

# 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, Assistant 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:** Basil A. Dosunmu, Internal Auditor

**DATE:** November 23, 2010

**SUBJ:** Avis Rent A Car Systems, Inc. Concession & Lease Agreement Audit Report

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### Background

On May 15, 2000, Avis Rent A Car Systems, Inc. ("Avis") entered into a Concession Agreement with the Metropolitan Nashville Airport Authority ("Authority"). The Agreement granted Avis the right to operate an automobile rental concession at the Nashville International Airport for a period of seven years. Avis would pay to the Authority the greater of a minimum annual guarantee of One Million Eight Hundred Sixty Six Thousand and 00/100 Dollars (\$1,866,000), 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, Avis pays a fixed monthly rental for use of counter and office space and parking spaces. The Concessionaire leases from the Authority 1,029 square feet of counter and office space within the Ground Transportation Center in the amount of Thirty Six and 00/100 Dollars (\$36.00) per square foot ("psf") per annum. Avis has the exclusive use of 102,831 square feet of automobile parking space in the amount of Three and 30/100 Dollars (\$3.30) psf per annum.

That Agreement states that Avis 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 Avis that were used to compute the percentage payment made to the Authority.

On the twentieth (20<sup>th</sup>) day of the second month following the end of each calendar year of the term of the Agreement, Avis 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 Avis, such refund would be applied to future rental payments due to the Authority.

The Authority's Properties Department ("Properties") informed Avis through various Letter of Notification from 2003 through 2010 that the minimum annual guarantee shall remain at One Million Eight Hundred Sixty Six Thousand and 00/100 Dollars (\$1,866,000).

On April 13, 2007, Properties informed Avis 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 April 30, 2007, Properties informed Avis through a Letter of Notification that the Authority would now require Avis to employ an independent Certified Public Accountant to furnish a written statement to the Authority.

In relations to its operation at the Airport, Avis is the successor-in-interest to Motorent, Incorporated's original lease agreement with the Authority.

- On April 24, 1987, Motorent, Incorporated ("Avis") entered into a Service Site Lease Agreement with the Authority. The Agreement granted Avis the right to operate an on-airport maintenance garage and storage area associated with the operation of Lessee's on-airport automobile rental concession for a period of fifteen (15) years. The Agreement had two (2) five (5) year renewal options which have been exercised and will expire September 2012.
- On May 24, 1989, Avis entered into a Quick Turn Around Facility Lease Agreement with the Authority. The Agreement granted Avis the right to operate bay(s) in the quick turn around facility in association with Lessee's on-airport automobile rental concession until September 13, 2002. The Agreement had two (2) five (5) year renewal options which have been exercised and will expire September 2012.

The First Amendment to the Service Site Lease Agreement, effective May 1, 2007, provided for additional service site area which was formerly occupied by Alamo and an exchange of the budget service site. Avis agreed to pay the Authority annual rental amount of Fifty Two Thousand Two Hundred Seventy and 00/100 Dollars (\$52,270.00), payable in equal monthly installments. However, the Authority agreed to rental abatement in the amount of Two Hundred Fifty Two Thousand Six Hundred Thirty Eight and 00/100 Dollars (\$252,638.00) representing the unamortized improvements of the budget service site.

On December 6, 2007, Properties informed Avis 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 Avis 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 December 19, 2007, Properties informed Avis 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 upon a COLI adjustment.

The First Amendment to the Concession Agreement, effective November 20, 2009, provided for the collocation of Budget Rent A Car Systems, Inc., co-owned with Avis by the Avis Budget Group, Inc. at the Avis counter located in the Ground Transportation Center (Room T0043A) of the Terminal.

The Authority increased the CFC to the amount of \$4.50 per transaction per day, effective January 1, 2010.

On January 4, 2010, as a result of successful negotiation, the Authority 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 Avis’ current concession agreement will renew on a month-to-month basis.

On March 22, 2010, the Authority approved Avis’ request to substitute a performance bond for the current letter of credit due to the exponentially high cost of letters of credit. The Authority would not incur any expense and it would help Avis financially.

