



**CITY AND COUNTY OF SAN FRANCISCO**

**OFFICE OF THE CONTROLLER  
FINANCIAL AUDITS DIVISION**

**Ed Harrington  
Controller**

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Deputy Controller**

December 6, 2005

Audit Number 04040

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

**Subject: Review of CPA Audit of Enterprise Rent-A-Car Company of San Francisco**  
**Reporting Period:** January 1, 2001 through December 31, 2001  
**Reported Revenues:** \$5,629,262

President and Members:

The Airport Commission (Commission) has an agreement with Enterprise Rent-A-Car Company of San Francisco (Enterprise) to operate an automobile rental service at the San Francisco International Airport (SFO). Pursuant to the agreement (Section 3.04), the airport director issued a memo in June 2002 that required Enterprise to submit an annual audit by a certified public accountant (CPA) for each lease year. Enterprise submitted a CPA audit report for 2001, but did not submit an audit report for 2002, 2003, and 2004. To assess whether we should conduct a separate audit of Enterprise's operations at SFO, we performed steps to assure us that the CPA's audit was adequate. We also verified whether the revenues reported by Enterprise to the Airport Department (Airport) agreed with the revenues reported by the CPA.

To obtain assurance that the audit was adequate, we reviewed the audit report Enterprise submitted to the Airport for 2001. We also asked Enterprise's CPA about the procedures it performed in conducting the audit. We found that the CPA's procedures were adequate to assure the Airport that Enterprise's revenues were fairly reported. As a result of this review, we are not conducting a separate audit of Enterprise. However, during this review we identified the following matters:

1. The CPA's audit report for 2001 did not compare the audited revenues to the revenues Enterprise reported to the Airport. The airport director's June 2002 memo required Enterprise's CPA to compare the audited revenues to Enterprise's revenues reported to the Airport, and to explain any discrepancy. Because the CPA did not compare the audited revenues to Enterprise's reported revenues, we compared these revenues and found they agreed. According to Enterprise's SFO office business manager, future CPA audits will include a schedule comparing the audited revenues to the revenues Enterprise reported to the Airport and explain discrepancies, if any.

We recommend that the Airport require Enterprise to provide in the audit report a schedule that compares the audited and reported revenues, and explains any discrepancies.

2. Enterprise did not submit a CPA audit report for 2002, 2003 and 2004. We also found that the Airport did not ensure that Enterprise submitted its annual CPA audit report. As explained above, the airport director's June 2002 memo required Enterprise to submit an unqualified report certified by a CPA for each year. The agreement also authorizes the Airport to assess a \$500 fine per violation day for late submission of required reports, which would include the CPA audit report. According to the Enterprise business manager, he was not aware of the memo that required the submission of a CPA audit report.

Because we found that Enterprise submitted a schedule of its gross revenues for 2003, we determined the status of rent paid for 2002, 2003, and 2004. We identified the following for each year:

- For 2002, Enterprise did not submit a schedule of its gross revenues because, according to the Enterprise business manager, Enterprise believed it was not due a rent credit. However, we determined that if the Airport performed the annual true up of rent paid, Enterprise would be due a rent credit of a minor amount.
- For 2003, Enterprise submitted a schedule of its gross revenues prepared by Enterprise staff because Enterprise wanted to receive a rent credit for the excess rent it paid during 2003, according to the Enterprise business manager. The Airport provided a rent credit to Enterprise based on the schedule. The Airport should not have provided a rent credit to Enterprise without a CPA audit. The agreement (Sec.3.02) provides that adjustments to the rents due shall be made pursuant to the CPA audit report that Enterprise is required to submit annually. Because Enterprise did not submit an audit report, the Airport should not have provided the rent credit.
- For 2004, Enterprise did not submit a schedule of its gross revenues because, according to the Enterprise business manager, no true up of rent paid was needed. We confirmed that since Enterprise paid the percentage rent for each month of the year, no true up of rent was needed.

We recommend that the Airport require Enterprise to submit CPA audit reports for 2002, 2003, and 2004. Further, the Airport should maintain a log of when audit reports are due and when they are received so that it can determine if tenants have properly submitted their CPA audits. In addition, the Airport should not provide a rent credit to tenants until the tenant submits a CPA report that is used for the annual true up of rent paid. The Airport should consider imposing the \$500 per day fine if Enterprise fails to comply with this requirement in the future.

**Corrective Action:** The Airport accounting department began keeping a log of when car rentals submitted the required CPA audit reports. According to Airport accounting staff, they started this log in November 2004.

**Corrective Action:** The Enterprise business manager informed us on December 6, 2005 that Enterprise is having the audits for 2002, 2003, and 2004 performed at this time, and expects to submit them to the Airport by mid January 2006. Further, Enterprise expects to submit the audit for 2005 by March 2006, as required by the agreement with the Airport.

3. Enterprise's CPA report for 2001 identified a concern about some of Enterprise's reported gross revenues. The CPA report cited the agreement's definition of gross revenue (Section 3.01.a.iii.), and that gross revenues are to include car rental revenues from customers who are air passengers and who rent a vehicle from Enterprise within 24 hours of arrival at SFO. The CPA interpreted this to mean that Enterprise is to report the gross revenues from car rentals even if the customer, who is an airline passenger that arrived at SFO within the past 24 hours, rented a vehicle at other Enterprise rental locations. According to an Airport property manager, this language in the agreement does not require Enterprise to report such gross revenues.

We recommend that the Airport clarify the agreement with Enterprise that gross revenues do not include revenues from car rentals rented at non SFO-locations, even if the customer is an airline passenger that arrived at SFO within the past 24 hours. If appropriate, the Airport should also inform the other car rental companies of this clarification.

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  
David Chopp, Business Manager, Enterprise Rent-A-Car Company, SFO office  
Noriaki Hirasuna, Director, Controller's Financial Audits Division

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