



# **Hertz Car Rental Audit Report**

Issued by the  
Internal Audit Office  
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**City of El Paso  
Internal Audit Office  
Hertz Car Rental Audit**

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***EXECUTIVE SUMMARY***

The Internal Audit Office has concluded its audit of the *Vehicle Rental Concession Agreement* between the City of El Paso and Hertz Corporation in effect as of July 1, 2006. Based on the results of the audit, five (5) findings were identified. Two of the five findings relate to the interpretation of the terms and conditions of the vehicle rental concession agreement.

Listed below is a summary of the five (5) findings identified in this report:

1. Hertz's interpretation of gross revenues allows the deduction of revenues received by non-deplaned customer rentals from the calculation of the monthly concession fees. El Paso International Airport Management's interpretation is such that these rentals should not be deducted from the calculation of concession fees as Hertz is utilizing Airport infrastructure for the rental transactions.
2. The concession agreement allows the El Paso International Airport to charge Hertz a monthly rental fee of \$35.00 for each of the seventy-four ready/return car lot spaces Hertz has been allotted. The Airport is invoicing Hertz \$32.33 per space in addition to \$2.67 in sales tax. The concession agreement does not state whether the Airport would be charging Hertz sales taxes on the spaces or that the invoicing would be net of tax. This could result in a possible under billing of \$9,474.72 during the concession agreement term.
3. Hertz did not submit concession fees for two fixed based operators, Cutter and Atlantic Aviation, for the months of July through October 2006 on their respective due dates until the November 2006 concession fee payment deadline. The concession fee for July 2006 was received one day late by the Airport. Hertz would therefore be liable for interest charges arising from the late payments as allowed per the concession agreement.
4. Hertz incorrectly deducted from gross revenues the amounts of commercial and employee discounts from the calculation of concession fees. Hertz deducted \$5,278.39 in commercial discount gross revenues for the months of July and August 2006. Hertz deducted employee discount gross revenues of \$193.56 for the months of August, November, December 2006 and February 2007.
5. Hertz overpaid \$30,674.00 in concession fees for the contract year ending June 30, 2007. Per the concession agreement in effect as of July 1, 2006, the City of El Paso will credit Hertz the excess amount paid against next year's concession fee in excess of the Minimum Annual Guarantee.

For a detailed explanation of each of the findings please refer to the appropriate finding contained in the body of this Audit Report.

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***BACKGROUND***

El Paso International Airport Management has instituted a process to review the accuracy of reported gross receipts from concessionaires operating within Airport owned property. The Airport receives concession fees based on a percentage of gross receipts reported by the various businesses operating within the Airport, as well as, collects monthly rental and lease payments for building and land use.

The Hertz Corporation is one of several rental car agencies within the Airport that provides late-model vehicles as a ground transportation option to passengers arriving at or departing from the Airport, as well as, to other Airport patrons. Hertz operates a vehicle rental business with three rental locations within the El Paso International Airport premises and one location within the downtown Amtrak train station. Hertz operates a rental counter inside the Airport's main terminal, a counter at Cutter Aviation and a counter at Atlantic Aviation. The current concession agreement between the City of El Paso and Hertz Corporation has been in effect from July 1, 2006 and continues through June 30, 2010 with a one year extension option.

***AUDIT OBJECTIVES***

The objectives of this audit were to determine if Hertz Corporation was adhering to the car rental concession agreement terms and conditions as agreed to on the *Vehicle Rental Concession Agreement* dated July 1, 2006.

***AUDIT SCOPE***

The scope of the audit was all transactions incurred since the effective date of the concession agreement, July 1, 2006, through March 31, 2007.

***AUDIT METHODOLOGY***

To achieve our audit objectives we conducted interviews with El Paso International Airport (EPIA) administration; conducted analysis of the concession agreement; obtained copies of rental agreements; obtained transaction and summary reports from Hertz; reviewed monthly Minimum Annual Guarantee (MAG) and rental payments; performed re-calculations of gross revenue amounts; performed re-calculations of concession fees; and reviewed invoices prepared by EPIA.

