

Metropolitan Nashville Airport Authority

MEMORANDUM

TO: Raul Regalado, President and CEO

CC: Monty Burgess, Executive Vice President and COO
Stan Van Ostran, Vice President and CFO
John Howard, Asst. Vice President of Properties and Business Development
Tom Bibb, Director of Properties
Rebecca Ramsey, Assistant Director of Properties
Amber Gooding, Director of Business Diversity Development

FROM: Julie Zwicknagel, Internal Auditor

DATE: February 16, 2011

SUBJ: National Car Rental Systems, Inc. /Vanguard Car Rental Audit Report

Background

On August 21, 1987, National Car Rental Systems, Inc. (“National”) entered into a Service Site Lease Agreement with the Metropolitan Nashville Airport Authority (“Authority”). The Agreement granted National the right to use certain unimproved real property, located at the Nashville International Airport for the operation of a maintenance/garage and storage facility associated with the lessee’s on-airport automobile rental concession. The term of the Agreement was for a period of fifteen (15) years with two (2) five (5) year options to renew. The options would automatically be renewed unless the Lessee provided the Authority’s President and CEO with a 60 day written notice prior to the expiration of the previous term.

National would pay to the Authority an annual rent on 202,296 square feet of land at a net land rental of \$0.18 per square foot per annum continuing until December 31, 1992. Commencing January 1, 1993, and for each subsequent five (5) year period during the term of the Agreement, the net land rental rate would be determined by the following method:

- a. Value of the land (less any permanent fixed capital improvements made by Lessee) would be established by a Member of the Appraisal Institute (“MAI”) designated appraiser, as selected by the parties, based upon unimproved land for general airport use.
- b. The net land rental, as adjusted commencing January 1, 1993, and for each subsequent five (5) year period thereafter, including renewal option, would be determined by a

capitalized percentage return to the Authority based on the established appraised value determined in (a) above.

- c. The Authority affirmed that any increase in the net land rental would be limited to a maximum of fifty percent (50%) over the immediately preceding net land capital.
- d. In no event would the net land rental rate agreed to or adjusted to be less than \$0.18 per square foot per annum.

In addition to the net land rent, National agreed to reimburse the Authority for the actual costs of preparing the Assigned Area for development by National at a rate of \$0.07 per square foot per annum through September 13, 2002. All the service site preparation fees have been properly reimbursed to the Authority.

On September 14, 1987, National entered into the original Concession Agreement with the Authority. The Agreement granted National the right to operate an automobile rental concession at the Nashville International Airport for a period of five (5) years. The Authority issued subsequent Invitations to Bid ("ITB") in 1993 and 1999 resulting in the Authority's consecutive Concession Agreement with National.

In May 1989, National entered into a Quick Turn-Around ("QTA") Facility Lease Agreement with the Authority. The Agreement granted National the right to use two (2) bays in the quick turn-around facility to fuel, replenish fluids, vacuum, wash, etc. of the Lessee's on-airport automobile fleet. The term of the Agreement was for the period June 6, 1998 through September 13, 2002. The Agreement included two (2) five (5) year options to renew that would automatically be renewed unless the Lessee provided the Authority's President and CEO a 60 day written notice prior to the expiration of the previous term.

National would pay to the Authority an annual rent on 22,450 square feet of land at a net land rental of \$0.18 per square foot per annum continuing until December 31, 1992. Commencing January 1, 1993, and for each subsequent five (5) year period during the term of the Agreement, the net land rental rate would be adjusted to the same net land rental rate of the Lessee's on-airport service site Lease Agreement terms. In no event would the net land rental be less than \$0.18 per square foot per annum.

On December 3, 1997, Properties informed National through a Letter of Notification that the service site rate of \$0.22 per square foot per annum would be adjusted to \$0.25 per square foot per annum, effective January 1, 1998, through December 31, 2003. The rate increase was based on a Cost of Living ("COLI") rather than the appraisal method set forth in the Lease Agreement as agreed to by all rental car companies.

