



**Airport Car Rental and Parking
Contracts**

**Audit Report 13-02
December 2013**

December 10, 2013

Members of the City Council:

The Rapid City Regional Airport has lease and concession agreements (contracts) with private companies to provide parking and rental car services at the airport. Rental fees paid by these companies are a significant part of the Airport's overall operating budget. The Rapid City City Council approved this audit of airport car rental and parking contracts as part of the COMPASS 2013-2014 Audit Plan.

Effective controls over contract compliance require the development of policies and procedures, and consistently following established procedures. This will ensure that both the airport and the concessionaires are fulfilling the terms of these contracts.

In general the Rapid City Regional Airport and the rental car and parking lot concessionaires are in compliance with the terms of the contracts. Airport management's process for monitoring contract compliance by concessionaires is adequate to ensure contract compliance by concessionaires. Audit work identified several areas where improvements can be made.

The auditor has made four recommendations for improving the contract monitoring process and concessionaire compliance with contract terms. I provided the Mayor and the Airport Executive Director with a draft of this report on December 5, 2013. Management's response is included in this report. I thank the managers and employees at the Rapid City Regional Airport for their assistance with this audit.

I would be happy to discuss the audit conclusions, findings, and recommendations with any member of the City Council, City staff, or citizen.

Kelan Kelly
Chief Auditor

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Introduction

Contract and agreement audits are performed primarily to determine compliance with contract terms. These audits also determine if good business practices are being followed and adequate oversight is practiced. Opportunities to improve management control and reduce risk may be identified. Such audits consist of an objective review and evaluation of the policies, procedures and practices used by City employees to manage contracts.

This review of airport parking and rental car contracts focused primarily on the following three audit objectives:

1. Determine if Airport Department and concessionaires are in compliance with contract terms;
2. Determine if Airport Department policies, procedures and practices for monitoring contract performance are adequate to ensure contract compliance by concessionaires; and
3. Determine if improvements can be made to the contract compliance monitoring process.

Scope and Methodology

This audit focused on compliance with the terms of the lease and concession agreements (contracts) between the Rapid City Regional Airport and the concessionaires that provide parking and car rental services to airport patrons in effect from January 1, 2012 to October 31, 2013. The audit included policies and procedures used by Airport managers and staff to monitor vendor compliance with the terms of these contracts. It also included financial and performance reports submitted by concessionaires in 2012 and evidence of insurance for 2013.

In conducting this audit, staff employed a number of audit methods and techniques. Staff reviewed relevant literature on the control environment from COSO and GAO. Audit reports from other jurisdictions were reviewed. The auditor reviewed relevant City ordinances and South Dakota statutes. Audit staff reviewed lease and concession agreements. Descriptions of current contract monitoring practices and procedures were obtained through interviews with airport managers and staff. An interview was conducted with the Assistant City Attorney assigned to the airport. The auditor reviewed financial and performance reports from concessionaires as well as other relevant data contained in the airport's lease and concession files. Revenue reports from the Airport's accounting system were analyzed. Finally, concessionaire managers were interviewed.

Compliance with Government Auditing Standards

The auditor conducted this audit in accordance with generally accepted government auditing standards. Those standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit findings and conclusions based on the audit objectives. The auditor believes that the evidence obtained provides a reasonable basis for the conclusions and findings based on the audit objectives.

Background

The City of Rapid City, through the Rapid City Regional Airport Board has entered into lease and concession agreements (contracts) with various companies to provide airport parking and rental car services at the Rapid City Regional Airport.

The airport parking lots are operated by Standard Parking which is headquartered in Chicago, Illinois. The current contract expires December 31, 2015. On-premise rental car services are provided through the following rental car franchises: Alamo, Avis, Budget, Enterprise, Hertz and National. The current contracts with the on-premise rental car companies are in effect until December 31, 2018. Rental cars may also be obtained through three local off-premise providers, Casey's Auto Rental, Dollar Rent-A-Car and Rent-A-Wreck. The contracts with the three off-premise rental car companies are in effect through December 31, 2015.

The six on-premise rental car companies had combined gross annual revenues of just under \$9.4 million in 2012. Revenue for the three companies offering off-premise rental car services was \$332,000 in 2012. Combined gross revenue for all rental car companies was just over \$9.7 million. Standard Parking reported gross revenues of just under \$1.3 million for 2012.