In the instance a finding includes computed interest charges for late payment, we used the following formula. The number of days past due is the amount of days from the date a payment was due until payment was received by the Airport or in other instances, we chose an arbitrary date in order to present an estimated interest amount due. The concession agreement allows the use of the highest interest rate allowed by law; therefore, we used 18% interest in our calculations.

$$\frac{\# \text{ days past due}}{365 \text{ days}} \times 18\% \times \$\text{Amount Due} = \text{Interest Charges Due}$$

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

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***FINDINGS***

The findings, which follow, relate to compliance and adherence to the terms and conditions of the concession agreement in effect as of July 1, 2006. These findings may be considered material in nature as the interpretation to the terms and conditions of the concession agreement can have a significant effect on the application and adherence to current and future concession fees due, as well as to monthly fees or rents due from the concessionaire.

**Finding 1**

**Local Rental Deductions**

Hertz is deducting revenues received by non-deplaned (i.e. local) customer rentals from the calculation of the monthly concession fees.

A separate issue that is related to non-deplaned customers; Hertz is passing through the concession recovery fee to all its customers, as allowed by the contract, even though customers may be flagged as local rentals.

Per the concession agreement between Hertz and the City of El Paso dated July 1, 2006, "Gross Revenues as used in this Agreement means the total amounts billed or received by Concessionaire, without deduction or offset, whether by cash, credit, or otherwise, including any separately stated fees and charges and all incidental sales and services related to Concessionaire's vehicle rental concession as authorized by this Agreement. Gross revenues applies to all vehicles supplied by Concessionaire to any customer deplaning from a flight at the Airport who rents a vehicle within forty eight (48) hours of his/her deplanement (hereinafter referred to as "Airport Customer")."

When a customer picks up a car at the Hertz counter, the Hertz agent determines whether or not the customer has deplaned. If flight and local zip code information indicate the customer did not deplane, then this transaction is flagged as non-concessionable.

At the onset of the audit, Airport Management communicated to us that all revenue earned from car rentals at the Airport was concessionable due to the use of the Airport's facilities for rental transactions. The contract's wording appears to allow Hertz a distinction between deplaned (as mentioned above) and non-deplaned customers and therefore does not coincide with Airport Management intent.

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Hertz has deducted approximately \$214,216.13 in gross revenues, or \$21,421.61 (\$214,216.13 x 10%) in concession fees, during the 9 month period under review (July 2006 through March 2007).

**Recommendation**

El Paso International Airport Management needs to resolve any further conflicts with the interpretation of the definition of gross revenues and whether it allows Hertz to make a distinction between deplaned and non-deplaned customers. Airport Management will also need to determine if all customers (including non-deplaned) should be subject to the concession recovery fee.

If Airport Management determines at a later date that the concession agreement does not allow the distinction between local and non-local customers, based on our calculations of the audit period (July 1, 2006 through March 31, 2007), the total charges due from Hertz would be \$23,920.81. The amount due includes \$21,421.61 for the concession fees derived from the local rental deductions plus \$2,499.20 in interest charges for the late payment of concession fees.

The \$2,499.20 in interest charges was calculated using the formula shown in the *Audit Methodology* section. Separate calculations were made for each month a concession fee was due. Concession fees are to be paid to the City on or before the 20<sup>th</sup> day of the month following the month for which the gross revenues were reported. Therefore, for each month a payment is outstanding, we calculated the number of days past due from the 20<sup>th</sup> of the month to September 25, 2007. The interest rate used was 18%.

