



Review of Hertz Corporation at
Fort Lauderdale-Hollywood
International Airport

Office of the County Auditor
Report

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OFFICE OF THE COUNTY AUDITOR

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Mark Gale, Director of Aviation Department

We conducted a review of Hertz Corporation (Hertz) at Fort Lauderdale-Hollywood International Airport.

The objectives of our review were to determine whether rental car revenues have been received and accounted for properly, to determine whether Hertz has complied with the contract and to determine any opportunities for improvement.

We conclude that rental car revenues from Hertz have been received by the County and have been accounted for properly. We conclude that Hertz does not consistently comply with the contract requirements, and some provisions in the current contract need to be clarified and revised in the future contract. Opportunities for Improvement are included in the report.

We appreciate the cooperation and assistance provided by the Broward County Aviation Department throughout our review process.

Respectfully submitted,

A handwritten signature in black ink that reads "Bob Melton".

Bob Melton,

County Auditor

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INTRODUCTION

Scope and Methodology

The Office of the County Auditor conducts audits of Broward County's entities, programs, activities, and contractors to provide the Board of County Commissioners, Broward County's residents, County management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted a review of Hertz Corporation (Hertz) at Fort Lauderdale-Hollywood International (FLL) Airport. Our review objectives were to determine whether:

1. Rental car revenues have been received and accounted for properly.
2. Hertz has complied with the contract.
3. Any opportunities for improvement exist.

To determine whether rental car revenues from Hertz have been received and accounted for properly, we tested a sample of rental car transactions, tickets and detailed transaction reports and reviewed Hertz's monthly activity reports and Annual Special Audit Report. We also interviewed Broward County Aviation Department (BCAD) and Hertz staff.

To determine whether Hertz has complied with the contract, we reviewed Hertz's Rental Car Concession and Lease Contract (Rental Car Contract) and Chapter 39 of the Broward County Administrative Code for Aviation Fees and Other Charges. We also reviewed BCAD's annual true-up process and Hertz's rental payments and consulted with the County Attorney's Office on contract requirements for gross revenues.

Our review included such tests of records and other review procedures, as we considered necessary in the circumstances; however, this review was not intended to be done in accordance with Generally Accepted Government Auditing Standards. The review period was Hertz Contract Years 2016 and 2017 (August 1, 2015 – July 31, 2017). However, transactions, processes, and situations reviewed were not limited by the review period.

Overall Conclusion

We conclude that rental car revenues from Hertz have been received by the County and have been accounted for properly. We conclude that Hertz does not consistently comply with the contract requirements, and some provisions in the current contract need to be clarified and revised in the future contract. Opportunities for Improvement are included in the report.

Background

Rental car activities at the FLL Airport represent one of the largest generators of FLL Airport revenues. On-airport Rental Car Contract (Contracts) were awarded to ten rental car companies including Hertz in May 2000. The Contracts expired in December 2018. The purpose of the Contracts is to provide vehicle rentals to FLL Airport users. The Contracts require rental car companies to pay the following fees to the County on a monthly basis:

- Privilege Fees are the greater of 10% of the total gross revenues during the current contract year or the Minimum Annual Guarantee (MAG). The MAG is the minimum amount to be paid to the County on an annual basis, which is the greater of 8.5% of the total gross revenues from the prior contract year or \$30,000.
- Customer Facility Charges (CFC) are \$3.95 per rental day and are collected by rental car companies from customers and remitted to the County.
- Rents are charged at a base rent rate by square footage (sq ft) as established in the contract. The base rent rate is required to be adjusted annually based on the United States Consumer Price Index (all items) (CPI), or 3% over the last year's rent, whichever is greater. Appraisals are required in the sixth and eleventh contract year to establish the market rent.

