Internal Audit Department

ORANGE COUNTY

6th Largest County in the USA

Revenue Generating Lease Audit:
JOHN WAYNE AIRPORT/ VANGUARD CAR RENTAL USA, LLC

For the Period
June 1, 2012 through May 31, 2013

$28M GROSS RECEIPTS
FOR ONE YEAR AUDIT PERIOD
$2.8M RENT TO THE COUNTY

Vanguard Car Rental USA, LLC (Vanguard), a wholly-owned subsidiary of Enterprise Holdings, Inc., operates Alamo Rent-A-Car and National Car Rental on-site at John Wayne Airport (JWA). The lease agreement expired in June 2012 but is continuing on a month-to-month basis. Rent is paid based on a percentage of gross receipts. We audited the underlying books and records to ensure gross receipts are complete and rent is properly paid as defined by the lease agreement. During the audit period of June 1, 2012 through May 31, 2013, Vanguard reported approximately **$28 million** in gross receipts and paid the County approximately **$2.8 million** in rent. The current lease agreement is projected to generate over **$15 million** in rent to the County over the next five years.

We found that Vanguard's records adequately supported reported gross receipts and rent owed was properly paid to the County.

AUDIT NO: 1230
REPORT DATE: SEPTEMBER 4, 2013

Director: Dr. Peter Hughes, MBA, CPA, CIA
Senior Audit Manager: Alan Marcum, CPA, CIA
Senior Internal Auditor: Susan Nestor, CPA, CIA

Independence Objectivity Integrity

ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes **Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF, CGMA**
Director
Certified Compliance & Ethics Professional (CCEP)
Certified Information Technology Professional (CITP)
Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)
Certified in Financial Forensics (CFF)
Chartered Global Management Accountant (CGMA)
E-mail: peter.hughes@iad.ocgov.com

Michael J. Goodwin **CPA, CIA**
Senior Audit Manager

Alan Marcum **MBA, CPA, CIA, CFE**
Senior Audit Manager

Hall of Finance & Records

12 Civic Center Plaza, Room 232
Santa Ana, CA 92701

Phone: (714) 834-5475 Fax: (714) 834-2880

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OC Fraud Hotline (714) 834-3608

Transmittal Letter

Audit No. 1230 **September 4, 2013**

TO: Alan Murphy, Airport Director
John Wayne Airport

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

SUBJECT: Revenue Generating Lease Audit:
JWA/Vanguard Car Rental USA, LLC
PM 1121-390-28

We have completed our Revenue Generating Lease Audit of Vanguard Car Rental USA, LLC for the period June 1, 2012 through May 31, 2013. The final **Internal Auditor's Report** is attached. We performed this Revenue Generating Lease Audit in accordance with our *FY 2012-13 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee.

Each month I submit an **Audit Status Report** to the Board of Supervisors (BOS) where I detail any critical or 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.

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.

Other recipients of this report listed on the **OC Internal Auditor's Report** on page 2.

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Revenue Generating Lease Audit:
JWA/Vanguard Car Rental USA, LLC
Audit No. 1230

For the Period
June 1, 2012 through May 31, 2013

OC Internal Auditor's Report

Audit No. 1230 **September 4, 2013**

TO: Alan Murphy, Airport Director
John Wayne Airport

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

SUBJECT: Revenue Generating Lease Audit:
JWA/Vanguard Car Rental USA, LLC, PM 1121-390-28

Audit Highlight

We have performed an audit of certain records and documents of Vanguard Car Rental USA, LLC to ensure gross receipts are complete and rent is properly paid as defined by the lease agreement.

Gross receipts generated from the lease during the audit period were approximately **$28 million** and rent paid to the County was about **$2.8 million**.

We found that records for Vanguard, operating at JWA as Alamo Rent-A-Car and National Rental Car, adequately supported reported gross receipts and rent owed was properly paid to the County.

OBJECTIVE

We have performed an audit of certain records and documents of JWA/Vanguard Car Rental USA, LLC (Vanguard) for the period from June 1, 2012 through May 31, 2013 under a lease agreement (Agreement) between the County of Orange (County) and Vanguard Car Rental USA, Inc., dated December 14, 2000. Vanguard Car Rental USA, Inc. operates on-site airport car rental agencies, Alamo-Rent-A-Car and National Rental Car, at John Wayne Airport. The lease agreement expired on June 30, 2012 and is currently on a month-to-month term. Our audit objectives were:

(1) The primary objective of our audit is to determine whether the records for Vanguard adequately support their monthly gross receipts reported to the County.

(2) The secondary objective of our audit is to determine whether Vanguard complies with certain other financial provisions of the Agreement.

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

RESULTS

<u>Objective #1</u>: We found that the records for Vanguard adequately supported gross receipts reported and rent owed was properly paid.

<u>Objective #2</u>: We found that Vanguard complied with certain other financial provisions of the Lease Agreement such as monthly gross receipts statement format.

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BACKGROUND

The County entered into an eight (8) year lease agreement with Vanguard Car Rental USA, Inc., dated December 14, 2000 for the operation of an on-site airport rental car concession at John Wayne Airport. The lease term was extended to June 30, 2012 and was on a month-to-month basis for a majority of the audit period (a new lease has since been approved by the Board of Supervisors). Vanguard operates Alamo Rent-A-Car and National Car Rental on-site at John Wayne Airport (JWA). Vanguard is a wholly owned subsidiary of Enterprise Holdings.

The Crawford Group, parent of Enterprise Rent-A-Car, entered into an agreement to purchase all of the issued and outstanding shares of Vanguard Car Rental Holdings LLC, parent of Vanguard Car Rental USA, Inc. The purchase did not result in a change in the Vanguard corporate legal entity. Signage, performance and payment bonds, insurance certificates, annual guarantees all remained the same after the purchase. Vanguard and its subsidiaries continued to be liable for all its respective responsibilities after the purchase. Closing of the transaction occurred on August 1, 2007.

During the audit period from June 1, 2012 through May 31, 2013, Alamo Rent-A-Car and National Car Rental generated approximately $28 million in gross receipts, and the County received approximately $2.8 million in rent.

SCOPE

Our audit was limited to certain records and documents that support Alamo Rent-A-Car and National Car Rental's gross receipts reported to the County for the one-year audit period from June 1, 2012 through May 31, 2013. 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 Enterprise Holdings and John Wayne Airport. If you have any questions regarding our revenue generating lease audit, please call me directly at (714) 834-5475 or Alan Marcum, Senior Audit Manager at (714) 834-4119.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Michael B. Giancola, County Executive Officer
Mark Denny, Chief Operating Officer
Loan Leblow, Assistant Airport Director, JWA
Ralph Sanchez, Deputy Airport Director, JWA/Business Development
Barbara Swift, Administrative Manager, JWA/Business Development
Mariane Teschner, 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
Macias Gini & O'Connell LLP, County External Auditor