In accordance with the terms of the Concession Agreement, Avis pays to the Authority the greater of a minimum annual guarantee of One Million Eight Hundred Sixty Six Thousand and 00/100 Dollars (\$1,866,000) or 9.25% of gross revenues. The following are the gross revenues and percentage payment provisions for Avis per the Statement of Gross Revenues for the Year Ended April 30, 2010, provided by J. H. Cohn LLP:

<u>Period</u>	<u>Monthly Gross Revenues</u>
May 2009	\$1,611,940
June	1,478,595
July	1,621,182
August	1,359,511
September	1,298,906
October	1,531,341
November	1,306,979
December	1,045,711
January 2010	1,047,255
February	1,266,995
March	1,364,688
April	1,490,812
Total Gross Revenue	<u>\$16,423,915</u>
Contractual Percentage Rate	X 9.25%
Calculated Percentage Payment	<u>\$1,519,212</u>
Minimum Annual Guarantee	<u>\$1,866,000</u>
Amount paid by Avis	<u>\$1,866,000</u>
(Under)/Over Payment	<u>\$0</u>

Avis' percentage payments from the gross revenues were \$1,519,212. Thus, the minimum annual guarantee paid to the Authority was greater than the percentage payment provision. The total rent paid by Avis to the Authority for the Year Ended April 30, 2010, was \$1,866,000.

## **Objectives**

The objectives of this 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**

1. Selected 3 months for detail testing (October 2008, November, and April 2009). For each month selected, performed the following:
  - a. Obtained from Authority Accounts Receivable the monthly fixed rent invoices and verified that the rent amount agreed to the schedule of rental fees and charges in the Lease Agreement.
    - i. Verified that the invoiced amount agreed to the schedule of monthly rates.
    - ii. Reviewed report for timeliness of payment.
  - 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 days selected.
      2. Reviewed reports 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 rental agreement to the Daily Activity Report.
      5. Reviewed rental agreements for mathematical accuracy.
      6. Agreed concession fee recovery on rental agreements to Concession Agreement.
    - iv. Reviewed excluded amounts, such as carbon offset fees, surcharges, taxes, or discounts for appropriateness and compliance with Concession Agreement.
      1. Reviewed listing of the excluded discounts to ensure discount is supported by corporate contract.
  - c. Obtained a copy of the company'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 State of Tennessee Sales and Use Tax form.
    - i. Reconciled revenue amount per sales and use tax form to revenue amount reported to the Authority.
  - e. Obtained a copy of the quarterly Motor Vehicle Rental Surcharge Tax form.
    - i. Reconciled revenue amount per motor vehicle rental surcharge tax form to revenue amount reported to the Authority.

- f. Obtained a listing of rental agreements. Reviewed listing to identify any missing rental agreement numbers, where the rental agreements are sequentially numbered. Traced selected rental agreements for inclusion in the appropriate Daily Activity Report.
- g. Noted that prepaid internet reservations are included with other reservations.
- h. Obtained a listing of customer facility charges (“CFC”) collected in the month of January 2010.
  - i. Reviewed report for mathematical accuracy.
  - ii. Tied amounts per report to amounts reported to the Authority.
  - iii. Selected 5 consecutive days and performed the following:
    - 1. Reviewed report for mathematical accuracy.
    - 2. Tied amounts per report to rental agreements.
    - 3. For selected rental agreements, tied CFC per the signed rental agreement to the Daily Business Report.
    - 4. Agreed CFC on rental agreements to Authority approved rate.
- 2. Determined through observations that most of the premises is maintained in a clean, neat, sanitary, and attractive condition and appearance.
- 3. Determined that Avis 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 the amounts specified in the contract.
  - c. Verified that the comprehensive automobile liability insurance coverage met the amounts specified in the contract.
  - d. Verified that the certificate of insurance was current and adhered to all other contract terms.
- 4. Determined that Avis maintained a current performance guarantee bond.
  - a. Obtained a copy of the current performance guarantee bond.
  - b. Verified that the performance guarantee bond coverage exceeded the amount specified in the contract.
  - c. Verified that the performance guarantee bond is current and adhered to all other contract terms.
- 5. Determined that the Avis’ method of used vehicle disposition was appropriate.
- 6. Obtained a current listing of all vehicles in the fleet. Reviewed the list and identified automobiles with a model year older than the current year model are being used.
- 7. Determined that Avis’ operation at the airport is convenient for the passengers.
  - a. Determined customer service hours and observed that the counter is open during scheduled hours.
  - b. Observed that employees are well trained, experienced, uniformed, professional, and courteous.
  - c. Determined that Avis staff attended the creating customer applause – customer service training program offered by the Nashville Convention and Visitors Bureau.
- 8. Interviewed Avis’ management and a selection of employees regarding the current internal controls in place.
  - a. Through inquiry and observation, reviewed the existing internal controls in place.

