



Audit Report
Airport Rental Car Concession Agreements
Hertz and National/Alamo
October 13, 2016

City Auditor's Office
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Purpose and Scope

The primary objectives of this audit were to determine whether selected rental car agencies:

- Accurately reported gross revenues; computed and paid monthly concession fees, complying with payment guarantee and annual certification requirement provisions
- Accurately reported and paid Contract Facility Charge (CFC) payments

In addition to the above primary objectives, the audit was conducted to determine whether the Airport has properly designed and implemented internal controls, including effective contract terms.

An audit of rental car concession agreements was requested by Aviation management. Auditors selected Hertz and National/Alamo and reviewed gross revenues for FY15. Due to exceptions noted for Hertz, the audit was expanded to include FY13 and FY14.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This report is intended for the use of the City Manager's Office, City Council, and the Aviation Department.

Conclusion

Hertz and National/Alamo complied with the concession agreements' most significant provisions. Aviation management needs to incorporate additional controls into future contracts to ensure that all gross revenues are reported.

Summary of Recommendations and Actions Taken or Planned

There were inconsistencies in the calculation and reporting of gross revenues, preventing auditors from determining whether all gross revenues were reported, and leading to the following recommendations, along with management's corrective actions where applicable, summarized as follows, and further detailed beginning on page 3:

1. Aviation should require more detailed monthly rental car concessionaire reporting to identify revenue earned by categories.
 - Aviation has prepared a new monthly reporting form requiring rental car agencies to identify revenue by category, and to provide detail on amounts identified as ‘excluded revenue.’ The new reporting form will be introduced to the rental car agencies during negotiations to clarify and restate the current agreements. These negotiations are expected to commence during the fall of 2016. Aviation expects the new form to be in use by July 2017.
2. Aviation should require Hertz to submit concession fees of \$133,000 on under-reported gross revenue for the past three fiscal years.
 - Aviation has invoiced Hertz for \$133,000 and is currently in discussions with Hertz regarding the under-reported gross revenues.
3. Aviation should implement additional control measures to ensure that rental car companies are providing complete gross revenue reports.
 - In 2015, Aviation hired a revenue contracts manager to oversee certain Airport management and revenue contracts, including the rental car concession agreements. The rental car contracts revenue manager will develop a revenue report to incorporate as many of the controls suggested as possible.

Background

Rental car activities at the Charlotte Douglas International Airport represent one of the largest generators of Airport revenues. Given the importance of this business unit, the Aviation Department requested that Internal Audit review contract compliance of two rental car companies. Hertz and National/Alamo were selected as the two largest rental car companies doing business at the Airport in terms of gross revenues.

On-Airport Automobile Concession Agreements (Agreements) were awarded to eight rental car agencies on November 1, 2000, for a period of seven years. The Agreements have been amended periodically, most recently in November 2011, and are scheduled to expire in 2024. The purpose of the Agreements is to provide passenger vehicle rentals to Airport users. Each Agreement requires the Concessionaire to pay the City the greater of ten percent (10%) of the Concessionaire’s Gross Revenues during each contract year, or eighty five percent (85%) of Concessionaire’s total concession fees payable during the immediately preceding contract year (“Minimum Annual Concession Fee”).

The concessionaires are required to pay one-twelfth of the minimum annual concession fee in advance each month. Within 25 days of each calendar month-end, each concessionaire is required to provide Aviation with an accounting of its year-to-date gross revenues and pay the difference between the amount of the calculated annual percentage fee and the total of previous payments. Annually, within 90 days following contract year-end, each concessionaire is required to furnish a statement (certified to be

correct by an authorized representative) of gross revenues for the preceding year, showing authorized deductions or exclusions made in computing the amount of such gross revenues. Aviation collected \$12.7 million in concession fees in FY15 from \$127.7 million in reported gross revenue, as the following Aviation-generated summary details below:

