



**INTERNAL AUDIT DEPARTMENT**  
**COUNTY OF ORANGE**

*Integrity  
Objectivity  
Independence*

**LIMITED REVIEW OF LEASE REVENUE  
FOR  
VANGUARD CAR RENTAL USA, INC.**

For the Period  
September 1, 2004 through January 31, 2005

**AUDIT NUMBER: 2540**

**REPORT DATE: October 4, 2005**

<b>Audit Director:</b>	<b>Peter Hughes, Ph.D., CPA</b>
<b>Deputy Director:</b>	<b>Eli Littner, CPA, CIA</b>
<b>Audit Manager:</b>	<b>Autumn McKinney, CPA, CIA</b>
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<b>Senior Auditor:</b>	<b>Lily Chin, CPA</b>

**LIMITED REVIEW OF LEASE REVENUE FOR  
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For the Period  
September 1, 2004 through January 31, 2005

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**Transmittal Letter**

Audit No. 2540

October 4, 2005

TO: Alan L. Murphy, Director  
John Wayne Airport

FROM: Peter Hughes, Ph.D., CPA, Director  
Internal Audit Department

SUBJECT: Limited Review of Lease Revenue for Vanguard Car Rental USA, Inc.  
Parcel No. PM 1121-390-28

We have completed our limited review of lease revenue for Vanguard Car Rental USA, Inc. for the period September 1, 2004 through January 31, 2005. The final report is attached along with your responses to our recommendations.

**Please note**, beginning in January 2005, we implemented a more structured and rigorous follow-up audit process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). **In the past, we followed-up on lease audit recommendations during a subsequent lease audit, which could be several years later.** As a matter of policy, our first Follow-Up Audit will now begin at six months upon the official release of the report. The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our second Follow-Up Audit will now begin at 12 months from the release of the original report by which time all audit recommendations are expected to be addressed or implemented.

At the request of the AOC, we are to bring to their attention any audit recommendations we find still not addressed, resolved or implemented after our second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for their discussion.

As the Director of Internal Audit Department, I make a monthly audit status presentation to the BOS where I detail any significant and material audit findings released in reports during the prior month and the status of audit recommendation implementations as disclosed by Follow-Up Audits. Accordingly, the results of this review will be included in a future summary to the BOS.

Because of these visible changes to our follow-up process, the Internal Audit Department is available to partner with all departments and agencies so that they can successfully implement or address difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report, recommendations or follow-up process.

We have attached a Follow-Up Audit Tracking Document template. Your department should complete this template as our audit recommendations are implemented. When we perform our follow-up audit approximately six months from the date of this report, we will request the completed document to facilitate our review.

Additionally, we will be submitting a Customer Survey of Audit Services to you shortly. Please complete the survey and return it to Renee Aragon, Executive Secretary, Internal Audit Department. We appreciate the courtesy and cooperation of your staff during our review.

Attachment

Other recipients of this report:

Members, Board of Supervisors

Members, Audit Oversight Committee

Thomas G. Mauk, County Executive Officer

Loan Leblow, Assistant Airport Director

Roy Freeman, Deputy Airport Director, JWA/Business Development

David De Leon, Manager, JWA/Parking, Ground Transportation and Special Projects

Sharon Tabata, Accounting Manager, JWA/Accounting

Foreman, Grand Jury

Darlene J. Bloom, Clerk of the Board of Supervisors



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INTERNAL AUDITOR'S REPORT

Audit No. 2540

October 4, 2005

TO: Alan L. Murphy, Director  
John Wayne Airport

SUBJECT: Limited Review of Lease Revenue for Vanguard Car Rental USA, Inc.  
Parcel PM 1121-390-28

We have performed a limited review of certain records and documents for the period from September 1, 2004 through January 31, 2005, pertinent to the lease agreement (Agreement) between the County of Orange (County) and Vanguard Car Rental USA, Inc. (Vanguard), dated December 14, 2000. The Agreement is limited to the operation of a rental car concession at John Wayne Airport.

The primary purpose of our review is to determine whether Vanguard's records adequately supported their monthly gross receipts reported to the County. We also reviewed compliance with certain other provisions of the Agreement, such as accounting methods and payment procedures.

Based on our limited review, we find that Vanguard has retained sufficient documentation to adequately support monthly gross receipts reported to the County. **No material weaknesses or significant issues were identified.** However, we did identify two control findings related to compliance with the Agreement as noted in the Detailed Observations, Recommendations and Management Responses section of this report. See Attachment A for a description of report item classifications.

We appreciate the courtesy and cooperation extended to us by the personnel at Vanguard, JWA/Business Development, and JWA/Accounting Services. If you have any questions regarding our limited review of lease revenue, please call me, Eli Littner, Deputy Audit Director, at (714) 834-5899, or Autumn McKinney, Audit Manager, at (714) 834-6106.