## **Conclusion**

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

1. Avis is excluding One Way Rental Fee from gross revenue reported to the Authority as noted in finding #1.
2. Some of the automobiles in Avis current fleet of vehicles are a model year older than the current year as noted in finding #2.
3. The Concession Fee Recovery is not listed in the same area provided for Concessionaire's other separately stated charges on the rental agreement as noted in finding #3.
4. Avis is not meeting the DBE participation requirement of the Concession Agreement as noted in finding #4.
5. Avis State of Tennessee sales and use tax return have the wrong location address as noted in finding #5.

## **Finding #1**

### **Observation**

Avis is excluding One Way Rental Fee from gross revenue reported to the Authority.

### **Background**

An objective of this audit was to determine the validity of gross revenue amounts reported and rent paid to the Authority.

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

- a. All sums paid or payable to Concessionaire for the rental of automobiles, including any separately stated fees and charges, to include, but not be limited to, the mandated separately stated Concession Fee Recovery or Concession Fee Recoupment to be collected by Concessionaire, as provided for in Section 9.9 hereof, at any location on the Airport by Concessionaire. The term "rental of automobiles" shall include, but not be limited to, charges for: time and mileage, fuel, liability damage waiver insurance and/or any other insurance, cellular phones, child restraints, as well as all other transactions and charges of whatever nature derived from or incidental to Concessionaire's operation under this Agreement, unless expressly excluded herein.
- b. All sums paid or payable to Concessionaire for automobiles supplied by Concessionaire from the Airport to customers on the Airport without regard as to how or where Concessionaire received the order for the automobile, or whether the automobiles are returned to the Airport or some other location.

Through Audit testing, it was determined that Avis excludes from gross revenue reported to the Authority all revenues generated from One Way Fee rentals generating from the Airport. One Way Fee is car rental charges on vehicles supplied by Avis at Nashville International Airport but returned to a different location. Below is an analysis of FY2009 Gross Revenue with the inclusion of One Way Rental Fees.

Period	Time & Mileage	Loss			Frequent Flyer Surcharge	Vehicle License Fee Surcharge	Government Surcharge	Gasoline		Vehicle Exchange	One Way Fee	Total Gross Revenue
		Damage Waiver	Insurance	Airport Fee				Recovery	Other Fees			
05/31/08	\$1,533,673	\$47,625	\$23,222	\$161,026	\$2,103	\$58,912	\$2,275	\$124,718	\$42,118	(\$518)	\$2,156	\$1,997,311
06/30/08	1,567,466	47,695	23,083	164,587	2,201	60,040	2,765	130,669	44,199	(1376)	2,661	2,043,989
07/31/08	1,413,978	45,743	21,743	148,603	2,826	54,214	2,190	108,402	40,536	(3413)	5,322	1,840,144
08/31/08	1,400,163	38,512	17,615	154,438	2,578	53,329	3,255	103,799	37,674	(8200)	4,050	1,807,213
09/30/08	1,148,882	32,113	14,688	138,743	2,283	46,401	4,090	140,738	36,235	2252	4,225	1,570,650
10/31/08	1,444,399	35,997	18,890	168,086	2,845	55,853	2,945	119,947	45,032	(915)	2,769	1,895,848
11/30/08	1,107,795	34,883	22,340	129,491	2,211	42,369	2,970	67,628	32,528	(2597)	1,790	1,441,407
12/31/08	941,855	30,159	13,010	109,771	1,873	35,765	2,375	54,510	22,855	(2993)	1,154	1,210,334
01/31/09	878,132	27,194	15,015	102,712	1,670	33,492	1,625	53,793	24,425	(4955)	1,725	1,134,829
02/28/09	966,403	25,424	14,285	113,199	2,044	36,887	1,535	63,102	31,743	(706)	950	1,254,865
03/31/09	1,025,312	31,288	16,487	122,506	2,012	39,423	1,510	62,159	36,928	(2115)	1,300	1,336,810
04/30/09	1,102,034	38,793	21,721	131,036	2,178	42,298	1,990	60,331	39,375	(618)	1,245	1,440,382
<b>\$14,530,090</b>		<b>\$435,427</b>	<b>\$222,098</b>	<b>\$1,644,198</b>	<b>\$26,822</b>	<b>\$558,984</b>	<b>\$29,525</b>	<b>\$1,089,796</b>	<b>\$433,650</b>	<b>(\$26,154)</b>	<b>\$29,348</b>	<b>\$18,973,783</b>

