



# OFFICE OF THE AUDITOR

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**DEPARTMENT OF AVIATION  
DOLLAR RENT-A-CAR SYSTEMS, INC.  
REVENUE AND CONTRACT COMPLIANCE AUDIT  
AUGUST 2005**

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*Dennis J. Gallagher  
Auditor*



# City and County of Denver

201 West Colfax Ave., Dept. 705 • Denver, Colorado 80202 • 720-913-5000, FAX 720-913-5247  
www.denvergov.org/auditor

*Dennis J. Gallagher*  
Auditor

August 26, 2005

Ms. Vicki Braunagel, Co-Manager  
Mr. Turner West, Co-Manager  
Department of Aviation  
City and County of Denver

Ms. Tammy Branham  
Properties and Concessions Manager  
Dollar Rent-A-Car Systems, Inc.  
5330 E 31<sup>st</sup> St.  
P.O. Box 3167  
Tulsa, OK 74153-1167

Dear Ms. Braunagel, Mr. West, and Ms. Branham:

Attached is the Auditor's Office Internal Audit Division's report of their revenue and contract compliance audit of Dollar Rent-A-Car Systems, Inc. (Dollar) at Denver International Airport for the year ended December 31, 2002. The purpose of our audit was to determine whether Dollar and the City and County of Denver complied with the terms of the contract and whether internal controls in place were adequate under the circumstances.

The Internal Audit Division found an instance of non-compliance with a section of the Concession Agreement and Terminal Building Premise Lease as described in their report.

If you have any questions, please call Michael Clark, Director of Internal Audit, at 720-913-5029.

Sincerely,

Dennis J. Gallagher  
Auditor

DJG/kh

cc: Honorable John W. Hickenlooper, Mayor  
Honorable Members of City Council  
Members of Audit Committee  
Cole Finegan, City Attorney  
Stan Koniz, Deputy Manager of Aviation for Business and Technologies  
Pete Gingras, Deputy Manager of Aviation/Properties  
Amy Weston, Acting Co-Assistant Deputy Manager of Finance  
Laura Trujillo, Acting Co-Assistant Deputy Manager of Finance  
Sharon Shannon, Audit Supervisor

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## INTERNAL AUDITOR'S REPORT

We have completed a revenue and contract compliance audit of the Concession Agreement and Terminal Building Premises Lease dated October 1, 1993, and its First and Second amendments dated December 19, 1996 and September 1, 1999, respectively; and the Special Facilities and Ground Lease dated September 1, 1999, and its First amendment dated March 1, 2001, between Dollar Rent-A-Car Systems, Inc. (Dollar) and the City and County of Denver. The purpose of this audit was to determine whether the accompanying Schedule of Amounts Due and Paid for the year ended December 31, 2002 is fairly presented in accordance with the contracts. We also determined whether Dollar and the Department of Aviation complied with various other terms and conditions of the contracts, City rules and regulations, and whether internal controls were adequate in the circumstances. This audit was included in the Auditor's Office Internal Audit Division's 2003 Annual Audit Plan and is authorized pursuant to the City and County of Denver Charter, Article V, Part 2, §5.2.1.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Amounts Due and Paid is free of material misstatement. An audit includes examining, on a test basis, evidence supporting revenue amounts and disclosures in the schedule.

Our conclusion from the audit was that Dollar understated its gross revenue receipts for the year ended December 31, 2002 and as a consequence owes the City \$19,848 for underpayment of concession fees, \$9,952 for underpayment of usage fees, \$12,492 for past due interest, and since the understatement of gross revenue exceeded one percent of total revenue, audit costs of \$13,532 are also due. We did not identify any other significant reportable conditions.

Our audit of Dollar Rent-A-Car Systems, Inc. began on July 29, 2003 and was substantially completed on March 31, 2004. Issuance of the report of this engagement was delayed due to unexpected changes in the priorities of the audit staff.

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Dollar Rent-A-Car Systems, Inc.

