



County of Allegheny

Office of the Controller

**BUDGET RENT A CAR SYSTEM, INC.
REPORT ON CONTRACT COMPLIANCE PROCEDURES
FOR THE PERIOD
MAY 1, 2012 THROUGH APRIL 30, 2015**

(Non-Audit Service)

February 25, 2016

**Chelsa Wagner
Controller**

**104 County Courthouse
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CHELSEA WAGNER
CONTROLLER

COUNTY OF ALLEGHENY

OFFICE OF THE CONTROLLER

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February 4, 2016

Ms. Christina Cassotis
Chief Executive Officer
Allegheny County Airport Authority
Landside Terminal, 4th Floor Mezzanine
P.O. Box 12370
Pittsburgh, PA 15231-0370

Budget Rent A Car System, Inc.
Report on Contract Compliance Procedures
For the Period May 1, 2012 through April 30, 2015

Dear Ms. Cassotis:

We have performed certain procedures we considered necessary to assess Budget Rent A Car System's, Inc. (Budget) rent remittances made pursuant to Section 4.01 of its Pittsburgh International Airport On-Airport Rental Car Concession Agreement #0767, as amended by Agreement # 0767-A (Concession Agreement) with the Allegheny County Airport Authority (Airport Authority) for the period May 1, 2012 through April 30, 2015. We also performed procedures to assess Budget's compliance with its Service Facility Agreement #29876, as amended by Agreement #29876-C. 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, Budget 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 \$622,000 to \$700,000 during the original term of the Concession Agreement that began May 1, 2003 and expired on April 30, 2008.

The Airport Authority approved Budget'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. In 2012, the agreement was amended (#0767-A) to extend the option term until April 30, 2020. According to Section 2.02 of the Concession Agreement, the MAG for the first year of the option term is 80% of the amount of the rent due the Airport Authority for the prior lease year. The MAG for subsequent years shall be 80% of the prior lease year's rent due, but in no case less than the prior year's MAG.

During our testing for our prior report issued January 3, 2013, we noted that the MAG calculation for the first year of the option term, which ended April 30, 2009, did not include adjustments made by Budget's Certified Public Accountant (CPA), or the additional revenue identified during our procedures. The 2008/2009 MAG was originally set at \$862,464. When we included the CPA adjustments and additional revenue in the MAG calculation, the MAG increased by \$15,594 to \$878,058. Based on further calculations using the definition above, the revised MAG of \$878,058 was used in the Controller's report for the three lease years ended April 30, 2010, 2011, and 2012, and will continue to be used in this report for the three current lease years ended April 30, 2013, 2014, and 2015. For all six lease years ended April 30, 2010 through April 30, 2015, 80% of the prior lease year's rent due never exceeded the prior year MAG. Therefore, the MAG calculated for 2008/2009 is carried forward to all six subsequent lease years.

In all three lease years for our current engagement, Budget was required to pay ten percent of original gross revenue because original gross revenue for the lease year exceeded the original MAG. However, our testing found that Budget was calculating its payments using the MAG of \$862,464 instead of the revised MAG of \$878,058. This variance in the MAG only affects the lease year ended April 30, 2013. For this year, even though ten percent of the original gross revenue exceeded the original MAG, it did not exceed the revised MAG.

For all three lease years the amount paid by Budget exceeded the original rent due, which entitled Budget to a credit. As of the date of this report, Budget had used the available credit from each of the three lease years. When the revised MAG is compared to the amount originally paid by Budget for the lease year ended April 30, 2013, the credit Budget was entitled to would be reduced. Therefore, Budget owes the Airport Authority \$14,070 for lease year 2012/2013, which is the difference between ten percent of original revenue of \$863,988, and the revised MAG of \$878,058.

Our testing also found that Budget did not properly report gross revenue for the engagement period. After adjusting for the omitted revenue, ten percent of the revised gross revenue still did not exceed the revised MAG for the lease year ended April 30, 2013. However, for lease years ended April 30, 2014 and 2015 ten percent of gross revenue exceeds the revised MAG. Therefore, Budget also owes the Airport Authority \$4,620 for underreported revenue. The details regarding the underreport revenue are explained in our observations and recommendations.

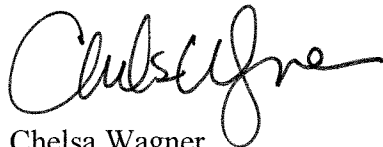
The table on the following page summarizes the original gross revenue reported, the additional gross revenue identified during our procedures, the amount paid by Budget, and the revised MAG for the periods ended April 30, 2013, 2014, and 2015. The details regarding other instances of non-compliance are described in our report of observations and recommendations. Budget's response begins on page 6 of the report.