Gross Revenue Percentage Due	X 9.25%
Calculated Percentage Payment	\$1,755,075
Minimum Annual Guarantee	\$1,866,000
Amount paid by Avis	\$1,973,498
(Under)/Over Payment	\$107,498

It should be noted that with the addition of the One Way Fee in FY2009 gross revenue, Avis percentage payments did not exceed the minimum annual guarantee and thus, no additional rent is due to the Authority. Avis' percentage payments from the gross revenues were \$1,755,075; thus, the minimum annual guarantee in the amount of \$1,866,000 was greater than the percentage payment. The total rent paid by Avis to the Authority for the Year Ended April 30, 2009, was \$1,973,498; therefore Avis had an overpayment of rent to the Authority in the amount of \$107,498.

The Authority's Finance Department determined on August 21, 2009, that Avis had an overpayment of rent to the Authority in the amount of \$107,498 and issued Avis a credit memo (CRM0001628) for the overpayment amount.

### Recommendation

Even though no additional rent is due to the Authority from the addition of the One Way Fee in FY2009 gross revenue, Properties should require Avis to revise its revenue reporting to the Authority to include One Way Fees.

### Management Response

*Properties will advise Avis by letter to include the reporting of One Way Fees in their monthly reports henceforth.*

## Finding #2

### Observation

Some of the automobiles in Avis current fleet of vehicles are a model year older than the current year.

### Background

An objective of the audit program was to review the current listing of all vehicles in the fleet to ensure that no automobiles more than one year older than the current year model are being used.

Article V, Privileges and Obligations of Concessionaire, Section 5.8 of the Concession Agreement, states that Concessionaire shall at all times maintain, at its own expense, on the Airport, an adequate number of automobiles to meet the reasonable public demand therefor. Such automobiles shall at all times be maintained by Concessionaire, at its own cost and expense, in good operating order and free from known mechanical defects and shall be kept in a clean, neat and attractive condition, inside and out. Concessionaire agrees that it shall at no time use automobiles whose year model is more than one (1) year older than the current year model.

The following is a listing of the automobile in the fleet of vehicles that is a model year older than the current year model.

<u>Vehicle Vin No</u>	<u>Vehicle Year</u>	<u>Vehicle Make/Model</u>	<u>License Plate Number</u>	<u>Color</u>
KMHHCN46C89U341395	2009	HYUNACCE	XRN6339	WHI
3N1AB61E39L642484	2009	NISSSENT	XUE1852	GRY
3GNCA53V99S626271	2009	CHEV HHR	ERN2268	GRY
3A8FY58939T598709	2009	CHRYPTCR	ERN2429	WHI
3N1BC11E69L441585	2009	NISSVRS	XUN1246	BLU
1FAHP36N79W260172	2009	FORDFOCU	KB8M2V	RED
3A8FY48949T562828	2009	CHRYPTCR	MSP986	RED
5Y2SP67039Z470755	2009	PONTVIB2	145AGH	SIL
JTMBF33VX95008574	2009	TOYORAV4	R335AE	TAN
KMHHCN46C39U337741	2009	HYUNACCE	8132427	SIL
KMHDU46D39U686009	2009	HYUNELAN	257CBR	GRY
3A8FY58939T579898	2009	CHRYPTCR	RNM679	WHI
3GNCA13B89S627281	2009	CHEV HHR	LVH813	WHI
1G1AT58H897150535	2009	CHEVCOBA	SA8M7K	SIL
1G1AT18H997261085	2009	CHEVCOB2	414JQA	RED
1G1AT58H297260979	2009	CHEVCOBA	MSR248	WHI
3A8FY58949T598735	2009	CHRYPTCR	ERN2443	WHI
3A8FY489X9T577172	2009	CHRYPTCR	BBZ5821	RED
KMHHCN46C99U303884	2009	HYUNACCE	CD0K5D	LBL
1G1AT58H197292242	2009	CHEVCOBA	BNB9645	WHI
3A8FY48959T607159	2009	CHRYPTCR	082DRB	WHI
1FAHP36N29W246647	2009	FORDFOCU	G361173	SIL
4T1BB46K89U111285	2009	TOYO CMHY	U841ZZ	SIL
1J4FF28B09D243219	2009	JEEP PATR	EJF8125	BLK
KMHDU46D99U674494	2009	HYUNELAN	RDU336	BGE

