



City of Phoenix

**Mission Statement**

To improve the quality of life in Phoenix through efficient delivery of outstanding public services.

**Project Team**

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**Project Number**

1230030

This report can be made available in alternate format upon request.

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## Aviation Department Rental Car Contract – Europcar Mobility Group

March 28, 2023

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### ***Report Highlights***

**Concession Rent**

*The gross revenues reported by Europcar were accurate and complete.*

**Customer Facility Charges**

*Customer facility charges were assessed at the correct rate; however, we noted instances where Europcar did not correctly calculate or remit the charges.*

**Customer Service**

*Europcar's customer complaint tracking process could not provide a list of complaints with the corresponding rental agreements.*

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## **Executive Summary**

### **Purpose**

We reviewed financial records and rental car contracts provided by Europcar Mobility Group to determine compliance with its concession agreement.

### **Background**

In January 2018, the City of Phoenix Aviation Department (Aviation) entered into Rental Car Concession Agreement No. 146863 with Fox Rent A Car, Inc. for the non-exclusive right to operate vehicle rental services at Sky Harbor International Airport (Sky Harbor).

Effective November 6, 2019, a Consent to Transfer the agreement was made to Europcar Mobility Group (Europcar). As consideration for operating at Sky Harbor, Europcar agreed to pay an annual concession fee equal to the greater of 10% of total gross revenues, or the Minimum Annual Guarantee (MAG) for the contract year.

### **Results in Brief**

#### **The gross revenues reported by Europcar were accurate and complete.**

The Concession Agreement defined gross revenues as all amounts received, billed, delivered, and/or realized without deduction or offset. All revenue was included in this definition unless specifically excluded in the agreement.

We agreed the monthly Gross Receipts Reports (GRR) submitted to Aviation to Europcar's audited statement of revenues. No exceptions were noted.

#### **Customer facility charges (CFCs) were assessed at the correct rate; however, we noted instances where Europcar did not correctly calculate or remit the charges.**

We recalculated the CFC amount due to Aviation for all rental transactions for a sample of four months. Europcar charged the correct daily CFC rate on rental agreements; however, CFCs were not charged correctly on all agreements. Europcar remitted all CFCs that were collected. However, for the four months tested, Europcar owes \$10,506 plus delinquent fees.

#### **Europcar's customer complaint tracking process could not provide a list of complaints with the corresponding rental agreements.**

Europcar was unable to generate a report of complaints received from its current system. Europcar stated that it would have to manually go through each agreement to see if there was an associated complaint. As a result, we were unable to test if the tracking and follow-up for customer service issues met contract requirements. Europcar stated that it is planning to upgrade this system.

## **Department Responses to Recommendations**

<b>Rec. 2.1:</b> Collect additional CFCs due of \$10,506 plus applicable delinquent fees.	
<b>Response:</b> Business and Properties will send out a letter via email and regular mail notifying Europcar two weeks prior to the Target Date of 4.28.23. A copy of the letter will be provided to Mara Kelly when sent to Europcar to give her two weeks to upload to Teammates by the Target Date.	<b><u>Target Date:</u></b> 04/28/23
<b>Rec. 2.2:</b> Inform Europcar that when rental days are waived, CFC payments for the waived days are still due to Aviation.	
<b>Response:</b> Business and Properties will address 2.2 in the same letter as above for 2.1. The Target Date is 4.28.23.	<b><u>Target Date:</u></b> 04/28/23
<b>Rec. 3.1:</b> Work with Europcar to ensure it develops procedures or creates a system that can track complaints to the corresponding rental agreements.	
<b>Response:</b> Business and Properties will address 3.1 in the same letter as above for 2.1 and 2.2. The Target Date is 4.28.23.	<b><u>Target Date:</u></b> 04/28/23

## **1 – Concession Rent**

### **Background**

The Concession Agreement defined gross revenues as all amounts received, billed, delivered, and/or realized without deduction or offset. All revenue was included in this definition unless specifically excluded in the agreement. As consideration for operating at Sky Harbor, Europcar agreed to pay an annual concession fee equal to the greater of 10% of total gross revenues, or the Minimum Annual Guarantee (MAG) in the amount of \$1.3 million for the year.

Due to the reduction in passenger traffic during the COVID-19 pandemic, MAG was abated for all rental car operators at Sky Harbor from April 2020 through June 2021. During this time, the operators paid 10% of total gross revenues.