In 2012 revenue received by the airport from the use fee charged to rental car companies amounted to \$1,000,900. Revenue received by the airport from the rent charged to Standard Parking was \$919,000 in 2012. Together these two revenue sources accounted for about fifty percent of the airport's approximately \$4 million operating budget.

During 2012 the airport use fee for on-premise rental car companies was the greater of a minimum annual guarantee of \$50,000 or 10.5% of gross revenue. For the off-premise rental car companies the airport use fee was 5% of gross revenue. The airport rent for the parking lot concessionaire was the greater of 72% of gross revenue or a minimum annual guarantee of \$350,000. Contract terms require monthly payment of one-twelfth of the minimum annual guarantee from the on-premise rental car companies and the parking lot concessionaire. All concessionaires must submit monthly gross revenue statements. The contracts also require monthly reports containing various performance data from the on-premise rental car and parking lot concessionaires along with certified annual financial reports.

Conclusions

Generally, the Rapid City Regional Airport and the concessionaires that provide rental car and parking services are in compliance with the terms and conditions specified in the respective lease and concession agreements as tested. However, the auditor noted several areas where concessionaires were not in full compliance during the audit period. Airport management had also identified several of these instances of noncompliance and taken action to ensure future compliance.

Audit work also found issues with the credit card service fee charged to the airport by Standard Parking to offset the cost of accepting payment for parking services by credit card.

In general, contract monitoring procedures and practices employed by airport department management and staff will ensure an adequate level of performance by concessionaires under the contracts. However, the department can improve contract monitoring practices by establishing written policies and procedures for its current monitoring practices.

Objective One: Determine Airport Department and concessionaire compliance with contract terms.

While the Airport Department and concessionaires are generally in compliance with the contract terms tested, audit staff noted a few areas in which concessionaires did not fully comply with the terms and requirements of the contracts. These areas included timely submission of reports and required payments. Concessionaire management reported no instances of non-compliance with specific contract terms required of airport management for the audit period.

The airport is also paying a monthly credit card service fee to the parking lot concessionaire under an informal agreement instead of a contractual arrangement.

Objective Two: Determine if Airport Department policies, procedures and practices for monitoring contract performance are adequate to ensure compliance by concessionaires.

The Rapid City Airport does not have written policies and procedures for the contract monitoring process. However, the practices in place are adequate to ensure that concessionaires comply with contract terms and requirements. A designated employee is assigned responsibility for monitoring and maintaining records for receipt of required reports and payments. The assigned individual conducts monthly reviews of each rental car concession and the parking lot concession to monitor receipt of required reports and payments. This individual also processes payments from concessionaires and ensures that proper accounting records are maintained for all payments. Management conducts a monthly review of all financial reports submitted by concessionaires. This enables identification of any deficiencies in reporting and corrective action to be taken. In addition, a periodic review of each lease and concession file is performed by management to verify that monthly and annual gross revenue statements and required insurance certificates are received.

Objective Three: Determine if improvements can be made to the contract management process.

The contract management process used by airport management and staff to monitor concessionaire compliance with contract terms could be strengthened by establishing written policies and procedures. While the current practices employed by staff and management are adequate to ensure an appropriate level of compliance by concessionaires, proper internal controls call for documentation of policies and procedures.

Criteria

Criteria represent standards against which performance is measured. Depending on the audit topic, criteria may include laws, regulations, contracts, grant agreements, expected performance measures, benchmarks and defined business practices. Criteria identify the requirements, or desired state or expectation, with respect to program or operation.

Control criteria for this audit consisted of guidelines issued by the Committee on Sponsoring Organizations of the Treadway Commission (COSO), and guidance issued by the United States Government Accountability Office (GAO). South Dakota Codified Law Chapter 50-6 (City Airport Boards) and Chapter 50-7 (Publically Owned Airports) also provided relevant criteria. In addition, RCMC 2.72.070 authorizes the Airport Board president to sign and execute all contracts. Rapid City Municipal Code Sections 13.28.110, 13.28.130 and 13.28.140 pertaining to management and operations of the airport, lease agreements and lease permits were also used as criteria.

