

# Internal Audit Department

O R A N G E C O U N T Y  
6<sup>th</sup> Largest County in the USA

## FIRST FOLLOW-UP OF REVENUE GENERATING LICENSE AGREEMENT AUDIT:

### JWA/FOX RENT A CAR, INC.

#### AS OF AUGUST 30, 2013

Our First Follow-Up Audit found John Wayne Airport fully implemented seven (7) recommendations and two (2) recommendations are in process from our original audit report dated October 18, 2012. Fox Rent A Car, Inc. reported gross receipts generated from airport customers during the 12-month audit period ending June 30, 2011 of approximately \$2.8 million and paid about \$250,000 in license fees to the County.

AUDIT NO: 1134-F1  
(ORIGINAL AUDIT NO. 1134)

REPORT DATE: OCTOBER 18, 2013

**Director:** Dr. Peter Hughes, MBA, CPA, CIA  
**Senior Audit Manager:** Alan Marcum, CPA, CIA  
**Audit Manager:** Kenneth Wong, CPA, CIA

#### RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach



ORANGE COUNTY BOARD OF SUPERVISORS' **Internal Audit Department**

*GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010*

*Providing Facts and Perspectives Countywide*

**RISK BASED AUDITING**

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 Certified Information Technology Professional (CITP)  
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**OC Fraud Hotline (714) 834-3608**



## Transmittal Letter



**Audit No. 1134-F1    October 18, 2013**

**TO:** Alan L. Murphy, Director  
John Wayne Airport

**FROM:** Dr. Peter Hughes, CPA, Director  
Internal Audit Department

**SUBJECT:** First Follow-Up of Revenue Generating License Agreement Audit: John Wayne Airport/Fox Rent A Car, Inc., Original Audit No. 1134, Issued October 18, 2012

We have completed a First Follow-Up of Revenue Generating License Agreement Audit of John Wayne Airport/Fox Rent A Car, Inc. Our audit was limited to reviewing, as of August 30, 2013, actions taken to implement the **nine (9) recommendations** from our original audit report dated October 18, 2012. We conducted this First Follow-Up Audit in accordance with the *FY 13-14 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Our First Follow-Up Audit found that John Wayne Airport **fully implemented seven (7) recommendations** and **two (2) recommendations are in process of implementation** from our original audit report. A Second Follow-Up Audit will be conducted approximately six months from the date of this report on the two remaining recommendations.

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 5.

# Table of Contents



*First Follow-Up of Revenue Generating  
License Agreement Audit:  
John Wayne Airport/Fox Rent A Car, Inc.  
Audit No. 1134-F1*

As of August 30, 2013

<b>Transmittal Letter</b>	<b>i</b>
<b>OC Internal Auditor's Report</b>	<b>1</b>

# OC Internal Auditor's Report



Audit No. 1134-F1

October 18, 2013

TO: Alan L. Murphy, Director  
John Wayne Airport

FROM: Dr. Peter Hughes, CPA, Director  
Internal Audit Department

SUBJECT: First Follow-Up of Revenue Generating License Agreement Audit:  
John Wayne Airport/Fox Rent A Car, Inc., Original Audit No. 1134,  
Issued October 18, 2012

## Scope of Review

We have completed a First Follow-Up Revenue Generating License Agreement Audit for John Wayne Airport/Fox Rent A Car, Inc. Our audit was limited to reviewing actions taken, as of August 30, 2013, to implement the **nine (9) recommendations** from our original audit report, dated October 18, 2012.

## Background

We conducted the revenue generating license agreement audit to determine whether Fox Rent A Car, Inc. (Fox) records adequately supported their monthly gross receipts reported to the County. During the original audit period, Fox reported approximately \$2.8 million in gross receipts and paid about \$250,000 in license fees to the County. The original audit identified **one (1) Significant Control Weakness** related to charging non-airport customers an 11.11% airport concession fee and **eight (8) Control Findings** related to the fees owed and/or compliance with the license agreement.

