



City of Phoenix

Mission Statement

To improve the quality of life in Phoenix through efficient delivery of outstanding public services.

Project Team

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Project Number

1240075

This report can be made available in alternate format upon request.

Aviation Department Rental Car Contract - Avis

May 8, 2024

Report Highlights

Concession Rent

The gross revenues reported by Avis were accurate, but not complete. One category of charges was not included in the calculation of gross revenues, which would result in \$15,405 due to Aviation for the period January 2022 through March 2024.

Customer Facility Charges

Overall, Customer Facility Charge's were assessed at the correct rate.

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Executive Summary

Purpose

We reviewed financial records and rental car contracts provided by Avis to determine compliance with its concession agreement.

Background

In July 2017, the City of Phoenix Aviation Department (Aviation) entered into Rental Car Concession Agreement No. 145849 with Avis Budget Car Rental, LLC (Avis) for the non-exclusive right to operate vehicle rental services at Sky Harbor International Airport (Sky Harbor).

The company operates Avis Rent A Car, Budget Rent A Car, Payless Car Rental, and Zipcar, Inc. However, Zipcar no longer operates at Sky Harbor. As consideration for operating at Sky Harbor, Avis agreed to pay an annual concession fee equal to the greater of 10% of total gross revenues, or the Minimum Annual Guarantee (MAG) for the contract year.

Results in Brief

The gross revenues reported by Avis were accurate and mostly complete. However, we noted one category of fees charged to customers was not included in the calculation of gross revenue.

The contract required that Avis submit a certified annual statement prepared by an Independent Certified Public Accountant (CPA). The CPA's reports stated that they complied with generally accepted auditing standards and that testing was performed to obtain reasonable assurance that the gross receipts were free from material misstatements. We agreed the monthly Gross Revenue Reports (GRR) submitted to Aviation to Avis's audited statement of revenues. No exceptions were noted.

We noted one category, "Valet Fee," was not included in the calculation of gross revenue. Per Avis, this related to the "charging of an administrative fee to the customer for the tracking and recovery of a significantly overdue vehicle." This appears to fit the definition of gross revenue. Avis provided a report for the period January 2022 through March 2024 for the amount of valet fees charged to customers. We calculated that the amount due for this period would be \$15,405.

Overall, Customer Facility Charges (CFCs) were assessed at the correct rate.

For the three months reviewed, we noted four instances of CFC undercharges. We noted that two of the four related to instances where the customer was charged a different CFC rate because the car was returned elsewhere. However, during the month-end adjustment, we noted that AVIS adjusted the amount to the correct amount of \$6 per day.

We also agreed the number of transaction days for the three sample months from the CFC report to the report submitted to Aviation. For the three months reviewed, the number of days for the two reports materially matched.

Department Responses to Recommendations

Rec. #1.1: Collect amount due for valet fee of \$15,405 for the period January 2022 through March 2024.

Response: Business & Properties will submit a billing advice to Financial Management as part of the process to collect the valet fee of \$15,405.00 for the period January 2022 through March 2024. The Target Date was set at Monday, 06/17/24

Target Date:
6/17/2024

Rec. #1.2: Inform Avis that valet fees should be included in the calculation of gross revenues.

Response: Business & Properties will send out a letter via email and regular mail notifying the stakeholder by the set Target Date of Monday, 06/17/24.

Target Date:
6/17/2024

1 – Concession Rent

Background

The Concession Agreement defined gross revenues as all amounts received, billed, delivered, and/or realized without deduction or offset. All revenue was included in this definition unless specifically excluded in the agreement. As consideration for operating at Sky Harbor, Avis agreed to pay an annual concession fee equal to the greater of 10% of total gross revenues, or a Minimum Annual Guarantee (MAG) each year.

Avis paid \$38.4 million in concession rent from July 2021 through June 2023. We verified that Avis submitted annual audited statements and monthly gross revenue reports (GRR) to ensure gross revenues were reported accurately and timely. Additionally, we selected a sample of rental agreements to ensure all revenue billed was included in the monthly summary reports.

Results

For the months reviewed, the gross revenues reported by Avis were accurate and mostly complete. We noted one category of fees charged to customers was not included in the calculation of gross revenue, which would result in a small, but additional amount paid to Aviation.

The contract required that Avis submit a certified annual statement prepared by an Independent Certified Public Accountant (CPA). The CPA's reports stated that they complied with generally accepted auditing standards and that testing was performed to obtain reasonable assurance that the gross receipts were free from material misstatements. We agreed the GRR submitted to Aviation to Avis's audited statement of revenues. No exceptions were noted.

We noted one category, "Valet Fee," was not included in the calculation of gross revenue. Per Avis, this related to the "charging of an administrative fee to the customer for the tracking and recovery of a significantly overdue vehicle." This appears to fit the definition of gross revenue. Avis provided a report for the period January 2022 through March 2024 for the amount of valet fees charged to customers. We calculated that the amount due for this period would be \$15,405.

We selected a random sample of 90 closed rental agreements (10 for each month of the three sample months for Avis, Budget, and Payless). We traced the revenue from each agreement to the Business and Adjustment (BAR) report. All revenue billed was included in the monthly summary reports.