Europcar paid \$7.6 million in concession rent from July 2018 through June 2022. We verified that Europcar submitted annual audited statements and monthly gross receipts reports (GRR) to ensure gross revenues were reported accurately and timely.

### **Results**

#### **The gross revenues reported by Europcar were accurate and complete.**

The contract required that Europcar submit a certified annual statement prepared by an Independent Certified Public Accountant (CPA). The CPA's reports stated that they complied with generally accepted auditing standards and that testing was performed to obtain reasonable assurance that the gross receipts were free from material misstatements. We determined that the CPA's reports were reliable. We agreed the GRR submitted to Aviation to Europcar's audited statement of revenues. No exceptions were noted.

Based on the audited statements, Aviation determined whether the payments received by the City should have been the MAG or the concession fee percentage of the annual gross revenue, whichever was greater. Based on this determination, an adjustment (settlement) of the amount payable or credit due was made.

## Annual Settlement for Europcar

Fiscal Year	MAG	Audited Revenues	Greater of MAG or 10%	Concession Rent Paid	Adjustment or (Settlement)
18/19	\$1,300,000	\$15,919,182	\$1,591,918	\$1,692,152	\$(100,234)
19/20	\$1,329,429 <sup>1</sup>	\$13,294,299	\$1,329,430	\$1,458,130	\$ (128,700)
20/21	\$2,056,629 <sup>2</sup>	\$20,577,643	\$2,057,764	\$2,056,630	\$1,134
21/22	\$1,300,000	\$25,965,799	\$2,596,580	\$2,595,649	\$931
<b>Total</b>	<b>\$5,986,058</b>	<b>\$75,756,923</b>	<b>\$7,575,692</b>	<b>\$7,802,561</b>	<b>\$ (226,869)</b>

**Over the past four Fiscal Years, Europcar was credited \$226,869 for overpayments made.**

**Minimum monthly and percentage payments were submitted in accordance with the concession agreement; however, some were not submitted timely.**

Europcar pays the greater of 10% of total gross revenues or the minimum monthly rent, whichever is greater. The minimum monthly rent was due on the first of each month. If 10% of reportable gross revenues was greater than the minimum monthly rent, the additional amount was due 20 days after the last day of the month. Phoenix City Code Section 4-7 states, “payment due dates shall be subject to a ten-calendar-day grace period, and thereafter shall be delinquent and subject to a delinquent account fee of one and one-half percent per month, not to exceed eighteen percent per annum.”

We reviewed reports from the City’s financial system (SAP) and verified that the MAG and additional percentage rent due were paid; however, some were not paid timely. We noted that the MAG payments for 12 months and percent rent for 14 months during our scope period were submitted late. Aviation assessed delinquent fees for late payments in accordance with the City Code.

**Europcar submitted audited statements of gross revenues as required.**

Europcar was required to submit a certified annual statement of gross revenue no later than 90 days after each contract year. We noted that one statement was submitted one month late, and one did not note the date it was received.

<sup>1</sup> Due to the COVID-19 pandemic, the MAG was only required for July through March (9 months) in this FY. It is calculated by taking the annual MAG divided by 12 months for a monthly MAG. Then applying the monthly MAG for 9 months and adding the percent rent, 10% of total gross revenue for the remaining 3 months.

<sup>2</sup> Due to the COVID-19 pandemic, MAG was abated during this FY and only the percent rent, 10% of total gross revenue was applicable.

## **2 – Customer Facility Charges**

### **Background**

Phoenix City Code Section 4-79, requires all on-airport rental car companies who obtain customers through Sky Harbor, collect a daily Customer Facility Charge (CFC) of \$6.00 per transaction day per vehicle from all customers. The City Code defines a transaction day as a car rented for 25 or fewer hours for the first transaction day, and every 24 hours for each transaction day thereafter. Europcar remitted \$8.5 million in CFCs to the City for the period of July 2018 through June 2022.

We selected four months for detailed testing. We reviewed monthly reports and closed rental agreements to determine that:

- CFCs were assessed and remitted in accordance with the City Code.
- Reporting requirements were met.
- Payments were timely and posted to SAP accurately.

