

INTERNAL AUDIT REPORT

Concession Audit
The Hertz Corporation

June 2018 – May 2021

Issue Date: June 3, 2022
Report No. 2022-05

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Executive Summary

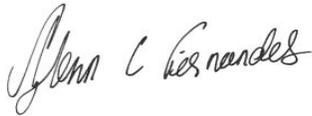
Internal Audit (IA) completed an audit of the Consolidated Rental Car Facility Lease Agreement (Agreement) between Hertz Corporation (Hertz) and the Port of Seattle (Port). The period audited was June 1, 2018, through May 31, 2021. The audit was performed to determine whether Hertz reported Concession Fees were complete, properly calculated, and remitted timely to the Port. We also assessed whether Hertz complied with significant contract provisions, and that the Customer Facility Charge (CFC) was properly collected and remitted.

We concluded that Hertz Corporation generally complied with the terms of the Agreement and that the reported concession fees were accurate, complete, and remitted timely to the Port. However, using a new tool developed within Internal Audit, with assistance from the Port Business Intelligence team, we were able to test CFC transactions reported by Hertz, in a more comprehensive and efficient manner. When applying this approach, we identified the following medium rated issue briefly described below:

(Medium) - Hertz's systems and records were unable to clearly discern which customers were eligible to receive a CFC waiver. Internal Audit identified 3,081 rental tickets, totaling approximately \$173,000, where the CFC was not charged and remitted. Hertz asserted that approximately \$164,000 were insurance replacement rentals and therefore allowable exclusions.

This issue is discussed in more detail on page six.

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



Glenn Fernandes, CPA
Director, Internal Audit

Responsible Management Team

Jeffrey Brown, Interim Aviation, Chief Development Officer
Geoffrey Foster, Interim Sr. Manager, Aviation Business Development
Dawn Hunter, Interim Aviation, Chief Operating Officer
Lance Lyttle, Managing Director Aviation
Jeff Wolf, Interim Director, Aviation Commercial Management

Background

The Hertz Corporation, a subsidiary of Hertz Global Holdings, Inc., operates the Hertz, Dollar and Thrifty vehicle rental brands throughout North America, Europe, the Caribbean, Latin America, Africa, the Middle East, Asia, Australia, and New Zealand. The Port of Seattle (Port) entered into a Consolidated Rental Car Facility Lease Agreement (Agreement) with The Hertz Corporation (Hertz) in July 2008.

In May 2020, Hertz filed for bankruptcy protection. According to Port Management, there was no impact to Port operations resulting from the bankruptcy filing. Also in May, the Port Commission passed a motion to grant economic relief to concessionaires due to the covid pandemic. This relief was in the form of:

1. Adjustment of the minimum annual guarantee (MAG).
2. Waiver of late interest charges for any late payments.

The terms of the Agreement provide for a MAG equal to 85% of the total amount paid to the Port for 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. The MAG is payable in advance, on or before the first day of each month. The Percentage Fee, if applicable, is due on or before the 20th of the following month.

The Agreement states that the Operator must bill a daily CFC of \$6 on vehicle rental transactions, and remit the full amount to the Port, regardless of whether or not the full amount is actually collected. The first transaction day provides for a twenty five (25) hour period and each successive day provides for a twenty four (24) hour period. The CFC was revised to \$6.50 effective on January 1, 2021. Although outside of the scope of this audit, the CFC increased to \$7.00 effective on January 1, 2022.

The table below reflects the Gross Revenues, Percentage Fees, and CFC fees:

Agreement Year	Gross Revenue	Percentage Fees	CFC Fees
June 2018 – May 2019	54,477,017	5,447,701	5,668,692
June 2019 – May 2020	43,800,157	4,380,016	4,672,812
June 2020 – May 2021	16,343,174	1,634,317	1,820,703
Total	\$114,620,348	\$11,462,034	\$12,162,207

Source: The Hertz Corporation Monthly Revenue Reports, Peoplesoft Financials, AFR YE documents

Audit Scope and Methodology

We conducted the engagement 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 conduct an engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our engagement objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our engagement objectives.

