



# Internal Audit Report

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## Rental Car Lease and Concession Audit

The Hertz Corporation  
dba/Hertz Rent-A-Car

November 1, 2009 - October 31, 2011

Issue Date: June 11, 2013  
Report No. 2013-04

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Transmittal Letter

Audit Committee  
Port of Seattle  
Seattle, Washington

We have completed an audit of the Hertz Corporation, dba Hertz Rent-A-Car. We reviewed information relating to a two-year period from November 1, 2009, through October 31, 2011.

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.

We extend our appreciation to the management and staff of Aviation Business Development and Accounting and Financial Reporting for their assistance and cooperation during the audit.



Joyce Kirangi, CPA, CGMA  
Director, Internal Audit

## Executive Summary

**Audit Scope and Objective** The purpose of the audit was to determine whether:

- The reported concession fees were complete, properly calculated, and remitted timely to the Port.
- The Port and the lessee complied with provisions of the Lease and Concession Agreement, as amended.
- Customer Facility Charges (CFC) were properly collected and remitted timely to the Port.

We examined the books and records of Hertz Rent-A-Car (Hertz) for a two-year period from November 1, 2009, through October 31, 2011. Aviation Business Development, in conjunction with Accounting and Financial Reporting, has the primary responsibility for administering and monitoring the agreement to ensure compliance with agreed-upon terms.

**Agreement Terms** The terms of the agreement provide for a Minimum Annual Guarantee (MAG) of 80% of the total amount paid to the Port in the previous agreement year. Additionally, the agreement requires a Percentage Fee equal to 10% of gross revenues, provided the fee is higher than the monthly MAG payment.

**Audit Result Summary** Hertz materially complied with the terms of the Rental Car Lease and Concession agreement. However, the audit determined that certain gross receipts were underreported. We recommend the Port management seek and recover approximately **\$21,018** in additional concession fees, late fees, and interest charges. See Finding 1 on the Schedule of Findings.

## Background

Hertz is one of two brands offering rental cars, trucks, and equipment within the Hertz Corporation, a subsidiary of Hertz Global Holdings, Inc. The Hertz Corporation maintains a local administrative office and fleet maintenance facility near Seattle-Tacoma International Airport.

The terms of the agreement provide for a Minimum Annual Guarantee (MAG) of 80% of the total amount paid to the Port in the previous agreement year. Additionally, the agreement requires a Percentage Fee equal to 10% of gross revenues, provided the Percentage Fee is higher than the monthly MAG payment.

The following are the only agreed-upon deductions allowed in the agreement:

- a. Any tax imposed or collected on behalf of a taxing authority
- b. Any amounts received as insurance proceeds or for damage to vehicles or other property, or for loss, conversion or abandonment of such vehicles
- c. The wholesale transfer of salvage vehicles
- d. All non-revenue rentals to employees
- e. Fees paid to other governmental agencies (excluding the Port), relating to transactions at the Airport

The MAG is payable in advance, on or before the first day of each month, without notice from the Port. The percentage fee, if applicable, is due on or before the 20<sup>th</sup> of the following month. For untimely payments, the agreement provides for a one-time late fee of 5% of the overdue amount and interest to be accrued at the rate of 18% per year from the due date until paid.

Below are the financial highlights for the last two fiscal years:

<b>Fiscal Year</b>	<b>Reported Gross Revenue</b>	<b>Paid Concession</b>
2009 - 2010	55,919,197	5,591,920
2010 - 2011	54,769,892	5,476,889
<b>Grand Total</b>	<b>\$ 110,689,089</b>	<b>\$ 11,068,809</b>

