INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

Integrity
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LIMITED REVIEW OF LEASE REVENUE FOR ENTERPRISE RENT-A-CAR COMPANY OF LOS ANGELES

For the Period
January 1, 2004 through December 31, 2004

AUDIT NUMBER: 2541 REPORT DATE: JUNE 30, 2005

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LIMITED REVIEW OF LEASE REVENUE FOR ENTERPRISE RENT-A-CAR COMPANY OF LOS ANGELES

For the Period from January 1, 2004 through December 31, 2004

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COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT

OFFICE OF THE DIRECTOR

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Transmittal Letter

Audit No. 2541

June 30, 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 Enterprise Rent-A-Car Company of Los Angeles - Parcel No. PM 1121-390-26

We have completed our limited review of lease revenue for Enterprise Rent-A-Car Company of Los Angeles for the period from January 1, 2004 through December 31, 2004. 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.

The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.

As the Director of Internal Audit Department, effective December 14, 2004, 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 have attached a Customer Survey of Audit Services. 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
Vicki Wilson, Deputy CEO, Infrastructure & Environmental Resouces
Loan Leblow, Assistant Airport Director
Michael VandenBergh, Deputy Airport Director, JWA/Business Development
David De Leon, Manager, JWA/Parking, Ground Transportation and Special Projects
Lori Peters, Deputy Airport Director, JWA/Finance & Administration
Frank Davies, Accounting Manager, JWA/Accounting
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

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INTERNAL AUDIT DEPARTMENT

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INTERNAL AUDITOR'S REPORT

Audit No. 2541

June 30, 2005

TO: Alan L. Murphy, Director
John Wayne Airport

SUBJECT: Limited Review of Lease Revenue for Enterprise Rent-A-Car Company of Los Angeles - Parcel PM 1121-390-26

We have performed a limited review of certain records and documents for the year ended December 31, 2004, pertinent to the lease agreement (Agreement) between the County of Orange (County) and Enterprise Rent-A-Car Company of Los Angeles (Enterprise), 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 Enterprise'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 Enterprise 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 four reportable conditions 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 Enterprise, 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 Department

The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.

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
- Vicki Wilson, Deputy CEO, Infrastructure & Environmental Resouces
- Loan Leblow, Assistant Airport Director
- Michael VandenBergh, Deputy Airport Director, JWA/Business Development
- David De Leon, Manager, JWA/Parking, Ground Transportation and Special Projects
- Lori Peters, Deputy Airport Director, JWA/Finance & Administration
- Frank Davies, 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 the Enterprise Rent-A-Car Company of Los Angeles (Enterprise) for the primary purpose of determining whether Enterprise's records adequately supported their monthly gross receipts reported to the County.

BACKGROUND

The County of Orange entered into a lease agreement (Agreement) with Enterprise, dated December 14, 2000, for the operation of a rental car concession at John Wayne Airport. Enterprise typically generates 4,000 to 5,000 car rental agreements per month. In 2004, Enterprise generated approximately $8 million in gross receipts and paid the County over $1.1 million in rent.

SCOPE

Our review was limited to certain records and documents that support Enterprise's gross receipts reported to the County for the period from January 1, 2004 to December 31, 2004. 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 Enterprise 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 four reportable conditions 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

1. **Supporting Documentation**

We noted the following areas where supporting documentation and related procedures should be enhanced to help ensure completeness of gross receipts reported to the County.

A. **Missing Rental Agreements**

During our review, Enterprise was unable to provide the original rental agreement signed by the customer for 4 out of 15 agreements requested. We were told the rental agreements were misfiled and could not be located. Clause 17 of the Agreement requires Enterprise to maintain adequate source documentation to support their records and gross receipts reported to the County. Although Enterprise was able to provide us with electronic copies of the missing rental agreements, the original agreement signed by the customer is the best third party evidence the rental charges are complete and accurate

Recommendation No. 1.A: We recommend that JWA require Enterprise to maintain, retain, and be able to access complete original rental agreement supporting documentation.

JWA Response: Concur. John Wayne Airport has informed Enterprise that original rental agreement supporting documentation must be readily accessible.

Estimated Completion: Immediate implementation.