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**Finding 2**

**Ready/Return Car Lot Spaces**

Due to the interpretation of the contract, the Airport may be under billing Hertz for the ready/return car lot spaces. According to the contract, Hertz is charged \$35.00 for each of their allotted 74 spaces. Hertz is liable for \$2,590.00 monthly. According to the monthly invoices reviewed, the Airport is currently billing Hertz \$2,392.61 per month (or \$32.33 per space). In addition to this, the Airport is charging Hertz sales tax in the amount of \$197.39 for the 74 spaces (\$2,392.61 x 0.0825). The total of both amounts (\$2,392.61 and \$197.39) add up to \$2,590.00. Therefore, Hertz is essentially paying the required \$2,590.00 due per month, but the Airport is only allocating \$2,392.61 as rental revenue and the remaining \$197.39 is remitted to the State of Texas as a tax. The concession agreement does not state the Airport would be charging sales taxes on the spaces or that the billing would be net of tax.

Per Concession Agreement	74 (Spaces)	\$35.00 (Amount Per Space)	\$2,590.00
As Invoiced by Airport- Spaces	74 (Spaces)	\$32.33 (Amount Per Space)	\$2,392.61
As Invoiced by Airport- Taxes	\$2,392.61	0.0825 (Tax Rate)	<u>\$197.39</u>
		TOTAL	<u>\$2,590.00</u>

Per the concession agreement between Hertz and the City of El Paso, “Concessionaire shall pay to City, as rental for Ready/Return Parking described in Exhibit B, the sum of thirty-five dollars (\$35.00) per month, for each parking space allotted to Concessionaire during the term of the Agreement.”

Per the State of Texas Tax Code, motor vehicle parking is considered a taxable item. It appears that the Airport may be under-billing ready/return lot space rents by \$9,474.72 (\$197.39 X 48 months) during the contract term as it is losing out on the tax amount. The concession agreement does not state that the Airport’s billing would be net of tax or if the tax amount should be charged in addition to the agreed to amount of \$35.00 per car lot space.

**Recommendation**

El Paso International Airport Management should consult with its legal counsel to determine the correct billing interpretation for the ready/return lot spaces and make any necessary adjustments to the invoices it submits to Hertz.

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**Finding 3**

**Monthly Rents and Payments**

Hertz made 5 late concession fee payments. The concessionable revenue for Atlantic and Cutter Aviation were not included in the concession fee payments for July through October 2006 resulting in an aggregate under-payment of concession fees of \$1,066.60. The concession fee payment for July 2006 was received 1 day late by the Airport.

Hertz confirmed that they had not included Atlantic and Cutter into their system until the concession fee payment true-up process for November 2006 rental activity at which point payment was made for the outstanding concession fees.

Per the concession agreement between Hertz and the City of El Paso, any deficiency between the Minimum Annual Guarantee (MAG) and 10% of gross revenues, where gross revenues exceed monthly MAG, shall be paid to the Airport by the 20<sup>th</sup> day of the month following the month for which the gross revenues were reported. Any fees not paid by the 20<sup>th</sup> day will be subject to interest charges until paid at the highest interest rate allowed by law.

Based on our calculations, the total late interest charges due from Hertz for the concession fees due for Atlantic, Cutter, and the 1 day late payment is \$40.07 (\$36.20 and \$3.87 respectively).

**Recommendation**

Hertz should ensure gross revenues are included for all the rental car locations subject to the concession agreement and that all future concession fee payments are paid by the due date. El Paso International Airport Management will be responsible for the collection of the \$40.07 if they determine collection will be pursued.

The \$40.07 in interest charges was calculated using the formula shown in the *Audit Methodology* section. Separate calculations were made for each month a concession fee was due. Concession fees are to be paid to the City on or before the 20<sup>th</sup> day of the month following the month for which the gross revenues were reported. Therefore, for each month a payment is outstanding, we calculated the number of days past due from the 20<sup>th</sup> of the month to the day a payment was received. The late payments for Atlantic and Cutter Aviation were received on December 18, 2006. The July 2006 payment was received on August 21, 2006. The interest rate used was 18%.

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**Finding 4**

**Commercial and Employee Discounts**

Hertz incorrectly took deductions from gross revenues for commercial and employee discounts it granted.

- For the months of July and August 2006, Hertz deducted commercial discounts from the concessionable revenue reported for the Airport rental location in the amount of \$5,278.39 (or \$4,576.34 and \$702.05 respectively).
- For the months of August, November, December 2006 and February 2007, Hertz deducted employee discounts from the concessionable revenue reported for the Airport rental location totaling \$193.56.