On May 15, 2000, National entered into the current Concession Agreement with the Authority. The Agreement granted National the right to operate an automobile rental concession at the Nashville International Airport for a period of seven (7) years. National agreed to pay to the Authority the greater of a minimum annual guarantee of One Million Three Hundred Ninety Thousand Eight and 00/100 Dollars (\$1,390,008), which is subject to an annual adjustment based on prior year rentals, or 9.25% of gross revenues.

In addition to the minimum annual guarantee and/or percentage of gross revenue payments required, National agreed to pay a fixed monthly rental for use of counter and office space and parking spaces. The Concessionaire leases from the Authority 937 square feet of counter and office space within the Ground Transportation Center in the amount of (\$36.00) per square foot (“psf”) per annum. National has the exclusive use of 40,010 square feet of automobile parking space in the inner wing lot area in the amount of Three and 00/100 Dollars (\$3.00) psf per annum and 36,581 square feet of automobile parking space in the outer wing lot area in the amount of One and 70/100 Dollars (\$1.70) psf per annum.

The Agreement stated that National would furnish a written statement to the Authority, prepared in accordance with generally accepted accounting principles and certified by a responsible officer of Concessionaire that the minimum annual guarantee and the percentage payment paid by the Concessionaire to the Authority during the preceding contract year were made in accordance with the terms of the Agreement. The statement would contain gross revenues as shown on the books and records of National that were used to compute the percentage payment made to the Authority.

On the twentieth (20th) day of the second month following the end of each calendar year of the term of the Agreement, National agreed to pay to the Authority the balance of the rent, if any, due to the Authority for the preceding calendar year on account of the percentage payment provisions. The rental, though payable monthly, would be computed on a calendar basis. If any refund is due to National, such refund would be applied to future rental payments due to the Authority.

On June 6, 2000, National informed the Authority through a letter that AutoNation, Inc., the parent company of National Car Rental Systems, Inc. had announced its intention to distribute shares of its automobile rental division to its current shareholders. As a result, after the distribution, National Car Rental System, Inc.’s parent company would no longer be AutoNation, Inc. The new parent company would be ANC Rental Corporation (“ANC”). The stock distribution and the creation of a new parent company for National did not alter National’s corporate structure in any way.

On November 13, 2001, ANC, Alamo and National, together with certain other ANC subsidiaries in the United States, filed voluntary petitions for reorganization under Chapter 11 in the Bankruptcy Court for the District of Delaware.

On February 7, 2003, Properties informed National through Letters of Notification that the service site and quick turn-around facility rental rates of \$0.25 per square foot per annum would be adjusted to \$0.28 per square foot per annum, effective January 1, 2003, through December 31, 2008, based on a COLI adjustment.

On June 14, 2003, ANC signed a definitive agreement with Car Acquisition Company LLC and Cerberus Capital Management, L.P. for the sale of substantially all the assets of Alamo and National.

On October 14, 2003, the sale of substantially all of the assets of ANC, Alamo, and National to Vanguard Car Rental USA Inc. (“Vanguard”) became effective and as a result consolidated the Alamo and National car rental brands at the Nashville International Airport.

On September 12, 2006, Properties informed Vanguard through a Letter of Notification that the minimum annual guarantee would be increased to One Million Four Hundred Thirty Five Thousand One Hundred Fifty Four and 00/100 Dollars (\$1,435,154), effective May 1, 2006.

On November 13, 2006, Properties informed Vanguard through a Letter of Notification that the Authority would no longer accept a written statement prepared by an officer of the corporation and Vanguard would be required to employ an independent Certified Public Accountant (“CPA”) to furnish a written statement to the Authority.

On April 16, 2007, Properties informed Vanguard through a Letter of Notification that the existing Concession Agreement would be extended on a month-to-month basis effective May 15, 2007, in order for the Authority to review the recent Consolidated Rental Car Facility (“CONRAC”) study. The results of the CONRAC study would determine the Authority’s plan with respect to a new agreement for the right to operate an automobile concession at the Nashville International Airport.

