



**CITY OF COLORADO SPRINGS  
OFFICE OF THE CITY AUDITOR**

**08-01 – COLORADO SPRINGS AIRPORT  
OFF-AIRPORT CAR RENTALS**

**PUBLIC REPORT**

**JANUARY 2, 2008**

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City of Colorado Springs



## Office of the City Auditor

### Public Report

Date: January 2, 2008

To: Honorable Mayor and Members of City Council

Re: 08-01 – Colorado Springs Airport – Off-Airport Car Rentals

We completed an audit of the Off-Airport Rental Car Business Permits between the Colorado Springs Airport and the off-airport rental car agencies.

The purpose of the audit was to evaluate whether the off-airport rental car agencies were abiding by the terms of their agreement with the Airport. Our audit period was January to December 2005. We performed limited tests in calendar year 2006 regarding findings identified in 2005 transactions. Advantage Rent-A-Car was the only off-airport rental car agency during this period.

We concluded the off-airport rental car agency (Advantage) was abiding by the majority of the terms of their agreement with the Airport. We did note three areas, which all related to their billing system, where calculations were incorrect. During our review, we also noted one area where the Airport Regulations did not agree to the Permit.

The attached audit report contains our findings.

As always, feel free to contact me if you have any questions.

Sincerely,

Jeff Litchfield  
City Auditor

cc: Mark Earle, Aviation Director  
Gisela Shanahan, Assistant Director of Aviation, Finance & Administration  
John Faulkner, AAE, Assistant Director of Aviation, Planning & Development  
Scott Bengogullari, Manager, Advantage Rent-a-Car

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### Abbreviations and Acronyms used in this Report

Advantage	Advantage Rent-A-Car
Airport	City of Colorado Springs Municipal Airport
Permit	City of Colorado Springs Municipal Airport Off-Airport Rental Car Business Permit
Regulations	City of Colorado Springs Municipal Airport Off-Airport Rental Car Regulations
LART	Lodgers Campgrounds and Automobile Rental Tax, as found in Chapter 2, Article 9, of the City Code of the City of Colorado Springs.

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## Introduction

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### AUTHORIZATION

We performed an audit of the Off-Airport Rental Car Business Permit (Permit) between the Colorado Springs Airport (Airport) and the off-airport rental car company for the period of January 1, 2005 through December 31, 2005. We conducted this audit under the authority of Chapter 1, Article 2, Part 7 of the Colorado Springs City Code, and more specifically part 706, which states:

#### 1.2.706: EXAMINE BOOKS, RECORDS:

The City Auditor shall examine and inspect all books, records, files, papers, documents and information stored on computer records or in other files or records relating to all financial affairs of every office, department, group, enterprise, political subdivision and organization which receives funds from the City or under the direct or indirect control of the City Council. The Auditor may require any person to appear at any time upon proper notice and to produce any accounts, books, records, files and other papers pertaining to the receipt or expenditure of City funds, whether general or special. If that person fails to produce the papers, then the Auditor may request Council approval to search for and take any book, paper or record in the custody of that person or public official.

The Permit also provides the following audit authorization:

**BOOKKEEPING AND AUDITS:** Permittee agrees to establish and maintain a system of bookkeeping satisfactory to City's Auditor and to give City's Authorized Representative access during reasonable hours to such books and records. City's Auditor and Director of Aviation and their respective Authorized Representatives shall have the right any time, and from time-to-time, to audit all the books of account, documents, records, papers and files of the Permittee and other documents required to be kept by the Permittee relating to the activities conducted hereunder. If City should make or have such an audit made for the activities authorized hereunder for any year and the Permittee's statements for such year should be found to be understated by more than three percent (3%), Permittee shall pay to City cost of such audit. City's right to make such an audit with respect to any year shall expire one (1) year after termination of this Permit.