We extend our appreciation to all personnel who assisted and cooperated with us during the course of our examination.

Internal Audit Division

A handwritten signature in black ink that reads "Michael Clark". The signature is written in a cursive style with a large initial "M".

Michael Clark, CPA

Director of Internal Audit

Date: August 26, 2005

Staff: Dick Wibbens, CPA, Audit Manager  
Stan Wilmer, CPA, Audit Supervisor  
Andrew Martinez Jr., CPA, Lead Auditor

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**DOLLAR RENT-A-CAR SYSTEMS, INC.**  
**EXECUTIVE SUMMARY**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

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This summary highlights the findings of the revenue and contract compliance audit, which are more fully described in the Finding, Recommendation, and Response section beginning on page 8. The Finding, Recommendation, and Response section includes responses from the Department of Aviation and Dollar Rent-A-Car Systems, Inc.

**1. Balance Due City and County of Denver**

Dollar Rent-A-Car Systems, Inc. (Dollar) understated its gross revenue receipts for the year ended December 31, 2002, and as a consequence owes the City and County of Denver \$19,848 for underpayment of concession fees, \$9,952 for underpayment of usage fees, \$12,492 for past due interest, and since the understatement of gross revenue exceeded one percent of total revenue, audit costs of \$13,532 are also due. The total amount due from Dollar Rent-A-Car Systems, Inc. for the year ended December 31, 2002 is \$55,824.

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**DOLLAR RENT-A-CAR SYSTEMS, INC.**  
**BACKGROUND, SCOPE, OBJECTIVE, AND METHODOLOGY**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

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**Background**

Dollar Rent-A-Car Systems, Inc. (Dollar) operates a nonexclusive concession for the rental of motor vehicles to the public at the Denver International Airport (DIA) under the terms of a Concession Agreement and Terminal Building Premises Lease dated October 1, 1993, between the City and County of Denver (City) and Dollar. Dollar is required to pay the City 10% of its annual gross revenues derived from its operation or the Minimum Annual Guaranteed (MAG) amount, whichever is greater. The MAG for this audit period is \$1,440,000. Dollar is also required to pay rent for a counter located in the DIA terminal building. The details of rent are outlined in the accompanying notes to the schedule of amounts due and paid.

In addition to the Concession Agreement and Terminal Building Premises Lease noted above, Dollar operates under the terms of the Special Facilities and Ground Lease dated September 1, 1999 between the City and Dollar. This contract allows Dollar to occupy a ground facility near the terminal building at DIA for the purpose of renting motor vehicles to the public.

**Scope**

Our audit of Dollar (PeopleSoft fund 73800/org. 6000000) covers the Concession Agreement and Terminal Building Premises Lease and the Special Facilities and Ground Lease at Denver International Airport for the year ended December 31, 2002. Procedures performed included determining compliance with the contracts between the City and Dollar, as listed above, and with the Denver Municipal Airport System Rules and Regulations.

Additionally, we reviewed Dollar's independent auditors' report on schedule of usage fees for the year ended December 31, 2002 to determine if the usage fees were properly calculated and reported.

**Objective**

The objective of our audit was to determine whether Dollar properly reported gross revenue, and usage fees, and paid the City the correct amounts for compensation fees, and space rent in accordance with the contracts. Additional objectives included determining whether Dollar and the Department of Aviation complied with other terms and conditions of the contracts, as well as City rules and regulations as we considered necessary in the circumstances.