## Results

Our First Follow-Up Audit indicated John Wayne Airport (JWA) fully **implemented seven (7) recommendations** and **two (2) recommendations are in process** of implementation. Based on our First Follow-Up Audit, the following is the implementation status of the nine (9) original recommendations:

### **1. JWA Concession Fee Charged to All Customers Regardless of Origination (Significant Control Weakness)**

**Recommendation No. 1:** We recommend that JWA immediately work with Fox to ensure that the airport concession fee is not charged to non-airport customers or that the description of the fee is changed to remove references to the airport.

**Current Status: In Process.** JWA sent a letter dated August 8, 2012 and instructed Fox to stop charging non-airport customers an 11.11% airport concession fee. JWA worked with Fox to achieve compliance satisfactory to the airport and monitored compliance by reviewing a sample of rental contracts from July 2013. JWA found instances where customers: (a) signed an acknowledgment that they were not recent JWA passengers but were still charged the airport concession fee; (b) did not sign an acknowledgment but the revenue from the concession fee was incorrectly deducted from gross receipts; and (c) contracts could not be provided by Fox but the revenue from the concession fee was



deducted from gross receipts. JWA concluded that Fox does not have a repeatable process in place to determine when to properly charge the concession recovery fee. JWA instructed Fox to place notices at the rental counter informing customers that they are not required to pay a concession recovery fee if they are not airport passengers. Because JWA is working with Fox to ensure the airport concession fee is not charged to non-airport customers, but found Fox has not achieved acceptable compliance, we consider this recommendation in process.

JWA Planned Action: The airport will perform another follow-up audit of Fox's transactions for September 2013. If additional non-compliant items are found, JWA may temporarily suspend Fox's operating license at the airport.

## 2. **Better Identification and Documentation of Origination is Needed for Customers that are OC Residents** (Control Finding)

**Recommendation No. 2:** We recommend that JWA require Fox to implement procedures to identify and document those Orange County residents that are airport customers and whose gross receipts should be subject to fees paid to the County. At a minimum, the procedures should include requiring all Orange County residents exempt from the airport concession fee to sign a certification on the rental agreement indicating they did not arrive at JWA via aircraft within the past 24 hours.

Current Status: **In Process.** JWA sent a letter dated August 8, 2012 and instructed Fox to inquire with a customer with an Orange County permanent address as to whether or not they have arrived via flight into JWA within the previous 24-hour period. For customers not arriving into JWA, JWA instructed Fox to have customers sign a statement in the rental agreement stating such. JWA instructed Fox that any car rental agreements without this signed statement are required to be reported as gross receipts subject to the license fee.

JWA worked with Fox to achieve compliance satisfactory to the airport and monitored compliance by reviewing a sample of rental contracts from July 2013. JWA found instances where customers: (a) signed an acknowledgment that they were not recent JWA passengers but were still charged the airport concession fee; (b) did not sign an acknowledgment but the revenue from the concession fee was incorrectly deducted from gross receipts; and (c) contracts could not be provided by Fox but the revenue from the concession fee was deducted from gross receipts. JWA concluded that Fox does not have a repeatable process in place to differentiate airport customers from non-airport/OC residents. Because JWA is working with Fox to identify and document County residents that are airport customers, but found Fox has not achieved acceptable compliance, we consider this recommendation in process.

JWA Planned Action: The airport will perform another follow-up audit of Fox's transactions for September 2013. If additional non-compliant items are found, JWA may temporarily suspend Fox's operating license at the airport.

## 3. **Car Rental Agreements with Certain Non-OC Zip Codes were Misclassified as Exempt from License Fees** (Control Finding)

**Recommendation No. 3:** We recommend that JWA require Fox to ensure that all non-OC residents/zip codes are properly classified as "non-exempt" and pay fees owed of \$4,882 for the 12-month audit period.



