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CITY OF ST. LOUIS



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Comptroller

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DR. KENNETH M. STONE, CPA
Internal Audit Executive

FILE COPY

December 14, 2012

Rhonda Hamm-Neibruegge, Director of Airports
Lambert – St. Louis International Airport
P.O. Box 10212
St. Louis, MO 63145

RE: On-Airport Passenger Vehicle Rental Concession Agreement (Project #2012-40)

Dear Ms. Hammn-Niebruegge:

Enclosed is the report of the contract review of the On-Airport Passenger Vehicle Rental Concession Agreement between the City of St. Louis and the Avis Rent A Car Systems, LLC for the period July 1, 2010 through March 31, 2012. A description of the scope of our work is included in the report.

Fieldwork was completed on November 21, 2012. Management's responses to the observations and recommendations noted in the report were received on December 7, 2012 and have been incorporated in the report.

If you have any questions, please contact the Internal Audit Section at (314) 657-3490

Sincerely,


Dr. Kenneth M. Stone, CPA, CGMA
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
Henrietta Brown, MBA, Assistant Director, Finance and Accounting
Robert Salarano, Airport Properties Manager
James Fox, CPA, Airport Auditor



CITY OF ST. LOUIS

LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT

**ON-AIRPORT PASSENGER VEHICLE RENTAL
CONCESSION AGREEMENT REPORT
AVIS RENT A CAR SYSTEMS, LLC AL#-068
JULY 1, 2010 THROUGH MARCH 31, 2012**

PROJECT #2012-40

DATE ISSUED: DECEMBER 14, 2012

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT
ON-AIRPORT PASSENGER VEHICLE RENTAL CONCESSION AGREEMENT #AL-068
AVIS RENT A CAR SYSTEMS, LLC
JULY 1, 2010 THROUGH MARCH 31, 2012**

EXECUTIVE SUMMARY

Purpose

The Internal Audit Section (IAS) has completed a review of the concession agreement for on-airport passenger vehicle rental services at Lambert-St. Louis International Airport. The purpose of the review was to determine if the Avis Rent A Car Systems, LLC (Concessionaire) effectively and efficiently managed risks to ensure:

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

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 agreement. Procedures included inquiries of the Concessionaire and Airport management and the limited review of the gross receipts totaling \$ 34,855,054 from the vehicle rentals, for the period July 1, 2010 through March 31, 2012.

Background

The Airport's On-Airport Passenger Vehicle Rental Concession Agreement (Agreement) provides passenger vehicle rental services at Lambert –St. Louis International Airport (Airport) for accommodations to the public. The Agreement is a five year duration starting January 1, 2010 and requires the Concessionaire 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:

- \$1,993,000 in year one
- \$2,043,000 in year two
- \$2,104,000 in year three
- \$2,178,000 in year four
- \$2,254,000 in year five

Exit Conference

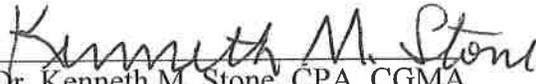
An exit conference was held on Friday, November 9, 2012. Avis Rent A Car Systems, LLC was represented by the Legal Advisor and Accounting Manager. The Airport Properties Section was represented by the Concessions Manager. The Airport Finance and Accounting Section was represented Airport Auditor. The Comptroller's Office was represented by the Internal Audit Supervisor and Auditor-in-Charge.

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' fees and rentals provisions.
2. Opportunity to comply with Living Wage Provisions.

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


Dr. Kenneth M. Stone, CPA, CGMA
Internal Audit Executive

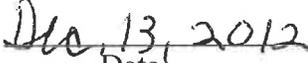

Date

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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' fees and rentals provisions.
2. Opportunity to comply with Living Wage 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 RESPONSES

1. Opportunity For Concessionaires To Comply With Agreements' Fees and Rentals Provisions

1. Submission of Projected Monthly Gross Receipts

The concessionaire did not submit estimates of projected monthly gross receipts for the subsequent contract year. The Airport Properties Section conducted several follow-ups requesting the submission of the information. Review of the projections obtained indicated:

- The projections of \$8,742,860 for the year 2012 were 15% above the actual revenue of \$7,447,088.
- The projections of \$23,303,793 for the year 2011 were 14% above the actual revenue of \$20,041,598.

2. Reconciliation of Gross Receipts

One hundred percent of the gross receipts reviewed could not be reconciled to the Concessionaire's sales tax returns.

Section 504, 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 concessionaire reporting process did not ensure projections were submitted timely.

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

Recommendation

It is recommended that the concessionaire improve compliance with the reporting provisions of the agreement to ensure the following:

- Gross receipts per the monthly reports can be reconciled to the monthly sales revenue reported.
- Projections for monthly gross receipts are submitted timely and are within range of 10% of the actual revenue reported to the Airport.

Management's Response

The concessionaire agrees with observation. The concessionaire's plan is to improve the reporting of projections of monthly receipts and reconciling gross receipts to the monthly sales revenue reported.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

2. Opportunity To Comply With Living Wage Compliance Provisions

The review of the reports submitted by the concessionaire shows there has not been timely reporting of annual reports and attachments required for the Living Wage provisions of the agreement. In addition, the Airport Properties Section performed several follow-ups including one during the week of July 11, 2012 requesting reports that were due in February of 2012.

Section 1429 requires the concessionaire to submit annual reports documenting compliance with Living Wage Ordinance No. 65597 and the "regulations" associated therewith.

Concessionaire has not provided reason(s) as to why they have not submitted required reports for compliance with Living Wage Provisions in a timely manner.

Failure to submit annual reports may indicate the following:

- Initial hourly wages required for each employee are not in place.
- Rate adjustments effective annually on April 1st are not implemented by the Concessionaire.
- Compliance is not consistent during the term of the agreement

Recommendation:

The concessionaire should submit annual reports regarding Living Wage compliance by the annual due date of February 1st during the term of the agreement.

A special review to assess compliance with Living Wage Provisions should be performed by the Airport Properties section or their designee for the period.

Management's Response

Concessionaire agrees with the observation. Concessionaire will monitor required annual reporting of Living Wage to ensure compliance with contract provisions.