B. **General Ledger Supporting Documentation**

Enterprise utilizes the ECARS (Enterprise Computer Assisted Rental System) to track customer rentals and to record customer deposits and payments. At the end of the month, Enterprise generates an Airport Concession Fee Report from ECARS of all rental agreements closed during the month. Enterprise uses this report to prepare the monthly gross receipts statement submitted to the County. Rental transaction information from ECARS is also uploaded and recorded to Enterprise's general ledger. Our review of Enterprise's general ledger noted the following:

- Enterprise was unable to provide supporting documentation for certain revenue transactions recorded directly to the general ledger (not uploaded from ECARS). Enterprise explained that its accounting system automatically records certain transactions (such as month-end accruals and adjustments to properly calculate commissions paid to Enterprise management) to the general ledger. Since these transactions are system generated, Enterprise informed us that source documentation is unavailable.

Clause 17 of the Agreement requires Enterprise to maintain records of all financial transactions in the operation of all business activities.

Recommendation No. 1.B: We recommend that JWA require Enterprise to maintain adequate documentation to support system generated transactions recorded in its general ledger.

JWA Response: Concur. John Wayne Airport has informed Enterprise that adequate documentation to support system generated transactions must be maintained. Enterprise is evaluating the feasibility of creating a flow chart to clarify and document system generated transactions recorded in its general ledger.

Estimated Completion: A flow chart, clarifying and documenting system generated transactions recorded in the general ledger, will be created and made available by December 30, 2005.

2. Debit Card Deposits

Enterprise requires a deposit to rent a car. Typically, customers use a credit card to hold the deposit. The credit card is not charged until the rental agreement is closed, at which time the revenue is appropriately reported as gross receipts to the County. Occasionally, however, customers use a debit card to pay for the deposit requirement. In those instances, the debit card is charged immediately. Enterprise reports the debit card deposits in the month the rental agreement is closed, rather than when received. Clause 14.C of the lease agreement requires Enterprise to report deposits in gross receipts.

Based on our review, net debit card deposits appear to be relatively small. Enterprise's current practice of reporting debit card deposits results in a timing difference in reporting and does not result in additional rent due to the County.

Recommendation No. 2: We recommend that JWA require Enterprise to report debit card deposits in gross receipts when received or provide written approval allowing Enterprise to continue their practice of reporting debit card deposits when the rental agreement is closed.

JWA Response: Concur. Enterprise will be allowed to continue its current practice of reporting debit card deposits when the rental agreement is closed. Reporting gross receipts in this manner does not significantly affect rent due JWA. Differences are not material and relate to timing.

Estimated Completion: Written approval, allowing Enterprise to continue their current practice in this manner as recommended, will be completed by June 30, 2005.

3. Monthly Gross Receipt Statement Provided to the County

The Monthly Gross Receipt Statement submitted by Enterprise is not certified under penalty of perjury and does not include the total rent previously paid for the accounting year as required by Clause 15 of the Agreement.

Recommendation No. 3: We recommend that JWA require Enterprise to submit Monthly Gross Receipt Statements certified under penalty of perjury and to include total rent previously paid for the accounting year.

JWA Response: Concur. JWA has informed Enterprise that the appropriate monthly gross receipts statement must be submitted. Enterprise was unaware that they were utilizing an incorrect format for this reporting. They will be provided with the correct reporting format and it will be immediately implemented into Enterprise's reporting procedures.

Estimated Completion: Immediate implementation.

ATTACHMENT A: Report Item Classifications

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

- **Material Weaknesses:** Audit findings that can result in significant financial liability and exposure to a department/agency and to the County as a whole. Management is expected to immediately address "Material Weaknesses" brought to their attention.
- **Significant Issues:** Audit findings that represent a significant deficiency in the design or operation of processes or internal controls.
- **Reportable Conditions:** Audit findings that require management's corrective action to implement or enhance processes and internal controls.