On September 13, 2007, Properties informed Vanguard through a Letter of Notification that the minimum annual guarantee would be increased to One Million Five Hundred Thirty Two Thousand Four Hundred Fifteen and 00/100 Dollars (\$1,532,415), effective May 1, 2007.

On October 19, 2007, Vanguard informed Properties through a letter that Michels Holding Corporation bought the stock and all interest in Vanguard Car Rental Holdings LLC. Immediately upon closing, Michels merged into The Crawford Group, Inc. Vanguard Car Rental Holdings, LLC and its subsidiaries continue to exist and be a direct subsidiary of The Crawford Group, Inc. The stock purchase agreement did not alter Vanguard’s corporate legal entity.

On December 19, 2007, Properties informed Vanguard through Letters of Notification that the service site and quick turn-around facility rental rates of \$0.28 per square foot per annum would be adjusted to \$0.30 per square foot per annum, effective January 1, 2008, through December 31, 2012, based on a COLI adjustment.

On December 20, 2007, Properties informed Vanguard through a Letter of Notification that the Authority would be moving forward with developing a design for construction of CONRAC and implementing a Contract Facility Charge (“CFC”) to fund the project. The Authority would implement a CFC in the amount of \$4.00 per transaction per day, effective January 1, 2008. The Authority provided Vanguard with a reporting form for CFC’s, which were required to accompany the monthly reports and remitted on the tenth (10th) day of the following month. CFC charges were to be stated as a separate line item on Rental Agreements and placed in a separate account isolated from the other fees and charges paid on a monthly basis.

On May 19, 2008, Properties informed Vanguard through a Letter of Notification that the minimum annual guarantee would be increased to One Million Six Hundred Thirty Seven Thousand Nine Hundred Six and 00/100 Dollars (\$1,637,906), effective May 1, 2008.

On May 21, 2009, Properties informed Vanguard through a Letter of Notification that the minimum annual guarantee would be adjusted to One Million Five Hundred Nineteen Thousand One Hundred Ninety Four and 00/100 Dollars (\$1,519,194), effective May 1, 2009.

On January 1, 2010, the Authority increased the CFC from \$4.00 per transaction per day to \$4.50 per day.

On January 4, 2010, the Authority successfully negotiated and executed a new concession agreement with the rental car agencies. The new Agreement becomes effective upon beneficial occupancy of the Consolidated Rental Car Facility, which is anticipated to be November 2011. Until then, Vanguard's current concession agreement will renew on a month-to-month basis.

On June 7, 2010, Properties informed Vanguard through a Letter of Notification that the minimum annual guarantee would be adjusted to One Million Four Hundred Eighty Eight Thousand Eight Hundred Seventy and 00/100 Dollars (\$1,488,870), effective May 1, 2010.

The following are the gross revenues and percentage payment provisions for Vanguard per the Statement of Gross Revenues for the Year Ended April 30, 2010, provided by UHY LLP:

Month	Gross Revenues
May 2009	\$1,774,772
June	2,018,975
July	1,955,260
August	1,762,757
September	1,613,741
October	1,868,815
November	1,596,191
December	1,330,733
January 2010	1,260,580
February	1,390,980
March	1,676,329
April	1,724,758
Total Gross Revenue	\$19,973,891

Objectives

The objectives of the audit were as follows:

1. Determine the validity of gross revenue amounts reported and rent paid to the Authority;
2. Determine compliance with contract terms and operational requirements; and
3. Document and evaluate existing internal controls.

