



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



FILE COPY

DARLENE GREEN
Comptroller

Internal Audit Section

Camahan Courthouse Building
1114 Market St., Room 642
St. Louis, Missouri 63101
(314) 622-4723
Fax: (314) 613-3004

DR. KENNETH M. STONE, CPA
Internal Audit Executive

December 15, 2009

Richard E. Hrabko, Director of Airports
Lambert – St. Louis International Airport
P.O. Box 10212
St. Louis, MO 63145

RE: On-Airport Passenger Vehicle Rental Concession Agreements (Project #2007-52)

Dear Mr. Hrabko:

Enclosed is the report of the contract review of the On-Airport Passenger Vehicle Rental Concession Agreements between the City of St. Louis and the vehicle rental companies for the period July 1, 2006 through June 30, 2007. The audit objectives were to determine if the vehicle rental companies effectively and efficiently manages risks to ensure:

- Accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, policies and procedures
- Safeguarding of assets
- The reliability and integrity of financial and operational information
- The economic and efficient use of resources

Fieldwork was completed on September 14, 2009. Management's responses to the observations and recommendations noted in the report were received on October 14, 2009 and have been incorporated into the report.

This review was made under the authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 622-4723.

Sincerely,

Kenneth M. Stone
Dr. Kenneth M. Stone, CPA

Internal Audit Executive

Enclosure

cc: **Gerard Slay**, Senior Deputy Director, Lambert – St. Louis International Airport
Susan Kopinski, Deputy Director Finance and Administration,
Lambert – St. Louis International Airport

**CITY OF ST. LOUIS
LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT
ON-AIRPORT PASSENGER VEHICLE AL CONCESSION AGREEMENTS
1, 2006 THROUGH JUNE 30, 2007**

EXECUTIVE SUMMARY

Purpose

The purpose of the review was to determine if the vehicle rental companies (Concessionaires) effectively and efficiently managed risks to ensure:

- Accomplishment of established goals and objectives
- Compliance with applicable laws, regulations, policies and procedures
- Safeguarding of assets
- Reliability and integrity of financial and operational information
- Economic and efficient use of resources

Conclusion

The opportunity exists to ensure Concessionaires' compliance with the agreement. The following are the observations resulting from the review:

1. Opportunity for Concessionaires to comply with Agreements' administrative provisions
2. Opportunity for Concessionaires to Comply with Agreements' revenue reporting provisions

Each of these observations is discussed in more details in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Date

**CITY OF ST. LOUIS
LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT
ON-AIRPORT PASSENGER VEHICLE AL CONCESSION AGREEMENTS
1, 2006 THROUGH JUNE 30, 2007**

TABLE OF CONTENTS

<u>Description</u>	<u>Page(s)</u>
INTRODUCTION	
Background	
	1
Purpose	1
Scope and Methodology	1
Exit Conference	2
Management's Response	2
OBSERVATIONS	
Status of Prior Observations	3
Summary of Current Observations	3
DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES	4-6

INTRODUCTION

Background

The Airport's On-Airport Passenger Vehicle Rental Concession Agreements (Agreements) provided passenger vehicle rental services at Lambert – St. Louis International Airport (Airport) for accommodations to the public. These Agreements were for five year duration starting December 10, 2003, and required the Concessionaires to pay the City the greater of ten percent of the gross receipts, from the Airport vehicle rentals, or the minimum annual guarantees (MAG) of:

- \$1,272,347 in years one through five for Vanguard Car Rental USA, Inc., (AL-248)
- \$1,876,000 in year one through four to \$2,030,000 in year five for Avis Rent-A-Car System, Inc., (AL-249)
- \$654,000 in year one to \$707,000 in year five for Budget Rent-A-Car System, Inc., (AL-250)
- \$401,500 in years one through five for C & J Rentals, Inc., (AL-251)
- \$792,000 in year one to \$1,296,096 in year five for Enterprise Leasing Company of St. Louis (AL-252)
- \$285,000 in year one to \$288,000 in year five for Missouri Rental & Leasing, Inc., (AL-253)
- \$1,738,600 in year one to \$2,194,200 in year five for the Hertz Corporation (AL-254)

Purpose

The purpose of the review was to determine if the Concessionaires effectively and efficiently managed risks to ensure:

- Accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, policies and procedures
- Safeguarding of assets
- Reliability and integrity of financial and operational information
- Economic and efficient use of resources

Scope and Methodology

The review was confined to Concessionaires' internal accounting records and internal controls in order to ensure their compliance with the terms and conditions of the Agreements. Procedures included inquiries of the Concessionaires and Airport managements and the limited review of the gross receipts totaling \$29,413,605, from the vehicle rentals, for the period July 1, 2006 through June 30, 2007.

Exit Conference

An exit conference was held on September 11, 2009. Danica Ross, Accounting, Vanguard Car Rental USA, Inc.; William Noble, Hertz Corporation; John Brandenburg, Manager, C & J Rentals, Inc.; Mark Cochrane, Controller, Enterprise Leasing Company of St. Louis; Robert Frey, Accounting Manager, Avis/Budget Rent a Car System; and Patrick O'Daniels, Missouri Rental & Leasing, Inc. represented the Concessionaires. Robert Salarano, Properties Manager; Henrietta Brown, Airport Assistant Director of Finance and Accounting; and Jim Fox, Audit Supervisor, represented the Airport. Ishmael Ikpeama, Internal Audit Supervisor; and Leonard E. Bell, Jr., Auditor-in-Charge; represented the Internal audit Section.