Charlotte Douglas International Airport Rental Car Concession Fees FY 2015		Charlotte Douglas International Airport CFCs Collected FY 2015	
Company	Concession Fee	Company	CFCs Collected
Avis	\$ 2,330,377	Avis	\$ 1,793,172
Budget	1,194,780	Budget	1,062,968
Dollar	597,619	Dollar	598,972
Enterprise	1,751,604	Enterprise	1,388,033
Hertz	3,152,368	Hertz	2,512,464
National	3,497,136	National	3,214,832
Simply Wheelz/Advantage	265,303	Simply Wheelz/Advantage	244,894
Total	\$ 12,789,187	Total	\$ 10,815,335

In addition, the City imposed by ordinance effective July 1, 2007 (CFC Ordinance) a charge to be collected from rental car customers at the Airport, the proceeds of which are used to pay the costs of planning, designing, constructing, financing, maintaining and operating new consolidated rental car facilities at the Airport. Rental car agencies are required to collect a Contract Facility Charge (CFC) equal to \$4.00 per transaction day and deposit the fees collected with a Trustee on or before the tenth day of the immediately succeeding month. Aviation collected about \$10.8 million in CFC fees in FY 2015, as detailed above.

Audit Findings and Recommendations

1. Aviation should require more detailed monthly rental car concessionaire reporting to identify revenue earned by categories.

Aviation requires that rental car agencies submit a “Gross Revenue Worksheet” each month. The form shows the 10% concession fee calculation and requires the disclosure of the actual number of contracts reflected in the gross revenue figure. However, Aviation has not required the rental agencies to provide detailed rental transaction data or disclose the categories of included/excluded revenue on the monthly reporting form. Without such data, it is not possible to perform a thorough analysis that would identify erroneously excluded revenue, or the miscalculation of CFC fees.

According to the concession agreements, gross revenues include all monies or other consideration paid or payable to Concessionaire for all sales made and services performed in connection with automobile and vehicle rentals. Gross Revenues specifically include all of the following:

- Revenue earned for the rental or sale of wireless communication devices, mobile telephones, computerized navigation equipment and services and similar services of whatsoever nature;
- Revenue earned from the rental of child/infant car seats or restraints, ski racks, bicycle racks, recreational gear, personal computers and facsimile machines

The agreements specifically exclude federal, state, county, city or municipal sales, use or excise taxes; any charges collected from customers for refueling an automobile rented pursuant to an agreement under which the customer is obligated to return the automobile with the same amount of gasoline furnished upon rental; and all amounts paid or payable by customers for acceptance of a collision damage waiver, personal effects coverage or other insurance products.

Based on review of FY15, auditors noted:

- The concession agreement requires that “All exclusions shall be identified by rental agreement contract number,” but the Airport has not required the rental car agencies to disclose excluded revenue, or to break down total gross revenue (included) by category. There is a risk that rental car agencies can use pre-paid, corporate and/or bundled rental rates to allocate a disproportionate share of rental revenue to the concession fee “excluded” insurance and/or fuel categories. The result would be an understatement of gross concession revenue.
- Separately reported monthly concession and CFC fees are not reconciled. For May 2015, National/Alamo reported 22,767 rental transactions but CFC 21,370 transactions, a difference of 1,397. Other U.S. airports have required more detailed monthly reporting.

Recommendation: Aviation should develop a more detailed monthly gross revenue form and require the rental car agencies to disclose excluded revenue, including details related to corporate bundling of fees.

Aviation Response: Aviation is working through a comprehensive amendment to the current automobile rental car concession agreement that will include new language regarding monthly reporting. Aviation has developed a new reporting format that will be introduced to the rental car agencies as part of this process. The new reporting format will require a more detailed breakout of gross revenues and excluded revenues to provide for enhanced transparency. Aviation expects the new form to be in use by July 2017.

2. Aviation should require Hertz to submit concession fees of \$133,000 on under-reported gross revenue for the past three fiscal years.

