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### **Revenue Generating Lease Audit:**

## JWA/BUDGET RENT A CAR Systems, Inc.

For the Period August 1, 2008 through July 31, 2009

\$10.4M GROSS RECEIPTS ANNUALLY \$1.6M RENT PAID TO THE COUNTY ANNUALLY

Budget Rent A Car Systems, Inc. operates an on-airport car rental agency at John Wayne Airport (JWA). Over its approximate twelve (12) year term, as amended, this lease agreement is estimated to generate about \$17 million in rent to the County. Rent is paid based on a percentage of gross receipts. We audit the underlying books and records to ensure gross receipts are complete and rent is properly paid as defined by the lease agreement. During the 12-month audit period of August 1, 2008 through July 31, 2009, Budget Rent A Car Systems, Inc. reported approximately \$10.4 million in gross receipts and paid the County approximately \$1.6 million in rent.

The Internal Audit Department found that Budget Rent A Car Systems, Inc.'s records adequately supported gross receipts and rent owed was properly paid. We did identify **one (1) Control Finding** where no additional rent is owed. JWA agreed with the finding and recommendation and worked with Budget Rent A Car Systems, Inc. to implement corrective action.

AUDIT NO: 2931 REPORT DATE: AUGUST 31, 2010

Director: Dr. Peter Hughes, CPA

Deputy Director: Eli Littner, CPA, CIA

Senior Audit Manager: Autumn McKinney, CPA, CIA

Audit Manager: Lily Chin, CPA

Senior Internal Auditor: Susan Nestor CPA, CIA

### **RISK BASED AUDITING**

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



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





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

**Providing Facts and Perspectives Countywide** 

#### **RISK BASED AUDITING**

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OC Fraud Hotline (714) 834-3608

### Letter from Dr. Peter Hughes, CPA



### **Transmittal Letter**



Audit No. 2931 August 31, 2010

**TO:** Alan L. Murphy, Director John Wayne Airport

FROM: Dr. Peter Hughes, CPA, Director

Internal Audit Department

**SUBJECT:** Revenue Generating Lease Audit:

John Wayne Airport/Budget Rent A Car

Systems, Inc., PM 1121-390-25

We have completed our revenue generating lease audit of Budget Rent A Car Systems, Inc., for the period August 1, 2008 through July 31, 2009. The final **Internal Auditor's Report** is attached along with your responses to our recommendation. We performed this Revenue Generating Lease Audit in accordance with our FY 2009-10 Audit Plan 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 <u>begin</u> at <u>six months</u> 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 <u>six months</u> 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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### **OC Internal Auditor's Report**



Audit No. 2931

August 31, 2010

TO: Alan L. Murphy, Director

John Wayne Airport

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

SUBJECT: Revenue Generating Lease Audit:

John Wayne Airport, Budget Rent A Car Systems, Inc.

PM 1121-390-25

### **Audit Highlight**

Budget Rent A Car Systems, Inc. operates and manages an onairport car rental agency at JWA.

Over its approximate twelve (12) year lease term, as amended, this lease is estimated to generate over \$17 million dollars in rent to the County. Gross receipts generated during the 12-month audit period were about \$10.4 million and rent paid to the County was about \$1.6 million.

The Internal Audit Department found that Budget Rent A Car Systems, Inc.'s records adequately supported gross receipts and rent owed was properly paid. We did identify one (1) **Control Finding** where no additional rent is owed.

### **OBJECTIVE**

We have performed an audit of certain records and documents for the period from August 1, 2008 through July 31, 2009, pertinent to the lease agreement (Agreement) between the County of Orange (County) and Budget Rent A Car Systems, Inc., dated December 15, 2000, as amended. The Agreement is for the operation of an on-airport car rental agency at the John Wayne Airport terminal. Our audit objectives were:

- (1) The primary purpose of our audit is to determine whether Budget Rent A Car Systems, Inc.'s records adequately support their monthly gross receipts reported to the County and rent owed is properly paid.
- (2) The secondary purpose of our audit is to determine whether Budget Rent A Car Systems, Inc. complies with certain other financial provisions of the Agreement, such as accounting methods, 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 identify suggestions for improvement.

#### **BACKGROUND**

The County entered into an Agreement with Budget Rent A Car Systems, Inc., dated December 15, 2000, as amended, for the operation of an onairport car rental agency at the John Wayne Airport terminal. During the 12-month audit period, Budget Rent A Car Systems, Inc. reported approximately \$10.4 million in gross receipts and paid the County approximately \$1.6 million in rent. Over its approximate twelve (12) year term, as amended, this lease agreement is estimated to generate over \$17 **million** in rent to the County.

