

Internal Audit

Sonoma County

**Revenue Generating Lease Audit:
Charles M. Schulz – Sonoma County Airport****North Coast Air, Inc.**For the Period
January 1, 2013 through December 31, 2013**Avis Budget Car Rental, LLC**For the Period
October 1, 2012 through September 30, 2014

North Coast Air, Inc., (NCA) a business involved in aircraft rental and sales, flight training and related services remits 3% of its gross receipts to the Airport. Adjusted gross receipts for the 12-month audit period were \$687,683 and percentage rent paid to the County during the year was \$11,443. The total owed for the period was \$21,973, including penalties.

NCA owes the County \$10,530 in rent for the period covered by the audit, including penalties.

NCA did not pay rent in compliance with the terms of the lease nor provide sufficient information for the Airport staff to test for compliance.

Avis Budget Car Rental, LLC (Avis Budget) remits 10% of its gross receipts to the Airport. During the audit period, Oct 2012 thru Sept 2014, the Airport received a total of \$350,000 in commission payments.

The reports that Avis Budget routinely provides to the Airport do not have sufficient details for the Airport staff to test the accuracy of the gross receipts reported or the rents due.

For the audit period Avis Budget over paid \$37,289 in rent.

Audit No: 3045

Report Date: May 28, 2015

**Audit Manager:** Kanchan Charan, CPA, CGMA

Audit Supervisor: Damian Gonshorowski, CPA, CGMA

Auditor: Carmela Boudreaux

Table of Contents

**Revenue Generating Lease Audit:
Charles M. Schulz – Sonoma County Airport**

North Coast Air, Inc.
For the Period January 1, 2013 through December 31, 2013

Avis Budget Car Rental, LLC
For the Period October 1, 2012 through September 30, 2014

Audit No. 3045

Introduction and Background	1
Objective, Scope and Methodology	2
Current Year Findings, Recommendations and Responses	3-7
Status of Prior Audit Recommendations	8-10
Attachment A: Relevant Terms for North Coast Air, Inc. Operating Agreement	11-13
Attachment B: Relevant Terms for Avis Budget Operating Agreement	14-16
Attachment C: Report Item Classifications	17

Introduction and Background

Introduction

At the request of Charles M. Schulz Sonoma County Airport (Airport) management we audited gross receipts and rents reported to the Airport by Avis Budget Car Rental, LLC (Avis Budget) and North Coast Air, Inc. (NCA). The audit covered the periods October 2012 through September 2014, and January through December 2013 for Avis Budget and NCA respectively. We conducted the audit in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*. These Standards require that we identify, analyze, evaluate, and document sufficient information and evidence to achieve our audit objectives. We believe that the evidence obtained provides a reasonable basis for the findings and recommendations contained in our report.

Background

A number of entities (operators) such as car and airplane rental companies lease space at the Airport and pay rent based on their gross receipts. The payment terms and reporting requirements are governed by individual leases.

The Airport management was concerned that Avis Budget and NCA may not have accurately reported their gross receipts and calculated and paid rents in accordance with their lease agreements. For the period October 2012 through September 2013 Avis Budget claimed that gross receipts it reported were over stated, resulting in \$10,099 in over paid rent. The Airport management, and the Department of Transportation and Public Works (DTPW) accounting staff did not have enough information to determine whether Avis Budget over paid rent.

NCA has been paying \$600 a month in rent instead of 3% of its monthly gross receipts as required by the lease term. NCA made up for any underpayment and paid any penalty due once a year. The Airport management was concerned that the Airport may not be receiving timely all amounts it is due under this approach.

Objective, Scope and Methodology

Objective

The primary objective of our audit was to determine if Avis Budget and NCA accurately reported gross sales and calculated and paid rent in accordance with the lease terms.

Scope

Our audit was limited to a review of the operators' check stubs, monthly statements and annual reconciliations, which support gross receipts reported to the Airport and rents payable. We performed inquiry, observation, and limited testing to assess the adequacy of documentation provided and completeness of reported gross receipts.

Methodology

We gained an understanding of the terms of the lease agreements, between the Airport and the two operators selected for the audit, that are relevant for determining reportable gross receipts and calculating rents due. We also identified the specific terms of the insurance policies each of the operators are required to maintain throughout the lease term.