### **Results**

**CFCs were assessed at the correct rate; however, we noted instances where Europcar did not collect or remit CFCs. Also, we noted instances where Europcar adjusted CFC amounts for prior months.**

We tested 80 rental agreements from four sample months to verify Europcar assessed CFCs in accordance with the City Code. Europcar charged the correct daily CFC rate on rental agreements; however, we noted that CFCs were not charged for all rental days on all agreements. From our testing, it appeared that if customers returned the vehicle up to three hours late, they were not charged for the extra day of CFC. As a result, Europcar underpaid CFCs by \$10,506 plus delinquent fees.

We noted a few instances where credits were made to rental agreements. These adjustments to prior months rentals were subtracted in the current month. City Code, Section 4-79 states, All vehicle rental companies shall remit all CFC's that were collected or should have been collected from its airport customers monthly to the City." Regardless if Europcar refunds certain amounts, the CFCs are still due to Aviation.

**An airport transfer fee was charged to some customers. This amount was included as CFC instead of concession revenue.**

For the four sample months, we noted that a \$5 airport transfer fee was charged to some customers. The airport transport fee was charged to customers who booked through a third party or lived in Europe. It was charged for transport from the airport to the rental car center. This amount was included in CFC payments instead of concession revenue. The total amount for the four months was \$625. We discussed this issue with Europcar staff, and they stated that they have corrected this issue.

**CFC reports and fees were mostly submitted timely and posted to SAP accurately.**

The Concession agreement states that “On or before the last day of each month, the Operator shall submit a monthly statement of transactions and transaction days for the prior month and remit the CFC proceeds collected for the prior month in accordance with Phoenix City Code Section 4-79”. We compared due dates to payment receipt dates to ensure reports and fees were remitted timely. Payments were posted to SAP accurately. However, we noted that payments for 9 of the 48 months reviewed were submitted late. Aviation assessed delinquent fees for late payments in accordance with the City Code.

**Recommendations**

- 2.1 Collect additional CFCs due of \$10,506 plus applicable delinquent fees.
- 2.2 Inform Europcar that when rental days are waived, CFC payments for the waived days are still due to Aviation.

## **3 – Customer Service**

### **Background**

According to the rental car concession agreement (146863), Europcar must follow the Standards of Service, including customer service. The agreement states, “if the operator receives any written complaints concerning the business operation at Sky Harbor, the operator shall promptly respond to the complaint within 30 days of receipt and make a good faith attempt to explain, resolve, or rectify the cause of the complaint. Operators are to keep a copy of each complaint and response for one year from the date of the complaint.” We requested a copy of all complaints from September 2021 through September 2022.

### **Results**

#### **Europcar's customer complaint tracking process lacked a way to provide a list of complaints with the corresponding rental agreements.**

Europcar was unable to generate a report of complaints received from its current system. Europcar tracked customer complaint statistics by category and date. Customer complaints were saved by rental agreement number; however, the system could not generate a report of rental agreements that received complaints. Europcar stated that it would have to manually go through each agreement to see if there was an associated complaint. As a result, we were unable to test if the tracking and follow-up for customer service issues met contract requirements. Europcar stated that it is planning to upgrade this system.

### **Recommendation**

- 3.1 Work with Europcar to ensure it develops procedures or creates a system that can track complaints to the corresponding rental agreements.



## **Scope, Methods, and Standards**

### **Scope**

We reviewed financial data and Rental Car Concession Agreement No. 146863 for the period of July 2018 through June 2022.

The internal control components and underlying principles that are significant to the audit objectives are:

- Control Activities
  - Management should design control activities to achieve objectives and respond to risks.
  - Management should implement control activities through policies.

### **Methods**

We used the following methods to complete this audit:

- We reviewed the contract and appropriate City codes.
- We interviewed staff to obtain an understanding of the process.
- We obtained the monthly gross receipts reports from SAP to test for accuracy and timeliness.
- We verified the accuracy of the Minimum Annual Guarantee (MAG) concession rent and percentage rent.
- We judgmentally selected four sample months for detailed testing.
- We agreed Gross Receipts Reports to audited statements and amounts reported to Aviation.
- We verified the accuracy of CFCs.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

### **Data Reliability**

We assessed the reliability of Europcar Financial data by (1) performing electronic testing, (2) reviewing existing information about the data and the system that produced it, and (3) interviewing agency officials knowledgeable about the data. We determined that this data was sufficiently reliable for the purposes of this audit.

## **Standards**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.