



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

1230063

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

Aviation Department Rental Car Contract – Sixt Rent A Car, LLC

March 9, 2023

Report Highlights

Concession Rent

The gross revenues reported by Sixt were accurate and complete.

Customer Facility Charges

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

Customer Service

*Sixt is responding to customer complaints within the required
timeframe.*

*City Auditor Department
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Executive Summary

Purpose

We reviewed financial records and rental car contracts provided by Sixt Rent A Car, LLC (Sixt) 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. 146861 with Sixt Rent A Car, LLC for the non-exclusive right to operate vehicle rental services at Phoenix Sky Harbor International Airport (Sky Harbor). As consideration for operating at Sky Harbor, Sixt 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 Sixt 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 Sixt's audited statement of revenues. No exceptions were noted.

Customer facility charges (CFCs) were assessed at the correct rate; however, we noted instances where Sixt did not collect or remit CFCs.

We recalculated the CFC amount due to Aviation for all rental transactions for a sample of five months. Sixt charged the correct daily CFC rate on rental agreements; however, CFCs were not charged on all agreements. The Sixt accounting team stated the agreements without CFCs were rentals booked through a third party, such as Expedia or Priceline. Sixt remitted all CFCs that were collected. However, for the five months tested, Sixt owes \$30,959.65 plus delinquent fees.

Sixt is responding to customer complaints within the required timeframe.

We selected 22 complaints from the past year. Of the complaints selected, 18 of the 22 were responded to within 24 hours. One item listed as a complaint was a compliment and needed no follow-up. The remaining three items were complaints that did not have valid contact information on file and were labeled "not applicable."

Department Responses to Recommendations

Rec. 1.1: <u>Business and Properties</u> – Work with the Financial Management Division to determine and document how operators should submit their audited financial statements.	
Response: Business and Properties met with the Financial Management Division to confirm how Sixt and the other rental car stakeholders can submit the audited financial statements via their third-party audit team. For consistency letters will be sent by Business and Properties via email and regular mail to the stakeholders with instructions to send the audited financial statements to the following email address: avn.fiscal.ops.acct@phoenix.gov .	<u>Target Date:</u> 06/30/2023
Explanation, Target Date > 90 Days: The first letter will be sent two weeks prior to the target date of June 30th (end of Fiscal Year) and the second letter will be sent two weeks prior to the target date of August 1st (new Fiscal Year). The audited financial statements are due by September 30th (new Fiscal Year). Staff will provide Mara Kelly with a copy of the letters when sent to the stakeholders two weeks prior to the Target Dates to upload to TeamMate.	
Rec. 1.2: <u>Business and Properties</u> – Inform Sixt in writing how to submit its audited financial statements.	
Response: Business and Properties will send out a letter via email and regular mail by Monday, March 27, 2023. The target date is set for Wednesday, April 5, 2023 to allow for enough time for Mara Kelly to upload to TeamMate. Two letters will be sent via email and regular mail to Sixt with instructions to send the audited financial statements to the following email address: avn.fiscal.ops.acct@phoenix.gov .	<u>Target Date:</u> 04/05/2023
Rec. 2.1: Inform Sixt that CFCs are due for all rental days, regardless of how payments are collected from customers.	
Response: Business and Properties will send out a letter via email and regular mail notifying Sixt two weeks prior to the target date of Wednesday, April 5, 2023 as part of the audit finding. A copy of the letter will be provided to Mara Kelly when sent to Sixt to give her two weeks to upload to TeamMate by the target date.	<u>Target Date:</u> 04/05/2023

Rec. 2.2: Collect additional CFCs due of \$30,959.65 plus applicable delinquent fees.

Response: Business and Properties will send out a letter via email and regular mail addressing the outstanding CFCs due in addition to delinquent fees two weeks prior to the target date of Wednesday, April 5, 2023. This will be the same letter covering 2.1, also.

Target Date:

04/05/2023

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, Sixt 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 \$1,701,111 for the contract 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.

Sixt paid \$7.7 million in concession rent from July 2018 through June 2022. We verified that Sixt 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 Sixt were accurate and complete.

The contract required that Sixt 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 Sixt'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 Sixt

Fiscal Year	MAG	Audited Revenues	Greater of MAG or 10%	Concession Rent Paid	Adjustment or (Settlement)
18/19	\$1,701,111	\$16,456,229	\$1,701,111	\$1,874,903	\$(173,792)
19/20	\$1,382,828 ¹	\$12,624,883	\$1,382,828	\$1,423,672	\$ (40,844)
20/21	\$1,383,968 ²	\$13,839,685	\$1,383,968	\$1,383,968	-
21/22	\$1,701,111	\$32,321,851	\$3,232,184	\$3,232,184	-
Total	\$6,169,018	\$75,242,648	\$7,700,092	\$7,914,728	\$ (214,636)

Over the past four Fiscal Years, Sixt was credited \$214,636 for overpayments made.