Data Source: Hertz Rent-A-Car Annual Report and PeopleSoft General Ledger

## Audit Scope and Methodology

We conducted the audit to determine whether Hertz complied with the lease agreement terms including, but not limited to, proper concession and CFC payments. We utilized a risk-based audit approach from planning to testing. We gathered information through document requests, interviews, observations, and analytical reviews. We obtained a complete understanding of the financial requirements of the Agreement between the Port of Seattle and Hertz. We applied

additional detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

- |                                   |                                   |
|-----------------------------------|-----------------------------------|
| a. Timely Payment                 | e. CPA Certified Annual Report    |
| b. Insurance Liability            | f. Concession Revenue             |
| c. Surety Bond/Security Deposit   | g. Customer Facility Charge (CFC) |
| d. Minimum Annual Guarantee (MAG) |                                   |

a) **Timely Payment**

We reviewed payment records to determine whether the lessee complied with the required due date.

b) **Insurance Liability**

We reconciled insurance requirements to the coverage reflected in the certificate of insurance in force for the audit period to current.

c) **Surety Bond/Security Deposit**

We determined whether the surety bond amount complied with the requirements stipulated in the agreement.

d) **Minimum Annual Guarantee**

We determined whether MAG was properly calculated.

e) **CPA Certified Annual Report**

We reviewed audit reports for the audit period to determine compliance with the timely and complete submission of the report.

f) **Concession Revenue**

We interviewed Hertz personnel about their policies, procedures, and internal controls over cash receipts, sales, accounting, and reporting.

The Business Daily Report (BDR), which is the general ledger, shows the monthly detail per revenue category. The Revenue Report shows the monthly totals summarized by revenue category. We reconciled the BDR to the CPA report, and to the Revenue Report.

To determine whether the lessee completely reported all concession revenues, we selected a sample of 145 closed rental agreements deemed high-risk for the audit period. We determined whether the revenue reported on each rental agreement agreed to the amount posted to the BDR, and ensured that commercial discounts did not reduce concession revenue.

g) **Customer Facility Charges**

We reconciled the CFC amount reported in the BDR to each rental agreement in the risk-based sample of closed rental transactions. We determined whether the CFC was properly calculated, timely collected, and remitted in full to the Port, as required in the agreement.

**Conclusion**

Hertz materially complied with the terms of the Rental Car Lease and Concession agreement. However, the audit determined that certain gross receipts were underreported. We recommend the Port management seek and recover approximately **\$21,018** in additional concession fees, late fees, and interest charges. See Finding 1 on the Schedule of Findings.

**Schedule of Findings and Recommendations**

**1. CONCESSION REVENUE WAS UNDERREPORTED**

i. One Concession Location Was Not Reported

The lease agreement Section 1.5 stipulates:

“Airport Customer” shall mean: “(i) any person who comes to the Airport by any means of transportation and enters into a motor vehicle rental agreement with concessionaire at Concessionaire’s Rental Car Concession; (ii) any person who flies into the Airport and within twelve (12) hours thereafter, enters into a motor vehicle rental agreement with concessionaire at any of Concessionaire’s rental car operations located within three (3) mile radius of the Airport boundary line.”

Hertz operates at the following five locations within the three mile radius:

- Seattle-Tacoma International Airport
- SeaTac Marriot
- Signature Flight
- Burien Chevrolet
- Pacific Hwy South

We determined that concession receipts at the Burien Chevrolet location were not included in the concession reported to the Port for the audit period. This resulted in underreported concession of approximately \$7,720 as follows: (See Schedules B, and C for detail.)

	Total Understatement to the Port
Fiscal Year 2010	\$ 26,769
Fiscal Year 2011	27,980
Total Underreported Gross	\$ 54,749
Concession Fee Underpaid (10%)	5,475
One Time Late Fee (5%)	271
Interest Accrued (18%)	1,974
<b>Total Amount Due to the Port</b>	<b>\$ 7,720</b>

ii. Certain Concession Items Were Not Included

The agreement, as amended, under Section 1.26 defines concession to include revenues from “all consideration of any kind - whether cash, credit or in kind- received, derived and/or billed by the Concessionaire for: (a) all charges, including, but not limited to, time and mileage charges...”

