

OFFICE OF THE CITY CONTROLLER



**AVIATION DEPARTMENT
REVENUE COMPLIANCE REVIEW
BUDGET RENT A CAR SYSTEMS, INC.
FOR THE PERIOD OF APRIL 1, 1994
THROUGH MARCH 31, 1997**

Sylvia R. Garcia, City Controller

Judy Gray Johnson, Chief Deputy City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

SYLVIA R. GARCIA

December 13, 1999

The Honorable Lee P. Brown, Mayor
City of Houston, Texas

SUBJECT: Aviation Department
Revenue Compliance Review – Budget Rent A Car Systems, Inc.
(Report No. 99-12)

Dear Mayor Brown:

At the request of the Aviation Department and in accordance with the City's contract with Mir Fox & Rodriguez, P.C. (MFR), MFR has completed a review of the Aviation Department's concessionaire, Budget Rent A Car Systems, Inc (Budget). The scope period covered activity from April 1, 1994 through March 31, 1997.

MFR designed the review to determine whether revenues were reported and remitted to the City of Houston properly and accurately according to contract terms. Their report, attached for your review, noted that during the review period MFR had inadequate documentation to determine whether Budget's rental car gross receipts reported to the City were accurate and that differences, if any, were reconciled and reported. Draft copies of the report were provided to Department officials. The findings and recommendations are presented in the body of the report and management's response is appended as Exhibit I.

We appreciate the cooperation extended to the MFR auditors by Department personnel during the course of the review.

Respectfully submitted,


Sylvia R. Garcia
City Controller

xc: City Council Members
Albert E. Haines, Chief Administrative Officer
Sara Culbreth, Acting Director, Finance and Administration Department
Richard Vacar, Director, Aviation Department
Peter Wemple, Vice-President, Budget Rent A Car Systems, Inc.

901 BAGBY, 8TH FLOOR • P.O. BOX 1562 • HOUSTON, TEXAS 77251-1562
PHONE: 713-247-1440 • FAX: 713-247-3181
E-MAIL: ctrsrg@ctr.ci.houston.tx.us

November 8, 1999

Honorable Sylvia R. Garcia, City Controller
City of Houston
901 Bagby, 8th Floor
Houston, Texas 77002

Dear Controller Garcia:

In connection with the City Controller's Audit Plan, we have completed a review of gross receipts reported to the City of Houston's Aviation Department (Aviation) by Budget Rent A Car Systems, Inc. (Budget). Budget pays Aviation a fee for using the airport facilities on the basis of gross receipts from its airport operations. Since April 1, 1995, Budget's rental car operations are governed by concession agreement number C34986 at George Bush Intercontinental Airport (IAH) and C34977 at William P. Hobby Airport (Hobby), collectively (the Contracts). Prior to April 1, 1995, Budget's rental car operations were governed by concession agreement number 29833 at George Bush Intercontinental Airport and 29310 at William P. Hobby Airport (Hobby).

Our review was limited to determining whether Budget's rental car gross receipts reported to the City were accurate and that differences, if any, were reconciled and reported in accordance with the terms of the Contracts and the Ordinances. The scope of the review was for the period from April 1, 1994 through March 31, 1997 and consisted of the following procedures:

- Obtained and read the Contracts and the Ordinances and, through discussions with Aviation personnel, developed an understanding of their definition of revenues includable in gross receipts.
- Reviewed the processes Budget used to record and report gross receipts.
- Performed a trend analysis of gross receipts and exclusions for the test period, discussed unusual trends with Budget personnel and investigated unusual trends as appropriate.
- Verified that Budget accurately reported gross receipts by testing a sample of 24 rental agreements.

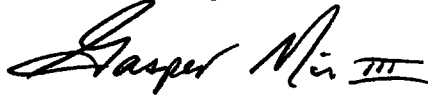
Honorable Sylvia R. Garcia, City Controller
November 8, 1999
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Our procedures were performed through August 20, 1998 and have not been updated since that date. During our review, Budget was not able to provide certain source documentation; accordingly, the scope of our procedures were limited. We had inadequate documentation to determine whether Budget's rental car gross receipts reported to the City were accurate and that differences, if any, were reconciled and reported. The findings described on the following pages of this report are the only significant matters that came to our attention based on the procedures performed.

Mir•Fox & Rodriguez, P.C. is pleased to have assisted you with this project and we appreciate the assistance and cooperation of Budget's and Aviation's personnel.

Very truly yours,

Mir•Fox & Rodriguez, P.C.

A handwritten signature in black ink that reads "Gasper Mir, III". The signature is written in a cursive style with a prominent "G" and "M".