The twelve on-airport rental car companies paid the County a total of approximately \$61 million in FY 2017. Hertz is the second largest on-airport rental car company, which generates total gross revenues of \$47.7 million and paid the County \$10.2 million in FY 2017. Table 1 on the next page shows the twelve on-airport rental car companies and their Privilege Fees, CFC and Rents paid in FY 2017.

**Table 1
FY 2017 On-Airport Rental Car Revenues**

Rental Car Companies	CFC	Privilege Fees	Rents	Grand Total
Alamo	\$6,503,363	\$5,658,844	\$458,485	\$12,620,692
Hertz	\$4,676,046	\$4,711,556	\$778,657	\$10,166,259
Budget	\$3,662,934	\$3,306,117	\$39,024	\$7,008,075
Avis	\$3,027,268	\$3,218,661	\$388,089	\$6,634,018
Enterprise	\$2,917,162	\$3,018,530	\$11,474	\$5,947,166
National	\$2,651,560	\$2,559,698	\$29,412	\$5,240,670
DTG Operations Inc	\$2,197,942	\$2,096,769	\$142,048	\$4,436,759
Thrifty	\$2,296,870	\$1,793,553	\$108,483	\$4,198,906
E-Z Rent-A-Car	\$867,697	\$780,025	\$179,851	\$1,827,573
Advantage	\$777,399	\$801,381	\$205,653	\$1,784,433
Payless	\$397,963	\$302,699	\$4,383	\$705,045
Royal	\$215,105	\$261,007	\$6,902	\$483,014
Total	\$30,191,309	\$28,508,840	\$2,352,461	\$61,052,610

Source: Prepared by the Office of the County Auditor with information obtained from PeopleSoft Financial System and provided by BCAD

Consolidated Rental Car Facility

On-Airport Rental Car services are located in the Consolidated Rental Car (RAC) Facility at FLL Airport that was opened on January 27, 2005. It is a nine story, centrally located concrete structure serving the traveling public and 12 on-site rental car companies. Level one of the RAC Facility is a vehicle service area where rental cars can be cleaned, refueled and prepared for new customers. Levels 2 through 5 house rental car company offices, vehicle storage, and customer service areas. Levels 6 through 9 comprise the Cypress Garage which provides additional parking to airport passengers and customers. The RAC Facility is approximately ten acres in size and the entire structure can house over 10,000 vehicles. Hertz occupies 283,219 square feet in the RAC Facility.



Monthly Reports and Payments

On or before the 20th calendar day of each month, rental car companies are required to provide BCAD with a report of gross revenues, the number of rental car transactions, the contract days for each rental car transaction, and CFC collected for the prior month. Rental car companies are also required to remit their Privilege Fees and CFC collections by the 20th of the following month and pay the rent by the first day of each month.

Annual Special Audit Report

By no later than November 1st of each year, rental car companies are required to provide to BCAD a Special Audit Report on all gross revenues from operations at the Airport covering the contract period of August 1st to July 31st. According to the Contract, the Special Audit Report shall be prepared by a CPA in accordance with the provisions of the "Codification of Statements on Auditing Standards."

Annual True-Up Process

Following receipt of the Special Audit Report, BCAD compares the monies paid by rental car companies to the Privilege Fees as reported in the Special Audit Report. According to the Contract, if the total monthly installments of the Privilege Fees paid exceed the amounts due and owing for the contract year (such excess amount being called the "Overage"), rental car companies may deduct the Overage from the monthly installments of the Privilege Fees next falling due. If the Special Audit Report indicates that the Privilege Fees or CFC due and owing is greater than the amount paid to the County, then rental car companies shall pay the difference to the County at the same time it provides the Special Audit Report, together with interest on the amount of such difference at 18% per annum for late payment.

OPPORTUNITIES FOR IMPROVEMENT

Our review disclosed certain policies, procedures and practices that could be improved. Our review was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

1. Future Rental Car Contracts Should Include Collision Damage Waivers, Fuel Charges and Privilege Fees in Gross Revenues and Specify the Contract Requirements for Tolls.