Hertz excluded some FY15 revenue in its reports of concession revenue. Therefore, auditors extended the scope of the review to include FY14 and FY13. The table below indicates that Hertz under-reported revenue during the three fiscal years by approximately \$1.3 million, about 1.4% of the total revenue (\$96,766,106), reported for the three fiscal years. The following provides brief descriptions of the excluded revenue:

- Unbundled LIS and PAI – Hertz bundled some of its excluded revenue categories and reported an “unbundled” amount as part of gross revenue. The unbundling of categories indicate these items were “free” or included as part of the rate plan charged to the customer. In November 2015, Hertz started including amounts for unbundled Liability Insurance Supplement (LIS) and Personal Accident Insurance/Personal Effects Coverage (PAI/PEC) in its monthly reporting of gross revenue. For three fiscal years FY13-15, this under-reported revenue totaled \$931,400 and \$34,766 respectively.
- Premium Roadside Service – Hertz excluded \$275,975 revenue in its Premium Roadside Service account during fiscal years 2013-2015. In contrast, National/Alamo included revenue from a similar account. The automobile concession agreement does not specifically address this revenue category, but Hertz started reporting this revenue as “Included” in November 2015.
- Other Fees – Hertz excluded revenue from “overdue administration fees” and “multimedia devices” in its calculation of gross revenues subject to concession fees. This un-reported revenue totaled \$69,646 and \$24,996, respectively.

Hertz Under-Reported Revenue FY 2013 - FY 2015				
Description	FY 2013	FY 2014	FY 2015	Total
Unbundled LIS	\$ 295,112	\$ 325,147	\$ 311,141	\$ 931,400
Unbundled PAI/PEC	12,013	11,835	10,918	34,766
Premium Roadside Service	107,403	87,557	81,015	275,975
Overdue Admin Fee	20,645	25,485	23,516	69,646
Multimedia Device Rentals	1,540	14,749	8,707	24,996
Total	\$ 435,173	\$ 464,773	\$ 435,297	\$ 1,336,783
Concession Fee	\$ 43,517	\$ 46,477	\$ 43,530	\$ 133,524

Recommendation: Aviation should require that Hertz remit concession fees on the \$1.3 million unreported concession revenue for the past three fiscal years.

Action Taken: Aviation has invoiced Hertz for \$133,000 and is currently in discussions with Hertz regarding the under-reported gross revenues.

3. **Aviation should implement additional control measures to ensure that rental car companies are providing complete gross revenue reports.**

Because concession revenue is self-reported, controls are needed to ensure that rental car concessionaires report gross revenue in accordance with the concession agreement.

The Airport had not previously assigned a staff member to provide professional oversight of the automobile concession agreements. Therefore, sufficient monitoring controls were not established until FY16. While current staffing allows more active contract management, Aviation personnel are limited in their ability to ensure compliance by the rental car agencies due to significant reporting limitations in the existing contract.

Although Hertz and National/Alamo provided detailed data that supported their self-reported revenue, auditors did not obtain reasonable assurance that the self-reported revenue amounts were complete, due to several missing key controls. The following review steps would enhance Aviation's monitoring efforts, resulting in greater confidence that revenues are reported accurately:

- Identification and tracking of monthly reporting trends, including the number, average length and dollar value of rental agreements.
- Performing trend analysis and comparison to other available activity data, including origination and destination data, and on-airport parking activity.
- Review of rental agreement transaction data to verify support of monthly and annual reports.
- Reconciliation of transactions reported in concession revenue data with CFC fee data.
- Compare gross sales reported on Mecklenburg County Vehicle Rental & U-Drive-It Tax forms to rental car companies' reported gross revenues. (This data must be requested from rental car agencies, as it is not contractually required.)

In addition, the requirement of annual certified statements by independent CPAs is required by many airports. Obtaining this standard assurance would significantly increase Aviation's ability to rely upon the rental car agencies' reports.

Recommendation: Aviation should develop a more robust monitoring program, incorporating as many of the controls noted above as possible. Some steps can be undertaken immediately, while others will require cooperation from the rental car agencies. The CPA assurance is not addressed in the current contract and may require negotiations, as Aviation determines is appropriate in the future.

Aviation Response: In 2015, Aviation hired a revenue contracts manager to oversee certain Airport management and revenue contracts, including the rental car concession agreements. The rental car contracts revenue manager will develop a revenue report to incorporate as many of the controls noted above as possible. Aviation intends to negotiate the inclusion of a CPA annual certified audit in connection with the negotiations to clarify and restate the current agreements, which are expected to commence in the fall of 2016.