	For the year ended April 30,		
	2013	2014	2015
Original Gross Revenue	\$ 8,639,887	\$ 9,863,117	\$ 10,370,409
Add: Under-Reported Revenue			
Unreported Accounts	15,187	18,017	23,236
Improper Adjustments	1,469	2,471	2,462
Revised Gross Revenue	8,656,543	9,883,605	10,396,107
Concession percentage	10%	10%	10%
10% of Revised Gross Revenue	\$ 865,654	\$ 988,361	\$ 1,039,611
Minimum Annual Guarantee	878,058	878,058	878,058
Revised Rent Due: Greater of:			
10% of Revised Gross Revenue OR			
Minimum Annual Guarantee	\$ 878,058	\$ 988,361	\$ 1,039,611
Amount Already Paid by Budget	958,378	1,009,482	1,062,575
Revised Amount Due Budget	(80,320)	(21,121)	(22,964)
Less Credit Already Used by Budget	(94,390)	(23,171)	(25,534)
Final Amount Due Authority	\$ 14,070	\$ 2,050	\$ 2,570
Three Year Total Due to Airport Authority			\$ 18,690

Ms. Christina Cassotis
February 4, 2016
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We would like to thank the staff of the Airport Authority and Budget for their courtesy and cooperation during our review.

Kind regards,



Chelsa Wagner
Controller



Lori A. Churilla
Assistant Deputy Controller, Auditing

cc: Honorable John DeFazio, President, County Council
Honorable Nicholas Futules, Vice-President, County Council
Honorable Rich Fitzgerald, County Executive, Allegheny County
Mr. William D. McKain, County Manager, Allegheny County
Ms. Jennifer M. Liptak, Chief of Staff, County Executive
Ms. Mary C. Soroka, Director, Budget and Finance
Mr. Joe Catanese, Director of Government Relations & Constituent Services, County Council
Mr. Walter Szymanski, Director of Budget and Administration, County Council
Mr. David Minnotte, Board Chairman, Airport Authority Board
Ms. Jan Rea, Audit Committee Chairman, Airport Authority
Mr. James R. Gill, Chief Operating Officer / Chief Financial Officer,
Allegheny County Airport Authority
Mr. Stephen W. Robinson, Senior Vice President, Finance, Allegheny County Airport Authority
Mr. Robert Frey, Accounting Manager, Avis/Budget Group

Budget Rent A Car System, Inc.
Observations and Recommendations
For the Period May 1, 2012 through April 30, 2015

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

Observations:

During our testing, we noted that Budget did not properly report gross revenue to the Airport Authority for the period from May 1, 2012 through April 30, 2015. The additional gross revenue identified on page 3 of the report is explained in the following paragraphs.

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 Budget did not include Shopping Cart Income in the gross concession revenue reported to the Airport Authority. A representative from Budget defined Shopping Cart Income as revenue relating to the prepayment of a rental agreement booked online through Budget.com where the customer does not show up for the reservation. For the three year period ended April 30, 2015, Budget improperly excluded \$56,440 from gross revenue related to Shopping Cart Income.

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. Budget 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, Budget includes T&M and the airport fee (a fee charged by Budget 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 Budget deducted the entire amount of the adjustment, gross revenue for the three year period was understated by \$6,402, which is the portion of the adjustment that should have been allocated to the surcharge and taxes.

The adjustment to time and mileage observation was included in the prior report issued by the Controller's Office for the period May 1, 2009 through April 30, 2012. In total, Budget understated gross revenue by \$62,842 for the three year period. After adjusting for the omitted revenues, ten percent of the revised gross revenue for lease years 2013/2014 and 2014/2015 still exceeded the original and revised MAG. Budget would owe the 10% concession percentage on the improper adjustment amounts, for a total of \$4,620 for the two lease years.

Budget Rent A Car System, Inc.
Observations and Recommendations
For the Period May 1, 2012 through April 30, 2015

In addition, for lease year 2012/2013, ten percent of original gross revenue initially exceeded the original MAG. Budget had paid more than the original rent due and received a credit for the difference. However, when the revised MAG is compared to the amount originally paid by Budget, the credit Budget was entitled to is reduced. Therefore, Budget owes the Airport Authority \$14,070 for lease year 2012/2013, which is the difference between ten percent of original revenue of \$863,988 and the revised MAG of \$878,058. The total that Budget owes for the three year period is \$18,690.

Recommendations:

We recommend that Budget remit the \$18,690 that is owed to the Airport Authority.

We also recommend that Budget review the terms of the Concession agreement to ensure compliance with gross revenue reporting so that omissions noted do not occur in the future. Budget 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:**

Observations:

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 an accrual basis of accounting. However, Budget 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. 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 Budget to submit a certified Annual Report to the Airport Authority within 60 days of the end of each lease year. This report was submitted 32 days late for lease year ending April 30, 2014.

Both of these observations were included in the prior report issued by the Controller's Office for the period May 1, 2009 through April 30, 2012.

Recommendations:

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

avis budget group

February 23, 2016

Lori Churilla, CPA
Assistant Deputy Controller, Auditing
Allegheny County Airport Authority
219 County Courthouse
436 Grant Street
Pittsburgh, PA 15219

Dear Mrs. Churilla:

In reference to the completed audits of Budget at the Allegheny County Airport for the audit period of May 2012 through April 2015, Budget's responses to the findings set forth in the audit reports are noted below.

Budget Rent A Car System, LLC

1. **Gross Revenue Categories Not Reported to the Airport Authority**
Budget agrees to comply with the recommendation regarding including the Shopping Cart Income. 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**
Budget 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.

Budget will try to adjust the year end process to reach the 60 day requirement regarding the submission of the annual report. Our normal process takes approximately 90 days for an external CPA annual report.

Sincerely,


Robert F. Frey
Avis Budget Group
RAC Senior Accounting Manager