

# Audit Report



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## ***“Hertz Corporation, Inc., Contract Review”***

**Report #0506**

**October 25, 2004**

### ***Summary***

The purpose of this audit is to report on specific issues noted during a review of rental-car contracts at the Tallahassee Regional Airport (Airport). We obtained monthly reports for four years of the five-year (2000-2005) Hertz Corporation, Inc., (Hertz) contract with the Airport to identify revenues by category. We reviewed the reports for the year ending January 31, 2004, to assess the vendor's contract compliance and management's administration and monitoring of the contract.

Based on our review, we noted that:

- Gross receipts reported by Hertz for the first four years of the contract totaled approximately \$15.8 million, and the concession fee paid totaled approximately \$1.5 million;
- Annual audit reports, as required by contract, were all received by the due date;
- The Airport neither required of Hertz, nor did Hertz provide, a detailed monthly statement of gross receipts as allowed by the contract;
- For the year ending January 31, 2004, four of the monthly minimum annual guarantee (MAG) payments (\$20,117), due the first of the month, were submitted an average of 25 days late;
- While Hertz attended a pre-bid conference and was aware that Addendum #1 to the original bid documentation would be forthcoming, Hertz did not acknowledge receipt of the Addendum in their proposal nor subsequently implement Addendum requirements in car-rental agreements. As a result, the concession recoupment fee was charged on categories not authorized in the contract and these categories were used in the determination of gross receipts, resulting in an overstatement of gross receipts by \$2.5 million, overpayments to the Airport of \$251,047, and customers being overcharged \$71,885
- Gross receipts for Flightline operations (\$138,345) were excluded, resulting in concession fee underpayments of \$13,834; and
- Net over remittances to the Airport for the four-year

period of this review amount to \$237,213.

We recommend that Airport management request guidance from the City Attorney for the proper disposition of over remittances to the Airport resulting from the misapplication of the concession recoupment fee and the resulting overcharges to customers.

We also recommend Airport management clarify the definition of gross receipts and concession recoupment fees to reduce misinterpretation and misapplication. The Airport should require Hertz to submit monthly reports that contain sufficient detail to allow Airport management to assess the accuracy of the reports. Furthermore, Hertz should timely submit their MAG payments in compliance with the terms of the contract.

### ***Scope, Objectives, and Methodology***

Our audit consisted of reviewing monthly reports for the four years ending January 31, 2004, obtaining and reviewing detailed revenues by category for the four-year contract period ending January 31, 2004, verifying the revenue items included in gross receipts, and reviewing compliance with the terms and conditions of the contract. We also reviewed the system of internal control established by airport management and Accounts Receivable in the Department of Management and Administration to provide reasonable assurance that annual audit reports, monthly reports, and amounts paid are timely and correct. In addition, we tested 16 judgmentally selected rental-car transactions during the month of October 2003 and traced these transactions to the October monthly report.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards and the Standards for the Professional Practice of Internal Auditing, and accordingly included such tests of the records and other auditing procedures as were considered necessary.

### ***Background***

The Airport and Hertz entered into a five-year agreement effective February 1, 2000. The agreement allows Hertz to operate at the Airport in exchange for: counter space, parking spaces and the greater of a concession fee

equal to 10% of "gross receipts" or a minimum annual guarantee (MAG). Gross receipts are defined as all revenues derived from, or in connection with, the rental of vehicles for:

- Time and mileage charges,
- Personal accident insurance,
- Personal effects coverage, and
- Concession recoupment fee.

The contract requires Hertz to recoup from its customers the 10% concession fee by adding it as a separate charge on each rental agreement. The MAG varies by year and was \$241,400 for year four of the contract. The MAG is paid in monthly installments (\$20,117) in advance on the first day of each month. For year four (February 1, 2003, through January 31, 2004), Hertz reported gross receipts of \$3,980,814 and paid concession fees of \$398,081 based on our review of Hertz's monthly reports of gross receipts, the City's Accounts Receivable records, and Hertz's annual audit report prepared by PricewaterhouseCoopers (PWC).

Within 20 days after the close of each calendar month, Hertz is to submit a statement showing gross receipts collected during the previous month and pay the Airport 10% of its gross receipts or the MAG, whichever is greater. Hertz also is required to submit to the City, within 90 days following the end of each contract year, a detailed statement of gross receipts prepared by a Certified Public Accountant for the preceding year of operation.

The City shall have the right during any year to authorize an audit or undertake an audit. The cost of such audit shall be borne by the City unless the audit finds that gross receipts are understated by more than 5% for the 12-month period, in which case the cost shall be borne by Hertz.