The current Rental Car Contract specifically excludes Collision Damage Waivers (CDW), fuel charges and Privilege Fees from gross revenues. However, as advised by BCAD staff, these charges and fees should have been included in gross revenues. For the three months sampled, Hertz collected \$710,941 in fuel charges, \$1,968,793 in CDW charges and \$931,283 in Privilege Fees. As a result, approximately \$3.6 million was excluded from Hertz's gross revenues for the three months sampled. If the \$3.6 million were included in gross revenues, the County would have collected an additional \$360,000 in rental car revenues. If these months are representative of the entire year, and additional \$1,440,000 could have been paid to BCAD in Hertz rental car revenues.

Further, the contract does not specify whether tolls should be included in or excluded from gross revenues under different situations. As advised by BCAD staff, rental car companies charge customers for tolls charged to their rental vehicles in different ways. If rental car companies charge the customers a fixed fee, and don't break out the cost of individual tolls, the companies include tolls in their reported gross revenues as an "add on" fee. If rental car companies bill the customer for actual tolls incurred and paid by the rental car company on the customer's behalf, the companies exclude tolls from reported gross revenues. Hertz does not include tolls in their gross revenues.

Section 1.31.c of the Rental Car Agreement states "The following costs are specifically excluded from "Gross Revenues"...any amounts charged to customers for fuel...Collision Damage Waiver (commonly referred to as CDW or LDW)... the Stated Percentage Fee Amount..."

The current contract was approved in March 2000, and will expire in December 2018. The future Rental Car Contract should include CDW, fuel charges and Privilege Fees in gross revenues and specify the contract requirements for tolls. Failure to clarify these charges in the future contract will result in not receiving all potential rental car revenues.

We recommend management include CDW, fuel charges and Privilege Fees in gross revenues and specify the requirements for tolls in future Rental Car Contracts.

2. Tax-Exempt Customers Should Pay Customer Facility Charges.

During our review, we found that Hertz does not charge CFC for tax-exempt customers. As advised by Hertz staff, CFC is combined with Florida applicable surcharges to populate one field in Hertz's sale system. Due to system limitations, when a renter had a tax exempt number applied to the rental, it resulted in the field being removed entirely. For the three months sampled, \$210 should have been paid in CFCs by tax-exempt customers.

Section 5.6 of the Rental Car Agreement states "...the Concessionaire shall collect a Customer Facility Charge, together with any applicable sales taxes thereon, from each customer, which shall be established pursuant to Ordinance 1999-43."

Without properly charging CFC to tax-exempt customers, Hertz underreported their revenues to the County.

We recommend management require Hertz to charge CFC to tax-exempt customers and remit CFC to the County.

3. Hertz' Monthly Reports and Annual Special Audit Reports Should Include More Details to Disclose Revenues by Category.

BCAD requires rental car companies to submit a monthly report to identify all excluded revenues by category. However, Hertz only includes the total adjusted gross revenues and does not disclose excluded revenues by category in their monthly reports. Further, Hertz's Annual Special Audit Reports do not include a schedule of all revenues by category as required by the contract.

BCAD's monthly report requires rental car companies to show gross revenues less exclusions by category from gross revenues. Section 5.6 of the contract requires that the Special Audit Report shall include a schedule of all revenues by category and by month and a schedule of the payments to the County for that period.

Lack of detailed information of revenues by category in the monthly and annual reports precludes BCAD to review and identify any erroneously excluded revenues.

We recommend management require Hertz to include more details to disclose revenues by category in their monthly report and Annual Special Audit Report.

4. The Base Rent Rate Should Be Adjusted in the Eleventh Year Based on Appraisals as Required by the Contract.

Rental property appraisals were not performed for the RAC Facility in 2015. As a result, the base rent rate was not adjusted in the eleventh year (2016) based on appraisals as required by the Contract. As advised by BCAD staff, the appraisals were only performed in 2010 and the base rent rate was adjusted in the sixth year (2011) based on appraisals.