Our analysis and review of the lessee’s financial records and detail transaction testing determined that gross revenues from the following concession items were not reported to the Port:



- Customer Curbside Return Fees
- Gold Membership Fees
- Premium Roadside Produce

Hertz has acknowledged the amounts cited in the table below, which summarizes underreported gross revenue: (See Schedules A for detail.)

	Total Understatement to the Port
Fiscal Year 2010	\$ 93,070
Concession Fee Underpaid (10%)	9,307
One Time Late Fee (5%)	394
Interest Accrued (18%)	3,597
<b>Total Amount Due to the Port</b>	<b>\$ 13,298</b>

**Recommendations:**

We recommend management:

- i. Review concession revenues from the Burien Chevrolet location for years prior to the audit period and seek recoveries, as appropriate.
- ii. Work with Hertz Corporation to ensure that all concession items from all locations within the three-mile radius are properly and completely reported to the Port.
- iii. Seek and recover approximately **\$21,018** (\$7,720 + \$13,298) in underpaid concession fees, late fees, and accrued interest.

**Management Response**

*For recommendation i and ii:*

*The tenant is aware that they must report concession revenue for all locations within a three mile radius of the Airport. The Burien Chevrolet location opened 10/8/09, and according to Hertz that location had no revenue prior to February 2010. Since this audit covered the period November 1, 2009 through October 31, 2011, Management does not think it is worthwhile to audit this location for prior years. Please note: the location was temporarily closed as of 10/19/12 and is expected to resume business 8/31/13.*

*For recommendation iii:*

*The tenant agrees with the findings and therefore, we will bill them accordingly.*

HERTZ RENT A CAR  
**SCHEDULE A - GROSS REVENUE UNDERREPORTING**  
 FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2010  
 INTEREST CALCULATED AS OF 03/31/13

DATE	11/09	12/09	01/10	02/10	03/10	04/10	05/10	06/10	07/10	08/10	09/10	10/10	Grand Total
Herts CPA year-end true up Gross Revenue (a)	3,321,284	3,405,465	3,258,558	3,716,664	4,106,508	4,052,232	4,090,845	4,979,539	6,671,396	7,821,882	5,812,146	4,682,678	55,919,197
<b>FINDINGS: ADD</b>													
<b>Main Terminal</b>													
CURBSIDE - 3124									30	35			65.00
RES FEE - 3133		(45)											(45.00)
PREM RD SC - 3756	1,271	3,238	3,474	6,367	4,421	4,459	5,411	7,021	9,742	17,734	14,660	15,253	93,050.21
Total Additions (b)	<u>1,271</u>	<u>3,193</u>	<u>3,474</u>	<u>6,367</u>	<u>4,421</u>	<u>4,459</u>	<u>5,411</u>	<u>7,051</u>	<u>9,777</u>	<u>17,734</u>	<u>14,660</u>	<u>15,253</u>	<u>93,070</u>
Adjusted Gross Revenue (a) + (b)	3,322,555	3,408,658	3,262,032	3,723,031	4,110,929	4,056,691	4,096,256	4,986,590	6,681,173	7,839,616	5,826,806	4,697,931	56,012,267
Concession Fee Payable - 10%	332,255	340,866	326,203	372,303	411,093	405,669	409,626	498,659	668,117	783,962	582,681	469,793	5,601,227
Concession Fee Reported by Hertz (MAG & %)	398,208	398,208	398,208	398,208	410,651	405,223	409,085	497,954	667,140	782,188	581,215	468,268	5,814,556
<b>Add'l Concession Payable</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>442</u>	<u>446</u>	<u>541</u>	<u>705</u>	<u>978</u>	<u>1,773</u>	<u>1,466</u>	<u>1,525</u>	<u>7,876</u>
# of Months to Current	39	38	37	36	35	34	33	32	31	30	29	28	
One Time Late Fee @ 5%													<b>394</b>
Interest Rate Annually 18% or 1.5% Per Month					<b>232.13</b>	<b>227.40</b>	<b>267.79</b>	<b>338.40</b>	<b>454.61</b>	<b>798.04</b>	<b>637.70</b>	<b>640.63</b>	<b>3,597</b>
<b>Total Add'l Concession Payable and Interest Payable to the Port</b>					<u><b>674.27</b></u>	<u><b>673.29</b></u>	<u><b>808.79</b></u>	<u><b>1,043.39</b></u>	<u><b>1,432.25</b></u>	<u><b>2,571.47</b></u>	<u><b>2,103.68</b></u>	<u><b>2,165.93</b></u>	<u><b>11,867</b></u>