<u>Vehicle Vin No</u>	<u>Vehicle Year</u>	<u>Vehicle Make/Model</u>	<u>License Plate Number</u>	<u>Color</u>
3A8FY58949T607420	2009	CHRYPTCR	BMA4326	GRY
1FAHP36N99W213953	2009	FORDFOCU	AYS5861	BLK
3A8FY58999T598360	2009	CHRYPTCR	RBC716	GRY
JN8AS58V89W446097	2009	NISSROGU	ERN1063	WHI
1G1AT58H797260573	2009	CHEVCOBA	440YTF	BLK
KMHDU46D19U665319	2009	HYUNELAN	Y7700	GRY
3N1BC11E29L432284	2009	NISSVRS	RDJ823	BLU
1G1AT18H797272022	2009	CHEVCOB2	FA2N1D	WHI
1B3LC56B69N571424	2009	DODGAVEN	XPL3517	RED
KMHHCN46C89U323432	2009	HYUNACCE	GYZ0726	SIL
1FAHP36N19W267716	2009	FORDFOCU	TYX754	SIL
3A8FY48949T562540	2009	CHRYPTCR	11TG91	BLK
3A8FY58949T598170	2009	CHRYPTCR	9655876	GRY
KMHDU46D29U657634	2009	HYUNELAN	EPE5706	BLU
5TDZK23C69S283713	2009	TOYOSIEN	6GIM904	RED
1G1AT58H497265441	2009	CHEVCOBA	382JPL	BLK
KMHHCN46CX9U342158	2009	HYUNACCE	9375979	SIL
1FAHP36N09W260031	2009	FORDFOCU	YXY21W	RED
1FAHP35N49W270465	2009	FORDFOCU	BBZ6131	BLU
3N1BC11E09L442859	2009	NISSVRS	DB8F0D	SIL
1FAHP36N29W260127	2009	FORDFOCU	A259328	RED
KMHHCN46C59U321508	2009	HYUNACCE	354SYC	BLU
1FAHP35NX9W246865	2009	FORDFOCU	167TTS	RED
1G2ZK57K694244316	2009	PONT G6	DA0W4T	SIL
3A8FY48939T562870	2009	CHRYPTCR	MSP940	SIL
KMHHCN46C29U302768	2009	HYUNACCE	520DGP	SIL
5TDZK23C19S280492	2009	TOYOSIEN	188HBC	GRY
1G1AT58H097262326	2009	CHEVCOBA	071NTD	WHI
1B3HB48A79D233267	2009	DODGCAL2	571JXP	BLK
1J4FT28B49D206151	2009	JEEPAT2	MSR544	BLK
KMHHCN46CX9U331242	2009	HYUNACCE	946AM2	WHI
1FAHP36N19W248812	2009	FORDFOCU	EUY4132	SIL
3A8FY58959T598372	2009	CHRYPTCR	FB7L3Z	RED
1G1ZG57B094235620	2009	CHEVMALI	S836UF	GRY
1G1AT58HX97263550	2009	CHEVCOBA	526SXT	GLD
JTDBT903791345015	2009	TOYOYARS	X117292	WHI
3N1BC11E09L448337	2009	NISSVRS	DC0F8A	SIL
3GNCA13B09S608904	2009	CHEV HHR	6445223	SIL
3A8FY48949T570900	2009	CHRYPTCR	272GEM	GRY
3A8FY48969T577038	2009	CHRYPTCR	YA9S8Z	BLK
JTDBT903994060895	2009	TOYOYARS	XUE1846	WHI
1FAHP35N49W229883	2009	FORDFOCU	XSJ6300	RED
1G2ZG57BX94163496	2009	PONT G6	MGV965	RED
1B3LC56BX9N561110	2009	DODGAVEN	XVM6647	RED
KMHHCN46C49U336744	2009	HYUNACCE	X186606	SIL
1G1AT58H697273833	2009	CHEVCOBA	FA5F5E	GLD
JTDKB20U697861656	2009	TOYOPRIH	532HBD	BLU
1G1AT58H397272770	2009	CHEVCOBA	EKR6861	TAN
1FAHP36NX9W260019	2009	FORDFOCU	YXY37W	RED
3A8FY48969T570963	2009	CHRYPTCR	875EUJ	BLK
1FAHP35N69W260200	2009	FORDFOCU	ECL8278	RED
3N1AB61E39L642792	2009	NISSSENT	ERP9728	RED
3D4GH57V49T602246	2009	DODGJOUR	ESL1284	RED
5NPET46C99H544745	2009	HYUNSONA	082BEV	SIL
1B3HB48A29D233130	2009	DODGCAL2	ERN2946	ONG

