

COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE - AUDITOR-CONTROLLER DIVISION - INTERNAL AUDIT UNIT

INTERNAL AUDITS REPORT

**AGREED-UPON PROCEDURES
CONCESSIONAIRE AGREEMENT
WITH THE HERTZ CORPORATION**

DEPARTMENT OF AIRPORTS



Audit Committee Submittal Date: 05/26/2020

SUMMARY

Background

The Sacramento County Department of Airports (Airports) contracts with various rental car agencies in order to provide car rental services at the Sacramento International Airport. As part of its oversight of rental car agency activities, Airports periodically selects rental car agencies for a concessionaire review per section 3.09 (Audit) of the Rental Car Concession and Lease Agreement (Agreement). The Hertz Corporation (Hertz) was selected for a concessionaire review for the period October 1, 2015 through September 30, 2018. Hertz owns and manages three (3) rental car subsidiaries (Hertz, Thrifty, and Dollar) located at the Sacramento International Airport. Accordingly, Airports contracted with the Department of Finance to perform the agreed-upon procedures engagement of Hertz's rental car concession revenues for rental car activities occurring at the Sacramento International Airport.

Audit Objective

To review Hertz's rental car concession operations for compliance with the terms of the Agreement for the period October 1, 2015 through September 30, 2018.

Summary

We noted several issues related to compliance with the Agreement. As a result, Hertz underpaid Airports by \$2,918 (10% of concessionable revenue excluded) and \$5,171 (account excluded) for the period under review.



County of Sacramento

Inter-Office Memorandum

April 7, 2020

To: Cynthia A. Nichol, Director
Sacramento County Department of Airports

From: Ben Lamera
Director of Finance

By: Hong Lun (Andy) Yu, CPA
Audit Manager

A handwritten signature in blue ink, appearing to be "AY", is written over the name of the sender.

Subject: **INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES – REVIEW OF SACRAMENTO COUNTY DEPARTMENT OF AIRPORTS (AIRPORTS) CONCESSIONAIRE AGREEMENT WITH HERTZ CORPORATION (HERTZ) PER ARTICLE 3.09 OF THE RENTAL CAR CONCESSION AND LEASE AGREEMENT FOR THE PERIOD FROM OCTOBER 1, 2015 TO SEPTEMBER 30, 2018**

We have performed the procedures enumerated below and on page 2, which were agreed to by you, for the Sacramento County Department of Airports (Airports). These agreed-upon procedures were performed solely to evaluate Hertz Corporation's (Hertz) rental car concession activities for the period October 1, 2015 to September 30, 2018 per Article 3.09 of the rental car concession and lease agreement. Airports' management is responsible for monitoring and maintaining sufficient internal controls related to rental car concessionaires operating at Sacramento International Airport. The sufficiency of the procedures is solely the responsibility of Airports. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. This report is applicable solely to procedures referred to below and is not intended to pertain to any of Airports' and Hertz's other operations, procedures, or compliance with laws and regulations.

The procedures and associated findings are as follows:

1. We evaluated the internal controls over accounting and administrative procedures pertaining to the recording of revenue.

Findings: (1) Hertz did not have an independent Certified Public Accountant conduct an internal control review of its centralized computer system. See Attachment II, *Current Status of Prior Findings and Recommendations*.

(2) Audited Statement of Gross Revenues/Annual Report provided by independent Certified Public Accountant did not adequately address requirements listed in Article 3.09 Part A (3) and (4) of the Agreement. See Attachment III, *Current Findings and Recommendations*.

2. We performed certain tests of the accounting controls and transactions to determine both the reliability and accuracy of these controls and concessionaire operations.

Findings: (3) We noted an exception as a result of our procedures. Hertz excluded Fuel Purchase Option revenue from Airport Concession Fees Recovery also referred to as Airport Fees. The exclusion impacted reported Gross Revenue Receipts. See Attachment III, *Current Findings and Recommendations*. Also see Attachment IV, *Schedule of Fuel Purchase Option Revenue Excluded from Airport Fees*.

(4) We noted another exception as a result of our procedures. Hertz excluded airport fees collected in account #3751 from reported Gross Revenue Receipts. See Attachment III, *Current Findings and Recommendations*. Also see Attachment V, *Schedule of Airport Concession Pass Thru Fees Collected (Account #3751) Excluded from Gross Revenue Receipts*.

3. We reviewed revenues reported to Airports by the concessionaire, including the corresponding reimbursable expenses payable to Hertz.