Testing

In order to satisfy the audit objectives, the following tests were performed:

1. Selected 3 months for detailed testing (March, April, and June 2010). For each month selected performed the following:
 - a. Obtained the monthly fixed rent invoices from Authority's Accounts Receivable and verified that some of rental amounts did not agree to the schedule of rental fees and charges in the Lease Agreements.
 - b. Obtained monthly revenue report and performed the following:
 - i. Reviewed report for mathematical accuracy.
 - ii. Tied amounts per report to amounts reported to the Authority.
 - iii. Selected 5 consecutive days each month and performed the following:
 1. Obtained the Daily Activity Report for the day selected.
 2. Reviewed report for mathematical accuracy.
 3. Tied amounts per report to the monthly revenue report.
 4. For a selection of rental agreements, tied all revenue information per the signed rental agreement to the Daily Activity Report.
 5. Reviewed rental agreements for mathematical accuracy.
 6. Verified that the concession fee recovery on rental agreements agreed to the Concession Agreement.
 - iv. Reviewed excluded amounts, such as carbon offset fees, surcharges, taxes, or discounts for appropriateness and compliance with Concession Agreement.
 1. Verified Concessionaire was reducing gross revenue reported to the Authority by coupon discounts.
 - c. Obtained a copy Vanguard's general ledger. Verified that the revenue amounts per the general ledger were consistent with the revenue amounts reported to the Authority.
 - d. Obtained a copy of the Tennessee Sales and Use Tax form.
 - i. Reviewed tax returns for reasonableness and determined sales and use taxes were properly remitted to the State.
 - e. Obtained a copy of the quarterly Motor Vehicle Rental Surcharge Tax form.
 - i. Reviewed tax returns for reasonableness and determined motor vehicle rental surcharge taxes were properly remitted to the State.

- f. Obtained a listing of rental agreements. Reviewed listing to identify any missing rental agreements. Traced a selection of rental agreements for inclusion in the appropriate Daily Activity Report.
 - g. Obtained a listing of prepaid internet reservations. Ensured vehicles checked out at this airport were included in the gross receipts reported to the Authority.
 - h. Obtained a listing of customer facility charges (“CFC”) collected in the month of April 2010.
 - i. Reviewed report for mathematical accuracy.
 - ii. Tied amounts per report to amounts reported to the Authority.
 - iii. Selected 5 consecutive days of the month and performed the following:
 - 1. Reviewed report for mathematical accuracy.
 - 2. Tied amounts per report to rental agreements.
 - 3. For a selection of rental agreements, verified CFC per the signed rental agreements agreed to the Daily Activity Report.
 - 4. Verified CFC on rental agreements agreed to Authority approved rate.
 - i. Identified all other non rental and CFC revenues.
 - i. Determined whether or not they should be included in gross revenue.
 - ii. Determined whether or not they should be subject to the contractual percentage payment.
2. Determined through observations that the premises was maintained in a clean, neat, sanitary, and attractive condition and appearance.
 3. Determined Vanguard maintained adequate insurance coverage.
 - a. Obtained a copy of the current certificate of insurance on file.
 - b. Verified that the comprehensive public liability and property damage insurance coverage met or exceeded the amounts specified in the contract.
 - c. Verified that the comprehensive automobile liability insurance coverage met or exceeded the amounts specified in the contract.
 - d. Verified that the certificate of insurance was current and adhered to all other contract terms.
 4. Determined Vanguard maintained an Irrevocable Letter of Credit (“LOC”).
 - a. Obtained a copy of the LOC.
 - b. Verified that the LOC coverage met or exceeded the amount specified in the contract.
 - c. Verified that the LOC was current and adhered to all other contract terms.
 5. Obtained a current listing of all vehicles in the fleet. Reviewed the list to ensure that no automobiles with a model year more than one year older than the current year model were being used.
 6. Determined Vanguard was meeting operational requirements.
 - a. Determined Vanguard’s operating hours and observed that the customer service counter was open during scheduled hours.
 - b. Through observations, determined that employees were well trained, experienced, uniformed, professional, and courteous.
 7. Through inquiry and observation, reviewed the existing internal controls in place.

Conclusion

Based upon the audit, the following was determined with respect to the stated objectives:

1. A billing error was noted in the amount invoiced for janitorial services at the Quick Turn-Around Facility (“QTA”), as noted in finding #1.
2. Vanguard is reducing gross revenue reported to the Authority by coupon discounts, which is not allowed, as noted in finding #2.
3. The rental car CFC reporting form does not properly state the approved CFC rate of \$4.50 per transaction per day, as noted in finding #3.
4. Vanguard is not meeting the Disadvantage Business Enterprise (“DBE”) participation requirement of the Concession Agreement, as noted in finding #4.

