



INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

Recipient of the Institute of Internal Auditors
Award for Excellence

Integrity ♦ Objectivity ♦ Independence

**LIMITED REVIEW OF
LICENSE REVENUE
COAST LEASING CORPORATION,
DBA ADVANTAGE RENT-A-CAR**

**For the Period
November 1, 2004 through October 31, 2005**

AUDIT NUMBER: 2581

REPORT DATE: September 06, 2006

Audit Director: Peter Hughes, Ph.D., CPA
Deputy Director: Eli Littner, CPA, CIA
Audit Manager: Autumn McKinney, CPA, CIA
Senior Auditors: Lily Chin, CPA
Susan Nestor, CPA, CIA

**Limited Review of License Revenue
Coast Leasing Corporation,
dba Advantage Rent-A-Car**

**For the Period
November 1, 2004 through October 31, 2005**

TABLE OF CONTENTS

Transmittal Letter.....	i
INTERNAL AUDITOR’S REPORT.....	1
EXECUTIVE SUMMARY	3
OBJECTIVES	3
BACKGROUND	3
SCOPE.....	3
CONCLUSION.....	3
DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES	4
Classification of Airport Customers	4
Reporting of Fuel Reimbursements	4
Amount of Security Deposit	5
ATTACHMENT A: Report Item Classifications	6
ATTACHMENT B: JWA Management Responses	7



COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT

Recipient of the Institute of Internal Auditors
Award for Excellence

Integrity ♦ Objectivity ♦ Independence

Office of the Director
DR. PETER HUGHES
Ph.D., MBA, CPA, CIA, CFE, CITP

MAILING ADDRESS:
400 CIVIC CENTER DRIVE WEST
BUILDING 12, ROOM 232
SANTA ANA, CALIFORNIA 92701

TELEPHONE: (714) 834-5475
FAX: (714) 834-2880

EMAIL: peter.hughes@ocgov.com
WEBSITE: www.ocgov.com/audit/

ELI LITTNER
CPA, CIA, CFE, CFS CISA
DEPUTY DIRECTOR

MICHAEL GOODWIN
CPA, CIA
AUDIT MANAGER

ALAN MARCUM
MBA, CPA, CIA, CFE
AUDIT MANAGER

AUTUMN MCKINNEY
CPA, CIA, CGFM
AUDIT MANAGER

Transmittal Letter

Audit No. 2581

September 6, 2006

TO: Alan L. Murphy, Director
John Wayne Airport

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

SUBJECT: Limited Review of License Revenue for Coast Leasing Corporation, dba
Advantage Rent-A-Car, PM 1121-0296-043

We have completed our limited review of license revenue for Coast Leasing Corporation, dba Advantage Rent-A-Car for the period November 1, 2004 through October 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 implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a Follow-Up Audit Report Form. John Wayne Airport 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 need to obtain the completed document to facilitate our review.

As the Director of Internal Audit, I now submit a monthly audit status report to the Board of Supervisors (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.

As always, the Internal Audit Department is available to partner with John Wayne Airport so they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations.

Additionally, we will be forwarding to John Wayne Airport a Customer Survey of Audit Services for completion. John Wayne Airport will receive the survey shortly after the distribution of this report.

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
Don Arthur, Deputy Airport Director, JWA/Finance and Administration
Sharon Tabata, Accounting Manager, JWA/Accounting
Scott Suzuki, Manager, JWA/Quality Assurance and Compliance
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors



COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT

Recipient of the Institute of Internal Auditors
Award for Excellence

Integrity ♦ Objectivity ♦ Independence

Office of the Director
DR. PETER HUGHES
Ph.D., MBA, CPA, CIA, CFE, CITP

MAILING ADDRESS:
400 CIVIC CENTER DRIVE WEST
BUILDING 12, ROOM 232
SANTA ANA, CALIFORNIA 92701

TELEPHONE: (714) 834-5475
FAX: (714) 834-2880

EMAIL: peter.hughes@ocgov.com
WEBSITE: www.ocgov.com/audit/

ELI LITTNER
CPA, CIA, CFE, CFS CISA
DEPUTY DIRECTOR

MICHAEL GOODWIN
CPA, CIA
AUDIT MANAGER

ALAN MARCUM
MBA, CPA, CIA, CFE
AUDIT MANAGER

AUTUMN MCKINNEY
CPA, CIA, CGFM
AUDIT MANAGER

INTERNAL AUDITOR'S REPORT

Audit No. 2581

September 6, 2006

TO: Alan L. Murphy, Director
John Wayne Airport

SUBJECT: Limited Review of License Revenue for Coast Leasing Corporation,
dba Advantage Rent-A-Car, PM 1121-0296-043

We have performed a limited review of certain records and documents for the period from November 1, 2004 through October 31, 2005, pertinent to the license agreement (Agreement) between the County of Orange (County) and Coast Leasing Corporation, dba Advantage Rent-A-Car (Advantage), dated October 2, 2002. The Agreement is limited to a license to transact off-airport rental car business on the premises of the John Wayne Airport.