Management's Response

Management's responses to the observations and recommendations noted in this report were received October 14, 2009. These responses have been incorporated into this report.

OBSERVATIONS

Status of Prior Observations

These Agreements have not been previously reviewed by Internal Audit Section; therefore, there were no prior observations.

Summary of Current Observations

The opportunity exists to ensure Concessionaires' compliance with the agreement. The following are the observations resulting from the review:

1. Opportunity for Concessionaires to comply with Agreements' administrative provisions
2. Opportunity for Concessionaires to Comply with Agreements' revenue reporting provisions

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

**DETAILED OBSERVATIONS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES**

1. Opportunity for Concessionaires to Comply with Agreements' Administrative Provisions

The review of the Concessionaires' operations for compliance with the Agreements' terms and conditions disclosed:

1. Bonding Insurance

The Missouri Rental & Leasing, Inc., did not have the proper bonding certification on file.

2. Disadvantaged Business Enterprise (DBE)

The following car rental companies did not provide the required Disadvantaged Business Enterprise (DBE) reports in compliance with the Article XII of the Agreement:

- Vanguard Car Rental USA, Inc.
- Avis Rent-A-Car Systems, Inc.
- Budget Rent-A-Car Systems, Inc.
- C & J Rentals, Inc.
- Missouri Rental & Leasing, Inc.
- The Hertz Corporation

3. Self Insurance Certification

The Hertz Corporation did not provide the state "self insurance" certification.

The Airport did not have an effective system of internal control to monitor the Concessionaires' compliance with the Agreements' administrative provisions.

The Concessionaires' non-compliance with the administrative provisions of the Agreements' may result in Concessionaires not meeting the objectives of the Agreements

Recommendation

It is recommended that the Airport:

- Obtain from the Concessionaires the related missing bonding and self-insurance certifications and DBE reports.
- Establish a system of internal controls to ensure Concessionaires compliance with the term and conditions of the Agreements.

1. Continued...

Management's Response

The Airport will establish a system of internal controls to ensure the Concessionaires' compliance with the terms and conditions of the Agreements.

Auditor Comment

The Vanguard Car Rental USA, Inc., provided the missing DBE report and the Hertz Corporation provided the related bonding certification and has now complied with the recommendation.

2. **Opportunity for Concessionaires to Comply with Agreements' Fees and Rentals Provisions**

1. Adjustments to Gross Receipts

For the calendar years '06 and '07, the Vanguard Car Rental USA, Inc., adjusted down the Airport's share of the gross receipts by \$12,083 and \$4,507 respectively. However, documents were not available to support the validity of those adjustments. *(See Auditor's Comments Item A for update)*

2. Global Positioning System (GPS) Rental Receipts

For April 2007, the Concessionaire, the Enterprise Leasing Company of St. Louis, did not report to the City the GPS rental receipts for \$35,161. This exclusion reduced the City's share of the gross receipts for April 2007 by \$3,516 (10 % [the City's applicable share] of \$35,161). The Concessionaire did not provide a valid reason for the exclusion of \$35,161 from the monthly Gross Receipts Report *(See Auditor's Comment Items B for update)*.

3. Gross Receipts Reporting

The Concessionaire, the C & J Rental, Inc., did not report rental receipts for \$15,098 on the Gross Receipts Report it submitted to the City for July 2006. This exclusion reduced the gross receipts, due the City for July 2007, by \$1510 (10% [the City's applicable share] of \$15,098). The Concessionaire did not provide a valid reason for the exclusion of \$15,098 from the monthly Gross Receipts Report *(See Auditor's Comments Item B for update)*.

4. Reconciliation of Gross Receipts

Ninety percent of the gross receipts reviewed could not be reconciled to the Concessionaires' sales tax returns.

2. **Continued...**

Section 501, Article V, "Fees and Rentals," states that the Concessionaire shall submit to the City one copy of an accurate statement of the gross receipts from car rental activities, by the 20th day of the second and each succeeding month for the period of the agreement."

The Airport did not have an effective system of internal control to monitor the Concessionaires' compliance with the fees and rentals provisions of the Agreements.

The Concessionaires' non-compliance with the "Fees and Rentals" reporting provisions of the Agreement may result in loss of revenues to the City from inaccurate reporting of the fees and rentals from the car rental activities.

Recommendation

It is recommended that the Airport establish an effective system of internal controls to ensure monitoring of the Concessionaires' compliance with the terms and conditions of the Agreements.

Management's Response

The Airport agrees with the observation, and it will establish a system of internal control to ensure the monitoring of the Concessionaire's compliance with the terms and conditions of the Agreements.

Auditor's Comments

- A) *Based on the information provided by the Vanguard Car Rental USA, Inc., after the fieldwork completion date, the above adjustments were properly approved by the Airport. This segment of the observation is considered resolved.*
- B) *The Enterprise Leasing Company of St. Louis and C & J Rentals, Inc., agreed with the omissions and duly remitted the City \$5,026 [\$3,516 + \$1,510] after the fieldwork completion date. These segments of the observation are considered resolved.*