



# County of Allegheny

## Office of the Controller

AVIS RENT A CAR SYSTEM, INC.  
REPORT ON CONTRACT COMPLIANCE PROCEDURES  
FOR THE PERIOD  
MAY 1, 2009 THROUGH APRIL 30, 2012

*(Non-Audit Service)*

January 3, 2013

**Chelsa Wagner**  
Controller

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Pittsburgh, PA 15219  
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**CHELSEA WAGNER**  
CONTROLLER

# COUNTY OF ALLEGHENY

## OFFICE OF THE CONTROLLER

104 COURTHOUSE • 436 GRANT STREET  
PITTSBURGH, PA 15219-2498  
PHONE (412) 350-4660 • FAX (412) 350-3006

November 30, 2012

Mr. Bradley Penrod  
Executive Director  
Allegheny County Airport Authority  
P.O. Box 12370  
Pittsburgh, PA 15231-0370

Avis Rent A Car System, Inc.  
Report on Contract Compliance Procedures  
For the Period May 30, 2009 Through April 30, 2012

Dear Mr. Penrod:

We have performed certain procedures we considered necessary to assess Avis Rent A Car System's, Inc. (Avis) rent remittances made pursuant to Section 4.01 of its Pittsburgh International Airport On-Airport Rental Car Concession Agreement #0766 (Concession Agreement) with the Allegheny County Airport Authority (Airport Authority) for the period May 1, 2009 through April 30, 2012. We also performed procedures to assess Avis's compliance with its Rental Car Service Facility Agreement. These procedures were performed as a non-audit service. Therefore, this engagement is not covered by Generally Accepted Auditing Standards.

Under the terms of Section 4.01 of the Concession Agreement, Avis shall pay to the Airport Authority the greater of ten percent of gross revenue received from the operation of the rental car concession or the stipulated Minimum Annual Guarantee (MAG). The MAG increased each year and ranged from \$1,421,000 to \$1,599,000 during the term of the Concession Agreement that began May 1, 2003 and expired on April 30, 2008.

The Airport Authority approved Avis's request to exercise the option term which extends the Concession Agreement for five years commencing May 1, 2008 and terminating on April 30, 2013. The MAG for the first year of the extension is 80% of the rent due for the prior lease year. For each of the remaining four years, the MAG shall be 80% of the prior lease year's rent due, but never less than the prior year's MAG. For May 1, 2008 through April 30, 2009 the MAG was \$1,690,891.

Mr. Bradley Penrod  
 November 30, 2012  
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For lease years 2009/2010, 2010/2011, and 2011/2012, 80% of the prior lease year's rent never exceeded the prior year MAG. Therefore, the MAG calculated for 2008/2009 is carried forward to these three lease years. During our testing, we noted that the MAG calculation for 2008/2009 did not include adjustments made by Avis's Certified Public Accountant, or the additional revenue identified during our engagement. When these amounts are included in the calculation, the 2008/2009 MAG increases by \$6,658 to \$1,697,549. This revised MAG is used in the table below for lease years 2009/2010, 2010/2011, and 2011/2012.

In each of the three lease years, ten percent of the original gross revenue did not exceed the original MAG, so Avis was required to pay the original MAG each year. However, the amount paid by Avis exceeded the original MAG for each lease year, which entitled Avis to a credit. As of the date of this report, Avis had used up the available credit from each of the three lease years.

Our testing found that Avis did not properly report gross revenue for the engagement period. After adjusting for the omitted revenues, ten percent of the revised gross revenue did not exceed the original MAG. However, Avis would owe the difference between the original MAG and the revised MAG for each of the three lease years, for a total of \$19,974. The following table summarizes the original gross revenue reported, the amount paid by Avis, and the additional gross revenue identified during our procedures for the three year period ended April 30, 2012. The table also includes the revised MAG. The details regarding the additional gross revenue, as well as other instances of non-compliance, are described in our report of observations and recommendations. Avis's response begins on page 6 of the report.