Finding #1

Observation

A billing error was noted in the amount invoiced for janitorial services at the QTA Facility.

Background

An objective of the audit was to determine that Vanguard’s monthly invoicing agreed to the schedule of rental fees and charges in the Lease Agreements. Through audit testing, a billing error was noted in the amount invoiced for janitorial services at the QTA Facility.

The Authority made arrangements with Service Management Systems (“SMS”) to provide janitorial services for the QTA Facility beginning January 1, 2005. The services performed were policing and performing general janitorial duties such as cleaning the restroom and trash removal. SMS placed an SMS employee at the QTA Facility on a part-time basis for 4 hours per day (2 hours in the morning, 2 hours in the evening), 7 days per week.

The monthly cost for the janitorial services was \$1,543.92, which was proportionately shared among the rental car companies that used the QTA Facilities. The monthly invoicing was properly assessed from January 1, 2005, through December 31, 2007. The rental car companies invoiced amount and percentage requirement are detailed below.

Description	Invoiced Amount	% Requirement
Janitorial Services for QTA - Hertz	441.12	28.57%
Janitorial Services for QTA - Avis	441.12	28.57%
Janitorial Services for QTA - Vanguard	441.12	28.57%
Janitorial Services for QTA - Budget	220.56	14.29%
Monthly Invoiced Amount (01/01/05 - 12/31/07)	\$1,543.92	100.00%

Due to ongoing trash problems at the QTA Facility, the Authority determined that a part-time SMS employee in the QTA Facility did not properly address the trash problems. Therefore, the Authority decided it was necessary to assign a full time (8 hours per day, 7 days per week) SMS employee to the QTA Facility. The monthly cost for the janitorial services would increase from \$1,543.92 to \$2,967.83 and would be proportionately shared among the rental car companies utilizing the QTA Facilities. The increased billing would be effective on the January 1, 2008 invoicing. The rental car company's revised invoiced amounts are detailed below.

Description	Invoiced Amount
Janitorial Services for QTA - Hertz	847.95
Janitorial Services for QTA - Avis	847.95
Janitorial Services for QTA - Vanguard	847.95
Janitorial Services for QTA - Budget	423.98
Monthly Invoiced Amount (Effective 01/01/08)	<u><u>\$2,967.83</u></u>

However, Internal Audit was not able to find any supporting documentation, either in Properties or Finance's files, requesting the increase in monthly invoicing for janitorial services at the QTA Facility. Therefore, the monthly invoiced amount was not changed through Finance's accounts receivable billings and the rental car companies have continued to pay the same amount for janitorial services at the QTA since January 2005.

Through audit inquiries and observations, it has been determined that that the conditions at the QTA Facility have improved since SMS has been providing full time janitorial services.

The underpayment of fees to the Authority for janitorial services for the QTA Facility has been calculated by rental car company and is detailed below.

Description	Monthly Invoiced Amount (01/01/05 - 12/31/07)	Monthly Invoiced Amount (Effective 01/01/08)	Variance	Months Invoiced Inaccurately (1/1/08 - 1/1/11)	Amount due to the Authority
Janitorial Services for QTA - Hertz	441.12	847.95	(406.83)	37	(15,052.71)
Janitorial Services for QTA - Avis	441.12	847.95	(406.83)	37	(15,052.71)
Janitorial Services for QTA - Vanguard	441.12	847.95	(406.83)	37	(15,052.71)
Janitorial Services for QTA - Budget	220.56	423.98	(203.42)	37	(7,526.54)
Total	\$1,543.92	\$2,967.83	(\$1,423.91)		(\$52,684.67)

Furthermore, it should be noted that this finding was identified in a Hertz audit report dated September 14, 2009. Internal Audit made the following recommendation:

Prior Recommendation

Properties should request the Finance Department to invoice Hertz and the other rental car companies for their underpayment of fees to the Authority for janitorial services at the QTA Facility and to update billing information accordingly.