<b>Concession Fee Analysis</b>	
Concession Fee Paid	5,814,556
Credit Issued For Year End True Up on 1/27/2011, LEASS-40125	(222,636)
<b>Total Concession Fees Paid</b>	<b>5,591,920</b>
Concession Fee Per Audit	5,601,227
<b>Concession Fee Due To The Port</b>	<b>9,307</b>
Plus	
Late Fee %	394
Interest Accrued	3,597
<b>Amount Due To The Port in 2010 - Schedule A</b>	<b>13,298</b>

HERTZ RENT A CAR  
**SCHEDULE B - GROSS REVENUE UNDERREPORTING**  
 FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2010  
 INTEREST CALCULATED AS OF 03/31/13

DATE	11/09	12/09	01/10	02/10	03/10	04/10	05/10	06/10	07/10	08/10	09/10	10/10	Grand Total
Herts CPA year-end true up Gross Revenue (a)	3,321,284	3,405,465	3,258,558	3,716,664	4,106,508	4,052,232	4,090,845	4,979,539	6,671,396	7,821,882	5,812,146	4,682,678	55,919,197
<b>FINDINGS: ADD</b>													
<b>Burien Chevrolet 7340-17</b>													
REVENUE - 3101				342	373	900	1,000	1,831	6,373	8,162	1,878	1,041	21,899
LOCAL REVENUE - 3100					254		97		990	769			2,110
LDW - 3140							125		140	440	264		969
LIS - 2169									12	479	35		526
PAI - 2145									6	119			125
AGE DIF - 3103									(12)	60			48
REFUEL - 3721				63					145	381	20	111	720
FPO - 3721							37	26	49	48	74		234
ENERGY FEE - 3755				1	1		1	4	29	32	7	3	78
PREM RD SC - 3756										59.80			60
Total Additions (b)				406	628	900	1,260	1,862	7,732	10,549	2,278	1,155	26,769
Adjusted Gross Revenue (a) + (b)	3,321,284	3,405,465	3,258,558	3,717,070	4,107,136	4,053,132	4,092,105	4,981,401	6,679,128	7,832,431	5,814,424	4,683,833	55,945,966
Concession Fee Payable - 10% (c)	332,128	340,547	325,856	371,707	410,714	405,313	409,211	498,140	667,913	783,243	581,442	468,383	5,594,597
Concession Fee Reported by Hertz (MAG & %)	398,208	398,208	398,208	398,208	410,651	405,223	409,085	497,954	667,140	782,188	581,215	468,268	5,814,556
<b>Add'l Concession Payable</b>	-	-	-	-	63	90	126	186	773	1,055	228	116	2,636
# of Months to Current	39	38	37	36	35	34	33	32	31	30	29	28	
One Time Late Fee @ 5%													131
Interest Rate Annually 18% or 1.5% Per Month					33	46	62	89	359	475	99	49	1,212
<b>Total Add'l Concession Payable and Interest Payable to the Port</b>					96	136	188	275	1,133	1,530	327	164	3,980