Based on the audited statements, Aviation determined whether the payments received by the City should have been the MAG or the concession fee percentage of the annual gross revenue, whichever was greater. Based on this determination, an adjustment (settlement) of the amount payable or credit due was made.

Annual Settlement for Avis

Fiscal Year	MAG	Audited Revenues	Greater of MAG or 10%	Concession Rent Paid	Adjustment or (Settlement)
21/22	\$8,849,082	\$183,323,392	\$18,332,339	\$18,332,339	\$0.20
22/23	\$15,582,488	\$186,292,864	\$18,629,286	\$20,104,193	\$ (1,474,906)
Total	\$24,431,570	\$369,616,256	\$36,961,625	\$38,436,532	\$ (1,474,906)

Over the past two Fiscal Years, Avis was credited \$1,474,906 for overpayments made.

Minimum monthly and percentage payments were submitted in accordance with the concession agreement.

Avis pays the greater of 10% of total gross revenues or the minimum monthly rent, whichever is greater. The minimum monthly rent was due on the first of each month. If 10% of reportable gross revenues was greater than the minimum monthly rent, the additional amount was due 20 days after the last day of the month. Phoenix City Code Section 4-7 states, “payment due dates shall be subject to a ten-calendar-day grace period, and thereafter shall be delinquent and subject to a delinquent account fee of one and one-half percent per month, not to exceed eighteen percent per annum.”

We reviewed reports from the City’s financial system (SAP) and verified that the MAG and additional percentage rent due were paid. Overall, MAG rent was paid timely for 21 of the 24 months reviewed and percentage rent was paid timely.

Avis submitted audited statements of gross revenues as required.

Avis was required to submit a certified annual statement of gross revenue no later than 90 days after each contract year. We could not verify if they were turned in timely as there was no date stamp noted on the statement, however, the report dates were dated before the due date.

Recommendations

- 1.1 Collect amount due for valet fee of \$15,405 for the period January 2022 through March 2024.
- 1.2 Inform Avis that valet fees should be included in the calculation of gross revenues.

2 – Customer Facility Charges

Background

Phoenix City Code Section 4-79, requires all on-airport rental car companies who obtain customers through Sky Harbor, collect a daily Customer Facility Charge (CFC) of \$6.00 per transaction day per vehicle from all customers. The City Code defines a transaction day as a car rented for 25 or fewer hours for the first transaction day, and every 24 hours for each transaction day thereafter. Avis remitted \$26.6 million in CFCs to the City for the period of July 2021 through June 2023.

We selected three months for detailed testing. We reviewed monthly reports and closed rental agreements to determine that:

- CFCs were assessed and remitted in accordance with the City Code.
- Reporting requirements were met.
- Payments were timely and posted to SAP accurately.

Results

CFC reports and fees were submitted timely and posted to SAP accurately.

The Concession agreement states that “On or before the last day of each month, the Operator shall submit a monthly statement of transactions and transaction days for the prior month and remit the CFC proceeds collected for the prior month in accordance with Phoenix City Code Section 4-79.” We compared due dates to payment receipt dates to ensure reports and fees were remitted timely. Payments were posted to SAP accurately and timely.

Overall, CFCs were assessed at the correct rate.

For the three months reviewed, we noted four instances of CFC undercharges. We noted that two of the four related to instances where the customer was charged a different CFC rate because the car was returned elsewhere. However, during the month-end adjustment, we noted that AVIS adjusted the amount to the correct amount of \$6 per day.

The other two instances related to undercharges as the time was over 15 minutes past the time due. However, as there were only two instances and it was only 15 minutes, it appears that overall, Avis is correctly charging CFC.

We also selected ten instances where CFCs were overcharged. This occurred when the renter turned in the vehicle early. Per AVIS, these related to voucher rentals where the renter pays for the full rental even if they turn in the car early. In these instances, CFCs were still paid to AVN.

We tested 90 rental agreements from three sample months to verify Avis assessed CFCs in accordance with the City Code. We traced all categories from Avis's detailed report back to the rental agreement to ensure that all amounts were properly included. No exceptions were noted.

We also agreed the number of transaction days for the three sample months from the CFC report to the report turned into Aviation. For the three months reviewed, the number of days for the two reports materially matched.

Recommendations

None

Scope, Methods, and Standards

Scope

We reviewed financial data and Rental Car Concession Agreement No. 145849 for the period of July 2021 through June 2023.

The internal control components and underlying principles that are significant to the audit objectives are:

- Control Activities
 - Management should design control activities to achieve objectives and respond to risks.
 - Management should implement control activities through policies.]

Methods

We used the following methods to complete this audit:

- We reviewed the contract and appropriate City codes.
- We interviewed staff to obtain an understanding of the process.
- We obtained the monthly Gross Revenue Reports from SAP to test for accuracy and timeliness.
- We verified the accuracy of the Minimum Annual Guarantee (MAG) concession rent and percentage rent.
- We judgmentally selected three sample months for detailed testing.
- We agreed Gross Revenue Reports to audited statements and amounts reported to Aviation.
- We verified the accuracy of Customer Facility Charges (CFCs).

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Data Reliability

We assessed the reliability of Avis's financial data by (1) performing electronic testing, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing agency officials knowledgeable about the data. We determined that this data was sufficiently reliable for the purposes of this audit. The reliability of data from the City's financial system, SAP, was previously validated.

Standards

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. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.