## *Issues*

To date, Airport management has relied heavily on the monthly report of gross receipts and the audits conducted by Certified Public Accountants to ensure that car-rental agencies accurately submit concession fees. Audit reports are due within 90 days of the end of the contract year and failure to submit the audit can result in termination of the contract. The annual audit reports for all years were submitted within 90 days of the end of the contract year.

Our review of sample rental-car agreements during the month of October 2003 noted that the concession recoupment fee was being applied to several items not contained in the definition of gross receipts included in Addendum #1 to the original bid documents and

incorporated in the contract. Hertz was present at a pre-bid conference where the need for Addendum #1 was discussed; however, the bid proposal from Hertz did not acknowledge receipt of the Addendum. Additional revenue items included in gross receipts were: intercity revenue, refuel service, vehicle license fee, loss damage waiver, additional driver, frequent flyer miles, and others. As a result, gross receipts were overstated by \$2.5 million and overpayments to the Airport over the four-year period of our audit amounted to \$251,047 or 18.7%. The application of the concession recoupment fee to these items resulted in customers being overcharged \$71,885. Airport management may have identified the inclusion of these items in the concession recoupment fee if the monthly reports contained sufficient detail so as to identify each revenue item contained in gross receipts; however, the Airport was relying on the audit prepared by a Certified Public Accountant. The Airport was relying on the audits prepared by Certified Public Accountants who apparently were not familiar with the provisions of Addendum #1 to the original bid documents that spelled out what was included in gross receipts. For year four, Hertz contracted with PricewaterhouseCoopers (PWC) to complete their annual audit. PWC's audit showed, for the first time, that Hertz over-reported gross receipts in their monthly reports of gross receipts sent to the Airport by a net total of \$510,286. The over-reported amount was due to Hertz not including gross receipts from the Flightline point of sale (\$138,345), resulting in an underpayment of concession fees of \$13,834 and by erroneously including revenue items that were not included in the contract in the amount of \$648,631, which resulted in the overpayment of concession fees in the amount of \$64,863.

Our review of schedules maintained by Accounts Receivable, revenue reports received from Hertz, and annual audits submitted by Hertz, indicates that Hertz has overpaid a net amount of \$237,213 over the past four years. These overpayments were not detected by the Airport and have not been recorded on the records of the City or the Airport.

Accounts Receivable schedules indicate that for the year ending January 2004, four monthly MAG payments of \$20,117 were an average of 25 days late. There is currently no penalty for late payments.

Hertz Gross Receipts and Concession Fees		
	Year Four 2/03-1/04	Four Years 2/00-1/04
Reported Gross Receipts	\$3,980,813	\$15,767,436
Items included erroneously	(\$648,666)	(\$2,510,470)
Items excluded erroneously (Flightline)	\$138,345	\$138,345
Corrected Gross Receipts	\$3,470,492	\$13,395,311
Greater of Concession Fee or MAG	\$347,049	\$1,339,531
Concession Fee Paid	\$398,081	\$1,576,744
Net Over Remittance	\$51,032	\$237,213

**Recommendations**

We recommend that Airport management improve its contract administration and monitoring. Also, the Airport should revise future rental-car contracts to:

- Clarify the definition of gross receipts to reduce any misinterpretations;
- Clarify the concession recoupment fee process to reduce misapplication;
- Require a reporting format that provides sufficient detail to determine if revenue items are correctly reported; and
- Include financial penalties for late reporting, late payments, and late submittal of audit reports.

In addition, we recommend that Airport management request guidance from the City Attorney for the proper disposition of over remittances to the Airport resulting from misapplication of the concession recoupment fee that resulted in overcharges to customers.

We recommend that Airport management develop procedures for the “true up” process of balancing out concession fees after the receipt of the annual audit report.

We also recommend that Airport management review monthly reports and annual audits to ensure car rental companies are accurately applying and reporting concession fees.

Management’s action plan is contained in Audit Report #0509.

**Response from Appointed Official**

**City Manager:** I appreciate and thank the audit staff for the thoroughness of the audit of Airport Rental-Car Concession Contracts and for their recommendations for improving contract administration and monitoring and improving future Airport Rental-Car contracts. I am happy to report that the Aviation Department has already incorporated recommended contract changes into the Rental-Car Concessionaire’s bids that will be released shortly. The Aviation Department has also begun discussions with the City Attorney’s Office regarding disposition of over remittances to the Airport by the Rental-Car Company. The balance of the Action Plan is expected to be complete by March 31, 2005.

Copies of this Audit Report #0506 (project #0405) may be obtained from the City Auditor’s web site (<http://talgov.com/citytlh/auditing/index.html>), or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail ([auditors@talgov.com](mailto:auditors@talgov.com)).

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