



# INTERNAL AUDIT REPORT

HERTZ GLOBAL HOLDINGS, INC., DBA DTG – THRIFTY CAR  
RENTAL

LEASE AND CONCESSION AGREEMENT

NOVEMBER 1, 2010 - MAY 16, 2012

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## TRANSMITTAL LETTER

Audit Committee  
Port of Seattle  
Seattle, Washington

We have completed an audit of Hertz Global Holdings, Inc., DBA DTG - Thrifty Car Rental. We reviewed information for the period November 1, 2010 - May 16, 2012.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. 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 the Aviation Business Development Department and the Accounting and Financial Reporting for their assistance and cooperation during the audit.

A handwritten signature in black ink, appearing to read "Kirangi".

Joyce Kirangi, CPA, CGMA  
Internal Audit, Director

AUDIT TEAM	RESPONSIBLE MANAGEMENT TEAM
Margaret Songtantaruk, Senior Auditor	Jim Schone, Director – Aviation Business Development
Jack Hutchinson, Audit Manager	James Jennings, Manager – Aviation Properties Group
	Rudy Caluza, Director, Accounting and Financial Reporting

## EXECUTIVE SUMMARY

### AUDIT OBJECTIVES AND SCOPE

The purpose of the audit was to determine whether:

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

We reviewed information for the period November 1, 2010 - May 16, 2012. Details of our audit's scope and methodology are on page 5.

### BACKGROUND

DTG - Thrifty Car Rental (Thrifty) is a subsidiary of Hertz Global Holdings, Inc. Thrifty operated two locations during the period under audit.

The lease and concession agreement with Thrifty became effective November 1, 2004. 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 MAG payment.

### AUDIT RESULT

Thrifty materially complied with the terms of the Lease and Concession Agreement, as amended. However, the audit determined that certain gross receipts and Customer Facility charge (CFC) were underreported. We recommend Port management seek recovery of \$40,397 in additional concession fee and CFC charges. See Findings 1 and 2 on the Schedule of Findings.

## BACKGROUND

Thrifty Car Rental is a franchise car rental. The Port of Seattle entered into an agreement with Pacific Northwest Rental & Leasing, which assigned its obligation to DTG Operations. In November 2012, Hertz Global Holdings acquired Dollar Thrifty Automotive Group.

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 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 government 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. Interest accrues at 18% per year from the due date until paid.

## FINANCIAL HIGHLIGHTS

### KEY FINANCIAL RESULTS FOR DTG/THRIFTY CAR RENTAL

AGREEMENT YEAR	REPORTED GROSS REVENUES	CONCESSION PAID
2010-2011	\$11,984,110	\$1,198,411
2011-2012 <sup>1</sup>	4,631,947	463,195
<b>TOTAL</b>	<b>\$ 16,616,057</b>	<b>\$ 1,661,606</b>

Data Source: PeopleSoft Financials  
 Data Note: <sup>1</sup>Ended 05/16/2012

## AUDIT SCOPE AND METHODOLOGY

We reviewed information for the period November 1, 2010 - May 16, 2012. We utilized a risk-based audit approach from planning to testing. We gathered information through document requests, interviews, observation, and data analysis, in order to obtain a complete understanding of the financial requirements of the agreement between the Port of Seattle and Thrifty Rent-A-Car.

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

- 1) To determine whether the reported concession was complete, properly calculated, and remitted timely to the Port.
  - Reviewed the lessee’s chart of accounts to determine whether all revenue accounts were included in the reported revenues to the Port.
  - Reconciled the reported revenues to:
    - Detail Daily Business Reports (DBR) by revenue item. Additionally, the revenue items were reviewed to determine whether all items subject to the concession fee were included in the reported revenue.
    - Certified Audit Statement of Gross Revenues, independently verified by a CPA.
  - Analyzed local rental deductions to determine whether local rentals were correctly classified and properly deducted from gross concession revenue.
  - Tested a risk-based sample of 101 closed rental agreements to determine whether:
    - All revenue items on the face of the rental agreement agreed to the amount posted to the DBR.
    - Disallowed local rentals reduced revenues subject to the concession fee.
  - Reviewed all payment records for the audit period to determine whether remitted by the required due date.
  
- 2) To determine whether the Port and the lessee complied with provisions of the Lease and Concession Agreement, as amended.
  - Reviewed the Certified Audited Statement of Gross Revenues for compliance with the timely and complete submission requirements.
  - Reviewed required insurance coverage in force for the audit period.
  - Determined if the surety bond amount complied with the requirements in the agreement, as amended.
  - Reviewed if the Minimum Annual Guarantee (MAG) was properly calculated and Port management obtained Port Commission approval for Exception Relief of MAG, if applicable.
  