The primary criteria for this audit were the lease and concession agreements between the Rapid City Regional Airport and the various companies operating rental car and parking lot concessions at the airport.

Findings and Recommendations

In general, the airport department and rental car and parking lot concessionaires are in compliance with terms of the applicable contracts. While some instances of noncompliance were noted in the audit work, procedures and practices currently in place and employed by airport management and staff are now generally adequate to ensure contract compliance by concessionaires. Audit work noted several recent improvements made to these procedures and practices, including the use of certified standardized reporting forms that better ensure contract compliance. Contract monitoring can be strengthened by establishing written policies and procedures.

Objective One: Compliance with Contract Terms

The auditor noted several instances of late and incomplete reporting of required financial and performance data by concessionaires during 2012. These issues had also been identified by airport management and addressed through improved reporting requirements now in place. These new requirements which became effective July 1, 2013 will better ensure that concessionaires report required financial and performance information in a timely and accurate manner.

The monthly payment of the annual Minimum Guarantee required from the on-premise rental car companies was not paid as currently required by the contract in all instances. The auditor found nine instances where rental car concessionaires paid a monthly airport use fee less than the required monthly payment of \$4,166.67. The contract specifically requires that one-twelfth of the annual Minimum Guarantee be paid each month. Any excess use fee from gross revenue collected in a month is due and payable in the following month. Currently concessionaires pay the use fee (10.5% of gross revenue during 2012) on the gross revenue reported for a month in the following month. The auditor also noted that all six on-premise rental car companies paid more in use fees in 2012 than the minimum annual guarantee of \$50,000.

The intent of a minimum guarantee is to ensure the airport receives a minimum annual payment from each rental car concessionaire. To accomplish this current contracts could be changed to require the minimum annual guarantee but require the reconciliation between amounts paid and amounts due at the end of the contract year

rather than monthly. This is the current contractual requirement for the parking lot concessionaire.

Recommendation 1: Management should add an addendum to the Rental Car Agency Lease and Concession Agreements to require the annual minimum guarantee for the use fee be reconciled at the end of the contract year.

Management's Response Management concurs and will work with the Rental Car Agencies to amend the Lease and Concession Agreements.

The airport pays a monthly credit card service fee to Standard Parking to help offset the cost of accepting payment by credit card for parking services. This fee was established in 1998 through an informal agreement between APCOA Standard and the airport executive director. Best practice for contract management would be to have this practice authorized in the contract. In addition, under this informal agreement Standard parking is to provide the airport with an itemized statement of the parking revenue generated from credit card sales along with the calculated credit card service fee each month. For the sample of monthly gross revenue reports reviewed during the audit, the credit card revenues were not reported. Airport management is unable to ensure that the amount of the credit card service fee paid each month is correct without knowing the amount of parking revenue generated from credit card sales.

Recommendation 2: Management should add an amendment to the Parking Lot Lease and Concession Agreement specifically authorizing payment of a monthly credit card service fee to the parking lot concessionaire.

Management's Response Management concurs and will work with the Standard Parking to amend the Lease and Concession Agreement.

Recommendation 3: Management should require the parking lot concessionaire to provide a monthly report of the parking lot revenue from credit card sales along with the calculated credit card service fee.

Management's Response Management concurs and will work with the Standard Parking on an addendum to the Lease and Concession Agreements.

Objectives Two and Three: Contract Monitoring

Airport employees employ several methods to monitor concessionaire compliance with terms of the lease and concession agreements. A designated employee is responsible for monitoring receipt of required monthly financial and performance reports and payments. In addition, monthly reviews of financial reports from each concessionaire are conducted by management. Management also conducts periodic reviews of each lease and concession file for evidence of insurance and to determine if all required monthly and annual financial and performance reports have been submitted.

However, the airport does not have formal written policies and procedures in place for monitoring concession contracts. According to guidelines for effective controls issued by COSO and GAO control policies and procedures must be established and executed to help ensure that actions identified by management as necessary to address risks are effectively carried out by employees.

Recommendation 4: Management should establish written policies and procedures based on current practices for contract compliance monitoring.

Management's Response Management concurs and will work to establish written procedures.