are not assessing and collecting late fees when the report is late.

**Exhibit 6: Late Attestation Reports**

RAC Agency	Late CPA Reports	Total Late Fees
RAC A	4 of 4	\$ 3,800
RAC B	3 of 4	\$ 3,000
RAC C	4 of 4	\$ 2,600
RAC D	2 of 4	\$ 2,800
RAC E	1 of 4	\$ 2,000
<b>Total:</b>		<b>\$ 14,200</b>

We tested for timely submission of CPA attestation reports (FY 2012 through FY 2015). Exhibit 6 documents the late fees owed to Aviation for late submission of the CPA attestation reports.

Cause: Aviation management has not developed written procedures to verify the submission and review the results of the CPA attestation reports.

Effect: The CPA attestation report is a critical control put in place by Aviation to validate the RAC agency’s self-reported gross revenue. Aviation may need to re-assess the level of assurance to be gained from these reports.

Enforcing the late fee should motivate the RAC agencies to comply with the deadline going forward.

**Recommendation:** Aviation management should develop written procedures for contract management which would include instructions and timelines to:

- track the submission of the CPA attestation report (to include the required information)
- assess late fees when RAC agencies are non-compliant
- compare the information provided in the attestation report against the monthly gross revenue statements provided by the RAC agency and make adjustments as needed
- conduct supervisory review and monitoring of this function

Further, Aviation should consult with the City Attorney’s Office to explore options to recover these late fees.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Assistant Director of Aviation	July 31, 2017
<p><b>Action Plan:</b>                      The Department of Aviation agrees that the deficiency in the CPA Attestation Reports is a significant obstacle in the overall accurate collection of RAC gross receipts. Contract terms require independent CPA attestation that revenue is reported accurately to the Airport. As such, there was an almost total dependence on these reports to validate collections at year-</p>		
<p>end. Implementation of procedures to help identify true and accurate gross revenue will allow for validation of the CPA reports.</p>		

**E. Unenforceable Amendment Language**

Condition: A portion of the 2013 amendment to the RAC agency contracts contains convoluted language that cannot be understood or enforced per the City Attorney’s Office.

In 2013, Aviation constructed a new fueling and maintenance area known as the Quick Turnaround Facility (QTA) for the RAC agencies’ use in fueling, cleaning, maintaining, and storing their rental cars. The RAC agency contracts were amended to establish guidelines for the use of the QTA.

Item Q, paragraph 4, of the 2013 amendment has no bearing on the QTA, but relates to concession fee payments. Further, Item Q, paragraph 1, contains information that might be interpreted as a change in contract term. Per Aviation management, these two paragraphs do not convey management’s intent, and they have never been implemented by Aviation or any of the RAC agencies. Per the City Attorney’s Office this portion of the 2013 amendment cannot be enforced because of its confusing and convoluted language.

Effect: One RAC agency has requested a refund of previously paid concession fees based on its interpretation of the amendment.

Cause: Management relied on its consultant to write the contract amendment and did not ensure its intent was clearly communicated or that the content was understandable.

**Recommendation:** For clarity, contract language needs to be written in a manner understandable to both Aviation management and RAC agencies. Aviation should immediately enlist the aid of the City Attorney’s Office to negotiate with the RAC agencies to revoke item Q.4 and clarify Q.1 of the 2013 amendment.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Mario Tapia, Assistant Director of Aviation	July 31, 2017
<b>Action Plan:</b> The Department of Aviation will consult with City Attorney’s Office on revised amendment language and discuss with rental car companies representatives.		

**F. Late Fees Not Assessed on Concession Fee Payments**

Criteria: According to the contract, the RAC agencies must “remit payment when due without notice or demand” and “any amount payable which shall not have been paid when due shall bear interest at the rate of fifteen percent (15%) per annum or \$500.00, whichever is greater...”

Condition: Late fees are not assessed when concession fees are not paid on time. (This is a different issue than the late gross revenue statements discussed in Issue B). We reviewed concession fee payments for three sample months during the scope. Late fees of \$2,500 should have been assessed to RAC agencies during these months as shown in Exhibit 7.

**Exhibit 7: Late Fees for Concession Fee Payments**

<b>RAC Agency</b>	<b>Late Payments</b>	<b>Late Fees</b>
RAC A	3 of 3	\$ 1,500
RAC B	1 of 3	\$ 500
RAC C	1 of 3	\$ 500
RAC D	0 of 3	\$ 0
RAC E	0 of 3	\$ 0
<b>Total:</b>		<b>\$ 2,500</b>

All three concession fee payments made by RAC A were late. This RAC agency waits for Aviation to send an invoice prior to processing its payment which contradicts the contract payment terms.

