



Airport Rental Car Concession Agreements Enterprise, National, Alamo, Hertz and Dollar



City of Charlotte
Internal Audit Department
600 E. Fourth St.
Charlotte, NC 28202

Staff

City Auditor

Gregory L. McDowell, CPA, CIA

Audit Supervisor

Marie Marsicano

Staff Auditor

Cheryl Ramsey

Airport Rental Car Concession Agreements Audit Executive Summary

Purpose

To determine whether the Airport has properly designed and implemented internal controls over rental car contracts, including effective terms.

Background

Rental car activities at the Charlotte Douglas International Airport represent one of the largest generators of Airport revenues. Given the importance of this business unit, the Aviation Department requested that Internal Audit review contract compliance of rental car companies on a rotating basis.

Conclusion

Most revenues due from rental car agencies have been reported and paid accurately. Aviation can gain incremental revenue, and encourage timely reporting by Rental Car Agencies through the assessment of late fees, as contractually allowed.

Highlights

- 1. Rental Car Agencies (RACs) accurately reported concessions and Contract Facility Charges (CFCs) to the Charlotte Douglas International Airport.***
 - All RACs accurately reported concessions and CFCs to the Charlotte Douglas International Airport using the required monthly Gross Revenue Worksheet Summary.
- 2. Minimum Annual Guaranteed (MAG) amounts for the Concessions amount due and the Concession balances have not been paid in a timely manner.***
 - All RACs tested have paid amounts after the due dates established in the Concession Agreement for three to seven instances each.

Recommendation

Aviation should ensure payments for all fees and annual adjustments are paid in a timely manner. Aviation should implement the contractually allowed fee of one and one-half (1.5%) percent per month.

Actions Planned

Aviation has agreed to begin making system changes to implement the recommended action, with completion targeted for July 2020.

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Background

Rental car activities at the Charlotte Douglas International Airport represent one of the largest generators of Airport revenues. Given the importance of this business unit, the Aviation Department requested that Internal Audit review contract compliance of rental car companies on a rotating basis. Enterprise, National, Alamo, Hertz and Dollar were selected for review.

On-Airport Automobile Concession Agreements were awarded to eight rental car agencies on November 1, 2000, for a period of seven years. The Agreements have been amended periodically, (most recently in November 2011) and are scheduled to expire in 2025. Each Agreement requires the Concessionaire to pay the City the greater of ten percent (10%) of the Concessionaire's Gross Revenues during each contract year, or eighty five percent (85%) of Concessionaire's total concession fees payable during the immediately preceding contract year ("Minimum Annual Concession Fee").

The concessionaires are required to pay one-twelfth of the minimum annual concession fee in advance each month. Within 25 days of each calendar month-end, each concessionaire is required to provide Aviation with an accounting of its year-to-date gross revenues and pay the difference between the amount of the calculated annual percentage fee and the total of previous payments. Annually, within 90 days following contract year-end, each concessionaire is required to furnish a statement (certified to be correct by an authorized representative) of gross revenues for the preceding year, detailing authorized deductions or exclusions made in computing the amount of such gross revenues. Aviation collected \$15.5 million in concession fees in FY 2018 from \$155 million in reported gross revenue, as the Aviation-generated summary details in the graph on the next page. The FY 2017 audit report recommended Aviation require all car rental agencies to submit a "Gross Revenue Worksheet" summary each month to help identify revenue items that are improperly excluded from concession revenue. The new form was implemented in FY 2018. It shows the 10% concession fee calculation and requires the disclosure of the actual number of contracts reflected in the gross revenue figure.

In addition, the City imposed by ordinance effective July 1, 2007 (CFC Ordinance) a charge to be collected from rental car customers at the Airport, the proceeds of which are used to pay the costs of planning, designing, constructing, financing, maintaining and operating new consolidated rental car facilities at the Airport. Rental car agencies are required to collect a Contract Facility Charge (CFC) equal to \$4.00 per transaction day and deposit the fees collected with a Trustee on or before the tenth day of the immediately succeeding month. Aviation collected about \$13.3 million in CFC fees in FY 2018, also detailed on the next page.

Rental Car Fees – Fiscal Year 2018		
Company	Concession Fee	CFCs Collected
Current Audit		
National/Alamo	\$ 4,669,417	\$ 4,125,956
Hertz	3,183,021	2,752,948
Enterprise	2,480,849	1,847,356
Dollar	870,701	950,816
Audited Total	\$ 11,203,988	\$ 9,677,076
Previously Audited		
Avis	\$ 2,489,894	\$ 2,039,508
Budget	1,434,183	1,257,108
Advantage	380,332	377,028
Grand Total	\$ 15,508,397	\$ 13,350,720

Objective

To determine whether the Airport has properly designed and implemented internal controls over rental car contracts, including effective terms.

Scope, Methodology, and Compliance

Scope

Since 2016, Rental Car Agencies have been audited on a rotational basis. Internal Audit reviewed Concession Fee Revenue and Contract Facility Charges for Enterprise, National, Alamo, Hertz and Dollar for fiscal year 2018.

Methodology

Auditors reviewed the following:

1. Contracts between RACs and Aviation
2. Revenue reports and CFC reports from RACs
3. Payments and bank statements within the City's MUNIS system and back up documentation from the Aviation accounts receivable system, PropWorks

Compliance

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 findings 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.

Findings and Recommendations

1. Rental Car Agencies accurately reported concessions and CFCs to the Charlotte Douglas International Airport.

According to the concession agreements, gross revenues include all monies or other consideration paid or payable to Concessionaire for all sales made and services performed in connection with automobile and vehicle rentals. Gross Revenues specifically include the following:

- Revenue earned for the rental or sale of wireless communication devices, mobile telephones, computerized navigation equipment and services and similar services of whatsoever nature; and
- Revenue earned from the rental of child/infant car seats or restraints, ski racks, bicycle racks, recreational gear, personal computers and facsimile machines.

The agreements specifically exclude federal, state, county, city or municipal sales, use or excise taxes; any charges collected from customers for refueling an automobile rented pursuant to an agreement under which the customer is obligated to return the automobile with the same amount of gasoline furnished upon rental; and all amounts paid or payable by customers for acceptance of a collision damage waiver, personal effects coverage or other insurance products.

RACs accurately reported concession revenue and CFC fees for FY 2018. Detailed rental transaction data agreed with monthly revenue reported to Aviation (100% of transactions and reports reviewed). There were no material exceptions with the categorization of included income items.

2. Minimum Annual Guaranteed (MAG) amounts for the Concessions amount due and the Concession balances have not been paid in a timely manner.

According to the concession agreement, the MAG should be paid in monthly installments in advance. Within 25 days after the end of each calendar month RACs shall provide an accounting of year to date gross revenues and payment for any difference. If payments are not made timely, the city is entitled to assess a late fee of 1.5% per month.

RACs were late three to seven times each during FY 2018, based on review of 100% of submitted monthly reports. If Aviation had imposed the late fee for each infraction, the Airport could have collected about \$48,000 on \$11.2 million.

Recommendation: For significant delinquencies, Aviation should implement the late payment fee of one and one-half (1.5%) percent per month.

Value Added: Compliance; Risk Reduction; Timeliness

Aviation Response: Aviation understands it has a contractual right to assess late fees for payments received beyond the terms set forth in the Agreement. System requirements are necessary to implement this action. Aviation plans to have this process in place by July 2020.

Conclusion

Most revenues due from rental car agencies have been reported and paid accurately. Aviation can gain incremental revenue, and encourage timely reporting by Rental Car Agencies through the assessment of late fees, as contractually allowed.

Distribution of Report

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