Current Status: **Implemented.** JWA sent a letter dated August 8, 2012 and provided Fox a list of Orange County zip codes that are considered exempt if the customer is shown to be non-airport customer and no other zip code will be considered exempt. The letter also instructed Fox to pay additional license fees owed of \$4,882 for the 12-month audit period.

We reviewed the list of Orange County zip codes JWA provided to Fox and judgmentally tested ten (10) zip codes. It was noted that all of the zip codes selected for testing were located in Orange County. We also reviewed receipt documentation and found Fox paid JWA \$4,882 for fees owed. Because JWA clarified the zip codes exempt from license fees and received fees owed, we consider this recommendation implemented.

#### 4. **Insurance Discounts Improperly Reduced Gross Receipts** (Control Finding)

**Recommendation No. 4:** We recommend JWA require Fox to discontinue deducting the insurance package discounts from gross receipts and pay fees owed of \$2,350 for the 12-month audit period. We also recommend that JWA require Fox to calculate and pay similar fees owed for the period subsequent to the audit period through the month of correction.

Current Status: **Implemented.** JWA sent a letter dated August 8, 2012 instructing Fox to discontinue the practice of deducting insurance package discounts from gross receipts. In addition, JWA instructed Fox to pay additional license fees owed of \$2,350 for the 12-month audit period and determine additional amounts owed subsequent to the audit.

We reviewed the concession report for November 2012 prepared by Fox and found the insurance package discounts were not deducted from gross receipts. We also reviewed receipt documentation and found Fox paid JWA \$2,350 for fees owed.

Fox sent a letter to JWA dated September 10, 2012 informing JWA that the fees owed were recalculated for the period subsequent to the audit period through the month of correction. Fox indicated that an underpayment of fees to JWA was identified totaling \$3,587 for the insurance package discounts previously deducted from gross receipts between August 2011 and June 2012. Fox netted this amount against overpayments of Airport Fees made to JWA during the same period. Because JWA instructed Fox to discontinue deducting insurance package discounts from gross receipts, received fees owed, and resolved subsequent amounts owed, we consider this recommendation implemented.

#### 5. **Miscellaneous Rental Adjustments Improperly Reduced Gross Receipts** (Control Finding)

**Recommendation No. 5:** We recommend that JWA require Fox to discontinue deducting the miscellaneous adjustments from reportable gross receipts and pay fees owed of \$1,991 for the 12-month audit period. We also recommend that JWA require Fox to calculate and pay similar fees owed for the period subsequent to the audit period through the month of correction.

Current Status: **Implemented.** JWA sent a letter dated August 8, 2012 instructing Fox to discontinue the practice of deducting miscellaneous adjustments from gross receipts. In addition, JWA instructed Fox to pay additional license fees owed of \$1,991 for the 12-month audit period and determine additional amounts owed subsequent to the audit.



We reviewed the concession report for November 2012 prepared by Fox and found the rental adjustments were not deducted from gross receipts. We also reviewed receipt documentation and found Fox paid JWA \$1,991 for fees owed for the audit period.

Fox sent a letter to JWA dated September 10, 2012 informing JWA that the fees owed were recalculated for the period subsequent to the audit period through the month of correction. Fox indicated that an underpayment of fees to JWA was identified totaling \$724 for the rental adjustments previously deducted from gross receipts between August 2011 and June 2012. Fox netted this amount against overpayments of Airport Fees made to JWA during the same period. Because JWA instructed Fox to discontinue deducting rental adjustments from gross receipts, received fees owed, and resolved subsequent amounts owed, we consider this recommendation implemented.

## 6. Refueling Revenue Not Reported as Gross Receipts (Control Finding)

**Recommendation No. 6:** We recommend that JWA require Fox to begin reporting the refueling revenue as gross receipts and pay fees owed of \$1,788 for the 12-month audit period. We also recommend that JWA require Fox to calculate and pay similar fees owed for the period subsequent to the audit period through the month of correction.

