



Airport Rental Car Concession Agreements Avis and Budget



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Airport Rental Car Concession Agreements Audit Executive Summary

Purpose

This audit was conducted to determine whether the Airport has properly designed and implemented internal controls over rental car contracts, including effective terms. In addition, determine whether concession and CFC fees have been accurately calculated and paid timely to the City of Charlotte.

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

Avis and Budget accurately reported and paid concession revenue and fees. Aviation can gain incremental revenue and encourage timely reporting by rental car agencies through the assessment of late fees, as contractually allowed.

Highlights

- 1. Avis and Budget accurately reported concessions and Contract Facility Charges (CFC) to the Charlotte Douglas International Airport.***
 - Avis and Budget accurately reported concession and CFC fees to the Charlotte Douglas International Airport using the required monthly Gross Revenue Worksheet Summary.
- 2. Minimum Annual Guaranteed (MAG) amounts for the Concession amount due and Contract Facility Charges (CFC) have not been paid in a timely manner.***
 - Both Avis and Budget paid amounts after the due dates established in the Concession Agreement on multiple occasions.

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

As noted in the previous FY2018 Rental Car audit, Aviation has agreed to begin making system changes to implement the recommended action, with completion targeted for late fall 2021.

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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. Avis and Budget 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").

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 \$16.1 million in concession fees in FY 2019 from \$161 million in reported gross revenue, as the Aviation-generated summary details in the graph on the next page.

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. RACs 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 \$13.5 million in CFC fees in FY 2019, also detailed on the next page.

Rental Car Fees – Fiscal Year 2019		
Company	Concession Fee	CFCs Collected
Current Audit		
Avis	\$ 2,553,658	\$ 2,040,068
Budget	1,683,989	1,431,176
Audited Total	\$ 4,237,648	\$ 3,471,244
Previously Audited		
National/Alamo	\$ 4,766,870	\$ 4,233,722
Enterprise	2,490,893	1,841,832
Hertz	3,360,296	2,742,180
Dollar	928,362	918,540
Advantage	360,570	361,940
Grand Total	\$ 16,144,641	\$ 13,569,508

Objective

This audit was conducted to determine whether the Airport has properly designed and implemented internal controls over rental car contracts, including effective terms. In addition, determine whether concession and CFC fees have been accurately calculated and paid timely to the City of Charlotte.

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 (CFC) for Avis and Budget for fiscal year 2019.

Methodology

Auditors reviewed the following:

1. Contracts between Avis and Budget, and Aviation;
2. Revenue and CFC reports from Avis and Budget;
3. Trust statements for CFC fees and documentation from the Aviation accounts receivable system, PropWorks, for concession fees.

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. Avis and Budget accurately reported concession and CFC fees 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.

Avis and Budget accurately reported concession revenue and CFC fees for FY 2019. 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 concession amount due and Contract Facility Charges (CFC) have not been paid in a timely manner.

According to the concession agreement, the MAG should be paid in monthly installments in advance and by the first day of each calendar month. Within 25 days after the end of each calendar month each concessionaire shall provide an accounting of year to date gross revenues and payment for any difference. In addition, CFC fees should be paid on or before the 10th of the month. If payments are not made timely, the city is entitled to assess a late fee of 1.5% per month.

Avis paid the MAG amount late on three occasions between two and four days and Budget paid this amount late on two occasions both by four days. If Aviation had imposed the late fee for each infraction, the Airport could have collected a total of approximately \$10,841 on the \$4.3 million in concession fees. Avis paid the CFC fees late on six occasions between one and eight days and Budget paid the fee late on seven occasions between one and 10 days. If the late fee was imposed for each infraction, the Airport could have collected \$28,138 on the \$3.5 million in CFC totals.

Recommendation: 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 late fall 2021.

Conclusion

Avis and Budget accurately reported and paid concession revenue and fees. 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

This report is intended for the use of the City Manager's Office, City Council, and all City departments. Following issuance, audit reports are sent to City Council via the Council Memo and subsequently posted to the [Internal Audit website](#).