Per the concession agreement between Hertz and the City of El Paso, the definition of gross revenues states: “Gross Revenues as used in this Agreement means the total amounts billed or received by Concessionaire, without deduction or offset, whether by cash, credit, or otherwise, including any separately stated fees and charges and all incidental sales and services related to Concessionaire’s vehicle rental concession as authorized by this Agreement.”

Hertz incorrectly made deductions from gross revenues in the calculation of concession fees due.

Hertz is liable for a total of \$653.98 from gross revenue deductions:

- Based on our calculations, Hertz is liable for \$631.41 for the commercial discounts taken which includes the amount of fees due of \$527.84 (or 10% of \$5,278.39) and accumulated interest charges of \$103.57.
- Hertz is liable for \$22.57 in employee discounts which includes employee discounts of \$19.36 (or 10% of \$193.56) plus interest charges of \$3.21.

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**Recommendation**

Hertz should ensure deductions from gross revenues are made per concession agreement terms. El Paso International Airport Management will be responsible for the collection of the \$653.98 if they determine collection will be pursued.

The \$103.57 and \$3.21 in interest charges were calculated using the formula shown in the *Audit Methodology* section. Separate calculations were made for each month a concession fee was due. Concession fees are to be paid to the City on or before the 20<sup>th</sup> day of the month following the month for which the gross revenues were reported. Therefore, for each month a payment is outstanding, we calculated the number of days past due from the 20<sup>th</sup> of the month to the day a payment was received. Although the Airport has not received the commercial or employee discounts that were incorrectly deducted, we used a received date of September 26, 2007 for commercial discounts and September 27, 2007 for employee discounts in order to calculate interest due. The interest rate used was 18%.

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**Finding 5**

**Gross Revenue Report for FYE June 30, 2007**

Hertz overpaid concession fees for the contract year ending June 30, 2007. Based on the comparison of Hertz's concession payments submitted during the contract year (\$1,132,196.00) to the total of 10% of Hertz's actual gross receipts for the year (\$1,101,522.00), Hertz overpaid concession fees in the amount of \$30,674.00.

Per the concession agreement between Hertz and the City of El Paso, "...Concessionaire shall pay, for the rights and privileges granted to it under the terms of this Agreement, a Concession fee for each year equal to the greater of ten percent (10%) of its Gross Revenues, as hereinafter defined, or the Minimum Annual Guarantee, hereinafter referred to as the "MAG", for that Contract Year." The MAG amount for the first contract year is \$1,067,800.00.

For the months reviewed (July 1, 2006 through March 31, 2007), Hertz correctly paid the greater of 10% of gross revenues or 1/12<sup>th</sup> MAG. When the concession fee was calculated for the entire year, as stated on the contract, the aggregate of the payments were above 10% of gross revenues.

Per the concession agreement dated July 1, 2006, in the event of an overpayment of concession fees the City of El Paso will credit the rental car company the excess amount paid against the next year's concession fee in excess of the MAG.

**Recommendation**

El Paso International Airport Management should ensure that Hertz's receives its credit due of \$30,674.00 per concession agreement terms.

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***INHERENT LIMITATIONS***

Because of the inherent limitations of concessionaire procedures and controls, subjective interpretation of the contract, errors or irregularities may occur and not be detected. Also, projections of compliance with terms and conditions to future periods are subject to the risk that concessionaire procedures may become non-compliant due to changes in conditions or that the degree of compliance with the concession agreement may deteriorate.

***CONCLUSION***

Based on the results of this audit, our opinion is that the Hertz Corporation is adequately adhering to the terms and conditions of the *Vehicle Rental Concession Agreement* between the City of El Paso and Hertz Corporation in effect as of July 1, 2006.

*Signature on file*  
Edmundo S. Calderón, CIA, CGAP  
Chief Internal Auditor

*Signature on file*  
Miguel Montiel, CIA, CGAP  
Auditor

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