Gasper Mir, III
Principal

GM/mns

**CITY OF HOUSTON
BUDGET RENT A CAR SYSTEMS, INC.**

Background

Under contracts numbered C34986 and C34977, Budget is required to maintain books and records to support the "gross sales reported" and the corresponding fees paid to the City. Article V (B), Rights and Duties of the City, Audits and Enforcement, of the City's current Contracts states that the "Operator shall maintain all books and records relating to operations under this Automobile Rental Concession Agreement for a period of at least (3) three years after expiration or termination hereof".

Budget's process for recording rental revenues starts with the initiation of the rental agreement at the IAH and Hobby locations: The customer and rental data are entered into Budget's nationwide accounting system which processes rental agreements on-line. The open signed rental agreements are sent to a contracted microfilm company on a weekly basis for microfilming. These agreements are destroyed after filming. However, after the customer returns the rented automobile, the rental agreement is closed in the computer system. Each day the rental agreements are summarized into a Daily Report. Daily Reports are summarized into Weekly Reports. The Weekly Reports are posted to the General Ledger (G/L). From the G/L each month, a Financial Report (FINRPT) is produced that is used as a basis for determining the "gross sales reported" to the City.

Finding and Recommendation

Finding:

In our fieldwork in Budget's Orlando offices during the period August 17, 1998 through August 20, 1998, the following records were not available for our review:

- G/L for IAH; the periods April 1994 through March 1995.
- G/L for Hobby; the periods April 1994 through March 1996.
- FINRPT for IAH; the periods April 1994 through March 1995.
- FINRPT for Hobby; the periods April 1994 through March 1995 and September 1996 through March 1996.
- Weekly and Daily Summaries for IAH and Hobby; the periods April 1994 through June 1996.
- Microfilm copies of open rental agreements; the periods April 1994 through January 1997.

According to Budget's management, these records may no longer be available and can not be electronically retrieved from their accounting system. Budget's management also stated that they moved their accounting function from Chicago, Illinois to Orlando, Florida about a year ago and some of their records have not been located. Due to the unavailability of the records mentioned above, the scope of our audit testing and analysis was greatly limited.

Recommendation:

To be in compliance with the intent and purpose of the provisions of the Contracts, Budget should develop a process to ensure that documentation, relating to the IAH and Hobby revenues, will be retained for the period specified within the Contracts. Budget should send documentation of the new process to Aviation for their review and periodic follow-up.

Background

Budget pays Aviation a fee for using the airport facilities on the basis of "gross sales reported" from IAH and Hobby airport operations. Article IV (J) (5), Rights and Duties of Operator, Compensation to the City, of the City's current Contracts with Budget states "...With each monthly payment, Operator shall provide a monthly sales report containing separate daily records of Gross Revenue and showing in detail all business done or transacted in or about, from or pertaining to the Airport. Any such records shall be kept in a manner that will clearly delineate where each transaction occurred". These Contracts also stipulate that "... It is the intent and purpose of the foregoing provisions that the Operator shall make available all such records, books and rental agreements as will enable the City as well as Operator to ascertain and determine, accurately and clearly, the amount of money payable to the City hereunder during the Term of this Agreement, as established by Article VI (A)".

Budget's accounting policy is to allocate revenue to the location that owns the vehicle and accordingly, their revenues are recorded by location in the G/L in accordance with this policy. In addition, Budget prepares the FINRPT that provides the total amount of revenue earned by each location regardless of which location owns the vehicle. The "gross sales reported" to the City includes the total revenue amount reported on the FINRPT plus phone rentals less insurance revenues from loss damage waivers.

Finding and Recommendation

Finding:

We compared revenues reported in the G/L and "gross sales reported" to the City for the audit period April 1994 through March 1997 and noted the following:

PERIOD	LOCATION	GENERAL LEDGER	GROSS SALES REPORTED	DIFFERENCE
April 1994 - March 1995	Hobby	\$8,470,321	8,714,433	\$ (244,112)
April 1995 - March 1996	Hobby	8,632,289	8,846,713	(214,424)
April 1996 - March 1997	Hobby	8,525,380	8,691,042	(165,662)
April 1994 - March 1995	IAH	6,594,515	6,908,983	(314,468)
April 1995 - March 1996	IAH	7,474,048	7,483,454	(9,400)
April 1996 - March 1997	IAH	8,200,249	8,451,937	(251,688)

Budget did not provide reconciliations nor did they provide adequate information to determine the nature of the differences noted above.