Minimum monthly and percentage payments were submitted according to the concession agreement; however, some were not submitted timely.

Sixt paid the greater of 10% of total gross revenues or the MAG. The MAG was due on the first of each month. If 10% of reportable gross revenues was greater than MAG, 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 February 2020 and May 2022 were submitted late, as were the percent rent payments for April 2020, May 2020, and November 2020. Aviation assessed delinquent fees for late payments in accordance with the City Code.

Sixt submitted audited statements of gross revenues as required; however, they were not submitted timely.

Sixt was required to submit a certified annual statement of gross revenue no later than 90 days after each Fiscal Year. We noted that all audited statements were submitted after the due date. Submission dates varied from one week to six months late.

¹ 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 \$1,701,111 divided by 12 months for a monthly MAG of \$141,759. Then applying the monthly MAG for 9 months (\$1,275,833) and adding the percent rent, 10% of total gross revenue for the remaining 3 months (\$106,995).

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

During our review, Aviation's Business and Properties Division was unable to locate the FY 2022 audited statements. The concession agreement listed a mailing address, but did not provide directions for electronic submittals, which are allowed by Business and Properties. The FY 2022 audited statements were emailed to an Accountant II in Aviation's Financial Management Division. That staff member was not involved with the rental car agreement operations and did not upload the file to SAP. Aviation Business and Properties and Financial Management Divisions were unable to locate the audited statements and asked Sixt to provide them again.

Recommendations

- 1.1 Business and Properties – Work with the Financial Management Division to determine and document how operators should submit their audited financial statements.
- 1.2 Business and Properties – Inform Sixt in writing how to submit its audited financial statements.

2 – Customer Facility Charges

Background

Phoenix City Code Section 4-79, requires all on-airport rental car companies to 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. Sixt remitted \$5.6 million in CFCs to the City for July 2018 through June 2022.

We selected five 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

Customer facility charges were assessed at the correct rate; however, we noted instances where Sixt did not collect or remit CFCs.

We tested 20 specific rental agreements from five sample months to verify that Sixt assessed CFCs in accordance with the City Code. We found that Sixt charged the correct daily CFC rate; however, CFCs were not charged on all agreements. We found two instances where Sixt did not charge CFCs. As a result, CFCs were not paid for those days. The Sixt accounting team stated the agreements without CFCs were rentals booked through a third party, such as Expedia or Priceline. Additionally, we found that when vehicles were returned early, customers were not refunded the CFCs paid. However, these amounts were deducted from the CFC payments to the airport.

CFCs Due for Months Tested

CFC Findings	Amount
Not collected	\$ 28,289.65
Over collected	\$ 2,670.00
Total	\$ 30,959.65

For months tested, Sixt owes \$30,959.65 plus delinquent fees for additional CFCs due.

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

The Concession agreements state 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. No exceptions were noted. Payments were posted to SAP accurately.

Recommendations

- 2.1 Inform Sixt that CFCs are due for all rental days, regardless of how payments are collected from customers.
- 2.2 Collect additional CFCs due of \$30,959.65 plus applicable delinquent fees.

3 – Customer Service

Background

According to the rental car concession agreement (146861), Sixt 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 October 2021 through October 2022.

Results

Sixt is responding to customer complaints within the required timeframe.

Sixt maintains a log of customer feedback and comments for one year. When the customer feedback comes into the Sixt database, the comments are reviewed and the questions or complaint feedback are placed in a queue. The customer service representatives then review those rental agreements and contact the customers. The customer interaction and resolutions are noted on the account. We selected 22 complaints from the past year. Of the complaints selected, 18 were responded to within 24 hours. One item listed as a complaint was a compliment and needed no follow-up. The remaining three items were complaints that did not include valid contact information on file, and therefore, follow-up could not be conducted.

Recommendation

None.

Scope, Methods, and Standards

Scope

We reviewed financial data and Rental Car Concession Agreement No. 146861 for the period of June 2018 through June 2022.

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

- Control Environment
 - Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
 - Management should evaluate performance and hold individuals accountable for their internal control responsibilities.
- 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 five sample months for detailed testing.
- We agreed gross receipt 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 Sixt Financial data by (1) performing electronic testing, (2) reviewing existing information about the data and the system that produced them, 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.