



County of Allegheny

Office of the Controller

**THE HERTZ CORPORATION
REPORT ON CONTRACT
COMPLIANCE PROCEDURES
FOR THE PERIOD
MAY 1, 2010 THROUGH APRIL 30, 2013**

(Non-Audit Service)

January 5, 2015

Chelsa Wagner
Controller

**104 County Courthouse
436 Grant Street
Pittsburgh, PA 15219
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CHELSEA WAGNER
CONTROLLER

COUNTY OF ALLEGHENY

OFFICE OF THE CONTROLLER

104 COURTHOUSE • 436 GRANT STREET
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December 1, 2014

Mr. James R. Gill
Acting Executive Director
Allegheny County Airport Authority
Landside Terminal, 4th Floor Mezzanine
P.O. Box 12370
Pittsburgh, PA 15231-0370

Honorable John K. Weinstein
Allegheny County Treasurer
436 Grant Street
Courthouse Room 108
Pittsburgh, PA 15219-2497

The Hertz Corporation
Report on Contract Compliance Procedures
For The Period May 1, 2010 through April 30, 2013

Dear Mr. Gill and Treasurer Weinstein:

We have performed certain procedures we considered necessary to assess the Hertz Corporation's (Hertz) rent remittances made pursuant to Section 4.01 of its Rental Car Concession Agreement #0768 (Concession Agreement) with the Allegheny County Airport Authority (Airport Authority) for the period May 1, 2010 through April 30, 2013. We also performed procedures to assess Hertz's compliance with Rental Car Service Facility Lease Agreements #29897 and #29897-A. These procedures were performed as a non-audit service. Therefore, this engagement is not covered by Generally Accepted Auditing Standards.

Under terms of Section 4.01 of the Concession Agreement, Hertz shall pay to the Airport Authority the greater of ten percent of gross revenue received from the operation of the rental car concession or the stipulated Minimum Annual Guarantee (MAG). The MAG increased each year and ranged from \$1,625,600 to \$1,905,600 during the term of the Concession Agreement that began May 1, 2003 and expired on April 30, 2008.

The Airport Authority approved Hertz's request to exercise the option term which extends the Concession Agreement for five years commencing May 1, 2008 and terminating on April 30, 2013. The MAG for the first year of the extension is 80% of the rent due for the prior lease year. For each of the remaining four years, the MAG shall be 80% of the prior lease year's rent due, but never less than the prior year's MAG. The MAG stayed consistent each year at \$1,861,844 during the term of the Concession Agreement that began May 1, 2008 and expired on April 30, 2013.

For each of the three years, ten percent of gross revenue exceeded the MAG. Additionally, the amount paid by Hertz exceeded the original rent due for each of the three years, which entitled Hertz to a credit for each of the three years. As of the date of this report, Hertz had used the available credits.

Our testing found that Hertz did not properly report gross revenue for the engagement period. Hertz failed to include revenue from two general ledger accounts in their calculation of gross concession revenue. Overall, gross revenue was understated by \$171,525 which resulted in an additional amount due to the Airport Authority of \$17,153. The details regarding the additional gross revenue, as well as other instances of non-compliance, are described in our report of observations and recommendations. Hertz's response begins on page 8.

The following table summarizes the original gross revenue reported as well as the unreported revenue identified during the procedures.

	For the Lease Year Ended April 30,		
	2011	2012	2013
Original Gross Revenue	\$ 21,761,926	\$ 21,114,071	\$ 20,180,631
Add: Unreported / Under-Reported Revenue	\$ 44,270	\$ 45,458	\$ 81,797
Revised Gross Revenue	\$ 21,806,196	\$ 21,159,529	\$ 20,262,428
Concession Percentage	10%	10%	10%
10% of Revised Gross Revenue	\$ 2,180,620	\$ 2,115,953	\$ 2,026,243
Minimum Annual Guarantee	\$ 1,861,844	\$ 1,861,844	\$ 1,861,844
Original Amount Paid by Hertz	\$ 2,208,017	\$ 2,164,280	\$ 2,088,092
LESS: Credit used by Hertz	\$ 31,824	\$ 52,873	\$ 70,029
Net Amount Paid by Hertz	\$ 2,176,193	\$ 2,111,407	\$ 2,018,063
Revised Minimum Annual Guarantee (Based on Revised Gross Revenue)	\$ 1,861,844	\$ 1,861,844	\$ 1,861,844
Rent Due: Greater of 10% of Gross Revenue OR Revised Minimum Annual Guarantee	\$ 2,180,620	\$ 2,115,953	\$ 2,026,243
LESS: Net Amount Paid by Hertz	\$ 2,176,193	\$ 2,111,407	\$ 2,018,063
Amount Due Airport Authority	\$ 4,427	\$ 4,546	\$ 8,180
Three Year Total Due to the Airport Authority	\$ 17,153		