- 3) To determine whether Customer Facility Charges (CFC) were properly collected and remitted timely to the Port.
  - Analyzed the methodology of CFC calculation and reporting.
  - Calculated the CFC based on the lessee’s accounting records for all rental agreements in the audit period, and reconciled the calculated result to the CFC amount reported to the Port.
  - Tested a risk-based sample of 36 closed rental agreements to determine whether the CFC calculation was based on the correct check-out and return date and was accurate.
  - Reviewed all payment records for the audit period to determine whether remitted by the required due date.

## CONCLUSION

Thrifty materially complied with the terms of the Lease and Concession Agreement, as amended. However, the audit determined that certain gross receipts and CFC were underreported. We recommend Port management seek recovery of \$40,397 in additional concession fees and CFC charges. See Findings 1 and 2 on the Schedule of Findings.

## SCHEDULE OF FINDINGS AND RECOMMENDATIONS

### 1. CERTAIN GROSS REVENUES WERE UNDERREPORTED

The lease agreement, Section 1.26, stipulates:

*“Gross Revenues” shall mean and refer to 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 and separately stated fees for rental of vehicles and other related or incidental services or merchandise, and any other items or services, made at or from Concessionaire’s Rental Car Concession, regardless of where the vehicles or services are delivered to or returned...*

The analysis of the lessee’s financial records and detailed transaction testing determined that the lessee did not report the following two categories of gross concession revenues:

- **Administrative Fees**  
 The lessee charges a fee to process such pass-through receipts as traffic tickets, tolls, parking tickets, etc. The charged fee is considered incidental revenue subject to concession, but the lessee did not include the fee in the reported revenues to the Port in the amount of approximately \$28,873.
- **Minor Misclassifications of concession rentals to nonconcession local rentals**  
 Rental agreements at the off-airport location with either local residents or travelers 12 hours after arrival at the airport are not subject to concession. The lessee misclassified a small number of nonlocal rentals as local rentals and did not include them in the reported revenues to the Port in the amount of approximately \$2,262.

As a result of the above items, concession fee was underreported as follows:

AGREEMENT YEAR	REPORTED GROSS REVENUES	UNDER-REPORTED REVENUES
2010-2011	\$ 11,984,110	\$ 1,806
2011-2012*	4,631,947	1,477
<b>CONCESSION FEE UNDERPAID - DUE TO PORT**</b>		<b>\$ 3,283</b>

Data Source: PeopleSoft Financials and PROPwork

\*Period Ended 05/16/2012

\*\* Includes over-credited amount

#### Recommendations:

We recommend management:

1. Seek recovery of \$3,283 for the underpaid concession fees.
2. Assess applicability of the one-time late fee and accrued interest, and seek recovery as appropriate.



**Management Response:**

*Management agrees with Internal Audit findings and will pursue collection of monies owed, including interest and late fees of \$3,041.43*

**2. CUSTOMER FACILITY CHARGE (CFC) WAS UNDERREPORTED**

The agreement, Section 5.25, stipulates:

*“Concessionaire shall collect a daily CFC on all vehicle rental transactions originating at the Airport... Each Concessionaire must collect the CFC at the time of the first payment is made under a Rental Car Contract, and must remit the full amount of the CFC to the Port regardless of whether or not the full amount of such CFC is actually collected by the Concessionaire from the person who rented the Automobile under such Rental Car Contract.”*

The analysis of the lessee’s financial records and detailed rental agreement testing determined that the lessee did not report CFC completely as follows:

1. Based on the Daily Business Reports (DBR) vehicle check-out and return date, we calculated CFC for the entire audit period. When compared to the reported CFC, we determined that \$33,722 was under-reported due to miscalculations.
2. The daily CFC rate changed from \$5 to \$6 per day in February 2012. There were a number of rental agreements that started in January but did not close until February. The lessee incorrectly assessed \$5 to those rental agreements which resulted in underreporting of \$3,392.

<b>UNDERREPORTED CUSTOMER FACILITY CHARGE FOR THRIFTY CAR RENTAL</b>			
<b>AGREEMENT YEAR</b>	<b>AUDITED CFC FEES</b>	<b>REPORTED CFC FEES</b>	<b>UNDERREPORTED CFC FEES</b>
2010-2011	\$1,362,360	\$1,334,775	\$ 27,585
2011-2012 <sup>1</sup>	642,590	633,061	9,529
<b>TOTAL</b>	<b>\$2,004,950</b>	<b>\$1,967,836</b>	<b>\$37,114</b>
<b>TOTAL DUE TO PORT</b>			<b>\$ 37,114</b>

Data Source: Thrifty Monthly Schedule Report, PeopleSoft Financials  
 Data Note: <sup>1</sup> Period Ended 04/30/2012

**Recommendations:**

We recommend management:

- 1) Seek recovery of \$37,114 for the underreported customer facility charge (CFC)

- 2) Assess applicability of the one-time late fee and accrued interest, and seek recovery as appropriate.

**Management Response:**

*Management agrees with Internal Audit findings and will pursue collection of monies owed, including interest and late fees of \$3,041.43*