

**REPORT ON CONTRACT COMPLIANCE
PROCEDURES PERFORMED FOR
AVIS RENT A CAR SYSTEM, LLC
FOR THE PERIOD
MAY 1, 2006 THROUGH APRIL 30, 2009**

DECEMBER 22, 2009



MARK PATRICK FLAHERTY
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

GUY A. TUMOLO
DEPUTY CONTROLLER

November 4, 2009

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

SUBJECT: REPORT ON CONTRACT COMPLIANCE
 PROCEDURES PERFORMED FOR
 AVIS RENT A CAR SYSTEM, LLC
 FOR THE PERIOD MAY 1, 2006 THROUGH APRIL 30, 2009

Dear Mr. Penrod:

We have performed certain procedures we considered necessary to assess Avis Rent A Car System's, LLC (Avis's) rent remittances made pursuant to Section 4.01 of its Pittsburgh International Airport On-Airport Rental Car Concession Agreement (Concession Agreement) with the Allegheny County Airport Authority (Airport Authority) for the period May 1, 2006 through April 30, 2009. 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 increases 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 May 1, 2008 through April 30, 2009 the MAG was



\$1,690,891. 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.

Our testing found that Avis did not properly report gross revenue for the engagement period. 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, 2009. For each of the three years, ten percent of gross revenue exceeded the MAG. Additionally, the amount paid by Avis exceeded the original rent due for each lease year, which entitled Avis to a credit. As of the date of this report, Avis had used the available credit from each of the three lease years. Therefore, the ten percent of the additional gross revenue identified during our procedures totaling \$37,146, plus any applicable penalty and interest, is due to the Airport Authority. The details regarding the additional gross revenue, as well as other instances of non-compliance, are described in our attached schedule of findings and recommendations. The Airport Authority's response is on page 7 of the report. Avis/Budget's response begins on page 8 of the report.

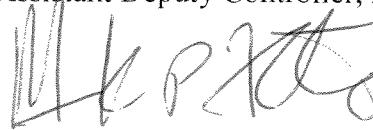
	For the Year Ended April 30,		
	2007	2008	2009
Original Gross Revenue	\$ 18,305,158	\$ 21,092,560	\$ 18,984,382
Concession percentage	10%	10%	10%
10% of Gross Revenue	\$ 1,830,516	\$ 2,109,256	\$ 1,898,438
Minimum Annual Guarantee	\$ 1,552,000	\$ 1,599,000	\$ 1,690,891
Rent Due: Greater of 10% Gross Revenue OR Minimum Annual Guarantee	\$ 1,830,516	\$ 2,109,256	\$ 1,898,438
Amount Paid by Avis	\$ 1,839,117	\$ 2,113,614	\$ 1,979,719
Amount Due Airport Authority (Avis)	(8,601)	(4,358)	(81,281)
Credit Used by Avis as of	8,601	4,358	81,281
Credit Remaining as of November 4, 2009	0	0	0
Additional Gross Revenue:			
Incremental Discounts	95,033	89,668	60,217
Vehicle Licensing Fees	28,409	-	-
Omitted Revenue Categories	25,010	34,085	33,079
Time & Mileage Adjustment	1,527	3,049	1,381
Total Additional Gross Revenue	149,979	126,802	94,677
Concession percentage	10%	10%	10%
10% of Additional Gross Revenue Due Airport Authority	\$ 14,998	\$ 12,680	\$ 9,468

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

Very truly yours,



Lori A. Churilla
Assistant Deputy Controller, Auditing



MARK PATRICK FLAHERTY
Controller

cc: Airport Authority Board of Directors
Honorable Rich Fitzgerald, President, County Council
Honorable William Russell Robinson, County Council
Honorable Dan Onorato, Chief Executive, Allegheny County
Mr. James M. Flynn, Jr., County Manager, Allegheny County
Ms. Amy Griser, Budget Director, Allegheny County
Mr. Joseph Catanese, Director of Constituent Services, County Council
Ms. Jennifer Liptak, Budget Director, County Council
Mr. James R. Gill, Chief Financial Officer, Allegheny County Airport Authority
Mr. Stephen W. Robinson, Controller, Allegheny County Airport Authority
Mr. Guy A. Tumolo, Deputy Controller, County Controller's Office
Mr. Robert J. Lentz, Assistant Deputy, County Controller's Office
Ms. Pamela Goldsmith, Communications Director, County Controller's Office
Mr. Robert F. Frey, Accounting Manager, Avis / Budget Group

REPORT ON CONTRACT COMPLIANCE PROCEDURES PERFORMED FOR
AVIS RENT A CAR SYSTEM, LLC
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD MAY 1, 2006 THROUGH APRIL 30, 2009

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

Observations:

During our testing, we found that Avis did not properly report gross revenue to the Airport Authority for the three year engagement period from May 1, 2006 through April 30, 2009. The four categories of additional gross revenue identified in the above table are explained in the following paragraphs.

Avis deducted "Avis Incremental Discounts" from the gross revenue it 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 this type of rebate is not permitted as an exclusion from gross revenue. This improper deduction was also included as a finding in the prior report issued by the Controller's Office for the period May 1, 2003 through April 30, 2006. For the three year period ended April 30, 2009, Avis improperly deducted \$244,918 from gross revenue.