### ORGANIZATIONAL PLACEMENT

The City of Colorado Springs Office of the City Auditor is structured in a manner to provide organizational independence from the entities it audits. This is accomplished by the City Auditor being appointed by and reporting directly to the City Council. The audited entity in this audit was the Airport, which is under the direction of the City Manager. The City Manager is a City Council Appointee.

### SCOPE AND METHODOLOGY

The purpose of our audit was to evaluate whether the off-airport rental car agency was abiding by the terms of their agreement with the Airport. We examined information to determine if revenues were remitted as specified.

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## Introduction

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Our fieldwork covered the period from January 1, 2005 to December 31, 2005. In addition, we tested a sample of rental agreements originated during 2006 to verify that findings from 2005 were also occurring in 2006.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors. The audit included such test of records and other supporting documentation as was deemed necessary in the circumstances. We reviewed the internal control structure and performed compliance tests. Sufficient competent evidential matter was gathered to support our conclusions.

### BACKGROUND

Advantage Rent-a-Car (Advantage) was the only off-airport rental car agency with a Permit during 2005. Rental car companies must apply for the Permit annually and operate in accordance with the 'Colorado Springs Municipal Airport Off-Airport Rental Car Regulations (Regulations).'

We utilized the City of Colorado Springs City Code, Chapter 2, Article 9 Lodgers Campgrounds and Automobile Rental Tax (LART), to determine the applicable taxes for rental car transactions for purposes of our audit.

### OVERALL CONCLUSION

We concluded the off-airport rental car agency was abiding by the majority of the terms of their agreement with the Airport. We did note three areas, which all related to their billing system, where calculations were incorrect. During our review, we also noted one area where the Airport Regulations did not agree to the Permit.

***We have made no determination as to which findings are more important than others. Therefore, the findings are not listed in order of importance.***

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## Findings, Recommendation and Responses

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### 1. Advantage was over charging customers for the Airport Access Fee.

Per the Permit, the Airport Access Fee is 7.5% of gross receipts. None of the agreements we reviewed correctly calculated the Airport Access Fee.

We examined a sample of 99 Airport related Advantage customer rental agreements for the presentation and calculation of the Airport Access Fee. Our test work showed that 93 agreements improperly stated and calculated the Airport Access fee as 10.0% of gross receipts. The remaining six agreements calculated the fee as 7.54%.

We also examined Advantage's revenue reports and remittance of Access Fee to the Airport as well as the City of Colorado Springs general ledger receipts. Advantage was properly remitting 7.5% of gross receipts to the Airport.

We extended our tests to 2006 rental agreements and found the error detailed above consistently occurred during that period as well.

#### ***Auditor's Recommendation:***

We recommend Advantage's billing system be updated to properly calculate the Airport Access Fee as 7.5% of gross receipts as defined by the Permit. We recommend Airport staff spot check Advantage rental agreements to verify the correct Airport Access Fee is being charged to customers. We also recommend the Permit be updated to include language requiring Advantage to remit the total Airport Access Fee collected from customers if such Airport Access Fee is in excess of the percentage specified in the Permit.

#### ***Advantage's Response:***

We agree with the recommendation. We have made the necessary changes to reflect the true fee rate of 7.5% for calculation of Airport Access Fee collected from customers.

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## Findings, Recommendation and Responses

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### 2. Advantage was under charging customers for Automobile Rental Tax.

The City of Colorado Springs Tax Guide details the Short Term Automobile Rental Tax as follows:

<i>State of Colorado Sales Tax</i>	<i>2.9%</i>
<i>Colorado Springs Sales Tax</i>	<i>2.5%</i>
<i>Colorado Springs Auto Rental Tax</i>	<i>1.0%</i>
<i>El Paso County Sales Tax</i>	<i>1.0%</i>
<i>El Paso County Ownership Tax</i>	<i>2.0%*</i>
<i>Pikes Peak Rural Transportation Authority Sales Tax</i>	<i><u>1.0%</u></i>
<i>Total Short Term Automobile Rental Tax</i>	<i>10.4%</i>

