

# Internal Audit Department

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

## FINAL CLOSE-OUT

### SECOND FOLLOW-UP OF REVENUE GENERATING LICENSE AGREEMENT AUDIT

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

AS OF APRIL 15, 2014

Our Second Follow-Up Audit found John Wayne Airport fully implemented the remaining two (2) recommendations from our original audit containing nine (9) recommendations. Previously, seven (7) recommendations were implemented and two (2) were in-process in our First Follow-Up audit report dated October 17, 2013. During our original audit period, 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-F2  
(REFERENCE AUDIT NO. 1347)

REPORT DATE: MAY 12, 2014

**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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**OC Fraud Hotline (714) 834-3608**



## Transmittal Letter



**Audit No. 1134-F2 May 12, 2014**

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

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

**SUBJECT:** **Second and Final Close-Out** 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 Second and Final 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 April 15, 2014, actions taken to implement the **two (2) remaining recommendations** from our First Follow-Up audit report dated October 17, 2013. We conducted this Second 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 Second Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Our Second Follow-Up Audit found that John Wayne Airport **fully implemented the two (2) remaining recommendations** from our First Follow-Up audit report.

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.

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License Agreement Audit:  
John Wayne Airport/Fox Rent A Car, Inc.  
Audit No. 1134-F2***

As of April 15, 2014

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# OC Internal Auditor's Report



Audit No. 1134-F2

May 12, 2014

TO: Alan L. Murphy, Director  
John Wayne Airport

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

SUBJECT: **Second and Final Close-Out** 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 Second and Final Follow-Up Revenue Generating License Agreement Audit of John Wayne Airport/Fox Rent A Car, Inc. Our audit was limited to reviewing actions taken, as of April 15, 2014, to implement the **two (2) recommendations** remaining from our First Follow-Up audit report, dated October 17, 2013.

## Background

We conducted the revenue generating license agreement audit to determine whether Fox Rent A Car, Inc.'s (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 Second Follow-Up Audit indicated John Wayne Airport (JWA) fully **implemented all nine (9) recommendations**. Based on our Second Follow-Up Audit, the following is the implementation status of the nine (9) original recommendations from the original audit report. The item number from the original audit report is shown before each heading:

### **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: Implemented (Second Follow-Up).** Fox posted a notice at the service counter that *"Customers who are not 'Airport Customers' shall so indicate by initialing in the space provided in the rental car contract, and shall not be charged any concession/license recovery fees."* JWA worked with Fox to achieve compliance satisfactory to the airport and monitored compliance by reviewing a sample of nine (9) rental car contracts from February 2014. JWA found in eight (8) instances (89%) where Fox did not charge the airport concession fee to non-airport customers who certified on the rental car agreement that they did not arrive at JWA via aircraft within the past 24-hours. JWA concluded that Fox has a



repeatable process in place to determine when to properly charge the concession recovery fee. Because JWA worked with Fox to ensure the airport concession fee is not charged to non-airport customers and found Fox has achieved acceptable compliance, we consider this recommendation implemented.

## **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: Implemented (Second Follow-Up).** Fox included a phrase on the rental car agreement with a customer signature line: *"I certify that I did not arrive via flight into JWA within the previous 24-hour period of today's date."* JWA worked with Fox to achieve compliance satisfactory to the airport and monitored compliance by reviewing a sample of nine (9) rental car contracts from February 2014. JWA found in eight (8) instances (89%) where Fox did not charge the airport concession fee to non-airport customers who certified on the rental car agreement that they did not arrive at JWA via aircraft within the past 24-hours. JWA concluded that Fox has a repeatable process in place to determine when to properly charge the concession recovery fee. Because JWA worked with Fox to identify and document County residents that are airport customers and found Fox has achieved acceptable compliance, we consider this recommendation implemented.

## **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 (First Follow-Up).** 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 (First Follow-Up).** 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 (First Follow-Up).** 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 (First Follow-Up).** 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 (First Follow-Up).** 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 (First Follow-Up).** 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 (First Follow-Up).** 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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