Additionally, Properties should provide the Finance Department with the necessary supporting documentation to process invoice changes as they arise.

Properties responded to the recommendation as noted below.

Prior Management Response

Properties will request the Finance Department to invoice Hertz and the other rental car companies for janitorial services at the appropriate rate retroactive to January 1, 2008 and henceforth. Hertz and all other rental car companies will be notified accordingly.

Further, Properties will provide the Finance Department with the necessary supporting documentation to process these specific invoice changes as they arise in keeping with our process to notify them on a weekly basis of financial impacts to agreements.

Accordingly, Properties has not updated the billing information or invoiced the rental car companies for janitorial services at the QTA Facility.

Recommendation

Properties should request the Finance Department to invoice Vanguard and the other rental car companies for their underpayment of fees to the Authority for janitorial services at the QTA Facility and to update billing information accordingly.

Management Response

Due to unclear documentation as to Rental Car Companies' notification of this revised janitorial fees when they occurred, Properties will invoice the RACs as of the beginning of FY 2011 for the additional fee for janitorial services until they occupy the new CONRAC facility.

Finding #2

Observation

Vanguard is reducing gross revenue reported to the Authority by coupon discounts, which is not allowed.

Background

According to Article I, Definitions, Section 1.6, Gross Revenue of the Concession Agreement states that gross revenue shall be construed to mean:

- d) Credit given to Concessionaire's customer for items including, but not limited to, out of pocket purchases for gas, oil, emergency services, or deposits, regardless of where said purchases are made.

Additionally, gross revenue shall not include:

- j) Corporate of volume discounts for rental of automobiles at Airport where Concessionaire can provide for each applicable transaction: the amount of the discount, the contractual right under which the discount is granted; and the discount documentation for each applicable transaction is submitted with Concessionaire's monthly reports to Authority.

An objective of the audit was to review excluded amounts from gross revenue for appropriateness and compliance with the Concession Agreement.

Through audit testing it was determined that Vanguard was reducing gross revenue reported to the Authority by coupon discounts. The current Concession Agreement does not permit Vanguard to reduce gross revenue reported to the Authority by coupon discounts or any other discount not approved by the Authority granted to its customers.

The following are the FY 2010 gross revenues and the financial impact of the coupon discounts granted by Vanguard to its customers.

Month	Gross Revenues	Coupons Discount	Adjusted Gross Revenue
May 2009	\$1,774,772	\$36,633	\$1,811,405
June	2,018,975	38,572	2,057,547
July	1,955,260	31,349	1,986,609
August	1,762,757	21,333	1,784,090
September	1,613,741	24,316	1,638,057
October	1,868,815	30,469	1,899,284
November	1,596,191	24,343	1,620,534
December	1,330,733	27,825	1,358,558
January 2010	1,260,580	13,428	1,274,008
February	1,390,980	16,844	1,407,824
March	1,676,329	21,355	1,697,684
April	1,724,758	25,370	1,750,128
Total Gross Revenue	\$19,973,891	\$311,837	\$20,285,728
Contractual Percentage Rate			X 9.25%
Calculated Percentage Payment			<u>\$1,876,430</u>
Minimum Annual Guarantee			<u>\$1,519,194</u>
Amount Paid by Vanguard			<u>1,861,087</u>
(Under)/Over Payment			<u>(\$15,342)</u>

Vanguard's percentage payments from gross revenues were \$1,876,430. The amount paid by Vanguard to the Authority for the Year Ended April 30, 2010, was \$1,861,087; therefore, there was an underpayment of rent to the Authority in the amount of \$15,342.

Recommendation

Properties should request the Authority's Finance Department to issue Vanguard an invoice in the amount of \$15,342 for the under payment of rent as a result reducing gross revenues by coupon discounts.

Additionally, Properties should ensure Vanguard is not reducing the gross revenues by coupon discounts for FY 2011.