The period audited was June 2018 through May 2021 and included the following procedures:

Revenue Completeness and Accuracy

- Traced concession payments to Port records to verify payments were received by Agreement dates.
- Agreed revenue reported to the Port, to the Operator's monthly revenue reports, charge sheets, and to independently audited schedules.

Customer Facility Charge

- Using Tableau, tested 100% of transactions, by re-calculating the checkout and return dates to assess the accuracy of CFC's charged and remitted.
- Agreed Operator's audited CFC counts to daily transaction records.

Rent Surety and Insurance Adequacy

- Compared the Surety posted, to the Provisions of the Agreement, Port Procedures (RE-2 Section E.1.c(2)), and the Revised Code of Washington RCW 53.08.085.
- Compared the Insurance provided to the Provisions of the Agreement.

Schedule of Findings and Recommendations

1) Rating: Medium

Hertz's systems and records were unable to clearly discern which customers were eligible to receive a CFC waiver. Internal Audit identified 3,081 rental tickets, totaling approximately \$173,000, where the CFC was not charged and remitted. Hertz asserted that approximately \$164,000 were insurance replacement rentals and therefore allowable exclusions.

The Agreement requires the Operator to bill a daily CFC of \$6 on vehicle rental transactions, and to remit the full amount to the Port, regardless of whether or not the full amount is actually collected. An exception exists for local customers who do not use airport facilities. The first transaction day provides for a twenty five (25) hour period and each successive day provides for a twenty four (24) hour period. On January 1, 2021, the CFC daily rate was revised to \$6.50. According to the Lease, the CFC must be collected at the time the first payment is made for a qualifying vehicle rental transaction and must remit the full amount of the CFC to the Port regardless of whether or not the full amount of the CFC is collected.

Using data from the operator, we recalculated the CFC by comparing the check-out date and time to the check in date and time. Based on this analysis for the 3-year period under review, we identified 23,778 days or 3,081 rental tickets. This represents \$173,533 of CFC's not charged to the customer and subsequently not remitted to the Port. 2,087 out of the 3,081 tickets had no CFC charged.

Hertz was provided with our exceptions and asserted that \$164,352 were for insurance replacement rentals for local customers, which is an allowable exclusion. The initial data provided by Hertz, did not correctly flag these transactions as allowable exceptions. Hertz was unable to provide a reason for the remaining \$9,181. Internal Audit in partnership with the Port's Commercial Management team requested further documentation to substantiate Hertz's assertion. Once this documentation is provided, Internal Audit will assess whether these can be waived.

Through our internal follow up process, Internal Audit continue to work closely with Commercial Management and will request additional documentation to determine if we agree with their (Hertz) assertion.

Recommendations:

We recommend collecting the \$9,181 plus any accrued interest and/or penalties.

Internal Audit will partner with Aviation Commercial Management (AVCM) and will recommend an appropriate course of action based on data provided by Hertz.

Management Response/Action Plan:

Aviation Commercial Management (AVCM) will continue working with Hertz and Internal Audit to review the variances identified through this audit, Hertz's documentation supporting the variances, and determine the total under reported CFC charges due to the Port and will seek collection accordingly. AVCM is continuing conversations with both Hertz and Internal Audit to review the variances identified and will continue to work together to ensure all CFCs owed to the Port under the agreement have been collected. We appreciate the efforts of the Internal Audit team for their work on this audit.

DUE DATE: 09/30/2022

Appendix A: Risk Ratings

Findings identified during the audit are assigned a risk rating, as outlined in the table below. Only one of the criteria needs to be met for a finding to be rated High, Medium, or Low. Findings rated Low will be evaluated and may or may not be reflected in the final report.

Rating	Financial Stewardship	Internal Controls	Compliance	Public	Commission/ Management
High	Significant	Missing or not followed	Non-compliance with Laws, Port Policies, Contracts	High probability for external audit issues and / or negative public perception	Requires immediate attention
Medium	Moderate	Partial controls Not functioning effectively	Partial compliance with Laws, Port Policies Contracts	Moderate probability for external audit issues and / or negative public perception	Requires attention
Low	Minimal	Functioning as intended but could be enhanced	Mostly complies with Laws, Port Policies, Contracts	Low probability for external audit issues and/or negative public perception	Does not require immediate attention