



**CITY AND COUNTY OF SAN FRANCISCO**

**OFFICE OF THE CONTROLLER  
FINANCIAL AUDITS DIVISION**

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December 12, 2005

Audit Number 04039

San Francisco Airport Commission  
P.O. Box 8097  
San Francisco International Airport  
San Francisco, CA 94128

Subject: **Review of CPA Audits of Budget Rent A Car Systems, Inc.**  
**Reporting Period:** January 1, 2003, through December 31, 2004  
**Reported Revenues:** \$35,515,887

President and Members:

The Airport Commission (Commission) has an agreement with Budget Rent A Car Systems, Inc. (Budget) to operate an automobile rental service at the San Francisco International Airport (SFO). Budget was an independent entity until November 2002, when Cendant Car Rental Group, Inc. (Cendant) acquired it, according to Cendant's director of properties. Pursuant to the agreement (Section 3.04), the airport director issued a memo in June 2002 that required Budget to submit an annual audit by a certified public accountant (CPA) for each year. To assess whether we should conduct a separate audit of Budget's operations at SFO, we performed steps to assure us that the CPA's audits were adequate. We also verified whether the revenues reported by Budget to the Airport Department (Airport) agreed with the revenues reported by the CPA.

For the year ending December 31, 2003, Cendant's corporate audit group performed certain procedures to determine whether Budget's gross revenues were properly reported, and submitted a report on the results of its tests. Cendant's corporate audit group provided us information regarding the procedures they performed. For the year ending December 31, 2004, Deloitte & Touche LLP performed the audit. According to Cendant's accounting manager, Deloitte & Touche would not provide us information about how the audit was conducted because it will only discuss the audit with its client, Budget. The accounting manager further stated that Cendant's corporate audit group performed most of the fieldwork for Deloitte & Touche's audit, and would provide us information about the audit procedures they performed.

To obtain assurance that the audits for 2003 and 2004 were adequate, we reviewed the reports that Budget submitted to the Airport and asked Cendant's corporate audit group about the procedures it employed in conducting the audits. We also determined whether the reports complied with pertinent provisions of Budget's agreement with the Commission. We found that the Cendant corporate audit group's procedures were adequate. As a result of this review, we are not conducting a separate audit of Budget. However, during this review we identified the following matters:

1. The reports did not compare the audited revenues to the revenues Budget reported to the Airport. The airport director's June 2002 memo required Budget's auditor to compare the audited revenues to Budget's revenues reported to the Airport, and to explain any discrepancy. The table below details the differences between the reported and audited revenues during the CPA's audit period:

**Reported and Audited Revenues  
January 1, 2003, through December 31, 2004**

<b>Lease Year</b>	<b>Reported Revenues</b>	<b>Audited Revenues</b>	<b>Differences</b>
2003	\$18,110,802	\$17,012,118	\$1,098,684
2004	17,405,085	17,229,816	175,269
Total	\$35,515,887	\$34,241,934	\$1,273,953

According to Budget's manager of accounting, when Cendant acquired Budget in November 2002, Budget reported most types of its revenues to ensure that it did not underpay the monthly rents due under its lease with the Airport. We compared the audited revenues to the reported revenues and found differences of \$1,098,684 in 2003 and the \$175,269 in 2004. Because the reports did not identify and explain the differences, the Airport was unable to evaluate whether the explanations were valid. According to Cendant's corporate audit group, future CPA audits will include a schedule comparing the audited revenues to the revenues Budget reported to the Airport and explain differences, if any.

Using the audited gross revenues, we determined that Budget had overpaid its rent to the Airport for the two lease years. Budget's lease (Section 3.02) provides that Budget is to pay each month the greater of the monthly minimum annual guarantee or the monthly percentage rent based on its gross revenues. Because Budget paid percentage rent in some months during the lease year and in other months it paid the monthly minimum annual guarantee, a true up of the rent owed for 2003 and 2004 was necessary. The lease (Section 3.02) further provides that the appropriate adjustment in rent paid by Budget will be made pursuant to the gross revenues reported in the annual audit. Airport accounting staff informed us that the Airport had issued a rent credit to Budget for the overpaid rent for 2003 and 2004.

We recommend that the Airport require Budget to provide the Airport an explanation of the revenues that had been excluded from the audit report but had been reported by Budget during 2003 and 2004. With this information, the Airport can ensure that all excluded revenues identified by the CPA are appropriate. Then the Airport will be more assured that Budget has not established a practice of improperly excluding some gross revenues in later years when rent may be payable on these revenues because the rent from the total gross revenues would exceed the minimum annual guarantee.

2. A CPA did not certify the 2003 report. The agreement (Section 3.04) requires Budget to submit an unqualified report certified by a CPA. While the 2003 report was prepared by Cendant's corporate audit group and certified by Cendant's senior vice president of finance

and group controller, the report was not certified by a CPA. According to Cendant's concession audit manager, Cendant's independent CPAs will certify all future audits.

We recommend that the Airport verify a CPA has certified all future audit reports that Budget submits.

3. Budget did not submit the audit reports timely. The agreement (Section 3.04) requires Budget to submit its CPA audit within 90 days of the start of each lease year. Because the lease year starts on December 30, Budget must submit the CPA audit report by March 30. Because the Airport did not keep a log of when it received the audit reports until late 2004, we do not know when the Airport received the 2003 audit report. However, using Cendant's transmittal letter date of June 30, 2004, Cendant transmitted the 2003 audit report for Budget 92 days late. For the 2004 audit report, the Airport's log shows that the Airport received the audit report on May 18, 2005, or 49 days late. The agreement authorizes the Airport to assess a \$500 fine per violation day for late submission of required reports, which would include the CPA audit report.

We recommend that the Airport require Budget to submit its annual CPA audit report by March 30 of each year. Further, the Airport should consider imposing the \$500 per day fine if Budget fails to comply with this requirement in future lease years.

We are advising you of these findings so that you can take the appropriate actions to resolve them. The Controller's Financial Audits Division will be working with the Airport Department to follow up in six months on the status of the recommendations made in this letter. Please call me at (415) 554-7656 or Edwin De Jesus at (415) 554-7636 if we can be of further assistance on these matters.

Sincerely,

*Original signed by:*

Ben Carlick

Audit Manager

cc: John Martin, Airport Director  
Gary Franzella, Assistant Deputy Director Aviation and Concessions  
Ben Kutnick, Airport Finance Director  
Ravi Singh, Manager of Accounting, Cendant Car Rental Group  
Lorraine Tallarico, Regional Director of Property, Cendant Car Rental Group  
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