Concession Fee Analysis	
Concession Fee Paid	5,814,556
Credit Issued For Year End True Up on 1/27/2011, LEASS-40125	(222,636)
<b>Total Concession Fees Paid</b>	<b>5,591,920</b>
Concession Fee Per Audit	5,594,597
<b>Concession Due To The Port - Schedule B</b>	<b>2,677</b>
<b>Concession Due To The Port - Schedule C *</b>	<b>2,798</b>
<b>Concession Due To The Port</b>	<b>5,475</b>
Plus	
One Time Late Fee 5% - Schedule B	131
One Time Late Fee 5% - Schedule C *	140
<b>Total One Time Late Fee</b>	<b>271</b>
Interest Accrued - Schedule B	1,212
Interest Accrued - Schedule C *	762
<b>Total Interest Accrued</b>	<b>1,974</b>
<b>Total Add'l Concession Payable and Interest Payable to the Port</b>	<b>7,720</b>

HERTZ RENT A CAR  
**SCHEDULE C - GROSS REVENUE UNDERREPORTING**  
 FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2011  
 INTEREST CALCULATED AS OF 03/31/13

DATE	11/10	12/10	01/11	02/11	03/11	04/11	05/11	06/11	07/11	08/11	09/11	10/11	Grand Total
Herts CPA year-end true up Gross Revenue (a)	3,648,647	3,323,784	3,087,676	3,060,286	3,865,036	3,639,991	4,033,857	5,117,874	6,590,768	8,103,995	6,096,709	4,200,269	54,768,892
<b>FINDINGS: ADD</b>													
<b>Burien Chevrolet 7340-17</b>													
REVENUE - 3101	28.65				32.39			177.29	7,212.58	12,707.31	1,739.95	993.19	22,891.36
LOCAL REVENUE - 3100	(13.37)								1,245.24			47.98	1,279.85
LDW - 3140	13.37								845.18	169.92	307.86	471.78	1,808.11
LIS - 2169									89.50		116.90		206.40
PAI - 2145									59.50				59.50
AGE DIF - 3103													-
AAO - 3104									39.00	(17.60)			21.40
SVC CHG - 3130									70.00	80.00	10.00		160.00
NEVERLOST - 3137										34.95			34.95
REFUEL - 3721	5.94								166.66	20.32	71.95		264.87
FPO - 3721									548.14	566.05	46.98		1,161.17
ENERGY FEE - 3755					1.03			1.03	33.99	45.32	6.18	5.15	92.70
Total Additions (b)	<b>35</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33</b>	<b>-</b>	<b>-</b>	<b>178</b>	<b>10,310</b>	<b>13,606</b>	<b>2,300</b>	<b>1,518</b>	<b>27,980</b>
Adjusted Gross Revenue (a) + (b)	3,648,682	3,323,784	3,087,676	3,060,286	3,865,069	3,639,991	4,033,857	5,118,052	6,601,078	8,117,601	6,099,009	4,201,787	54,796,872
Concession Fee Payable - 10%	364,868	332,378	308,768	306,029	386,507	363,999	403,386	511,805	660,108	811,760	609,901	420,179	5,479,687
Concession Fee Reported by Hertz (MAG & %)	398,208	398,208	398,208	398,208	398,208	398,208	403,386	511,787	659,077	810,400	609,671	420,027	5,803,597
<b>Add'l Concession Payable</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18</b>	<b>1,031</b>	<b>1,361</b>	<b>230</b>	<b>152</b>	<b>2,791</b>
# of Months to Current	27	26	25	24	23	22	21	20	19	18	17	16	
One Time Late Fee @ 5%													140
Interest Rate Annually 18% or 1.5% Per Month								5	294	367	59	36	762
<b>Total Add'l Concession Payable and Interest Payable to the Port</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23</b>	<b>1,325</b>	<b>1,728</b>	<b>289</b>	<b>188</b>	<b>3,692</b>

<b>Concession Fee Analysis</b>	
Concession Fee Paid	5,803,597
Credit Issued For Year End True Up	(326,708)
<b>Total Concession Fees Paid</b>	<b>5,476,889</b>
Concession Fee Per Audit	5,479,687
<b>Add'l Concession Fee Payable To The Port *</b>	<b>2,798</b>
Plus	
Late Fee 5% *	140
Interest Accrued *	762
<b>Total Add'l Concession Payable and Interest Payable To The Port</b>	<b>3,700</b>