	<b>For the year ended April 30,</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
Original Gross Revenue	\$ 16,312,905	\$ 16,582,085	\$ 16,264,250
Add: Unreported / Under-Reported Revenue			
Incremental Discounts Incorrectly Deducted	66,697	91,479	52,252
Unreported Accounts	27,613	33,906	23,591
Improper Adjustments	1,800	1,805	3,422
Revised Gross Revenue	16,409,015	16,709,275	16,343,515
Concession percentage	10%	10%	10%
10% of Revised Gross Revenue	<u>\$ 1,640,902</u>	<u>\$ 1,670,928</u>	<u>\$ 1,634,352</u>
Minimum Annual Guarantee	<u>\$ 1,697,549</u>	<u>\$ 1,697,549</u>	<u>\$ 1,697,549</u>

Mr. Bradley Penrod


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Rent Due- Greater of 10% of Gross Revenue OR Minimum Annual Guarantee	\$ 1,697,549	\$ 1,697,549	\$ 1,697,549
Amount Already Paid by Avis	1,801,811	1,777,626	1,779,099
Amount Due Airport Authority (Avis)	(104,262)	(80,077)	(81,550)
Less Credit used by Avis	(110,920)	(86,735)	(88,208)
Amount due ACAA (Credit Remaining)	\$ 6,658	\$ 6,658	\$ 6,658
Three Year Total Due to Airport Authority			\$ 19,974

We would like to thank the staff of the Airport Authority and Avis for their courtesy and cooperation during performance of our procedures.

Kind regards,



Chelsa Wagner  
Controller



Lori A. Churilla  
Assistant Deputy Controller, Auditing

CW/lc

cc: Honorable Charles Martoni, President, County Council  
 Honorable Nicholas Futules, Vice-President, County Council  
 Honorable Rich Fitzgerald, Allegheny County Executive  
 Mr. William McKain, County Manager, Allegheny County  
 Ms. Jennifer Liptak, Chief of Staff, County Executive  
 Mr. Warren Finkel, Budget Director, Allegheny County  
 Mr. Joseph Catanese, Director of Constituent Services, County Council  
 Mr. Walter Szymanski, Budget Director, County Council  
 Mr. David Minnotte, Board Chairman, Airport Authority Board  
 Mr. Glenn R. Mahone, Audit Committee Chairman, Airport Authority  
 Mr. James R. Gill, Chief Financial Officer, Allegheny County Airport Authority  
 Mr. Stephen W. Robinson, Controller, Allegheny County Airport Authority  
 Mr. Eric Ruprecht, Director of Business Administration, Allegheny County Airport Authority  
 Mr. Robert F. Frey, Accounting Manager, Avis / Budget Group

Avis Rent A Car System, Inc.  
Observations and Recommendations  
For the Period May 1, 2009 Through April 30, 2012

1. **Gross Revenue Categories Not Reported to the Airport Authority**

***Observations:***

During our testing, we noted that Avis did not properly report gross revenue to the Airport Authority for the period from May 1, 2009 through April 30, 2012. The categories of additional gross revenue identified on page 2 of the report are explained in the following paragraphs.

Avis deducted "Avis Incremental Discounts" from the gross revenue reported to the Airport Authority. These 'discounts' are actually rebates given to corporate customers by Avis once a prearranged dollar volume of rentals is completed. Based on the Concession Agreement, it appears that this type of rebate is not permitted as an exclusion from gross revenue. For the three year period ended April 30, 2012, Avis improperly deducted \$210,428 from gross revenue.

The Concession Agreement defines gross revenue as all monies or other consideration paid or payable to the concessionaire in conjunction with the conduct of renting and leasing motor vehicles. Our procedures found that Avis did not include the following categories in the gross concession revenue reported to the Airport Authority: No Show Revenue, Foreign Exchange Fee Income and MBNA Hospitality Division. For the three year period ended April 30, 2012, Avis improperly excluded \$85,110 from gross revenue for these categories.

At times, an adjustment is made to a rental agreement to reduce the amount charged to a customer, thus reducing gross revenue reported to the Airport Authority. Adjustments should be prorated to reduce the time and mileage (T&M) charge, as well as the associated fees, surcharges, and taxes. Avis did complete some adjustments using this method. However, certain adjustments only reduced the time and mileage charge. Since the total amount was deducted from T&M, gross revenue is understated.