Budget had information available supporting the general ledger balances for the period July 1996 through March 1997. We selected the week of July 15, through July 21, 1996 to perform detailed testing which included agreeing revenues reported in the summary reports to the G/L. However, revenue amounts recorded in the G/L for the month of July 1996 did not agree to the "gross sales reported" to the City. Also, the amount of "gross sales reported" to the City did not agree to the FINRPT amount plus phone rentals less insurance revenues from loss damage waivers. Budget did not provide us with the reconciliations for these differences.

Recommendation:

To enable the City to determine that all gross receipts are included in the "gross sales reported" to the City, Budget should prepare and submit monthly reports to the City that reconcile amounts from the G/L, FINRPT and the "gross sales reported" for the period April 1994 to the present period.

Background

The City's Contracts with Budget for car rental operations at both Houston airports contain provisions which require the use of sequentially numbered rental agreements maintained in a manner which allows the City to determine the amount of car rental concessions due under the terms of the Contracts.

Article IV (F), Rights and Duties of the Operator, Documentation of Rental Agreements, of the City's current Contracts with Budget states that "Operator shall prepare and use serially numbered, written rental agreement for each customer who is supplied with an Automobile at the Airport and for each customer who is transported by Operator from the Airport to its Service Facilities...".

Budget's nationwide on-line rental agreement system is segregated by regions. All of Budget's rental offices in Houston, Oklahoma and Dallas are included in the Dallas region. Budget's system assigns numbers to each rental agreement in the order that the agreement is executed within the region.

Finding and Recommendation

Finding:

During our review of revenues relating to Budget's rental offices located at IAH and Hobby, inadequate information was provided to determine if all executed rental agreements pertaining to these locations were included in the "gross sales reported" amount. We were told that Budget's system could not generate a listing of serially numbered rental agreements for the audit period April 1994 through March 1995 for the IAH and Hobby rental offices.

Recommendation:

Budget should revise its rental agreement numbering process in order to be in compliance with the intent and purpose of the provisions of the Contracts regarding the availability of records, books and rental agreements enabling the City to determine that amount of "gross sales reported" is complete and accurate. As part of the process revision, Budget should also be able to identify the entire population of rental agreements by location for any audit period.

EXHIBIT 1

Peter H. Wemple
Vice President
Airport Affairs, Properties and Facilities



October 28, 1999

Gasper Mir, III
Principal
Mir, Fox & Rodriguez
One Riverway
Suite 1900
Houston, TX 77056

Re: Report of Mir, Fox & Rodriguez

Dear Mr. Mir:

This letter is in response to the three recommendations made by the report ("Report") of Mir, Fox & Rodriguez provided to Ms. Sylvia R. Garcia with a cover letter dated 1/27/99.

Regarding the first recommendation, Budget Rent a Car Systems, Inc. ("Budget") has developed and put into place a documentation process as recommended by the Report. Budget keeps paper copies of its documents by location for six months. It keeps a computer print out of the information from its documents for two years, and it keeps computer backup tape of this information for five years.

Regarding the second recommendation, Budget prepares and submits monthly financial reports to the City of Houston Department of Aviation ("Aviation") as recommended by the Report. These monthly financial reports record gross sales occurring at the Houston airports, including all transactions originating at the Houston airports which terminate at the Houston airports and which terminate at all other locations. Please note that the monthly general ledger for each Budget location does not contain this comprehensive information.

Regarding the third recommendation, Budget has put in place procedures which, as recommended by the Report, enable Aviation to determine that the amount of gross sales reported is complete and accurate. These procedures involve the comparison of all rental agreements opened at an airport location and the closing of those rental agreements, whether closed at the airport or at another location, and comparing this information with the information recorded on the monthly financial reports. Since Budget sequences its rental agreement numbering process by operating zone, which for the Houston area includes the locations at the Houston airports and the metropolitan Houston local market, Budget does not sequence its rental agreements by each location.

Budget Rent a Car Corporation
4225 Naperville Road
Lisle, Illinois 60532
Direct Phone: (630) 955-7205
Fax: (630) 955-7811

A wholly owned subsidiary of Budget Group, Inc., a publicly traded company - NYSE:BO

**Management
Response**

EXHIBIT 1

Gasper Mir, III
October 28, 1999
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Thank you for this opportunity to respond to the Report. If anything further is needed, please advise.

Very truly yours,



Peter H. Wemple
PHW:tt

Cc: Ms. Myrna Warford
Senior Manager – Finance Division
Houston Airport System
George Bush Intercontinental Airport
18930 JF Kennedy Blvd.
Houston, TX 77032

David Fiore

8451pw

**Management
Response**