*\* The State of Colorado allows automotive vehicle rental companies, at their option, to pass the ownership tax to the renter, by adding 2% ownership tax to the rental billing. This charge is not subject to the City of Colorado Springs sales or use tax.*

*For those rentals in excess of 30 consecutive days the Colorado Springs Auto Rental Tax is not applicable and the sales tax rate should be reduced by 1.0%.*

Our test work showed that Advantage calculated and passed through to their customers the combined Short Term Automobile Rental Tax as 7.4% of items classified by Advantage as taxable. If Advantage chooses not to pass the Ownership Tax\* to the renter, the combined Short Term Automobile Rental Tax is 8.4% for passenger car rentals less than 30 consecutive days and 7.4% for rentals greater than 30 days. Over 90% of our sample represented less than 30 day rentals where the 8.4% rate applied.

We obtained the July 2005 City of Colorado Springs Sales Tax Return from Advantage and the City's portion of the combined Short Term Automobile Rental Tax was properly calculated. However we could not verify the Tax Return's total sales as Advantage has businesses in addition to the Airport location.

We extended our tests to 2006 rental agreements and found the error detailed above consistently occurred during that period as well.

#### ***Auditor's Recommendation:***

We recommend Advantage's billing system be updated to properly calculate the Short Term Automobile Rental Tax.

#### ***Advantage's Response:***

We agree with the recommendation. We have asked our I.T. Dept to make the necessary changes to reflect the true Short Term Automobile Rental Tax as defined by LART.

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## Findings, Recommendation and Responses

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### **3. Advantage was improperly including charges for refueling in the calculation of the Airport Access Fee and the Short Term Automobile Rental Tax.**

Per the Regulations, charges for refueling were to be excluded in the calculation of the Airport Access Fee. The LART states charges for refueling were to be excluded in the calculation of the sales tax.

In every Airport related rental agreement we examined that included a refueling charge, the Airport Access Fee and sales tax charged to the customer incorrectly included refueling amounts in the calculation. We examined 186 total agreements for the calendar years 2005 and 2006 and 18 had applicable refueling charges. Consequently these customers were overcharged. However, the Airport Access Fee remitted to the Airport was correctly calculated per the 'Off Airport Rental Car Activity Report' prepared by Advantage.

This appeared to be a billing system error in calculation and charges to the customer. The manual calculation for remittance to the Airport was correct.

#### ***Auditor's Recommendation:***

We recommend Advantage's billing system be updated to exclude charges to customers for refueling in the calculation of the Colorado Springs Airport Access Fee and the Short Term Automobile Rental Tax.

#### ***Advantage's Response:***

We agree with the recommendation. We have now asked our I.T. Dept. to exclude refueling charges from the calculation of Airport Access Fee.

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## Findings, Recommendation and Responses

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### 4. The Regulations did not reflect the current Airport Access Fee.

We compared the Regulations to the Permit. Section C3 of the Regulations state:

A percentage fee based on Gross Automobile Rental Revenue per month, payable without notice on the 20<sup>th</sup> day of each month for preceding month's receipts, in the amount of 7% of the monthly Gross Automobile Rental Revenues.

EXHIBIT A of the Permit requires 7.5% of monthly gross receipts be remitted to the Airport. Our work confirmed the Airport was collecting 7.5% from Advantage for Airport Access Fees.

#### ***Auditor's Recommendation:***

We recommend that the Regulations be updated to reflect a 7.5% fee based on Gross Automobile Rental Revenue per month. We also recommend a full review of the Regulations for accuracy.

#### ***Airport's Response:***

We agree with the recommendation. The Airport is in the process of updating the Regulations to reflect the correct percentage fee of 7.5% as specified in the Permit. The update will be accomplished by November 30, 2007. In addition, a complete review of the Ground Transportation Regulations covering all ground transportation operations at the Airport will be completed by March 31, 2008.