### Recommendation

On an annual basis, Avis should review its fleet of vehicles to ensure automobiles with model year older than the current year are removed from the fleet of vehicles used at the Airport.

In addition, Properties should periodically request from Avis an updated listing of Avis fleet of vehicles at the Airport.

### Management Response

*Properties will request Avis to provide an updated copy of their fleet of vehicles on an annual basis.*

### **Finding #3**

#### Observation

The Concession Fee Recovery is not listed in the same area provided for Concessionaire's other separately stated charges on the rental agreement.

#### Background

Article IX, Privilege Fees, Charges and Accountability, Section 9.9 of the Concession Agreement, states that Concessionaire shall recover the nine and one-quarter percentage (9.25%) of gross revenues payment from customers by disclosing it separately on Rental Agreements. Concessionaire agrees it shall use the terminology "Concession Fee Recovery" or "Concession Fee Recoupment" on the Rental Agreements. Concessionaire agrees that this terminology shall be listed on the Rental Agreement in the same area provided for Concessionaire's other separately stated charges and shall not be included in that part of the Rental Agreement on which taxes are collected by Concessionaire. As set forth in Article I, Section 1.6, any revenue so collected by Concessionaire shall be a part of gross revenue and must be included when calculating and paying the percentage of gross revenue payment to the Authority.



## Recommendation

Properties should request that Avis identify the Concession Fee Recovery on the rental agreement with other concession charges and not with taxes.

## Management Response

*Properties will request by letter that Avis identify the Concession Fee Recovery on the rental agreement with other concession charges and not with taxes as contractually required. Language referring to the placement of the Concession Fee Recovery has been clarified in the new concession agreement to take effect on or about 11/2010.*

## **Finding #4**

### Observation

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

### Background

Article XXVII, Disadvantaged Business Enterprise and Nondiscrimination, Section 27.1 of the Concession Agreement, states that Concessionaire agrees that it will comply with Authority's Disadvantaged Business Enterprise ("DBE") Program and applicable laws and regulations, specifically with Federal Regulations under 49 CFR, Part 23. Concessionaire specifically agrees that its 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 the 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 objective of Authority.

Through audit testing, it was determine that currently Avis is not meeting the DBE participation requirement and the Authority is not tracking the car rental DBE achievements.

According to Authority's Department of Business Diversity Development ("BDD"), the Federal Aviation Administration ("FAA") and the car rental firms at the national level have been in discussion on how to accomplish the DBE participation on a national level, a resolution is expected by the end of the year.

Furthermore, in the newly negotiated and executed concession agreement with the rental car agencies, the Authority established a new DBE goal of eight and four-tenths percent (8.40%) participation level which will be effective upon beneficial occupancy of the Consolidated Rental Car Facility.

### Recommendation

Properties should require Avis and other rental car agencies to make good faith efforts and submit verification of such good faith efforts to meet the DBE participation requirement in the Concession Agreement.

Additionally, going forward BDD should develop a plan for tracking the DBE participation level and establish an implementation period for the plan.