Cause: Aviation management has not developed procedures to assess late fees when required.

**Recommendation:** Aviation management should develop written procedures for contract management which would include instructions and timelines to assess late fees as needed.

Further, we recommend that Aviation consult with the City Attorney’s Office to explore options for recovery of late fees.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Mario Tapia, Assistant Director of Aviation	July 31, 2017
<b>Action Plan:</b> The Department of Aviation will develop new written procedures that will incorporate late fee assessment and collection. Contract terms are clear but standing practice has been no assessment of late fees due to difficulty in collection and good working relationship.		

**G. Adjusted Minimum Annual Guarantee (MAG) is not Calculated Annually**

Criteria: According to the contract, for the second and each subsequent agreement year, the MAG must be re-calculated as the adjusted MAG.

Condition: The MAG amounts have not been recalculated or adjusted since July 2014. The adjusted MAG should have been recalculated in November 2014 and November 2015. Ideally, the calculation should occur in the month following the end of the contract year.

Effect: The MAG is adjusted annually to take into account variances in gross revenue reported by the RAC agency. If the MAG is not adjusted annually, the RAC agency could potentially underpay its concession fee.

Cause: Aviation management has not developed procedures which would require the timely calculations and adjustments to the MAG.

**Recommendation:** Aviation management should develop written procedures for contract management which would include instructions and timelines to:

- calculate the adjusted MAG for each RAC agency
- obtain management approval of the adjusted MAG
- communicate the results to each RAC agency
- conduct supervisory reviews and monitoring of this function

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Mario Tapia, Assistant Director of Aviation	July 31, 2017
<b>Action Plan:</b> Department of Aviation will develop written procedures for the proper calculation of MAG. The MAG calculation will be clarified based on the RAC using different effective date of terms. Calculation has also been negatively impacted by unreliable annual CPA attestations.		

## Appendix A – Audit Scope and Methodology

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The original audit scope for testwork purposes was October 1, 2014 through December 31, 2015; however, we expanded the scope when necessary. We conducted this audit from August 2016 through January 2017.

Our methodology included inquiry, observation, data analysis, and tests of Aviation's management over rental car (RAC) agencies' revenue reporting, concession fee payments, and contract compliance to achieve the objectives of this audit. We reviewed City contracts related to activities of airport RAC agencies. We conducted interviews with management and staff at Aviation and with representatives from RAC agencies. Additionally, we consulted with the City Attorney's Office.

Audit steps were developed to evaluate and test compliance with contract stipulations and related internal controls, specifically:

- accuracy, completeness, and timeliness of the RAC agencies' self-reported gross revenue statements when compared to detailed transaction data files
- accuracy and timeliness of concession fee payments
- accuracy of adjusted MAG calculations
- record retention
- existence, timeliness, and accuracy of annual CPA attestation reports

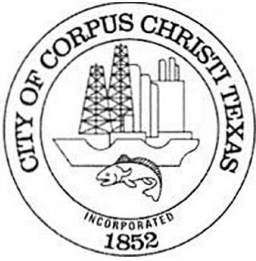
We did not test the rent payments due for office, counter or parking spaces, nor did we test for submission of security fees and customer facility charges.

We used random sampling to select three months out of our audit scope for testwork of one of five RAC agency contracts. Because of issues seen in the three-month sample, we expanded the scope to a 76-month period of November 1, 2009 through February 29, 2016. We subsequently expanded the audit to test the other four RAC agency contracts. A total of seven RAC agencies operate under the five contracts.

We relied on data from the City's current financial system, Infor; the City's legacy financial system, PeopleSoft; and Aviation's system of record, QuickBooks. Aviation also uses a Microsoft Access database to manage contracts and leases. We did not perform general or application control tests on the financial system; instead, we performed direct tests on the financial data. We do not believe our lack of testing system controls affected the outcomes of this report.

In conducting our audit, we relied on the contracts and amendments to serve as criteria for the audit.