During the engagement period, Avis charged its customers a Vehicle License Fee (VLF) to offset vehicle licensing and registration fees. Avis properly included this fee as gross revenue except for the month of May 2006. The VLF for May 2006 totaling \$28,409 should have been included in 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 revenue reported to the Airport Authority: No Show Revenue, Foreign Exchange Fee Income, MBNA Hospitality Division, and Emergency Sickness Protection. For the three year period ended April 30, 2009, Avis improperly excluded \$92,174 from gross revenue for these four 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. The total amount of these adjustments was deducted from gross revenue, causing gross revenue to be 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

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and county fees), and taxes. If an adjustment is completed properly, gross revenue will be reduced by the portion of the adjustment that is associated with 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 \$5,957, which is the portion of the adjustment that should have been allocated to the surcharge and taxes.

In total, Avis understated gross revenue by \$371,458 resulting in an amount due the Airport Authority of \$37,146. This amount does not include any applicable penalty and interest.

Recommendations:

We recommend that the Airport Authority review the amounts Avis excluded from gross revenue. Since Avis has already used the credit from each of the three lease years, the Airport Authority should pursue a reimbursement from Avis for the total amount due of \$37,146, plus any applicable penalty and interest.

We also recommend that Avis adjust its record keeping to ensure these errors do not occur in the future.

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). 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 was included in the prior report issued by the Controller's Office for the period May 1, 2003 through April 30, 2006. 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 25 days late for lease year 2007, two days late for lease year 2008, and seven days late for lease year 2009.

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Recommendations:

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



PITTSBURGH INTERNATIONAL AIRPORT

Allegheny County Airport Authority

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www-FlyPittsburgh-com

December 7, 2009


Bethany Neal, Audit Manager
Allegheny County Controller's Office
219 County Courthouse
436 Grant Street
Pittsburgh, PA 15219

Dear Bethany:

Please be advised that the Management of Allegheny County Airport Authority concurs with the audit findings and recommendations of the Allegheny County Controller's Office related to Avis Rent A Car System, LLC and Budget Rent A Car System, Inc. for the period May 1, 2006 through April 30, 2009. We will pursue the appropriate remedies to collect the audit findings of \$37,146 for Avis and \$22,208 for Budget.

Congratulations to you and your staff for the excellent results as well as thanks for the hard work.

Sincerely,


James R. Gill, CPA, AAE
Chief Operating Officer

December 9, 2009

**VIA FIRST CLASS MAIL AND
FACSIMILE TO: (412) 350-4615**

Mark Patrick Flaherty
Allegheny County Controller's Office
104 County Courthouse
436 Grant Street
Pittsburgh, Pennsylvania 15219

Re: Report on Contract Compliance Procedures with regard to Allegany County Airport Authority – Avis Rent A Car System, LLC (Avis) and Budget Rent A Car System, Inc (Budget).

Dear Mr. Flaherty:

This letter serves as a formal response to the Report on Contract Compliance Procedures for Budget Rent A Car System, Inc. for the Period May 1, 2006 Through April 30, 2009 dated November 9, 2009 and the Report on Contract Compliance Procedures for Avis Rent A Car System, LLC for the Period May 1, 2006 Through April 30, 2009 dated November 4, 2009.

Avis Rent A Car System, LLC

1. Gross Revenue Categories Not Reported to the Airport Authority
Avis agrees to comply with the recommendation and will adjust its record keeping to ensure the gross revenue categories in question are not excluded in the future.
2. Other Instances of Non-Compliance
Avis agrees to comply with the recommendation and will take those steps necessary to ensure that: 1) it submits an Annual Report within 60 days of the end of each lease year and 2) gross

revenue is properly recorded upon termination of the Concession Agreement.¹

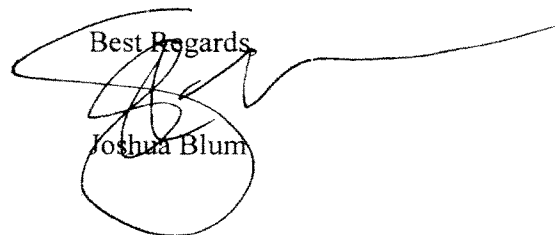
Budget Rent A Car System, Inc.

1. Gross Revenue Categories Not Reported to the Airport Authority
Budget agrees to comply with the recommendation and will adjust its record keeping to ensure the gross revenue categories in question are not excluded in the future.

2. Other Instances of Non-Compliance
Budget agrees to comply with the recommendation and will take those steps necessary to ensure that: 1) it submits an Annual Report within 60 days of the end of each lease year and 2) gross revenue is properly recorded upon termination of the Concession Agreement.²

Any findings that Avis and Budget did not comply with the terms of their respective Concession Agreements are not to be construed as having occurred with malice or the intent to avoid paying concession fees to the Authority; any such non-compliance occurred as a result of errors in Avis and Budget's revenue processes.

Both Avis and Budget have enjoyed a longstanding relationship with the Allegheny County Airport Authority and look forward to continuing the relationship into the future.

Best Regards

Joshua Blum

cc: Robert Frey (via email)

¹ As a practical matter, Avis and Budget's accounting systems do not allow for the reporting of revenue for "open rental agreements" as such revenue is not accounted for until a contract is closed. Avis and Budget agree to pay the appropriate concession fee to the Airport Authority for all applicable transactions made during the term of the Concession Agreements in full accordance with the terms of the Concession Agreements.

² See note 1.