Finding: We noted an exception as a result of our procedures. See Attachment I, *Schedule of Gross Revenue Reviewed and Privilege Fees Due*.

4. We determined that objectives in Hertz's contract were implemented and are being followed.

Finding: We did not note any exceptions as a result of our procedures.

5. We prepared operating statements based on Hertz's financial records for the period of October 1, 2015 to September 30, 2018.

Finding: We noted an exception as a result of our procedures. See Attachment I, *Schedule of Gross Revenue Reviewed and Privilege Fees Due*.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not perform an audit or examination, the objective of which would be the expression of an opinion or conclusion, respectively, on Hertz's fiscal processes or results of our procedures referred above. Accordingly, we do not express such an opinion or conclusion. Had we performed

Cynthia A. Nichol, Airports Director

April 7, 2020

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additional procedures, other matters might have come to our attention that would have been reported to you.

Hertz and Airports' management responses to the findings identified during our engagement are described in Attachment III, *Current Findings and Recommendations*. We did not perform procedures to validate Hertz and Airports' management responses to the findings and, accordingly, we do not express opinions on the responses to the findings.

This report is intended solely for the information and use of the Sacramento County Board of Supervisors, Sacramento County Audit Committee, Sacramento County Executive, and Airports' management. It is not intended to be, and should not be, used by anyone other than these specified parties. However, this restriction is not intended to limit distribution of this report, which is a matter of public record.

Attachment I: *Schedule of Gross Revenue Reviewed and Privilege Fees Due*

Attachment II: *Current Status of Prior Findings and Recommendations*

Attachment III: *Current Findings and Recommendations*

Attachment IV: *Schedule of Fuel Purchase Option Revenue Excluded from Airport Fees*

Attachment V: *Schedule of Airport Concession Pass Thru Fees Collected (Account #3751)
Excluded from Gross Revenue Receipts*

County of Sacramento Department of Airports
Review of The Hertz Corporation
Rental Car Concessionaire Operations at Sacramento International Airport
Schedule of Gross Revenue Reviewed and Privilege Fees Due
For the Period October 1, 2015 to September 30, 2018

For The Period of October 1, 2015 to September 30, 2016:

	Gross Revenue Reported by Hertz	Gross Revenue Reviewed ⁽¹⁾	Difference Under/(Over) Reported	Privilege Fee Rate	Recomputed Privilege Fees Due	Privilege Fee Paid ⁽²⁾	Additional Fees Now Due/(Overpaid)
	Column A	Column B	Column B - A	Column C	Column B x C	Column D	Column D - (B x C)
October 2015	\$ 2,934,728	2,773,931	(160,797)	10.00%	277,393	293,473	(16,080)
November 2015	2,505,405	2,360,557	(144,848)	10.00%	236,056	250,541	(14,485)
December 2015	2,255,615	2,133,128	(122,487)	10.00%	213,313	225,561	(12,248)
January 2016	2,324,300	2,199,164	(125,136)	10.00%	219,916	232,430	(12,514)
February 2016	2,329,724	2,211,757	(117,967)	10.00%	221,176	232,972	(11,796)
March 2016	2,726,624	2,578,967	(147,657)	10.00%	257,897	272,662	(14,765)
April 2016	2,272,238	2,385,116	112,878	10.00%	238,512	227,224	11,288
May 2016	2,627,955	2,735,580	107,625	10.00%	273,558	262,796	10,762
June 2016	2,735,734	2,842,494	106,760	10.00%	284,249	273,573	10,676
July 2016	2,947,986	3,047,198	99,212	10.00%	304,720	294,799	9,921
August 2016	3,265,973	3,377,834	111,861	10.00%	337,783	326,597	11,186
September 2016	2,989,395	2,989,395		10.00%	298,939	298,940	(1)
	<u>\$ 31,915,677</u>	<u>31,635,121</u>	<u>(280,556)</u> ⁽³⁾		<u>3,163,512</u> ⁽⁴⁾	<u>3,191,568</u>	<u>(28,056)</u> ⁽⁵⁾

Required Adjustment

Add: Credit Taken on February 2017 for Overpayment of Privilege Fees Due	33,227 ⁽⁶⁾
Total Additional Fees Now Due	<u>\$ 5,171</u> ⁽⁷⁾

⁽¹⁾ Gross Revenue Reviewed includes airport fees excluded from Gross Revenue Reported by Hertz.

⁽²⁾ Privilege fees are paid monthly.