For example, on a basic rental agreement which only includes T&M, Avis includes T&M and the airport fee (a fee charged by Avis to recover the 10% concession fee) in gross revenue, but they do not include the surcharge (State and County fees) or taxes. If an adjustment is completed properly, gross revenue will be reduced by the portion of the adjustment that is associated with the T&M and airport fee. The portion of the adjustment that is related to the surcharge and taxes should not be deducted from gross revenue. Since Avis deducted the entire amount of the adjustment, gross revenue for the three year period was understated by \$7,027, which is the portion of the adjustment that should have been allocated to the surcharge and taxes.

All three of these observations were included in the prior report issued by the Controller's Office for the period May 1, 2006 through April 30, 2009. In total, Avis

Avis Rent A Car System, Inc.  
Observations and Recommendations  
For the Period May 1, 2009 Through April 30, 2012

understated gross revenue by \$302,565 for the three year period. After adjusting for the omitted revenues, ten percent of the revised gross revenue did not exceed the original MAG. However, Avis would owe the difference between the original MAG and the revised MAG for each of the three lease years, for a total of \$19,974.

***Recommendations:***

We recommend that Avis remit the \$19,974 that is owed to the Airport Authority due to the revision of the MAG.

We also recommend that Avis review the terms of the Concession agreement to ensure compliance with gross revenue reporting so that omissions noted do not occur in the future. Avis should also adjust its record keeping to include all gross concession revenue categories in its reports to the Airport.

**2. Other Instances of Non-Compliance:**

***Observation:***

Section 4.04 of the Concession Agreement requires books and records to be maintained in accordance with Generally Accepted Accounting Principles (GAAP). According to GAAP, records must be maintained on the accrual basis of accounting. However, Avis uses the cash basis at the local level and does not record an accrual for rental agreements outstanding at month-end. Instead, it reports gross revenue to the Airport Authority when a vehicle is returned and the rental agreement is closed. This observation was included in the prior report issued by the Controller's Office for the period May 1, 2006 through April 30, 2009. Currently, the Airport Authority does receive the revenue when the vehicle is returned, typically in the following month. However, when the Concession Agreement terminates, the open rental agreements would not be included in gross revenue for that final month.

Section 4.07 of the Concession Agreement requires Avis to submit a certified Annual Report to the Airport Authority within 60 days of the end of each lease year. This report was submitted thirty days late for lease year ending April 30, 2010, seven days late for lease year ending April 30, 2011, and ten days late for lease year ending April 30, 2012. This observation was included in the prior report issued by the Controller's Office for the period May 1, 2007 through April 30, 2009.

***Recommendations:***

We recommend that Avis ensure gross revenue is properly reported, including all open rental agreements, upon termination of the Concession Agreement. Avis should also submit the Annual Report within 60 days of the end of each lease year.

# avis budget group

December 18, 2012

Chelsa Wagner  
Controller  
Allegheny County Airport Authority  
P.O. Box 12370  
Pittsburgh, PA 15231 - 0370

**Re: Avis Rent A Car System, LLC  
Audit Findings – May 30, 2009 through April 30, 2012**

Dear Mrs. Wagner:

In reference to the completed audits of Avis at the Allegheny County Airport for the audit period of May 2009 through April 2012, Avis' responses to the findings set forth in the audit reports are noted below.

## **Avis Rent A Car System, LLC**

1. **Gross Revenue Categories Not Reported to the Airport Authority**  
Avis agrees to comply with the recommendation regarding including the Incremental Discounts along with the additional revenue items; No Show Revenue, Foreign Exchange Fee and MBNA Hospitality Division. We will ensure that these items are included in the gross revenue calculations in the future.

For the final finding relating to the adjustment of only T&M, this item will continue to exist as finding as this situation is hard coded in our Wizard system for all rental agreements company wide.

2. **Other Instances of Non-Compliance**  
Avis agrees to comply with the recommendation that at the termination of the concessions agreement the gross revenue will be properly recorded for rental agreements that close after the termination date.

Avis will try to adjust the year end process to reach the 60 day requirement regarding the submission of the annual report. The

normal process takes around 90 days for a external CPA annual report.

Sincerely,

A handwritten signature in black ink, appearing to be 'R. Frey', written over a horizontal line.

Robert F. Frey  
Avis Budget Group  
RAC Accounting Manager