Our testing also found that Hertz failed to remit the proper Rental Vehicle Tax to the Allegheny County Treasurer's Office for the period May 2010 through June 2011. A computer system error caused Hertz to remit approximately half of the Rental Vehicle Tax that was due to the County for the period above. In total, Hertz failed to remit \$435,577 in Rental Vehicle Tax, plus applicable penalty and interest, to the Allegheny County Treasurer's Office for the period May 2010 through June 2011. The details regarding the additional tax are described in our report of observations and recommendations.

The following table summarizes the underpayment of Rental Vehicle Tax to Allegheny County by month for the period May 2010 through June 2011.

	Original Amount Due	Amount Paid by Hertz	Amount Due to Allegheny County (Underpayment)
May 2010	\$ 64,116	\$ 32,058	\$ 32,058
June 2010	65,128	\$ 32,564	32,564
July 2010	76,801	\$ 38,402	38,399
August 2010	75,772	\$ 37,886	37,886
September 2010	69,743	\$ 34,872	34,871
October 2010	76,098	\$ 38,048	38,050
November 2010	58,425	\$ 29,212	29,213
December 2010	54,987	\$ 27,494	27,493
January 2011	46,262	\$ 23,132	23,130
February 2011	42,740	\$ 21,370	21,370
March 2011	55,340	\$ 27,670	27,670
April 2011	55,058	\$ 27,530	27,528
May 2011	66,421	\$ 33,210	33,211
June 2011	64,270	\$ 32,136	32,134
Total	<u>\$ 871,161</u>	<u>\$ 435,584</u>	<u>\$ 435,577</u>
Penalty & Interest (Assessed by the Treasurer's Office)			<u>\$ 307,530</u>
Total Due to Allegheny County			<u><u>\$ 743,107</u></u>

Mr. James R. Gill and Treasurer John Weinstein
December 1, 2014

We would like to thank the staff of the Airport Authority and Hertz Corporation for their courtesy and cooperation during our engagement.

Kind Regards,



Chelsa Wagner
Controller



Lori A. Churilla
Assistant Deputy Controller, Auditing

cc: Honorable John DeFazio, President, County Council
Honorable Nicholas Futules, Vice-President, County Council
Honorable Rich Fitzgerald, Allegheny County Executive
Mr. William McKain, County Manager, Allegheny County
Ms. Jennifer Liptak, Chief of Staff, County Executive
Mr. Warren Finkel, Budget Director, Allegheny County
Mr. Joseph Catanese, Director of Constituent Services, County Council
Mr. Walter Szymanski, Budget Director, County Council
Mr. David Minnotte, Board Chairman, Airport Authority Board
Ms. Jan Rea, Audit Committee Chair, Airport Authority Board
Mr. Stephen W. Robinson, Controller, Allegheny County Airport Authority
Mr. Eric Ruprecht, Vice President, Commercial Management & Properties, Airport Authority
Mr. Scott Pflueger, Director of Properties and Concessions, Hertz Corporation
Ms. Tiffany Ball, Audit Manager, Hertz Corporation

Hertz Corporation
Observations and Recommendations
For the Period May 1, 2010 Through April 30, 2013

1. **Gross Revenue Categories Not Reported to the Airport Authority**

Observation:

During our testing, we noted that Hertz did not properly report gross revenue to the Airport Authority for the period from May 1, 2010 through April 30, 2013. The categories of additional gross revenue identified on page 2 of the report are explained in the following paragraphs.

The Concession Agreement defines gross revenue as all monies or other consideration paid or payable to the concessionaire in conjunction with the conduct of renting and leasing motor vehicles. Our procedures found that Hertz did not include the following categories in the gross concession revenue reported to the Airport Authority: Overdue Rental Administration Fees and Premium Roadside Product Fee. For the three year period ended April 30, 2013, Hertz improperly excluded \$171,525 from gross revenue for these categories.

For each of the three years, ten percent of gross revenue exceeded the MAG. Additionally, the amount paid by Hertz exceeded the original rent due for each of the three years, which entitled Hertz to a credit for each of the three years. As of the date of this report, Hertz had used the available credits, which reduces the amount originally paid. Therefore, ten percent of the excluded gross revenue, totaling \$17,153, is due to the Airport Authority.

Recommendations:

We recommend that Hertz remit the \$17,153 that is owed to the Airport Authority due to the omitted gross revenue accounts.