We performed the following procedures:

- 1) Reviewed or performed reconciliations between each operator's reported gross receipts and that shown on their books of record.
- 2) On a sample basis, determined that gross receipts excluded from reporting were allowed by the lease terms.
- 3) Recalculated rent using the formulas provided in the lease agreement and reconciled to rent paid.

Current Year Findings, Recommendations and Responses

A) North Coast Air (NCA)

Control Finding #1 – NCA’s method of calculating and paying rent is not in accordance with the lease terms. (see Attachment A for significant lease terms)

Instead of paying 3% of its monthly gross sales as rent, as required by the lease terms, NCA paid a flat \$600 each month. Once a year, NCA calculated and made up any underpayment and paid penalties due. For the year ended December 31, 2013, NCA paid \$7,200 of the \$11,443 total due during the year (as calculated by NCA) and the balance of \$4,243 and \$493 in penalties at the end of the year.

NCA has not complied with the Airport’s request to adhere to the terms of the contract.

The Airport has been extending unsecured credit to NCA by not enforcing the terms of the lease agreement, exposing the County to potential loss.

Recommendation #1:

The Airport should enforce the lease agreement and calculate and pursue collection as amounts become due.

The Airport should consider charging interest in addition to the penalty on all past due rent.

Charles M. Schulz – Sonoma County Airport Management Response:

The operations agreement will be enforced by regularly checking for compliance and pursuing collections or other actions if compliance has not been achieved. A procedure will be implemented for the receipt of money due to ensure the amounts are compliant to the agreement. NCA will be given a form that they must submit with their payment for documentation of gross sales. Additionally the individual receiving payment will verify that the amount paid is equal to the amount listed in the lease management system. The individual receiving the payment will check the amount against the gross sales reported using the lessee’s form to verify the amount is 3% and take necessary actions to rectify the difference if the amount is incorrect.

We will consult County Counsel regarding the feasibility of charging interest on past due amounts.

Current Year Findings, Recommendations and Responses

Control Finding #2 – NCA did not submit reports supporting its reported gross receipts or rents due as required by the lease agreement.

NCA did not consistently provide statements of monthly and annual gross receipts as required by the lease agreement. As a result, the Airport staff was not able determine if rents paid by NCA were accurate.

The annual gross receipts statement provided, did not agree with NCA's accounting system report (transactions register).

After performing our procedures we determined that NCA owed an additional \$10,530 for the year ended December 31, 2013. Adjusted gross receipts for the 12-month audit period were \$687,683 and percentage rent paid to the Airport during the year was \$11,443. The total owed for the period was \$21,973, including penalties.

Recommendation #2:

The Airport should:

- a) Require NCA to timely submit monthly and annual statements with supporting details from its accounting system
- b) Review the documentation provided by NCA to identify and settle under or over payments in a timely manner.
- c) Invoice NCA for \$10,530 due from the 2013 gross sales.

Charles M. Schulz – Sonoma County Airport Management Response:

The Airport and NCA will negotiate a permanent arrangement for a payment method that is doable for NCA and acceptable to the Airport. Once a permanent arrangement is made, the Airport will amend the current agreement. Until then, the Airport will require NCA to submit quarterly statements with supporting details at the time of payment. NCA will be allowed to pay estimated monthly amounts however they will be required to "true up" quarterly so that the Airport can verify that the rents paid are compliant with the lease terms at the time of payment on a more regular basis. The Airport invoiced NCA for \$10,350 due from 2013 and NCA has paid the amount in its entirety.

Current Year Findings, Recommendations and Responses

Control Finding #3 – NCA did not maintain insurance coverage as required by the lease terms

We noted the following deficiencies in NCA’s insurance policy:

- 1) One of two insurance policies does not name the County of Sonoma as an insured or state that it provides primary coverage to the County of Sonoma with respect to any other insurance policy or self-insurance program the County.
- 2) One of two insurance policies does not require the insurer to provide the Airport a thirty day notice prior to cancellation

The deficiencies discussed above increase the County’s exposure to liability.

Recommendation #3:

The Airport should:

- 1) Require NCA to bring its insurance policy in compliance with the lease terms.
- 2) Periodically review insurance policies for compliance with lease terms.
- 3) Consult with the County’s Risk Management function and determine if insurance requirements are adequate.