MEMO

RECEIVED
INTERNAL AUDIT DEPARTMENT
2005 JUN 29 PM 2:53

June 27, 2005

TO: Peter Hughes, Ph.D, CPA, Director of Internal Audit

FROM: Alan L. Murphy, Airport Director

SUBJECT: Limited Review of Lease Revenue for Enterprise Rent-A-Car
Parcel No. PM 1121-390-26
Audit No. 2541

This is in response to Internal Audit Department's review of certain records and documents related to lease revenue for the year ended December 31, 2004, for Enterprise Rent-A-Car of Los Angeles (Enterprise) for the operation of a rental car concession at John Wayne Airport. The review found that Enterprise has retained sufficient documentation to adequately support monthly gross receipts reported to the County. No material weaknesses or significant issues were identified. Four reportable conditions related to compliance with the Agreement were identified as presented below:

1.A. Missing Rental Agreements

Clause 17 of the Agreement requires Enterprise to maintain adequate source documentation to support their records and gross receipts reported to the County. Enterprise was unable to provide the original rental agreement signed by the customer for 4 out of 15 agreements requested. Although Enterprise was able to provide electronic copies of the missing rental agreements, the original agreement signed by the customer is the best third party evidence the rental charges are complete and accurate.

Recommendation No. 1.A: We recommend that JWA require Enterprise to maintain, retain, and be able to access complete original rental agreement supporting documentation.

JWA Response: Concur. John Wayne Airport has informed Enterprise that original rental agreement supporting documentation must be readily accessible.

Estimated Completion: Immediate implementation.

S/realest/gdennis/enterpriseauditmemo

Peter Hughes, Ph.D, CPA
Enterprise Rent-A-Car (PM 1121-390-26)
Audit No. 2541
Page 2

1.B. General Ledger Supporting Documentation

Clause 17 of the Agreement requires Enterprise to maintain records of all financial transactions in the operation of all business activities. Enterprise utilizes the Enterprise Computer Assisted Rental System to track customer rentals and to record customer deposits and payments. Enterprise generates an Airport Concession Fee Report from their system to prepare the monthly gross receipts statement to be submitted to the County. Rental transaction information is uploaded and recorded to Enterprise's general ledger from this report. Enterprise was unable to provide supporting documentation for certain system generated transactions, which were not uploaded from the report, that were recorded directly to the general ledger. No source documentation was available for these system generated transactions.

Recommendation No. 1.B: We recommend that JWA require Enterprise to maintain adequate documentation to support system generated transactions recorded in its general ledger.

JWA Response: Concur. John Wayne Airport has informed Enterprise that adequate documentation to support system generated transactions must be maintained. Enterprise is evaluating the feasibility of creating a flow chart to clarify and document system generated transactions recorded in its general ledger.

Estimated Completion: A flow chart, clarifying and documenting system generated transactions recorded in the general ledger, will be created and made available by December 30, 2005.

2. Debit Card Deposits

Clause 14.C of the Agreement requires Enterprise to report deposits in gross receipts. Enterprise requires a deposit to rent a car. Typically, customers use a credit card to hold the deposit and the credit card is not charged until the rental agreement is closed. Occasionally customers use a debit card to pay the deposit and, in those cases, the deposit is reported immediately rather than when the rental agreement is closed. Enterprise's current practice of reporting debit card deposits results in a timing difference in reporting and does not result in additional rent due to the County.

Recommendation No. 2: We recommend that JWA require Enterprise to report debit card deposits in gross receipts when received or provide written approval allowing Enterprise to continue their practice of reported debit card deposits when the rental agreement is closed.

S/realest/gdennis/enterpriseauditmemo

Peter Hughes, Ph.D, CPA
Enterprise Rent-A-Car (PM 1121-390-26)
Audit No. 2541
Page 3

JWA Response: Concur. Enterprise will be allowed to continue its current practice of reporting debit card deposits when the rental agreement is closed. Reporting gross receipts in this manner does not significantly affect rent due JWA. Differences are not material and relate to timing.

Estimated Completion: Written approval, allowing Enterprise to continue their current practice in this matter as recommended, will be completed by June 30, 2005.

2. Monthly Gross Receipt Statement Provided to the County

The Monthly Gross Receipt Statement submitted by Enterprise is not certified under penalty of perjury and does not include the total rent previously paid for the accounting year as required by Clause 15 of the Agreement.

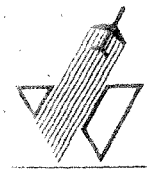
Recommendation No. 3: We recommend that JWA require Enterprise to submit Monthly Gross Receipt Statements certified under penalty of perjury and to include total rent previously paid for the accounting year.

JWA Response: Concur. JWA has informed Enterprise that the appropriate monthly gross receipts statement must be submitted. Enterprise was unaware that they were utilizing an incorrect format for this reporting. They will be provided with the correct reporting format and it will be immediately implemented into Enterprise's reporting procedure.