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





## SIGNATURE REQUEST

### MEMORANDUM

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**To:** Margie C. Rose, City Manager

**Thru:** E. Jay Ellington, Interim Assistant City Manager 

**From:** Fred Segundo, Director of Aviation 

**Date:** January 27, 2017

**Subject:** Aviation Rental Car Agencies Audit

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**Brief Description / Title of Item Requiring Signature:**

The City's Audit Division has completed their audit of the Airport's Rental Car Agencies Audit.

**Comments:**

The Audit Division in their audit of the Airport's Rental Car Agencies has provided an action plan to be implemented by the Aviation Department.

**Requested Return Date:**

As soon as possible.

**Recommendation:**

I am recommending that this review be signed in order to approve the Audit Division's audit and begin to implement the recommended action plan.





January 27, 2017

Arlena Sones, CPA, CIA, CGAP  
City Auditor  
Corpus Christi, Texas

Re: AU15-004 Department of Aviation, Rental Car Agencies Audit

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

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Fred Segundo", written over a horizontal line.

Fred Segundo  
Director, Department of Aviation

4/27/17  
Date

A handwritten signature in blue ink, appearing to read "Jay Ellington", written over a horizontal line.

Jay Ellington  
Interim Assistant City Manager

1/22/17  
Date

A handwritten signature in blue ink, appearing to read "Margie C. Rose", written over a horizontal line.

Margie C. Rose  
City Manager

1.27.17  
Date

## A. Concession Fee Paid on Net Revenue Instead of Gross Revenue

**Recommendation:** Aviation management should determine whether the benefit of enforcing the contract requirement for reporting gross revenue outweighs the cost. If not, the terms of the contract may need to be updated to redefine the revenue to be reported.

Further, Aviation should consult with the City Attorney's Office to explore options to recover underpaid concession fees and penalty fees from this RAC agency.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Mario Tapia, Assistant Director of Aviation	July 31, 2017
<p><b>Action Plan:</b> The Department of Aviation concurs with the overall finding concerning gross revenue and will review options for collections of gross revenue in accordance with contract terms. We will work with the City Attorney's Office to discuss options for possible collections of underpayment. It should be noted that "net revenue" is a rent a car (RAC) industry standard practice across the nation and we will encounter significant resistance from RAC representatives. We will evaluate the cost/benefit issue.</p>		

## B. Other Reporting Errors in Gross Revenue

**Recommendation:** Aviation management should develop written procedures for contract management which would include instructions and timelines to:

- identify the contract administrator
- validate and verify the RAC agencies self-reported gross revenue and concession fee payments
- assess penalty fees for underpayment of concession fees
- conduct supervisory reviews and monitoring of this function

Further, Aviation should consult with the City Attorney's Office and explore options to recover underpaid concession fees and penalty fees from the RAC agencies.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Mario Tapia, Assistant Director of Aviation	July 31, 2017
<p><b>Action Plan:</b> The Department of Aviation concurs with the overall finding. The self-reporting nature of the industry makes it difficult and time-consuming to verify each month's receipts. CCIA will develop procedures to identify reporting errors and will request detailed monthly reports from the RAC.</p>		

### C. Incomplete/Untimely Monthly Gross Revenue Statements

**Recommendation:** Aviation management should develop written procedures for contract management which would include instructions and timelines to:

- verify the gross revenue statement has been certified by a (pre-determined) company officer or business partner
- verify that the required detailed transaction report has been provided in a format that is usable by Aviation staff (e.g. Excel spreadsheet)
- verify the gross revenue statement is submitted by the due date
- assess and collect penalty fees for non-compliance
- conduct supervisory reviews and monitoring of this function

Further, Aviation should consult with the City Attorney's Office to explore options to recover these penalty fees.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Mario Tapia, Assistant Director of Aviation	July 31, 2017
<b>Action Plan:</b> The Department of Aviation will develop written procedures for contract management to address the incomplete/late monthly gross revenue statement including assessment of late fees.		

### D. Untimely and Unreliable Annual CPA Attestation Reports

**Recommendation:** Aviation management should develop written procedures for contract management which would include instructions and timelines to:

- track the submission of the CPA attestation report (to include the required information)
- assess late fees when RAC agencies are non-compliant
- compare the information provided in the attestation report against the monthly gross revenue statements provided by the RAC agency and make adjustments as needed
- conduct supervisory review and monitoring of this function

Further, Aviation should consult with the City Attorney's Office to explore options to recover these late fees.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Assistant Director of Aviation	July 31, 2017
<b>Action Plan:</b> The Department of Aviation agrees that the deficiency in the CPA Attestation Reports is a significant obstacle in the overall accurate collection of RAC gross receipts. Contract terms require independent CPA attestation that revenue is reported accurately to the Airport. As such, there was an almost total dependence on these reports to validate collections at year-		

end. Implementation of procedures to help identify true and accurate gross revenue will allow for validation of the CPA reports.