Charles M. Schulz – Sonoma County Airport Management Response:

The Airport will require that NCA bring its insurance policies in compliance with the lease terms. The Airport diligently worked with Risk Management during the last two years to update the current insurance matrix. The updated insurance requirements became effective after the findings of this audit were reported. There are two insurance policies that NCA has for insurance. We will request immediately that the County of Sonoma be added as an additional insured status and a thirty-day notice be included on the second insurance policy. The Airport will review insurance policies for compliance with the lease terms and risk management when new certificates are received or when they expire. The lease management system will alert the Airport when a lease and/or insurance is due to expire and will enable them to track insurance for review.

B) Avis Budget Rental Car

Control Finding #4 – The Airport did not have in place procedures to review the calculation and payment of rent by Avis Budget, resulting in unidentified overpayments by Avis Budget of \$37,289. (See Attachment B for significant lease terms)

Current Year Findings, Recommendations and Responses

The following errors by Avis Budget remained undetected, resulting in net overpayment of rent by \$22,246 and \$15,043 for the periods October 1, 2012 to September 30, 2013 and October 1, 2013 to September 30, 2014 respectively.

- 1) The agreement requires that Avis Budget make monthly payments for the greater of one twelfth the minimum annual guarantee (MAG) or a percentage fee equal to ten percent of gross receipts. For the period ending September 30, 2013 the MAG was \$97,207, which was increased to \$121,872 for the period ending September 30, 2014. The increase in MAG was not applied by Avis Budget and they continued making monthly payments to the Airport based on one twelfth of \$97,207 instead of \$121,872, resulting in payment of \$161,046 instead of \$162,626; an underpayment of \$1,579.
- 2) A requirement for Avis Budget to pay the Airport an amount equal to 1.21% of gross receipts for use of the rental car wash facility during the period October 1, 2011 to September 30, 2012 was changed to \$3,840 for the period October 1, 2012 to September 30, 2013. Avis Budget continued to use the old terms for periods October 1, 2012 to September 30, 2013 and October 1, 2013 to September 30, 2014, resulting in overpayments to the Airport of \$13,490 and 15,647, respectively.
- 3) Avis Budget overpaid for October 2012 by \$7,901, in error.
- 4) Avis Budget overpaid by \$855 and \$975 ,for the periods October 1, 2012 to September 30, 2013 and October 1, 2013 to September 30, 2014, respectively, as a result of the following:
 - a. Avis Budget did not include pre-payments for gasoline in its reportable gross receipts.
 - b. Corporate discounts given by Avis Budget were not excluded from gross receipts.

The reports that Avis Budget had been providing the Airport do not have sufficient detail for the Airport staff to detect the errors discussed above. As part of our audit, we were able to obtain reports with the necessary level of detail.

Recommendation #4:

The Airport should develop the following procedures to assist in reviewing Avis Budget's calculation of rent:

- 1) Summarize terms of the lease agreement relevant to the calculation of rents and use as reference when recalculating rent reported by Avis Budget.
- 2) Require Avis Budget to provide details necessary for Airport staff to recalculate rent

Current Year Findings, Recommendations and Responses

- 3) Periodically review the lease agreements to ensure that Avis Budget is correctly applying the terms.

The Airport should provide Avis Budget a credit of \$37,289 against future rents, unless credits have already been applied.

Charles M. Schulz – Sonoma County Airport Management Response:

The Airport has a lease management database summarizing lease terms and will make sure this database is kept up to date and made available to the individual receiving payments. The Airport will write letters alerting Avis of the annual MAGs. The Airport will require a report from Avis that has sufficient information for the Airport to document payment and ensure compliance before a deposit is made. Airport is now using a process in QuickBooks which automates the process of receiving flat rate and MAGs, this preloaded automated feature will make processing the payments correctly a smoother and more reliable process.

Rates and charges that the rental car companies charge change periodically. The lease does not list all of the applicable charges that the rental car companies can charge their customers. An example of this was income from fueling – one line item was “gas reimbursement” and the other “gas revenue” – revenue was included in the gross income amount and gas reimbursement was not included in gross revenue. An audit of the rental company would be required in order to determine the difference between these items, which would not be cost effective for the department. As new fees are added by the companies, the department will make note and address the item with the company during the next lease renewal.