The primary purpose of our review is to determine whether Advantage'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 Advantage 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 **five** control findings which are 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 Advantage, JWA/Business Development, and JWA/Accounting Services. If you have any questions regarding our limited review of license revenue, please call me directly or 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

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 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
Don Arthur, Deputy Airport Director, JWA/Finance and Administration
Sharon Tabata, Accounting Manager, JWA/Accounting
Scott Suzuki, Manager, JWA/Quality Assurance and Compliance
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

EXECUTIVE SUMMARY

OBJECTIVES

The Internal Audit Department conducted a limited review of license revenue for Coast Leasing Corporation, dba Advantage Rent-A-Car (Advantage) for the primary purpose of determining whether Advantage's records adequately supported their monthly gross receipts reported to the County.

BACKGROUND

The County of Orange entered into a license agreement (Agreement) with Coast Leasing Corporation, dba Advantage Rent-A-Car effective October 2, 2002, to transact an off-airport rental car business on the premises of John Wayne Airport. During the 12-month review period of November 1, 2004 through October 31, 2005, Advantage generated approximately \$2.3 million in gross receipts and paid the County \$160,388 in fees.

SCOPE

Our review was limited to certain records and documents that support Advantage's gross receipts reported to the County for the period November 1, 2004 to October 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 Advantage 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 **five** control findings which 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

Classification of Airport Customers

Clause 3 of the Agreement requires Advantage to report gross receipts to the County for all Airport Customers. Clause 3 also states that “It shall be presumed, unless proven otherwise, that a person is an Airport Customer while renting a vehicle from Applicant when the permanent mailing, business or residential address of a customer is located or stated as outside of Orange County.”

For the sample month of April 2005, Advantage reported 98% of gross receipts (\$136,117 of \$138,806) as Airport Customers.

Finding Nos. 1 and 2: For the sample month of April 2005, we reviewed 100% of the non-airport customer rental agreements. For 8 of these 12 rental agreements, the customers’ address was located outside of Orange County. Seven of the eight were located outside the State of California. The comment section of the rental agreements did not contain documentation of why these transactions were classified as “non-airport” customers. As such, these transactions should be classified as Airport Customers. We calculated that gross receipts were underreported for April 2005 by \$1,282 and additional fees of \$115 (9%) are owed to the County.

Recommendation No. 1: We recommend that JWA require Advantage to pay the \$115 additional fees owed for April 2005.

JWA Response: Concur. JWA, by letter dated August 14, 2006, has requested Advantage submit payment of the additional \$115 in fees owed by August 31, 2006.

Recommendation No. 2: We also recommend that JWA remind Advantage of the Agreement requirements regarding classifying customers with addresses located outside of Orange County as Airport Customers.

JWA Response: Concur. JWA, by letter dated August 14, 2006, has reminded Advantage of the requirements and requested their response and concurrence with the agreement requirements in all future reporting by August 31, 2006.

Reporting of Fuel Reimbursements

Clause 3B of the Agreement allows Advantage to exclude from gross receipts reimbursements from customers for fuel furnished at the inception of the rental (i.e. “prepaid” gas charges), which is separately identifiable on the original rental agreement. Any fuel reimbursements by customers that are not made under this “prepaid” exclusion are reportable to the County as gross receipts.

Finding Nos. 3 and 4: For the sample month of April 2005, we noted that Advantage deducted all fuel charges, including fuel charges that were not prepaid, from gross receipts. Advantage did not have a readily available report summarizing the non-prepaid fuel charges for the month. Therefore, we reviewed 98% of the rental agreements with any fuel charges for April 2005 and identified the fuel charges that were not prepaid. Based on this work, we calculated \$678 of underreported gross receipts, resulting in additional fees of \$61 (9%) owed to the County.



Recommendation No. 3: We recommend that JWA require Advantage to pay the \$61 additional fees owed for April 2005.

JWA Response: Concur. JWA, by letter dated August 14, 2006, has requested Advantage submit payment of the additional \$61 in fees owed by August 31, 2006.

Recommendation No. 4: We also recommend that JWA require Advantage to report non-prepaid fuel charges as gross receipts.