Estimated Completion: Immediate implementation.

cc: Loan Leblow, Assistant Airport Director
Mike VandenBergh, Deputy Airport Director, Business Development
Lori Peters, Deputy Airport Director, Finance & Administration
Frank Davies, Accounting Manager

S/realest/gdennis/enterpriseauditmemo



JOHN WAYNE AIRPORT
Orange County, California

Alan L. Murphy
Airport Director

May 16, 2005

Via Fax and Mail

Ms. Leslie Rudeseal
Regional Controller
Enterprise Rent A Car
18151 Beach Blvd.
Huntington Beach, CA 92648-1306

RE: PM1121-390-26
Limited Review of Lease Revenue
John Wayne Airport

Dear Ms. Rudeseal:

As you are aware, a limited review of lease revenue for Enterprise Rent A Car Company for the period from January 1, 2004 through December 31, 2004 has been completed.

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

- All original rental agreement supporting documentation must be readily accessible, effective immediately.
- Adequate documentation to support system generated transactions must be maintained. Enterprise is evaluating the feasibility of creating a flow chart to clarify the document system generated transactions recorded in its general ledger. The flow chart is targeted to be made available by December 31, 2005.
- Enterprise will be allowed to continue its current practice of reporting debit card deposits when the rental agreement is closed, since reporting in this manner does not affect rent due to John Wayne Airport. This letter will serve as written approval allowing Enterprise to continue this revenue reporting practice.
- A revised monthly gross receipts statement, incorporating the required information, must be utilized for all future reporting, effective immediately. Enterprise has received an example of a gross receipts statement that includes the required language.

1160 Airway Avenue
Costa Mesa, CA
[illegible]
[illegible]
[illegible]
[illegible]

Page Two
Enterprise/Review of Lease Revenue
May 16, 2005

Thank you for all of your attention to these important matters.
If you have any questions, please contact me directly at 949.252.5232
or via e-mail to gdennis@ocair.com.

Sincerely,

Gail Dennis
Business Development

CC: David DeLeon
Frank Davies
Amy Wong

18151 Beach Blvd.
Huntington Beach, CA 92648-1306
714-841-5779
714-841-8786 Fax

April 18, 2005

John Wayne Airport
3160 Airway Avenue
Costa Mesa, CA 92626

Attn: Gail Dennis, Real Property Agent

Dear Gail,

Per our phone conversation today and then your subsequent voice mail you left for me, I am putting our responses to the audit findings for the year ending December 31, 2004 in letter format on our corporate letterhead.

1A. Missing Rental Agreements--We have a special system with the John Wayne Airport Enterprise location to do our best to ensure complete accuracy. Rental contracts are hand delivered to the Regional Headquarters and not mailed to help ensure compliance. It is our goal to have 100% compliance in this area. This rental location on average for the two months that were audited wrote approximately 10,000 rental agreements and the four original documents that were not available were available electronically and given to the auditor.

1B. General Ledger Supporting Documentation-- As indicated in our statement to the auditor regarding our income cycle, the only way that income can be generated to a rental branch is through a rental contract. These contracts are itemized each month on the Concession Fee report which comes to us from our corporate office and ties to the general ledger. It was recommended that we have our IS Department create a flow chart which shows the flow of accruals and other general ledger items. I will contact them to see if this is possible.

2. Debit Card Deposits—We are currently not reporting debit card deposits as gross receipts on open rental agreements. This practice would be extremely difficult as we typically take more of a deposit than the revenue generated on a specific rental. Debit card net deposits are recorded at the conclusion of the rental and then included as part of the overall gross receipts. If we were in the practice of reporting open ticket deposits and paying these to the airport, we would be in a constant state of truing up these deposits and could be in a position of overstating revenues. We completely support JWA's efforts in

obtaining written approval to amend the agreement in this area and thank them for their understanding.

3. **Monthly Gross Receipt Statement Provided to the County**—We were not aware that the form we were currently using to send to the airport was not the correct form. We received this format originally from JWA and were under the impression that it was the current and correct format. We understand it has been recommended to JWA that they send us an updated form to use going forward. As soon as we receive the revised form from John Wayne Airport, we will implement it.

Thank you so much for all of the feedback and suggestions.

Sincerely,

Leslie Rudeseal
Regional Controller
Enterprise Rent A Car