### Management Response

*BDD agrees and will contact FAA regarding its' plan to have a national DBE goal for all rental car firms.*

### **Finding #5**

#### Observation

Avis State of Tennessee sales and use tax return have the wrong location address.

#### Background

Avis operating office at the Nashville International Airport is located at 121 Hangar Court Nashville, Tennessee; however, the State of Tennessee sales and use tax return filed with Tennessee Department of Revenue have the John C. Tune Airport Address of 110 Tune Airport Drive Nashville, Tennessee.

TENNESSEE DEPARTMENT OF REVENUE  
STATE AND LOCAL SALES AND USE TAX RETURN

SLS  
450

FILING PERIOD	4/01/2005 - 5/31/2006	ACCOUNT NO.	
DUE DATE		LOCATION ADDRESS	NASHVILLE-110 TUNE AIRPORT DR
FEIN			110 TUNE AIRPORT DRIVE
SSN			NASHVILLE, TN 37209-1026

AVIS RENT A CAR SYSTEM, INC.

ROUND TO NEAREST DOLLAR

1. GROSS SALES INCLUDING FOOD SALES AND/OR RENTAL PROCEEDS	(1)	1,665,145.00
2. ADD COST OF PERSONAL PROPERTY PURCHASED ON A RESALE CERTIFICATE BUT USED BY YOU, INCLUDING GIFTS AND PREMIUMS	(2)	0.00
3. ADD COST OF OUT OF STATE PURCHASES AND PROPERTY IMPORTED INTO TENNESSEE FOR YOUR USE	(3)	0.00
4. FAIR MARKET VALUE OF TANGIBLE PERSONAL PROPERTY FABRICATED, PRODUCED, COMPOUNDED, OR SEVERED FROM THE EARTH FOR USE IN THE STATE OF TENNESSEE	(4)	0.00
5. TOTAL -- Add Lines 1, 2, 3, and 4	(5)	1,665,145.00
6. EXEMPT TRANSACTIONS -- Total from Page 2, Schedule A Line K	(6)	157.00
7. NET TAXABLE TOTAL -- STATE -- Subtract Line 6 from Line 5	(7)	1,664,988.00
8. STATE TAX -- 7.00% of Line 7	(8)	116,549.00
9. STATE FOOD TAX -- 5.50% of Page 2, Schedule A, Line A	(9)	0.00
10. LOCAL TAX	(10)	37,462.00
11. ENTER ANY TAX COLLECTED IN EXCESS OF STATE AND LOCAL LEVIES	(11)	0.00
12. STATE TAX ON TRANSACTIONS SUBJECT TO SINGLE ARTICLE AND REDUCED RATES. ENTER TOTAL TAX FROM PAGE 2, SCHEDULE C, LINE 7	(12)	0.00
13. LOCAL TAX ON TRANSACTIONS SUBJECT TO THE SPECIAL RATES OF TAX. ENTER TOTAL TAX FROM PAGE 2, SCHEDULE C, LINE 10	(13)	0.00
14. TOTAL TAX -- Add Lines 8, 9, 10, 11, 12, and 13	(14)	154,011.00
15. ENTER CREDIT MEMO BALANCE	(15)	0.00
16. PENALTY -- If filed LATE, compute penalty at 5% of the tax (Line 14 minus Line 15) for each 30-day period for which an TAX IS DELINQUENT (10% penalty NOT TO EXCEED 25% Maximum penalty is 15 1/2% regardless of the amount of tax due or whether there is any tax due)	(16)	0.00
17. INTEREST -- If filed late, compute interest at 9.00% per year on the tax (Line 14 minus Line 15) from the due date to the date of payment	(17)	0.00
18. TOTAL DUE -- If filed TIMELY, subtract Line 15 from Line 14; If filed LATE, outdout Line 15 from Line 14 and add Lines 16 and 17	(18)	154,011.00

Amount to Be Paid	0.00
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RV-R600021

PAGE 1

The address on the sales and use tax return filed with the State of Tennessee Department of Revenue should be corrected to the appropriate Avis address as soon as possible.

Recommendation

Properties should notify Avis to correct the address on the sales and use tax return filed with the State of Tennessee Department of Revenue as soon as possible.

Management Response

*Properties will notify Avis by letter to correct the address on the sales and use tax return filed with the State of Tennessee Department of Revenue as soon as possible.*