Management Response

Properties will notify Vanguard and request the Finance Department issue Vanguard an invoice in the amount of \$15,342 for the under payment of rent as a result reducing gross revenues by coupon discounts not provided for in their current Concession Agreement. Note:

coupon discounts are allowed for in the New Concession Agreement associated with the CONRAC as follows: “Gross Revenues shall not include the following...(ix) amounts given as discounts to customers redeeming coupons issued by Concessionaire”.

Finding #3

Observation

The rental car CFC reporting form does not properly state the approved CFC rate of \$4.50 per transaction per day.

Background

On December 20, 2007, Properties informed Vanguard through a Letter of Notification that the Authority would be moving forward with developing a design for construction of CONRAC and implementing a CFC to fund the project. The Authority would implement a CFC in the amount of \$4.00 per transaction per day, effective January 1, 2008. The Authority provided Vanguard with a reporting form for CFC's, which were required to accompany the monthly reports and remitted on the tenth (10th) day of the following month. CFC charges were to be stated as a separate line item on Rental Agreements and placed in a separate account isolated from the other fees and charges paid on a monthly basis.

As of January 1, 2010, the Authority increased the CFC from \$4.00 per transaction per day to \$4.50 per day.

An objective of the audit was to verify that Customer Facility Charges (CFC) of \$4.50 per transaction per day were properly assessed and submitted to the Authority. Through audit testing it was determined that Vanguard was properly assessing and submitting CFC's to the Authority.

However, the rental car CFC reporting form submitted by Vanguard stated the amount of the CFC as \$4.00 instead of \$4.50 and the background information did not reflect the increased CFC.

Recommendation

Properties should revise the rental car CFC reporting form to reflect the approved CFC rate of \$4.50 per transaction per day and provide the form to all the rental car companies to utilize for proper reporting purposes.

Management Response

Properties has confirmed the CFC reporting form used by MNAA Finance has been revised to reflect the approved CFC rate of \$4.50 per transaction per day and was provided to all the rental car companies to utilize for proper reporting purposes henceforth.

Finding #4

Observation

Vanguard is not meeting the DBE participation requirement of the Concession Agreement.

Background

According to Article XXVII, Disadvantaged Business Enterprise and Nondiscrimination, Section 27.1 of the Concession Agreement, “Concessionaire agrees that it will comply with Authority’s Disadvantaged Business Enterprise Program and applicable laws and regulations, specifically with Federal Regulations under 49 CFR, Part 23. Concessionaire specifically agrees that its initial DBE participation shall be as set forth in its proposal, incorporated herein by reference, or as Authority may otherwise approve. At all times, Concessionaire shall endeavor to meet or exceed the percentage goal set forth in the Invitation for Bids of ten percent (10%) DBE participation in the automobile rental concession, or Concessionaire will have such DBE participation as may be approved by Authority. Participation shall be measured based upon the DBE participation component of total Gross Revenue received by Concessionaire, or otherwise as Authority may approve. Concessionaire agrees that participation by DBE’s will be in accordance with the goals and objectives of Authority.”

An objective of the audit was to determine Vanguard’s compliance with contract terms. Through audit testing, it was determined that Vanguard is not meeting the DBE participation requirement.

According to Authority’s Department of Business Diversity Development (“BDD”), the Federal Aviation Administration (“FAA”) and the car rental companies have been in discussion on how to accomplish the DBE participation on a national level. The FAA has made a determination to accept national certifications for local participation levels.

Furthermore, in the newly executed concession agreements with the rental car companies, the Authority has established a new DBE goal of eight and four-tenths percent (8.40%). The DBE participation level will be effective upon beneficial occupancy of CONRAC.

Recommendation

Properties should require Vanguard and the other rental car companies to make good faith efforts to meet the DBE participation requirements in the new Concession Agreement and submit verification of such good faith efforts.

Additionally, BDD should track verification of such good faith efforts.

Management Response

BDD agrees and has included a report format for the rental car agencies to submit ACDBE utilization on a quarterly basis.