JWA Response: Concur. JWA, by letter dated August 14, 2006, has reminded Advantage of the reporting requirement and requested their response and concurrence with this reporting requirement in all future reports by August 31, 2006.

Amount of Security Deposit

The Agreement (Application, Clause 6) requires Advantage to provide an initial security deposit of four times the estimated monthly amount due to County or a minimum of \$10,000, whichever is greater.

Finding No. 5: Advantage currently has a \$10,000 security deposit with the County. Fees paid to the County during the review period amounted to an average of \$13,366 per month. Using this monthly average, the security deposit should be about \$53,000.

Recommendation No. 5: We recommend JWA evaluate whether Advantage should increase its security deposit.

JWA Response: Concur. JWA, by letter dated August 14, 2006, has requested Advantage increase their current security deposit of \$10,000 to \$54,412 by August 31, 2006. Additionally, JWA has revised the language regarding security deposit requirements in the current off-airport rental car agreement. This clarifies that the deposit be the greater of \$10,000 or approximately four (4) times the estimated monthly amount due to the County throughout the term of the agreement.



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 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 immediately address “Material Weaknesses” brought to their attention.

Significant Issues:

Audit findings or a combination of Control Findings that represent a significant 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



August 31, 2006

TO: Dr. Peter Hughes, Director
Internal Audit Department

FROM: *Loan Leblow for*
Alan L. Murphy, Airport Director
John Wayne Airport

SUBJECT: Response to the Internal Audit Department's Report on Limited Review of License Revenue for Coast Leasing Corporation, dba Advantage Rent-A-Car, No. 2581.

This is in response to the Internal Audit Department's review of certain records and documents related to license revenue for the period November 1, 2004 through October 31, 2005 for Coast Leasing Corporation, dba Advantage Rent-A-Car (Advantage), for the license to transact off-airport rental car business on the premises of John Wayne Airport.

The review found that Advantage has retained sufficient documentation to adequately support monthly gross receipts reported to the County of Orange. No material weaknesses or significant issues were identified.

Advantage has concurred with all five of the report's recommendations and will take corrective action immediately including issuing a payment to John Wayne Airport for additional fees and modifying the bond to increase their security deposit.

Our response has been reviewed and approved by the County Executive Office on August 30, 2006.

Attachment

cc: Loan Leblow, Assistant Airport Director
Don Arthur, Deputy Airport Director, Finance & Administration
Roy Freeman, Deputy Airport Director, Business Development
David De Leon, General Aviation & Ground Transportation Manager
Scott Suzuki, Quality Assurance & Compliance Manager
Sharon Tabata, Accounting Manager

RECEIVED
INTERNAL AUDIT DEPARTMENT
2006 SEP - 5 AM 10:46



JOHN WAYNE AIRPORT
Response to the Internal Audit Department's Report on
Limited Review of License Revenue for Coast Leasing Corporation, dba Advantage Rent-A-Car
Audit No. 2581

Recommendation No. 1:

We recommend that JWA require Advantage to pay the \$115 additional fees owed for April 2005.

JWA Management Response:

Concur. JWA, by letter dated August 14, 2006, has requested Advantage submit payment of the additional \$115 in fees owed by August 31, 2006.

Recommendation No. 2:

We also recommend that JWA remind Advantage of the Agreement requirements regarding classifying customers with addresses located outside of Orange County as Airport Customers.

JWA Management Response:

Concur. JWA, by letter dated August 14, 2006, has reminded Advantage of the requirements and requested their response and concurrence with the agreement requirements in all future reporting by August 31, 2006.

Recommendation No. 3:

We recommend that JWA require Advantage to pay the \$61 additional fees owed for April 2005.

JWA Management Response:

Concur. JWA, by letter dated August 14, 2006, has requested Advantage submit payment of the additional \$61 in fees owed by August 31, 2006.

Recommendation No. 4:

We also recommend that JWA require Advantage to report non-prepaid fuel charges as gross receipts.

JWA Management Response:

Concur. JWA, by letter dated August 14, 2006, has reminded Advantage of the reporting requirement and requested their response and concurrence with this reporting requirement in all future reports by August 31, 2006.

Recommendation No. 5:

We recommend that JWA evaluate whether Advantage should increase its security deposit.

JWA Management Response:

Concur. JWA, by letter dated August 14, 2006, has requested Advantage increase their current security deposit of \$10,000 to \$54,412 by August 31, 2006. Additionally, JWA has revised the language regarding security deposit requirements in the current off-airport rental car agreement. This clarifies that the deposit be the greater of \$10,000 or approximately four (4) times the estimated monthly amount due to the County throughout the term of the agreement.