Section 5.2.5 (b) of the contract requires that the base rent rate shall be adjusted on the sixth and the eleventh years following the open date of RAC facility, which is based on the Fair Market Value (FMV) multiplied by the Percentage Adjustment Factor as established in Section 39.3 of the Broward County Administrative Code. The FMV means the most recent appraised fair market value on a per square foot basis. Section 5.2.5 (c) also requires that the County shall obtain two appraisals to adjust rent rate in the sixth and the eleventh years.

Appraisals were not obtained to substantiate the FMV rent; as such the rent for the lease cannot be reasonably assessed. It causes loss of revenue to the County if the rent was undervalued.

We recommend management perform appraisals for rental car facilities in compliance with County Policy and the Rental Car Contract.

5. Monthly Reports and Payments Should Be Submitted and Remitted Timely, and BCAD Should Charge Interest on Late Payments as Required by the Contract.

The Rental Car Contract requires monthly reports and privilege fees to be submitted by the 20th of the following month, and the rent payment is due by the first day of the current month. However, 12 out of 24 (50%) monthly reports were not submitted by the 20th of the month for Contract Years 2016 and 2017. Further, delays in monthly installments result in an assessment of 18% interest on late payments, as required by the contract. As advised by BCAD, there is no interest charged if a payment is received within the 5 day grace period. If payment is received after the 5 day grace period, interest is charged from the due date of the payment. We reviewed BCAD's payment report for Hertz for their Contract Year 2017, and noted that 4 monthly privilege fee payments were made after the 20th of the following month and 5 monthly rent payments were made after the first day of the current month. Of the 9 late payments noted, 2 payments were made after the 5 day grace period. Therefore, \$5,143 interest on late payments should have been charged for Hertz's Contract Year 2017.

Interest received on late payments were recorded in the Advantage Financial System prior to the implementation of PeopleSoft in April 2016. However, as advised by BCAD staff, interest on late

payments have not been assessed in PeopleSoft until August 2018. Further, BCAD is still working with the County's Enterprise Resource Planning (ERP) staff to retroactively bill for interest on late payments since the PeopleSoft implementation in April 2016.

Section 5.16 of the Rental Car Contract states "...On or before the twentieth (20th) calendar day of each month, Concessionaire shall provide to the Aviation Department, a report of Gross Revenues for the prior month." Section 5.5 of the contract requires that the monthly installments of the Privilege Fees shall be due on the 20th calendar day following the end of each month. Section 5.11 of the contract also requires that the County shall be entitled to collect interest at the rate of 18% per annum from the date due until the date paid on any amounts that are past due.

Without timely submission of the monthly reports and payments, BCAD staff could not verify the amounts remitted by rental car companies in a timely manner. It is also essential that management have adequate systems and procedures in place to bill all interests due on late payments. Otherwise, funds due to the County are not collected.

We recommend management:

- A. Require Hertz to submit monthly reports by the 20th of the following month.
- B. Remit privilege fees and rent payments to BCAD by the 20th of the following month and the first day of the current month, respectively.
- C. Charge interest on late payments in accordance with the contract requirements, including charges for amounts that should have been collected in the past.

MANAGEMENT RESPONSE

Management Response to Review Of Hertz Corporation At Fort Lauderdale Hollywood International Airport

1. Future Rental Car contracts Should Include Damage Waivers, Fuel Charges, and Privilege Fees in Gross Revenues and Specify the Contract Requirements for Tolls.