**Current Status: Implemented.** JWA sent a letter dated August 8, 2012 instructing Fox to include refueling revenues as part of gross receipts. In addition, JWA instructed Fox to pay additional license fees owed of \$1,788 for the 12-month audit period and determine additional amounts owed subsequent to the audit.

We reviewed the concession report for November 2012 prepared by Fox and found the refueling revenues were included as part of gross receipts. We also reviewed receipt documentation and found Fox paid JWA \$1,788 for fees owed for the audit period.

Fox sent a letter to JWA dated September 10, 2012 informing JWA that the fees owed were recalculated for the period subsequent to the audit period through the month of correction. Fox indicated that an underpayment of fees to JWA was identified totaling \$3,190 for the refueling revenues previously not included as part of gross receipts between August 2011 and June 2012. Fox netted this amount against overpayments of Airport Fees made to JWA during the same period. Because JWA instructed Fox to include refueling revenues as part of gross receipts, received fees owed, and resolved subsequent amounts owed, we consider this recommendation implemented.

## 7. Certain One-Time Errors Made When Compiling June 2011 Gross Receipts (Control Finding)

**Recommendation No. 7:** We recommend that JWA allow Fox a \$1,008 credit in fees due to one-time errors Fox made when compiling reported gross receipts for June 2011.

**Current Status: Implemented.** JWA sent a letter dated August 8, 2012 informing Fox of a credit of \$1,008 for overpaid license fees. We reviewed receipt documentation and found Fox paid JWA for various fees owed as a result of the audit recommendations and reduced the net amount by \$1,008. Because JWA allowed a credit in fees from one-time errors, we consider this recommendation implemented.



**8. Monthly Statement to JWA Reports Total Revenue Instead of Total Gross Receipts (Control Finding)**

**Recommendation No. 8:** We recommend that JWA require Fox to report Total Gross Receipts for all customers on the monthly Gross Receipts Report using the definition of gross receipts contained in the Agreement.

**Current Status: Implemented.** JWA sent a letter dated August 8, 2012 instructing Fox to use the standard Gross Receipts Report form provided by the Airport to report gross receipts and itemize the exclusions from gross receipts as shown on the form. We made a comparison of the monthly statements received during the original audit to the February 2013 statement and found gross receipts are now shown with separate line items for exclusions as required by the Agreement. Because JWA required Fox to report monthly gross receipts as prescribed, we consider this recommendation implemented.

**9. Audit Costs Can be Assessed to Fox (Control Finding)**

**Recommendation No. 9:** We recommend that JWA assess Fox audit costs of \$5,940.

**Current Status: Implemented.** JWA sent a letter dated August 8, 2012 instructing Fox to pay the cost of the audit in the amount of \$5,940. We reviewed receipt documentation and found Fox paid JWA audit fees of \$5,940. Because JWA received the audit fees owed, we consider this recommendation implemented.

We appreciate the assistance extended to us by John Wayne Airport personnel during our Follow-Up Audit. If you have any questions, please contact me directly at 834-5475 or Alan Marcum, Senior Audit Manager at 834-4119.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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Members, Audit Oversight Committee  
Michael B. Giancola, County Executive Officer  
Mark Denny, Chief Operating Officer  
Ralph Sanchez, Deputy Airport Director, Business Development/JWA  
Barbara Swift, Administrative Manager, Business Development/JWA  
Daniel Leung, Asset Manager, Business Development/JWA  
Mariane Teschner, Deputy Airport Director, Finance & Administration/JWA  
Lisa Kawashima, Accounting Manager, Accounting/JWA  
Scott Suzuki, Manager, Internal Audit/JWA  
Foreperson, Grand Jury  
Susan Novak, Clerk of the Board of Supervisors  
Macias Gini & O'Connell LLP, County External Auditor