### E. Unenforceable Amendment Language

**Recommendation:** For clarity, contract language needs to be written in a manner understandable to both Aviation management and RAC agencies. Aviation should immediately enlist the aid of the City Attorney's Office to negotiate with the RAC agencies to revoke item Q.4 and clarify Q.1 of the 2013 amendment.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Mario Tapia, Assistant Director of Aviation	July 31, 2017
<i>Action Plan:</i> The Department of Aviation will consult with City Attorney's Office on revised amendment language and discuss with rental car companies representatives.		

### F. Late Fees Not Assessed on Concession Fee Payments

**Recommendation:** Aviation management should develop written procedures for contract management which would include instructions and timelines to assess late fees as needed.

Further, we recommend that Aviation consult with the legal department to explore options for recovery of late fees.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Mario Tapia, Assistant Director of Aviation	July 31, 2017
<i>Action Plan:</i> The Department of Aviation will develop new written procedures that will incorporate late fee assessment and collection. Contract terms are clear but standing practice has been no assessment of late fees due to difficulty in collection and good working relationship.		

### G. Adjusted Minimum Annual Guarantee (MAG) is not Calculated Annually

**Recommendation:** Aviation management should develop written procedures for contract management which would include instructions and timelines to:

- calculate the adjusted MAG for each RAC agency
- obtain management approval of the adjusted MAG
- communicate the results to each RAC agency
- conduct supervisory reviews and monitoring of this function

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Mario Tapia, Assistant Director of Aviation	July 31, 2017
<p><b><i>Action Plan:</i></b>                      Department of Aviation will develop written procedures for the proper calculation of MAG. The MAG calculation will be clarified based on the RAC using different effective date of terms. Calculation has also been negatively impacted by unreliable annual CPA attestations.</p>		



February 9, 2017

Arlena Sones, CPA, CIA, CGAP  
City Auditor  
Corpus Christi, Texas

E. Jay Ellington  
INTERIM ASSISTANT  
CITY MANAGER

Re: AU15-004 Department of Aviation, Rental Car Agencies Audit

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

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

PO Box 9277  
Corpus Christi  
Texas 78469-9277  
Phone 361-826-3232  
[javell@cctexas.com](mailto:javell@cctexas.com)  
[www.cctexas.com](http://www.cctexas.com)

Sincerely,

Fred Segundo,  
Director of Aviation

2/13/17

Date

E. Jay Ellington,  
Interim Assistant City Manager

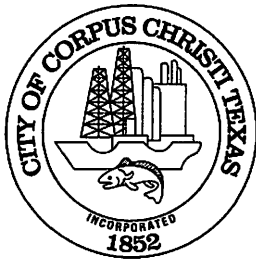
2/13/17

Date

Margie C. Rose,  
City Manager

2.13.17

Date



## MEMORANDUM

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**To:** Margie C. Rose, City Manager

**From:** E. Jay Ellington, Interim Assistant City Manager

**Date:** February 10, 2017

**Subject:** Aviation Rental Car Agencies Audit Response: City Management

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**Issue/Problem:**

City Management’s response to Item “B” of the Aviation Rental Car Agencies Audit  
B: Other Reporting errors in gross revenue City Management Recommendation

**Background/Findings:**

Audit AU15-004 was originally conducted by the City Auditor between October 1, 2014 and December 31, 2015 to review Rental Car Agencies operating within the Department of Aviation. However, significant issues were discovered and the scope was expanded to include the months of August 2016 to January 2017.

**Conclusion/Recommendation:**

**B. Other Reporting Errors in Gross Revenue**

**City Management Recommendation:** City management should:

- develop a written City-wide contract management policy and training curriculum
- require departments to name a contract administrator for each contract
- require contract administrators to attend training

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	ACM	October 2017

*Action Plan:*  
*Policy development will be considered as part of the City management plan of work.*  
*All Departments currently have designated contract administrators.*  
*Training on new policies will be considered as part of a future management plan of work.*  
*Departments are working on standard operating procedures for contract management. The City Manager will be formally communicating the citywide procedure to departments by March 2017.*