The Airport has issued \$37,289 in credit against future rents.

Status of Prior Audit Recommendations

Prior Audit Recommendation No. 1: Rent Owed

We recommend that the Airport require PropJet Aviation LLC to pay additional rent owed of \$5,600 and late fees of \$560 for the audit period.

Charles M. Schulz – Sonoma County Airport Management Response:

We have billed PropJet the additional \$5,600 in rent for the audit period, if payment is not received within 30 days, \$560 in late fees will be added to the amount due.

Status of Prior Audit Recommendation No. 1 - Implemented

Propjet paid \$5,600.00 on February 7, 2014.

Prior Audit Recommendation Nos. 2 & 3: Unreported Gross Receipts

The Airport should require PropJet Aviation LLC, to recalculate gross receipts for 2012, 2010 and 2009. The cost of freight should not be excluded, the recalculation should include amounts received for parts where gross profit exceeds 8%, and any other revenue unless specifically excluded from the Agreement. The Airport should require PropJet to submit monthly percentage rent reports which show the method of computation of gross receipts from commercial activity at the airport, the report should include gross receipts before deductions and a detailed list by account of deductions to arrive at the adjusted gross receipts used for the 3% rent calculation.

Charles M. Schulz – Sonoma County Airport Management Response:

We have advised PropJet to include onsite parts sales where gross profit exceeds 8%, and to stop deducting the cost of freight from gross receipts. We have advised PropJet to submit monthly percentage rent reports which show the method of computation of gross receipts. We have advised PropJet that the report should include gross receipts before deductions and a detailed list by account of deductions to arrive at the adjusted gross receipts used for the 3% rent calculation. We will establish procedures to ensure PropJet complies with this requirement.

Status of Prior Audit Recommendation Nos. 2 & 3 – Partially Implemented

PropJet submits statements to the Airport every 2-3 months. The Airport has not yet established procedures to ensure compliance.

Prior Audit Recommendation No. 4: Statement of Annual Gross Receipts

We recommend that the Airport require PropJet Aviation LLC to begin submitting a statement of annual gross receipts within 60 days after close of the calendar year.

Charles M. Schulz – Sonoma County Airport Management Response:

We will enforce Section 3.1(c) of the Agreement and require PropJet to start submitting statements of gross receipts 60 days after the close of each calendar year.

Status of Prior Audit Recommendations

Status of Prior Audit Recommendation No. 4 – Not Implemented

PropJet has been submitting statements of gross receipts and payments every 2 to 3 months instead of once a year. The Airport should either enforce the Agreement or amend it.

Prior Audit Recommendation No. 5: Modify Operating Agreement

We recommend that the Airport remove the language related to submitting statistical information, respecting Operator's operations at the Airport, from Section 5.3 from the Agreement.

Charles M. Schulz – Sonoma County Airport Management Response:

The statistical information required under Section 5.3 of the Agreement is no longer useful to the Airport and will be excluded from future agreements.

Status of Prior Audit Recommendation No. 5 – In Progress

The Airport is in the process of updating all of Airport agreements. The operating agreement will be updated soon and will exclude the statistical information requirement.

Prior Audit Recommendation No. 6: Schedule of Operating Hours

We recommend that the Airport require PropJet Aviation to begin submitting a written schedule delineating the operating hours and operating procedures of its aircraft maintenance service at the Airport.

Charles M. Schulz – Sonoma County Airport Management Response:

We will enforce section 5.4 of the agreement and require PropJet to begin submitting written schedules delineating the operating hours and operating procedures of its aircraft maintenance service at the Airport.

Status of Prior Audit Recommendation No. 6 – Not Implemented

There have been no written schedules requested or received from Propjet. The Airport has not enforced section 5.4 however it still maintains the action plan to enforce this area of the agreement and require the written schedules of hours and operation procedures.

Prior Audit Recommendation No. 7: Insurance Coverage

The Airport should obtain and review PropJet Aviation's insurance policy for adequacy of coverage. Risk Management and County Counsel should be consulted as necessary. Operating agreement insurance requirements should be updated accordingly. A policy should be implemented which includes a more robust follow up process and addresses lapses in insurance coverage.