⁽³⁾ Difference between Gross Revenue Reported and Gross Revenue Reviewed is \$280,556. This difference is the net effect of \$332,267 excludable loss damage waiver revenue (overpayment) less \$51,711 in un-reported airport fees (underpayment).

⁽⁴⁾ Required concession payments (Privilege Fees Due) is the greater of 10% of gross revenue receipts or minimum annual guarantee (MAG) of \$2,226,840.

⁽⁵⁾ Amount overpaid at the end of September 30, 2016.

⁽⁶⁾ Actual payments from Hertz exceeded required concession payments by \$33,227. This overpayment was due to loss damage waiver fee adjustments. Between October 2015 through March 2016, separately stated loss damage waiver revenue was included as part of gross revenue receipts in error. Between April 2016 through August 2016, loss damage waiver revenue that is inclusive with time and mileage was excluded from gross revenue receipts in error. A total of \$870,602 (excludable loss damage waiver revenue) was deducted from gross revenue receipts and a total of \$538,334 (includable loss damage waiver revenue) was added to gross revenue receipts. A credit was issued for the overpayment of privilege fees during the year ended September 30, 2016. The issued credit was taken in February 2017 (subsequent concession period). As such, the schedule is adjusted to reflect amount now due to Airports for airport fees excluded.

⁽⁷⁾ Gross Revenue Reported by Hertz excluded airport fees collected in Account #3751 in the amount of \$51,711. Total Additional Fees Now Due for excluded airport fees collected by Hertz is \$5,171 (10% of \$51,711). See Attachment V, *Schedule of Airport Concession Pass Thru Fees Collected (Account #3751) Excluded from Gross Revenue Receipts*. Also see Finding #4 on Attachment III, *Current Findings and Recommendations*.

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Rental Car Concessionaire Operations at Sacramento International Airport
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For the Period October 1, 2015 to September 30, 2018

For The Period of October 1, 2016 to September 30, 2017:

	Gross Revenue Reported by Hertz	Gross Revenue Reviewed	Difference Under/(Over) Reported	Privilege Fee Rate	Recomputed Privilege Fees Due	Privilege Fee Paid	Additional Fees Now Due/(Overpaid)
	Column A	Column B	Column B - A	Column C	Column B x C	Column D	Column D - (B x C)
October 2016	\$ 2,943,895	2,943,895		10.00%	294,389	294,389	
November 2016	2,354,506	2,354,506		10.00%	235,451	273,596	(38,145)
December 2016	2,206,561	2,206,561		10.00%	220,656	258,802	(38,146)
January 2017	2,147,413	2,147,413		10.00%	214,741	252,887	(38,146)
February 2017	2,034,799	2,034,800	1	10.00%	203,480	241,626 ⁽²⁾	(38,146)
March 2017	2,450,893	2,450,893		10.00%	245,089	280,138	(35,049)
April 2017	2,450,004	2,450,005	1	10.00%	245,000	245,000	
May 2017	2,767,496	2,767,496		10.00%	276,750	276,750	
June 2017	2,970,276	2,970,275	(1)	10.00%	297,028	297,028	
July 2017	3,146,615	3,146,614	(1)	10.00%	314,661	314,662	(1)
August 2017	3,224,395	3,224,395		10.00%	322,440	322,439	1
September 2017	2,874,284	2,874,284		10.00%	287,428	287,428	
	<u>\$ 31,571,137</u>	<u>31,571,137</u>			<u>3,157,113⁽³⁾</u>	<u>3,344,745</u>	<u>(187,632)⁽⁴⁾</u>

⁽¹⁾ Privilege fees are paid monthly.

⁽²⁾ The credit of \$33,227 for overpayment of privilege fees paid in the prior period (October 1, 2015 through September 30, 2016) was applied to February 2017 payment.

⁽³⁾ Required concession payments (Privilege Fees Due) is the greater of 10% of gross revenue receipts or minimum annual guarantee (MAG) of \$2,684,590.

⁽⁴⁾ Actual payments from Hertz exceeded required concession payments by \$187,632. The overpayment resulted from payments made by Hertz to pay for differences between 2015/16 and 2016/17 monthly MAG amount. Additionally, Hertz applied a \$33,227 credit (issued in prior period) to payment made in February 2017 and also included a payment in the same month. A credit was issued for overpayment of privilege fees during the year ended September 30, 2017. The issued credit was taken in May 2018 (subsequent concession period).