### **OC Internal Auditor's Report**



### SCOPE

Our audit was limited to certain records and documents that support Budget Rent A Car Systems, Inc.'s gross receipts reported to the County for the 12-month audit period of August 1, 2008 to July 31, 2009. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts.

#### **RESULTS**

Below are the results of our audit:

- Objective #1 Adequate Records: Determine whether Budget Rent A Car Systems, Inc.'s records adequately support monthly gross receipts reported to the County and rent owed is properly paid.
- Results: We found that Budget Rent A Car Systems, Inc.'s records adequately supported reported gross receipts and rent owed was properly paid. We noted **one** (1) Control Finding, which did not result in additional rent owed. (See page 4 for details)
- ▶ Objective #2 Compliance: Determine whether Budget Rent A Car Systems, Inc. complies with certain other financial provisions of the agreement.
- Results: We found that Budget Rent A Car Systems, Inc. complied with certain other financial provisions of the agreement such as accounting methods, monthly gross receipts statement format, and annual financial statements.

See the **one (1) Control Finding** in the Detailed Findings, Recommendations, and Management Responses section of this report. See **Attachment A** for a description of report item classifications

### **ACKNOWLEDGMENT**

We appreciate the courtesy and cooperation extended to us by the personnel at Budget Rent A Car Systems, Inc. and John Wayne Airport. If you have any questions regarding our revenue generating lease audit, please call me directly at (714) 834-5475; or Eli Littner, Deputy Director at (714) 834-5899, or Autumn McKinney, Senior Audit Manager at (714) 834-6106.

Attachment A: Report Item Classifications
Attachment B: John Wayne Airport Responses

### **OC Internal Auditor's Report**



### Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Loan Leblow, Assistant Airport Director
Roy Freeman, Deputy Airport Director, JWA/Business Development
David De Leon, Administrative Manager, JWA/Business Development/Asset Management
Barbara Swift, Real Property Agent, 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
Darlene J. Bloom, Clerk of the Board of Supervisors



### Audit Objective #1 – Adequate Records

### 1. Receipts from Default Customers Not Reported (Control Finding)

Clause 14.C of the Agreement defines gross receipts as "All rental, admission and other fees of any nature or kind charged by tenant."

Budget Rent A Car Systems, Inc.'s Claims Department charges an administrative fee to customers for the tracking and recovery of significantly overdue vehicles.

**Finding No. 1:** Budget Rent A Car Systems, Inc. does not report the administrative fees as gross receipts to the County. For the 12-month audit period of August 1, 2008 through July 31, 2009, these fees amounted to \$3,100. However, the minimum annual rent paid for the audit period was greater than percentage rent, including the administrative fees. Therefore, no additional rent is due for the audit period.

**Recommendation No. 1:** We recommend that JWA require Budget Rent A Car Systems, Inc. to begin reporting the administrative fees as gross receipts subject to percentage rent.

### JWA Management Response:

Concur. This recommendation has been implemented. In a letter dated June 22, 2010, we have instructed Budget Rent A Car Systems, Inc. to commence reporting administrative fees charged and remit the appropriate amount of rent due to JWA. Budget Rent A Car Systems has agreed with the audit recommendation and will commence required reporting on their next monthly statement.



### **ATTACHMENT A: Report Item Classifications**

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

#### Material Weaknesses:

Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address "Material Weaknesses" brought to their attention immediately.

### Significant Issues:

Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

### Control Findings and/or Efficiency/Effectiveness Issues:

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



### **ATTACHMENT B: John Wayne Airport Responses**



Alan L. Murphy Airport Director Memo MS 17 PM 2: 06

DATE: August 11, 2010

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 Lease Audit: Budget Rent A Car Systems,

Inc., Audit No. 2931

This memo is in response to the Internal Audit Department's Report on Revenue Generating Lease Audit for Budget Rent A Car Systems, Inc., Audit No. 2931.

Attached is our management response which was reviewed and approved by the County Executive Office on July 30, 2010. We have implemented the report's recommendation and will have supporting documentation available for your subsequent follow-up audit.

#### Attachment

cc: Loan Leblow

Roy Freeman Steve Siemion Lisa Kawashima Scott Suzuki David De Leon Barbara Swift

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





### **ATTACHMENT B: John Wayne Airport Responses (continued)**