Peter Hughes, Ph.D., CPA  
Director, Internal Audit

*Mr. Alan Murphy, Director, John Wayne Airport*

*October 4, 2005*

*Page 2*

Attachment A – Report Item Classifications

Attachment B – JWA Management Response

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors

Members, Audit Oversight Committee

Thomas Mauk, County Executive Officer

Loan Leblow, Assistant Airport Director

Roy Freeman, Deputy Airport Director, JWA/Business Development

David De Leon, Manager, JWA/Parking, Ground Transportation and Special Projects

Sharon Tabata, Accounting Manager, JWA/Accounting

Foreman, Grand Jury

Darlene J. Bloom, Clerk of the Board of Supervisors

## EXECUTIVE SUMMARY

### OBJECTIVES

The Internal Audit Department conducted a limited review of lease revenue for Vanguard Car Rental USA, Inc. (Vanguard) for the primary purpose of determining whether Vanguard's records adequately supported their monthly gross receipts reported to the County.

### BACKGROUND

The County of Orange entered into a lease agreement (Agreement) with National Car Rental System, Inc., dated December 14, 2000, for the operation of a rental car concession at John Wayne Airport. In 2002, ANC Rental Corporation assumed the lease per U.S. Bankruptcy Court Order for the operation of a rental car concession under the National and Alamo car rental brands. ANC Rental Corporation filed bankruptcy and Vanguard assumed the lease in August 2003 per U.S. Bankruptcy Court Order. Vanguard typically generates 8,000 to 11,000 car rental agreements per month. During the 5-month review period, Vanguard generated approximately \$7.5 million in gross receipts and paid the County over \$818,000 in rent.

### SCOPE

Our review was limited to certain records and documents that support Vanguard's gross receipts reported to the County for 5-month period from September 1, 2004 to January 31, 2005. We also reviewed compliance with certain other provisions of the Agreement, such as accounting methods and payment procedures. Our review included inquiry, auditor observation, and limited testing for assessing the adequacy of documentation and ensuring completeness of reported gross receipts.

### CONCLUSION

Based on our limited review, we find that Vanguard has retained sufficient documentation to adequately support monthly gross receipts reported to the County. **No material weaknesses or significant issues were identified.** However, we identified two control findings related to compliance with the Agreement that are noted in the Detailed Observations, Recommendations and Management Responses section of this report. See Attachment A for a description of report item classifications.



## **DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

### **Customer Adjustments Deducted from Gross Receipts**

Vanguard occasionally reduces a customer's rental charges to ensure customer satisfaction if there is a customer complaint about service or disagreement over the rental charge. These adjustments are made before the customer leaves the premises and before the final rental charges are paid. These adjustments are recorded in an account named "Customer Adjustment At Counter." Occasionally offering these adjustments appears to be an industry practice to ensure customer satisfaction.

**Finding No. 1:** Vanguard reduces gross receipts reported to the County for customer satisfaction adjustments made at the counter. During our 5-month review period of September 2004 through January 2005, Vanguard reduced gross receipts by \$23,542 for these adjustments. If these adjustments are determined to be improper, rent would not be owed to the County because Vanguard would still not have exceeded the minimal annual rent owed for that period. The lease agreement however does not specifically allow these adjustments to be deducted from gross receipts.

**Recommendation No. 1:** We recommend that JWA evaluate whether adjustments for customer satisfaction are excludable from gross receipts.

**JWA Response:** Concur. JWA has evaluated Vanguard's adjustments for customer satisfaction made at the counter and has determined that these adjustments should not be excluded from gross receipts reported to the County. Vanguard has been notified to immediately discontinue the practice of reducing gross receipts reported to the County for customer satisfaction adjustments made at the counter.

### **Monthly Gross Receipt Statement**

**Finding No. 2:** The Monthly Gross Receipt Statement submitted by Vanguard does not include a calculation to determine rent due versus rent paid to date for the accounting year, as required by Clause 15 of the Agreement. In 2002 and 2003, Vanguard overpaid rent as a result. Vanguard subsequently received a credit of \$111,625.

**Recommendation No. 2:** We recommend that JWA require Vanguard to submit Monthly Gross Receipt Statements in the form prescribed by Clause 15 of the Agreement.

**JWA Response:** Concur. JWA has informed Vanguard that the appropriate monthly gross receipts statement must be submitted. Vanguard has been provided with an example of a form satisfying the requirements of the lease for reference.





## **ATTACHMENT A: Report Item Classifications**

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For purposes of reporting our audit observations and recommendations, we will classify audit report items into three distinct categories:

### **Material Weaknesses:**

Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address “Material Weaknesses” brought to their attention immediately.

### **Significant Issues:**

Audit findings or a combination of Control Findings that represent a deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

### **Control Findings:**

Audit findings that require management’s corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.





