
CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR



Audit of the Aviation Department
Rental Car Concession Agreements Audit
Project No. AU19-004
July 17, 2019

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Aviation Department, specifically the Rental Car Concession Agreements. The audit objectives, conclusions, and recommendations follow:

Determine if Aviation rental car concession agreements are adequately managed and City concession receipts are accurate.

Overall, internal controls need improvement to ensure the City's Rental Car Concession Agreements are properly managed and are in compliance with key contractual terms.

We recommend that the Aviation Department:

- Develop a Contract Administration Plan (CAP) for all contracts to ensure that essential tasks are performed, periodic reviews and monitoring are completed.
- Enforce contract terms requiring concessionaires to provide timely annual statements that are certified by an independent third party indicating that all gross sales have been accurately reported to the City.
- Reduce the scope of compliance audits to increase number of compliance audits performed on an annual basis.

Aviation Management agreed with the audit findings and has developed positive action plans to address them. Management's verbatim response is in Appendix B on page 6.

Table of Contents

Executive Summary	i
Background.....	1
Audit Scope and Methodology	2
Audit Results and Recommendations	3
Inadequate Contract Monitoring	3
A. Insurance Coverage	3
B. Annual Certified Statements	3
C. Compliance Audits.....	3
Appendix A – Staff Acknowledgement.....	5
Appendix B – Management Response.....	6

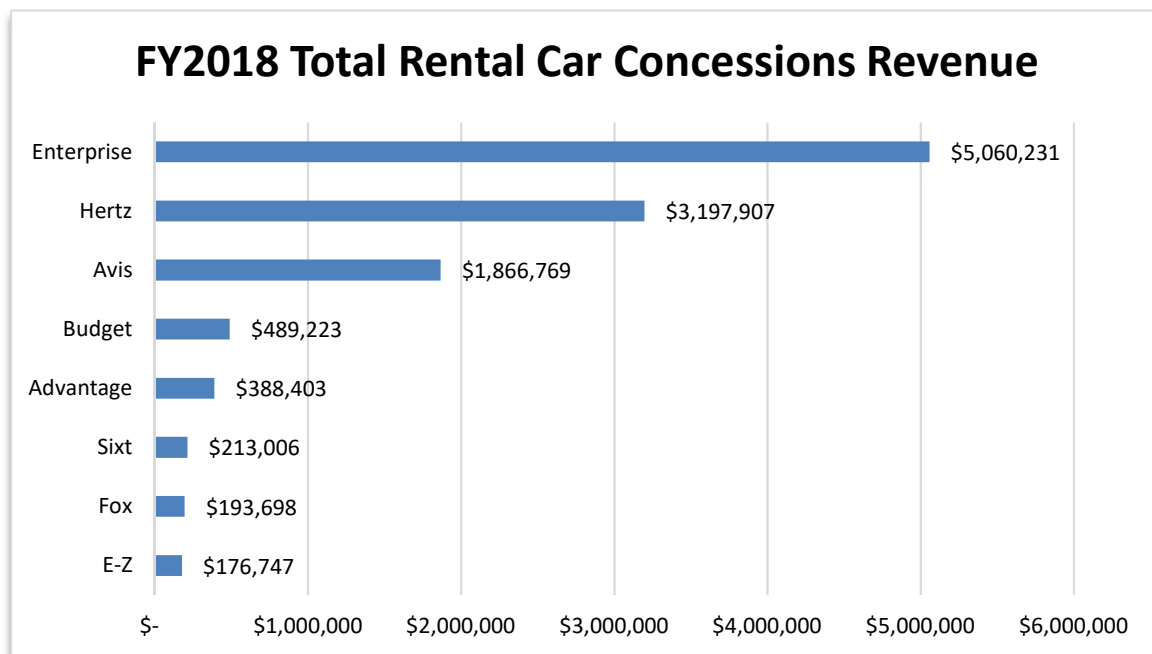
Background

The San Antonio International Airport (SAT) opened the newly constructed Consolidated Rental Car Facility (CONRAC) on January 18, 2018. This seven story, 1.8 million square foot facility improves the rental car and parking experience for millions of the City's visitors by centralizing the car rental facilities in one location on airport property, as well as replacing the Airport's short term public parking garage.

The Aviation Properties and Concessions Department oversees the rental car companies operating at the San Antonio Airport. The SAT contracts with eight different entities through formal agreements to provide on-site rental car services to customers. According to the agreements, rental car companies must pay the City Rental Car Concession Revenue.

Rental Car Concession Revenue consists of three categories; Ground Rent which is \$1.00 per square foot of leased space, Minimum Annual Guaranteed Payments, and ten percent of rental car company's gross revenue earned at the airport.

In fiscal year 2018, SAT received \$11,585,985 in Rental Car Concession Revenue, which is approximately 11% of total Airport operating revenue of \$100,976,000. Graph 1 below presents the revenue generated by each rental car company for FY2018.



Audit Scope and Methodology

The audit scope included all Rental Car Concession agreements and Rental Car Concession revenue received during fiscal year 2018.

We interviewed management and key staff from Aviation to obtain an understanding of how concession contracts are monitored and how payments are received and processed. We used the contract terms and COSA Procurement Policy and Procedures Manual as criteria for our test work.

We determined compliance with key terms of the contracts, we reviewed documentation including insurance certificates, monthly revenue and commission reports, Aviation monitoring and tracking spreadsheets, and annual certified reports received from concessionaires. Testing included evaluating whether the supporting documents obtained were appropriate, sufficient and in compliance with the agreements.