We also recommend that Hertz review the terms of the Concession agreement to ensure compliance with gross revenue reporting so that omissions noted do not occur in the future. Hertz should also adjust its record keeping to include all gross concession revenue categories in its reports to the Airport.

Hertz Corporation
Observations and Recommendations
For the Period May 1, 2010 Through April 30, 2013

2. **Failure to Properly Remit Vehicle Rental Tax to the Allegheny County Treasurer's Office**

Observation:

Sections 201 and 301 of the Allegheny County Rental Vehicle Tax Rules and Regulations, requires that a tax of two dollars (\$2.00) per day be collected by the Vehicle Rental Company at the time the vehicle is rented and be remitted to the County. Every Vehicle Rental Company within the County required to collect and remit the tax must file with the Tax Collector (Allegheny County Treasurer) a monthly return calculating the tax due. During our testing, we noted that Hertz did not properly remit Rental Vehicle Tax to the Allegheny County Treasurer's Office for the period May 2010 through June 2011. A computer system error caused Hertz to remit approximately half of the Rental Vehicle Tax that was due to the County for the period above. In total, Hertz failed to remit \$435,577 in Rental Vehicle Tax to Allegheny County for the period May 2010 through June 2011.

Section 501 paragraph C of the Allegheny County Rental Vehicle Tax Rules and Regulations requires that any Vehicle Rental Company who fails to pay the tax collected on or before the last date prescribed for payment be liable to pay a penalty of 1% per month or a fraction thereof on such tax from the time the tax became due and interest at a rate of one-half of one percent ($\frac{1}{2}$ of 1%) per month or fraction thereof. The Allegheny County Treasurer's Office has calculated \$205,020 in penalty and \$102,510 of interest on the amount due through December 2014 for a total amount of \$307,530.

Recommendations:

We recommend that Hertz remit the \$743,107 that is owed to Allegheny County.

We also recommend that Hertz review its future remittances to ensure that the appropriate amount of Rental Vehicle Tax is submitted to the Treasurer's Office as required.

Hertz Corporation
Observations and Recommendations
For the Period May 1, 2010 Through April 30, 2013

3. **Other Instances of Non-Compliance**

Observation:

Section 4.04 of the Concession Agreement requires books and records to be maintained in accordance with Generally Accepted Accounting Principles (GAAP). According to GAAP, records must be maintained on the accrual basis of accounting. However, Hertz uses the cash basis at the local level and does not record an accrual for rental agreements outstanding at month-end. Instead, it reports gross revenue to the Airport Authority when a vehicle is returned and the rental agreement is closed. This observation was included in the prior report issued by the Controller's Office for the period May 1, 2006 through April 30, 2009. Currently, the Airport Authority does receive the revenue when the vehicle is returned, typically in the following month. However, when the Concession Agreement terminates, the open rental agreements would not be included in gross revenue for that final month.

Recommendation:

We recommend that Hertz ensure gross revenue is properly reported, including all open rental agreements, upon termination of the Concession Agreement.

Tiffany Ball
Audit Manager
The Hertz Corporation

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December 12, 2014

Attn: Chelsa Wagner, Controller
Allegheny County Controller's Office
219 County Courthouse
436 Grant Street
Pittsburgh, PA 15219

Ms. Wagner,

We have reviewed the Report on Contract Compliance Procedures for the period of May 1, 2010 through April 30, 2013. Below are our responses to these audit findings:

Gross Revenue Categories Not Reported to the Airport Authority

Overdue Admin Fees have been included in concessionable revenue since June 2013. Premium Emergency Roadside Service will be included in concessionable revenue beginning December 2014. Amounts due for the audit period, along with any adjustments due from May 2013 forward, will be remitted in December 2014.

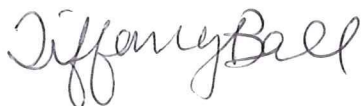
Failure to Properly Remit Vehicle Rental Tax (VRT) to the Allegheny County Treasurer's Office

We agree that VRT was under remitted to the county. However, we request an abatement of penalties as the underpayment was not intentional and was the result of an administrative oversight. We were filing returns with the county, but due to administrative oversight this amount was recorded in an account that was subsequently remitted as sales tax. There was not any willful intent to not remit the funds. We made good faith efforts to comply with the law, and collect and remit to the county. The problem was corrected and the tax is being properly remitted.

Other Instances of Non-Compliance

It is Hertz's standard policy to report revenue for all rentals opened prior to the termination of a contract or a location closing.

Thank you,



Tiffany Ball
Audit Manager



Hertz