# MEMO



September 27, 2005

**TO:** Peter Hughes, Ph.D, CPA, Director of Internal Audit  
**FROM:** *Alan L. Murphy*  
Alan L. Murphy, Airport Director  
**SUBJECT:** Limited Review of Lease Revenue for Vanguard Car Rental USA, Inc.  
Parcel No. PM 1121-390-28  
Audit No. 2540

RECEIVED  
INTERNAL AUDIT DEPARTMENT  
2005 SEP 29 PM 2:47

This is in response to Internal Audit Department's review of certain records and documents related to lease revenue for the period from September 1, 2004 through January 31, 2005 for Vanguard Car Rental USA, Inc. (Vanguard) for the operation of a rental car concession at John Wayne Airport. The review found that Vanguard has retained sufficient documentation to adequately support monthly gross receipts reported to the County of Orange. No material weaknesses or significant issues were identified. Two reportable conditions related to compliance with the Agreement were identified as presented below:

1. Customer Adjustments Deducted from Gross Receipts

Vanguard reduces gross receipts reported to the County for customer satisfaction adjustments made at the counter. During the 5-month review period of September 2004 through January 2005, Vanguard reduced gross receipts by \$23,542 for these adjustments. If these adjustments are determined to be improper, rent would not be owed to the County because Vanguard would still not exceed the minimal annual rent owed for the period. The lease agreement however does not specifically allow these adjustments to be deducted from gross receipts.

**Recommendation No. 1:** We recommend that JWA evaluate whether adjustments for customer satisfaction are excludable from gross receipts.

**JWA Response:** Concur. JWA has evaluated Vanguard's adjustments for customer satisfaction made at the counter and has determined that these adjustments should not be excluded from gross receipts reported to the County. Vanguard has been notified to immediately discontinue the practice of reducing gross receipts reported to the County for customer satisfaction adjustments made at the counter.

**Estimated Completion:** Immediate implementation.

S/realst/gdennis/vanguardauditmemo



## ATTACHMENT B: John Wayne Airport Management Responses (con't)

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Peter Hughes, Ph.D, CPA  
Vanguard Car Rental USA, Inc. (PM 1121-390-28)  
Audit No. 2540  
Page 2

2. Monthly Gross Receipts Statement

The Monthly Gross Receipt Statement submitted by Vanguard does not include a calculation to determine rent due versus rent paid to date for the accounting year, as required by Clause 15 of the Agreement.

**Recommendation No. 3:** We recommend that JWA require Vanguard to submit Monthly Gross Receipt Statements in the form prescribed by Lease Clause 15.

**JWA Response:** Concur. JWA has informed Vanguard that the appropriate monthly gross receipts statement must be submitted. Vanguard has been provided with an example of a form satisfying the requirements of the lease for reference.

**Estimated Completion:** Immediate implementation.

cc: Loan Leblow, Assistant Airport Director  
Lori Peters, Deputy Airport Director, Finance & Administration  
Sharon Tabata, Accounting Manager

S/realest/gdennis/vanguardauditmemo

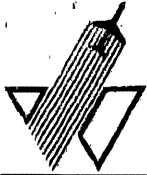


**ATTACHMENT B: John Wayne Airport Management Responses (con't)**

SEP. 29. 2005

3:54PM

NO. 448 P. 2/2



**JOHN WAYNE  
AIRPORT**

Orange County, California

Alan L. Murphy  
Airport Director

PM 1121-390-28  
John Wayne Airport

August 25, 2005

Via Fax and Certified Mail

Mr. Scott Francis  
Controller, Accounting  
Vanguard Car Rental USA, Inc.  
6929 N. Lakewood Avenue, Suite 100  
Tulsa, OK 74117-1808

Re: Limited Review of Lease Revenue

Dear Mr. Francis:


As you are aware, a limited review of lease revenue for Vanguard Car Rental USA, Inc. ("Vanguard") for the period from September 1, 2004 through January 31, 2005 has been completed.

In connection with the review, and in accordance with the lease governing activity, please note the following regarding Vanguard's operating practices at John Wayne Airport:

- Vanguard reduces gross receipts reported to the County for customer satisfaction adjustments made at the counter. Vanguard reduced gross receipts by \$23,542 during the 5-month review period for these adjustments. The Lease Agreement does not specifically allow these adjustments to be deducted from gross receipts. Therefore, effective immediately, please discontinue this practice when reporting gross receipts to John Wayne Airport.
- The Monthly Gross Receipts Statement submitted by Vanguard does not include a calculation to determine rent due versus rent paid to date for the accounting year, as required by Clause 15 of the Agreement. Effective immediately and for all future reporting of gross receipts to John Wayne Airport, please submit a Gross Receipt Statement in the form prescribed by Lease Clause 15. An example of a form which satisfies the requirements of Lease Clause 15 has been separately forwarded for your reference.

Please forward written acknowledgement of your receipt of this letter, and Vanguard's agreement to modify its operating practices accordingly, at your soonest convenience. Thank you for your attention to these important matters. If you have any questions, please contact me at 949.252.5232 or via e-mail to [gdennis@ocair.com](mailto:gdennis@ocair.com).

Best Regards,

  
Gail Dennis  
Real Property Agent  
Business Development

CC: Lori Peters, Deputy Airport Director, Finance & Administration  
Sharon Tabata, Manager, JWA Accounting  
David DeLeon, Manager, Business Development

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