In the new agreement the revised language specifies that gross revenue shall include:

(b) all amounts charged to Airport Customers for insurance offered by Concessionaire incidental to the rental of vehicles including, but not limited to, personal accident insurance

(e) all amounts charged to Airport Customers that are separately stated on the rental agreement between Airport Customers and Concessionaire as an optional charge for waiver by Concessionaire of its right to recover from Airport Customers for damage to or loss of the vehicle rented

(f) all amounts charged to Airport Customers at the commencement or the conclusion of the rental transaction for the cost of furnishing or replacing fuel provided by Concessionaire;

(k) daily and weekly service fees for toll transponders or similar license plate recognition services;

Excluded from gross revenue shall be

(e) sums received by Concessionaire from its Airport Customers, including all associated administrative charges, for traffic tickets, parking tickets, towing charges, impound fees, tolls, and other similar governmental fines and charges actually paid by Concessionaire on behalf of such Airport Customers (without mark-up or additional fees);

Management's intent is to broaden the revenues collected in the contract renewal to include damage waivers. Including privilege fee charges in gross revenue would mean the rental cars companies could only pass 90% of privilege fees to customers (paying 10% to BCAD), so this is an item of negotiation in the future agreement. In the future agreement fuel and toll charges will be negotiated to include all fuel and toll revenue, however the negotiations may lead to some exclusions for reimbursable expenses, but the language will be clearer than the existing contract.

2. Tax Exempt Customers Should Pay Customer Facilities Charges

This matter has been discussed with Hertz and they indicated that while their system does show the CFC not charged to customers, they did remit the CFC to BCAD based on the transaction value. We've requested back up verification for this October 12 and followed up October 24th.

3. Hertz' Monthly Reports and Annual Special Audit Reports Should Include More Details to Disclose Revenue By Category

It has been requested that Hertz include this information going forward request made October 12 and followed up October 24.

4. Base Rent Should be Adjusted in the Eleventh Year Based on Appraisals as Required by the Contract

Through staffing changes and corporate reorganizations the 2015 appraisal was missed. However the CPI increase has been applied consistently so any loss of revenue was likely not material.

To avoid this happening in the future the revised process will be:

Rental Car Manager will notify the Business Department Administrative Officer of any appraisal due dates in the new rental car contract. The Administrative Officer will enter this information in the Propworks data base, from which he reviews monthly reports on such due dates. The Administrative Officer will notify the Rental Car Manager of any upcoming Appraisal due dates in time to implement. If either the Rental Car Manager or Administrative Officer changes or is re-organized, this process will be communicated to their replacement by the individual remaining.

While it is still expected that the Rental Car Manager will be tracking these due dates independently, this will insure that the tickler information is communicated through any organizational change.

5. Monthly Reports and Payments Should Be Submitted and Remitted by the 20th of the Following Month, and BCAD should Charge Interest on Late Payments.

The reports while not always submitted exactly on the 20th, are always submitted by the end of the month and chasing them for being a few days late would not be a productive use of the limited staff time.

The payments are seldom more than five days late, and if they haven't been received by the end of the month when due staff will call the vendor and/or escalate the late payment, which has not

happened in the last three years except with disputed amounts which are a small portion of the amount due.

There is not the staff available to manually track, calculate, and follow up on late fees for the hundreds of airport customers (the manual process would be to note the due date, note the date received, calculate the amount due, and include it in the next invoice).

With a great deal of effort and coordination between the ERP team and the BCAD finance team the late fee charges process went live a couple of months ago, this process should have been active with the implementation of ERP, but other ERP priorities kept this from being addressed until recently and it is still a work in process.

Late fees have been charged retroactively on late payments while the ERP system was being developed, but there is a five day grace period built into this to recognize that depending on the payment method, there may be a lag between when the funds are received and when they show up in the ERP system, and without building a buffer the limited staff would be continually resolving disputed charges. If the payment is more than five days late, then the late fee applies from the first day late (that is if they payment is received on day six, six days of late fees are applied, on day five or earlier it is in the grace period). It is appropriate for the contract to have a firm payment date, and appropriate to allow a grace period to recognize delays in the payment processing process.

BCAD's Accounts Receivable team reviewed the payment history of six companies over five months, on average these companies paid two days ahead of the due date, so on average BCAD receives their payments early.