**Methodology**

To meet the audit objectives the following evidence gathering and analysis techniques were used including, but not limited to:

- Review of internal controls
- Verification of gross revenues
- Verification of rates charged
- Recalculation of percentage compensation
- Confirmation of receipts
- Recalculation of financial transactions
- Determination of timeliness of receipts
- Review of Dollar's independent auditors' usage fees report
- Discussion with management and staff
- Verification of evidence of insurance and bonding requirements
- Onsite physical inspections

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**DOLLAR RENT-A-CAR SYSTEMS, INC  
FINDING, RECOMMENDATION, AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2002**

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**1. Balance Due City and County of Denver**

According to Section 6.2 (c) (i) of the Concession Agreement and Terminal Premise Lease, “The Company agrees that its motor vehicle rental forms at locations within the 20 mile driving distance must designate whether the customer has arrived at the Airport within the past 24 hours. If no designation is made it will be deemed that the customer arrived at the Airport within the past 24 hours.” Local revenues for the year ended December 31, 2002 as claimed by Dollar were \$1,170,136. These revenues are not subject to the 10% concession fee to the Airport. The error rate of items tested in the audit for the year ended December 31, 2002 for local revenues was 20.7705%. Accordingly, local revenues were overstated by 20.7705%, or \$243,043, which results in an underpayment of concession fees of \$19,848. In addition, local revenue rental agreements were subject to the assessment and collection of usage fees totaling \$9,952. Further, since gross revenue was understated by more than 1%, audit costs totaling \$13,532 are due in accordance with Section 6.2 (j) of the contract. As a result of the underpayment and assessments, past due interest at 18% per annum is also due. Interest calculated under the terms of the contract totals \$12,492.

**Recommendation**

We recommend that Dollar Rent-A-Car Systems, Inc. comply with the various terms of the Concession Agreement and Terminal Premise Lease and properly report gross revenue receipts and pay the proper amount of fees due to the Department of Aviation. We further recommend the Department of Aviation invoice Dollar Rent-A-Car System, Inc. \$55,824 for fees, audit costs, and interest owed for the year ended December 31, 2002. We also recommend that Dollar and the Department of Aviation review the same compliance issues for 2003, 2004, and 2005 year-to-date and make any corrections necessary to amounts reported and concession fees remitted to the City.

**Department of Aviation Response**

“Based on your audit finding of the overstated local revenues, the Department of Aviation will issue an invoice to Dollar for the concession fees of \$19,848, the related interest charges of \$12,703 and the audit cost of \$13,532 due the City.

“When your audit report is issued, the Department of Aviation will send a letter to the Trustee requesting collection from Dollar the usage fees due (based on the overstated local revenue) in the amount of \$9,952.”

**Dollar Rent-A-Car Systems, Inc. Response**

“. . . we would like the opportunity to test the period ourselves to determine if the percentage is an accurate reflection of our error rate.

“As we intend to pull a large sample of rental agreements, we respectfully request an additional 30 days to pull this information together. . . .”

**Auditor's Response**

We appreciate Dollar's interest in determining that the error rate used to extrapolate unreported airport rentals is as accurate as possible and we understand that additional sampling may change the percentage error rate. However, since Dollar is not independent with regard to the procedures you are performing, anything less than a 100% sample would not be acceptable unless performed by an independent certified public accountant.

Accordingly, we do not support Dollar's request for further delay in processing and issuance of the audit report. We recommend that if Dollar seeks change or relief from our audit results that Dollar obtain DIA's approval to engage an independent certified public accountant to test the error percentage or pull and examine all (100%) of the rental agreements and compute the exact percentage from all documents.

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**DOLLAR RENT-A-CAR SYSTEMS, INC**  
**SCHEDULE OF AMOUNTS DUE AND PAID**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

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**Gross Reportable Revenue (Note 1)** \$14,598,480

	<u>Amounts Due</u> <u>(Note 2)</u>	<u>Amounts Paid</u> <u>(Note 6)</u>	<u>Amount Owed</u>
Concession Fees	\$1,459,848	\$1,440,000	\$19,848
Terminal Building Premises Rental	10,272	10,272	-
Ground Rental	277,040	277,040	-
Additional Rentals	379,910	379,910	-
Usage Fees <b>(Note 3)</b>	574,232	564,280	9,952
Audit Cost <b>(Note 4)</b>	13,532	-	13,532
Interest <b>(Note 5)</b>	<u>12,703</u>	<u>211</u>	<u>12,492</u>
<b>Total</b>	<u>\$2,727,537</u>	<u>\$2,671,713</u>	<u>\$55,824</u>

The accompanying notes are an integral part of this schedule.