Charles M. Schulz – Sonoma County Airport Management Response:

We will review and modify as necessary our existing process for monitoring insurance coverage for adequacy and compliance with operating agreements. We are in the process of determining if coverage limits are adequate. Going forward we will implement additional

Status of Prior Audit Recommendations

procedures to notify operators of insurance requirements and follow up when required insurance documentation has not been received.

Status of Prior Audit Recommendation No. 7 – Partially Implemented

The Airport has worked extensively with Risk Management and Airport Commissioners regarding the insurance coverage required for Airport tenants and businesses. A revised schedule for Airport tenant and business insurance coverage was just completed by Risk Management in February 2015. It had been several years since the insurance requirements had been updated at the Airport. The new requirements significantly increase coverage in some areas and add some new minimum insurance requirements. In addition to the new forms and checklists provided by Risk Management, the Airport has a database that tracks the expiration dates of insurance certificates. Airport staff has attended Insurance workshops through Risk Management and believes that a better understanding of the requirements for Risk has greatly increased their enforcement of insurance coverage. However coverage gaps continue to exist between PropJet's insurance coverage limits and those in the operating agreement.

Attachment A: Relevant Terms for North Coast Air, Inc. Operating Agreement

Relevant terms of the NCA Operating Agreement, dated January 1, 2008:

- Section 3.1(a) Percentage Rent For Permitted Commercial Activity Conducted by Operator. During the term of this Agreement, Operator has the right, but not the obligation, to conduct certain permitted commercial activity as set forth in Section 2.1 of the Agreement. Operator shall pay an amount equal to three percent (3%) of the Gross Receipts (defined in the Agreement) generated by all commercial activity on the Airport during the preceding month.
- Section 3.1(b) Definition of Gross Receipts. For purposes of the Agreement, "Gross Receipts" means all revenue generated by commercial activity engaged in by Operator and any other consideration actually received by Operator as a result of such commercial activity, from any source, but expressly does not include any of the following: (1) all revenue against which Operator later provides a credit for or in lieu of "trade-ins" or returns to suppliers or manufacturers and all refunds made to customers, but only to the extent of such credit or refund; (2) amounts received at the Premises for convenience only, for sales made or services provided wholly at other premises of Operator, provided Operator covenants and agrees that it shall not intentionally transfer sales to other premises for the primary purpose of avoiding the payment of rent under this Section 3.1; (3) sales, excise and gross receipt taxes paid by Operator on its commercial activity; (4) amounts received by Operator for settlement of any claim of Operator, unless such claim is made to collect sums owed Operator in exchange for goods or services provided by Operator's commercial activity and would otherwise be considered Gross Receipts hereunder; (5) sales price of fixtures, equipment or property not sold in the ordinary course of business; (6) the amounts of accounts receivable charged off as bad debts or uncollectible accounts; (7) revenue received by Operator for food and beverage catering; (8) brokerage commissions received by Operator for aircraft sales; and (9) revenue received by Operator for parts sales where gross profit does not exceed eight percent (8%), as documented by parts supplier invoice; and (10) Operator's revenue from fuel sales for which Operator has paid County the applicable fuel flowage fee. Subject to the above exclusions, "Gross Receipts" includes amounts which Operator could have received had Operator so chosen, but which Operator elected to allow another to receive. Section 3.1(c) states "Operator shall furnish or cause to be furnished to the Airport a statement of monthly Gross Receipts within 30 days of the close of each month" and "a statement of annual gross receipts within 60 days of each Calendar Year."
- Section 3.1 (c) Statement of Monthly Gross Receipts. Operator shall furnish or cause to be furnished to County a statement of monthly Gross Receipts, with written documentation showing the gross receipts and any exceptions, subject to the limitations

Attachment A: Relevant Terms for North Coast Air, Inc. Operating Agreement

set forth above, within thirty (30) days after the close of each month and a statement of annual Gross Receipts within sixty (60) days after the close of each Calendar Year. Operator shall keep full and accurate books of account and records concerning Gross Receipts. Such books, receipts and records shall be kept for a period of not less than four (4) years after the close of each Calendar Year.

- Sections 6.1 Duty to Maintain Insurance. Operator shall obtain insurance acceptable to County in company or companies acceptable to County in the limits as required in the Airport's Minimum Standards. The required documentation of insurance shall be furnished to County upon the execution of this Agreement.

