

**JACKSONVILLE AIRPORT AUTHORITY
AUDIT OF RENTAL CAR CONCESSION AGREEMENTS**

**REPORT #570
MARCH 27, 2003**

OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



March 14, 2003

Report No. 570

Honorable Members of the City Council
City of Jacksonville

Members of the Board of Directors
Jacksonville Airport Authority

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Jacksonville Municipal Code, we examined the on-site rental car concession agreements and operations at the Jacksonville International Airport (JIA). There are a total of seven rental car companies on-site at Jacksonville International Airport and per the Jacksonville Airport Authority (JAA) these companies paid a total of \$6,418,849.32 for the fiscal year ended September 30, 2002 for operating at JIA. These payments are for rent for counter space, parking space for rental cars, rent for service facilities, minimum guaranteed payments, and 10% of the companies gross revenue over and above the minimum payment required per the contract for each company.

STATEMENT OF OBJECTIVES

The objective of the audit was to verify that gross receipts and subsequent concession payments reported and paid by on-airport rental car companies operating at Jacksonville International Airport were accurate, complete and complied with the contract provisions.

STATEMENT OF SCOPE

The audit scope for detailed testing was February 1, 2002 through August 31, 2002.

STATEMENT OF METHODOLOGY

The audit consisted of discussions and interviews with JAA employees in the Finance and Business Development departments as well as a review of contracts and files as necessary. Supporting documentation was also obtained from each of the rental car concessionaires as needed in order to substantiate the revenue amount reported to JAA.

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgements and conclusions regarding the organization, program, activity, or function under audit. This audit also included an assessment of applicable internal controls and compliance with

requirements of laws and regulations when necessary to satisfy audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

AUDIT CONCLUSION

Gross receipts and subsequent concession payments reported and paid by on-airport rental car companies operating at Jacksonville International Airport were accurate, complete and complied with the contract provisions.

AUDIT OBJECTIVE

In order to verify that gross receipts and subsequent concession payments reported and paid by on-airport rental car companies operating at Jacksonville International Airport were accurate, complete and complied with the contract provisions, we performed detailed testing to determine that the amounts reported to JAA agreed to supporting documentation obtained from each of the rental car concessionaires. The internal control strengths, weaknesses and findings related to this objective are detailed below.

Internal Control Strengths

Strength #1

The Business Development Administrator maintains working files for each of the rental car companies operating at Jacksonville International Airport (JIA). These files were up-to-date, well organized and contained the appropriate documentation for each of the agreements. These files serve as a valuable resource in assisting JAA staff when questions arise regarding the rental car agreements.

Internal Control Weaknesses

Weakness #1

Agreements for off-site car rental and parking concessionaires do not have audit clauses allowing their books and records to be audited by the JAA or their representative. Due to the fact that payments are received from these concessionaires based on a percentage of gross revenues, a provision should be in the agreement allowing JAA or their representative access to review support for amounts reported by the concessionaire.

Recommendation to Weakness #1

As future agreements with off-site rental and parking concessionaires are negotiated, we recommend that audit language similar to that in the on-site rental car agreements and the previous off-site rental and parking agreements be added to these agreements. This protects the right of JAA and their audit representatives to have access to the concessionaire's financial information as needed.

Auditee's Response to Internal Control Weakness #1

In January 2003 the agreements (permits) were revised to include the following audit language under Section P as quoted below:

“P. The Off Airport Car Rental and Parking Operators shall keep full and accurate books and records showing all of said gross revenues. The Operator agrees to give the Authority access during reasonable hours of specification and audit of the company’s

books to include Federal Tax Returns for the three most recent years with all receipts and other evidence of gross revenues for such periods. The Commercial Operators for Prearranged and Hotel/Motel companies are exempt from an audit, due to the Authority charging a per trip fee for the usage of the Commercial Lane.”

Finding #1

The JAA leases land to the rental car concessionaires for service facilities (these facilities prep and repair the leased vehicles as needed) on Rental Car Lane located on Airport property. We noted one instance in which an additional parcel (Parcel 3) was being used by one of the companies that was not covered by the service facility agreement or any amendment. Standard business practice suggests that a formal agreement should be signed by all applicable parties conducting business with each other. It should be noted that JAA is receiving payment for the use of the parcel.

Recommendation to Finding #1

We recommend that a formal agreement and/or amendment to the existing service facility agreement be executed between the JAA and this rental car company.

Auditee’s response to Recommendation to Finding #1

Parcel # 3 at the Service Facility Site has 5.61 acres. The original lease dated 3/15/94 was for 3.5 acres. On 12/18/02 by 2nd Amendment the additional 2.11 acres were leased. Prior to leasing the 2.11 acres on a permanent basis they were on a month-to-month basis and were paying rental on the site.

We would like to thank the airport staff and the contacts at each of the on-site rental car companies for their cooperation during the course of the audit.

Respectfully Submitted,

Robert O. Johnson, CPA
Council Auditor

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March 26, 2003

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Council Auditor
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Re: Responses to Council Auditor Report No. 570

Dear Mr. Johnson:

Enclosed are the Jacksonville Airport Authority's (JAA) responses to your Audit Report No 570 on the Rental Car Concession Agreements for the period February 1, 2002 through August 31, 2002. We appreciate your including the below responses in your report.

Internal Control Weakness #1 Recommendation

As future agreements with off-site rental and parking concessionaires are negotiated, we recommend that audit language similar to that in the on-site rental car agreements and parking agreements be added to these agreements. This protects the right of JAA and their audit representatives to have access to the concessionaire's financial information as needed.

Auditee's Response to Internal Control Weakness #1

In January 2003 the agreements (permits) were revised to include the following audit language under Section P as quoted below:

"P. The Off Airport Car Rental and Parking Operators shall keep full and accurate books and records showing all of said gross revenues. The Operator agrees to give the Authority access during reasonable hours of specification and audit of the company's books to include Federal Tax Returns for the three most recent years with all receipts and other evidence of gross revenues for such periods. The Commercial Operators for Prearranged and Hotel/Motel companies are exempt from an audit, due to the Authority charging a per trip fee for the usage of the Commercial Lane."

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Recommendation to Finding #1

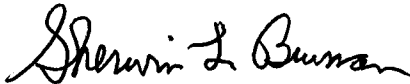
We recommend that a formal agreement and/or amendment to the existing service facility agreement be executed between the JAA and this rental car company.

Auditee's reponse to Recommendation to Finding #1

Parcel # 3 at the Service Facility Site has 5.61 acres. The original lease dated 3/15/94 was for 3.5 acres. On 12/18/02 by 2nd Amendment the additional 2.11 acres were leased. Prior to leasing the 2.11 acres on a permanent basis they were on a month to month memo and were paying rental on the site.

We would like to thank the council auditor and the audit staff for their professionalism and courtesy in performing the audit. We view your report as being constructive and as our responses indicate have already implemented the change.

Sincerely,



Sherwin L. Burman
Chief Financial Officer