**1. Gross Revenue**

Gross revenue includes all charges for time and mileage and other authorized charges or services for rentals of motor vehicles made by customers. Other authorized charges or services include:

- Additional equipment
- Change of equipment
- Personal accident insurance
- Uninsured motorist protection
- Under age fee
- Additional driver fee
- Drop off charges
- Airport recovery fee
- Supplemental liability insurance

Allowed reductions to gross revenue include:

- Collision damage waiver
- Gasoline
- Usage fees
- Non-revenue rentals to employees of the company
- Amounts received as insurance proceeds

**2. Amounts Due**

**Concession Fees** – Section 6.2(a) of the Concession Agreement states that Dollar agrees to pay as Concession Fees to the City an amount equal to 10% of their annual gross revenues (Percentage Compensation Fee) derived from operations or a minimum annual guaranteed amount, whichever is greater. The Percentage Compensation Fee of \$1,459,848 was greater than the minimum annual guarantee of \$1,440,000 for 2002.

**Terminal Building Premises Rental** – Section 6.1(a) of the Terminal Building Premises Lease states that Dollar agreed to pay as Terminal Premises Rentals to the City an amount equal to \$60 per square foot per year. The space occupied in the Terminal Building Premises was 171.2 square feet for the year ended December 31, 2002

**Ground Rentals** – According to Section 5.02(a) in conjunction with Section 5.02(g) of the Special Facilities and Ground Lease, Department of Aviation billing invoices, and a memo dated November 8, 2000, Dollar agreed to pay as Ground Rentals to the City the following:

Area Description	Square Feet	Annual Rate Per Square Feet	Period
Lease Area	435,598.00	\$0.60	January 1, 2002 to September 30, 2002
Lease Area	435,598.00	\$0.75	October 1, 2002 to December 31, 2002

**Additional Rental** – In accordance with Section 5.02(b) of the Special Facilities and Ground Lease, the Special Facilities and Ground Lease Payment Schedule dated September 1, 2000 and the Department of Aviation billing invoices, Dollar agreed to pay as additional rentals an amount of \$399,217 per annum. According to a letter from Zion First National Bank dated January 2, 2002, Dollar was issued a credit of \$19,307 for the 1999 A-B Surplus. The additional rental for 2002 was reduced by \$19,307.

**3. Usage Fees**

In accordance with the Section 5.01 of the Special Facilities and Ground Lease contract, Dollar agreed to charge and collect usage fees for each rental car transaction day from all airport customers entering into car rental agreements. Such fees are intended to cover the costs of the bonds issued to construct the facilities and are paid over to the trustee of the car rental revenue fund monthly. For the year ended December 31, 2002, the rental car transaction daily usage fee was \$1.60 and total usage fees for the year were \$574,232.

**4. Audit Costs**

In accordance with Section 6.2 (j) of the Terminal Building Premises Lease, if gross revenues are understated by more than 1%, Dollar shall pay the City the cost of the audit. Further, in accordance with Section 5.08 of the Special Facilities and Ground Lease contract, if usage fees are understated by more than 1%, Dollar shall pay the City the cost of the audit. As a result and since both gross revenues and usage fees were understated by more than 1%, audit costs of \$13,532 have been assessed for the year ended December 31, 2002.

**5. Interest**

In accordance with Section 6.2(j) of the Terminal Building Premises Lease and Section 5.08 of the Special Facilities and Ground Lease, interest at 18% per annum is due on any underpayment. Interest due from Dollar for the year ended December 31, 2002 totaled \$12,492. Such interest is computed from December 31, 2002 through April 30, 2005 on unpaid concession and usage fees only.

**6. Amounts Paid**

The amounts paid were compiled from the Department of Aviation's cash receipt records and reports provided. Amounts paid include those billed and due during the audit period and collected in the ordinary course of business whether or not within the audit period. The amounts paid also include any credits from prior years' overpayments.