- Section 6.1.1 Aircraft Liability Insurance. Aircraft liability insurance, including coverage for commercial general liability and non-owned aircraft, covering personal injury and property damage for all activities of Operator arising out of or in connection with this Agreement using an occurrence policy form, with policy limits of not less than One Million Dollars (\$1,000,000) per occurrence. Such policy shall be endorsed with the following specific language:
 - a) "The County of Sonoma is named as an additional insured for all liability arising out of the operations by or on behalf of the named insured in the performance of this agreement."
 - b) "The inclusion of more than one insured shall not operate to impair the rights of one insured against another insured and the coverage afforded shall apply as though separate policies had been issued to each insured, but the inclusion of more than one insured shall not operate to increase the limits of the company's liability."
 - c) "The insurance provided herein is primary coverage to the County of Sonoma with respect to any policy of insurance or self-insurance programs maintained by the County. No insurance held or owned by the County shall be called upon to contribute to a loss."
 - d) "The insurer waives the right of subrogation against the County of Sonoma and against its agents and representatives."
 - e) "This policy shall not be canceled or materially changed without first giving the County of Sonoma thirty (30) days' notice by certified mail."

- Section 6.1.2 Vehicular Liability. Vehicular liability insurance, including coverage for commercial general liability and non-owned vehicles, covering personal injury and property damage for all activities of Operator arising out of or in connection with this Agreement using an occurrence policy form, with policy limits of not less than One Million Dollars (\$1,000,000) per occurrence.

Attachment A: Relevant Terms for North Coast Air, Inc. Operating Agreement

- Section 6.1.3 Hangar Keeper's Liability. Hangar keeper liability insurance, including coverage for commercial general liability and non-owned aircraft, covering personal injury and property damage for all activities of Operator arising out of or in connection with this Agreement using an occurrence policy form, with policy limits of not less than Two Hundred Fifty Thousand Dollars (\$250,000) for each Aircraft and Five Hundred Thousand Dollars (\$500,000) for each occurrence..
- Section 6.1.4 Aircraft and Passenger Liability. Aircraft and Passenger liability insurance Two Million Dollars (\$2,000,000) combined single limit, One Hundred Thousand Dollars (\$100,000) sublimit per /passenger.

Attachment B: Relevant Terms for Avis Budget Operating Agreement

Relevant terms of the Avis Budget Operating Agreement, dated September 25, 2012:

- Section 7.A.(1) Minimum Annual Guarantee (MAG). The MAG for the first year of this Agreement shall be \$97,207. The MAG for years 2, 3, 4 and 5 of the Term of this Agreement shall be eighty-five (85%) of Operator's actual payment to the County of the previous contract year of this Agreement. For any period of less than one (1) calendar month that this Agreement shall be in effect, the MAG shall be calculated on a pro rata basis.
- Section 7.A.(2) Percentage Fee. The Percentage Fee for each year of this Agreement shall be calculated as ten percent (10%) of Gross Receipts from all business operations conducted on the Premises in accordance with Article 8. "Definition of Gross Receipts" of this Agreement.
- Section 7.B. Car Wash Facility Fee. During the Term of this Agreement, Operator shall pay County \$320.00 per month for use of the Airport's rental car wash facility, based on the Airport's actual operating cost for this facility. The Car Wash Facility Fee is subject to annual review by the Airport, and may be amended from time to time by the County to reflect increases or decreases in the Airport's cost to operate the car wash facility.
- Section 8.A. Gross Receipts. Gross Receipts shall include, but shall not be limited to, all revenues received or derived from the following:
 - (1) The rental or sale of goods and services under this Agreement, including but not limited to, the following:
 - a) Time and Mileage or Rental Charges.
 - b) Except as provided in sub-section C. Exclusions from Gross Receipts, Fees for insurance coverage, including: -Personal Accident Insurance (PAI) -Personal Effects Coverage (PEC) or Cargo -Life Insurance -Supplemental Liability Insurance -Safe Trip Insurance -Extended Protection -Other insurance coverage offered now or in the future.
 - c) Fees for rental of equipment, including: -Child safety seats -Cellular phones (including revenues from use of) -Recreational gear and car racks for recreational gear -Tire chains -Portable personal computers and portable facsimile machines -Other equipment offered now or in the future Global Positioning Systems.
 - d) Additional fees charged to Customers, including: -Additional and underage driver fees -Upgrade and exchange fees -Fees for pre-paid fuel and other petroleum products -Inter-County charges (drop fees) - Transportation fees - Early pickup and late return fees -Parking fees, including fees for valet parking -Tire and battery recovery fees -Concession Recovery Fees -Vehicle