We relied on computer-processed data in SAP, the City's accounting system, to validate the payments received from concessionaires. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Results and Recommendations

Insufficient Contract Monitoring

The Aviation department does not have effective monitoring controls in place to ensure compliance with several key contractual terms outlined in the Rental Car Concession agreements. Additionally, written procedures do not exist to document processes for contract monitoring.

Consequently, the following deficiencies were identified:

A. Insurance Coverage

The Aviation department did not capture changes in the agreement's insurance coverage requirements following the completion of the Consolidated Rental Car Facility (CONRAC) on January 18, 2018. Per Article 9 Insurance, the rental car company is required to have Business Income insurance and pollution coverage.

As a result, 3 of the 8 rental car companies did not have Business Income insurance and had insufficient pollution coverage. Insufficient insurance coverage in these areas creates additional unnecessary risk exposure for the City.

B. Annual Certified Statements

The Aviation department received 5 of the 8 annual certified statements more than 120 days after the fiscal year end. Furthermore, 2 of the most recent reports submitted were certified by an employee within the company.

The annual certified statements are to be received from the operator within 120 days of fiscal year end as noted on Article 4.6 Operator Audit of the agreements.

C. Compliance Audits

The Aviation department is performing one comprehensive compliance audit on an annual basis. At the current rate, each rental car company would be audited once every eight years. Best practices for auditing suggests that frequent audits allow management to inspect transactions and controls on a continuous basis, thus reducing the financial risk incurred by the City. Frequent compliance audits combined with CPA Annual Statements will provide added reliability on the monthly self-reported concessions revenue reports.

Overall, the Aviation department will benefit from the implementation of the City's Procurement Policy and Procedures Manual, Section 7.3, Contract Administration Planning (CAP). The design and maintenance of a CAP will highlight the

monitoring tasks to perform and the frequency of actions to be taken. The manual also provides an insurance checklist to be used by the reviewer.

Without a standard process in place for monitoring of contracts, detection of issues and non-compliance with contract terms may not be identified in a timely manner which could cause financial and operational risk to the City. Likewise, without standard procedures in place for reviewing the fiscal processes, the risk of lost revenue or misstated revenue increases.

Recommendations

The Aviation Director should:

1. Develop a Contract Administration Plan (CAP) for all contracts to ensure that essential tasks are performed, periodic reviews and monitoring are completed, and that essential support documentation is maintained. Additionally, the Insurance Checklists provided in the Procurement Policy and Procedures Manual should be used.
2. Enforce contract terms requiring concessionaires to provide timely annual statements that are certified by independent third party indicating that all gross sales have been accurately reported to the City.
3. Increase the number of compliance audits performed on an annual basis. This could be done by reducing the scope period or narrowing the review based upon past performance.

Appendix A – Staff Acknowledgement

Gabriel Trevino, CISA, Audit Manager
Judith Flores, CPA, Auditor in Charge

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

June 26, 2019

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for Aviation's Rental Car Concession Agreement Audit

Aviation has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	Insurance Coverage Develop a Contract Administration Plan (CAP) for all contracts to ensure that essential tasks are performed, periodic reviews and monitoring are completed, and that essential support documentation is maintained. Additionally, the Insurance Checklists provided in the Procurement Policy and Procedures Manual should be used.	3	Accept	Steven Milburn, Properties and Concessions Manager	July 15, 2019
Action plan: CAPs for all the Rental Car Contracts were completed June 14, 2019. Effective July 15, 2019, a contract with MyCOI ("My Certificate of Insurance") will be initiated, addressing all our contract insurance requirements. MyCOI is a web-based company which employs insurance professionals to ensure that each contract has the proper insurance certificates. MyCOI insurance professionals communicate directly with insurance agents to make sure each contract is compliant. In addition, a customized dashboard will allow us to view the status of each individual contract status at any given date. MyCOI will bring more Properties professionals into the notification process, reducing to eliminating risk of compliance issues. MyCOI will also be able to incorporate the Insurance Checklist into their process to determine if a contract is in compliance with the insurance requirements of their contract. Until that time checklists will be completed by COB on July 1, 2019 for each car rental contract.					

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
2	Annual Certified Statements Enforce contract terms requiring concessionaires to provide timely annual statements that are certified by independent third party indicating that all gross sales have been accurately reported to the City.	3	Accept	Steven Milburn, Properties and Concessions Manager	June 6, 2019
Action plan: Reminder "ticklers" have been input into Property Management Information System (PMIS) for all the Rent-A-Car (RAC) contracts which will generate reminder emails that the annual statements are due. The reminder emails are programed to be sent 30 days before the end of the fiscal year, end of the fiscal year and 30 days after the fiscal. If the annual statements are still not received by the required date, late fee penalties will be issued in accordance with the agreement.					
3	Compliance Audits Increase the number of compliance audits performed on an annual basis. This could be done by reducing the scope period or narrowing the review based upon past performance.	3	Accept	Arthur Arispe Compliance Manager	June 26, 2019
Action plan: The number of car rental compliance reviews will increase to three (3) per fiscal year by narrowing the scope of the reviews. However, if the results reveal a discrepancy of more than five percent (5%) for the scope of the audit period, a third party private firm will be solicited to perform a comprehensive audit with an extended scope. In the event the results of the contracted audit reveals for any twelve (12) month audit period a discrepancy of more than three percent (3%), the full cost of the audit will be paid by the car rental agency as prescribed in Consolidated Rental Car Center Facility (CONRAC) Rental Car Concession Agreement.					

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,


 Russell J. Handy
 Director

7/1/19
 Date


 Carlos J. Contreras, III
 Assistant City Manager
 City Manager's Office

7/1/19
 Date