Attachment B: Relevant Terms for Avis Budget Operating Agreement

license recovery fees -Frequent flyer recovery fees -Fees for miscellaneous services such as service calls -Other fees charged now or in the future. - Global Positioning Systems.

- e) The value of coupons and vouchers purchased by corporations and tour companies, either in advance or invoiced after use, if the rental charges are not shown on the actual closed Rental Agreement.
- Section 8.C. Exclusion from Gross Receipts. Each exclusion from Gross Receipts shall be segregated in the Operator's monthly statement of gross receipts. The following are the only exclusions to the definition of Gross Receipts under this Agreement:
 - (1) Any taxes now or hereinafter levied or imposed by any local, state, or federal law which are separately stated on the rental agreement and paid by the customer and which are directly payable to the taxing or tax collecting authority by the Operator. This exclusion shall include vehicle license fees, if separately stated on the rental agreement and paid by the customer.
 - (2) Sums received as insurance or otherwise for damage to vehicles or other property of Operator; sums received for loss, coverage, or abandonment of Operator's vehicles; and amounts paid by customers of Operator and billed as separate charges for waiver by Operator of its right to recover from customers for damage to the vehicle rented.
 - (3) Any sums received from the disposal of furniture, fixtures, equipment, and Rental Cars.
 - (4) Any sums received from a customer for reimbursement of impound fees, towing fees, and parking tickets.
 - (5) Corporate discounts or rebates, but only to the extent that Operator provides auditable proof to the County that the discounts or rebates are specifically attributable to rental agreements with customers at the Airport.
 - (6) Sums received from Operator's customers for fuel reimbursement.
 - Section 10.B.(1) Statement of Gross Receipts and Percentage Fee Payment. Operator shall submit a statement of gross receipts in accordance with Article 8 "Definition of Gross Receipts" of this Agreements for the preceding month. The statement shall be prepared and signed by Operator or his/her responsible agent" and shall indicate:
 - a) One-twelfth (1/12th) of the Minimum Annual Guarantee payment;

Attachment B: Relevant Terms for Avis Budget Operating Agreement

- b) The total Gross Receipts for the preceding month;
 - c) The Percentage Fee calculated for the total Gross Receipts for the preceding month (exclusions from Gross Receipts shall be itemized); and,
 - d) The total amount of fees due for the preceding month.
- Section 10.B.(2) Monthly Payment. Each monthly payment shall include the greater of the following two amounts: the Percentage Fee computed for the preceding month or one-twelfth (1/12th) of the Minimum Annual Guarantee. The monthly payment is due and payable on the twentieth (20th) day of each following calendar month during the Term of this Agreement, and delinquent if not paid within five (5) days of when due and payable.
 - Section 10.B (3) Cumulative Minimum Annual Guarantee and Percentage Fee. Once the cumulative Minimum Annual Guarantee monthly payment and the Percentage Fee monthly payment aggregate to the total Minimum Annual Guarantee for the applicable year of the Agreement, only the Percentage Fee shall be paid for the balance of the year. This procedure eliminates the need for an annual reconciliation of the Minimum Annual Guarantee and the Percentage Fee.

Attachment C: Report Item Classification

For purposes of reporting our audit findings and recommendations, we classify audit report items into three distinct categories to identify the perceived risk exposure:

- **Critical Control Weakness:**
Serious audit findings or a combination of Significant Control Weaknesses that represent critical exceptions to the audit objective(s), policies, and/or business goals of a department/agency or the County as a whole. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

- **Significant Control Weakness:**
Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses generally will require prompt corrective actions.

- **Control Findings:**
Audit findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process.

The current status of implementation of recommendations will be followed up no later than the end of the second fiscal year after the report has been issued. Critical control weakness findings will be followed up between six months and one year of the date of the report.