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For the Period October 1, 2015 to September 30, 2018

For The Period of October 1, 2017 to September 30, 2018:

	Gross Revenue Reported by Hertz	Gross Revenue Reviewed	Difference Under/(Over) Reported	Privilege Fee Rate	Recomputed Privilege Fees Due	Privilege Fee Paid	Additional Fees Now Due/(Overpaid)
	Column A	Column B	Column B - A	Column C	Column B x C	Column D	Column D - (B x C)
October 2017	\$ 2,706,180	2,706,180		10.00%	270,618	270,618	
November 2017	2,597,267	2,597,266	(1)	10.00%	259,727	259,727	
December 2017	2,387,092	2,387,093	1	10.00%	238,709	238,709	
January 2018	2,186,330	2,186,331	1	10.00%	218,633	223,629	(4,996)
February 2018	2,201,095	2,201,094	(1)	10.00%	220,110	223,629	(3,519)
March 2018	2,904,864	2,904,864		10.00%	290,486	290,486	
April 2018	2,732,583	2,732,583		10.00%	273,258	273,258	
May 2018	3,130,337	3,130,337		10.00%	313,034	313,034	(2)
June 2018	3,311,144	3,311,144		10.00%	331,114	331,114	
July 2018	3,611,447	3,611,447		10.00%	361,145	361,145	
August 2018	3,806,993	3,806,993		10.00%	380,699	380,699	
September 2018	3,340,736	3,340,736		10.00%	334,074	334,074	
	<u>\$ 34,916,068</u>	<u>34,916,068</u>			<u>3,491,607</u> (3)	<u>3,500,122</u>	<u>(8,515)</u> (4)

(1) Privilege fees are paid monthly.

(2) The credit of \$187,632 for overpayment of concession fees paid in the prior period (October 1, 2016 through September 30, 2017) was applied to May 2018 payment.

(3) Required concession payments (Privilege Fees Due) is the greater of 10% of gross revenue receipts or minimum annual guarantee (MAG) of \$2,683,547.

(4) Actual payments from Hertz exceeded required concession payments by \$8,515. In January and February 2018, the actual privilege fees due (10% of monthly gross receipt) were less than the established MAG monthly amount. Per the Agreement terms, Hertz is required to pay the established MAG amount even if gross receipt is less than MAG. As such, Hertz paid the established MAG monthly amount. A difference of \$8,515 (total) was noted as a result. However, at the end of the period, total privilege fees paid exceeded total privilege fees due by \$8,515. A credit was issued for overpayment of concession fees during the year ended September 30, 2018.

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Review of The Hertz Corporation
Rental Car Concessionaire Operations at Sacramento International Airport
Current Status of Prior Review Findings and Recommendations

For the Period October 1, 2015 to September 30, 2018

CURRENT STATUS OF PRIOR REVIEW FINDINGS AND RECOMMENDATIONS

Findings and recommendations are copied over from prior review included in the report issued on June 9, 2017 for the period October 1, 2011 to April 30, 2015.

1. Late Submission of Statement of Revenue Reports

Comment

Hertz Rent-A-Car (Hertz) submitted its audited Statement of Revenue Reports for fiscal years ending: September 30, 2012, September 30, 2013, September 30, 2014, and September 30, 2015 late to the Department of Airports (Airports). Per Article 5.07 (Reports and Payments), Part A(1) of the rental car concession and lease agreement, “*Within sixty (60) days after the close of each Lease year of operation: a Statement of Revenues for the preceding Lease Year covering all business transacted by Concessionaire at Airport. The annual Statement of revenues shall be certified by an independent Certified Public Accountant or Concessionaire’s Chief Financial Officer and shall be provided in such detail as is determined to be satisfactory by the Director.*” Audited Statement of Revenue Reports are due by November 30th (60 days after the close of the fiscal period (September 30th)) to Airports.

Airports received the September 30, 2012 Statement of Revenue Reports on February 5, 2013 (67 days late). The September 30, 2013 Statement of Revenue Reports were received by Airports on December 6, 2013 (6 days late). The September 30, 2014 Statement of Revenue Reports were received by Airports on March 29, 2016 (487 days late). The September 30, 2015 Statement of Revenue Reports were received by Airports on March 29, 2016 (120 days late). Hertz did not provide an explanation as to why the Statement of Revenue Reports were submitted late to Airports.

Recommendation

We recommend that the Airport ensures that Hertz complies with Article 5.07, Part A(1) of the rental car concession and lease agreement and submit an audited Statement of Revenue Reports to them by the required due date of November 30th.

Management Response

Hertz shows that the audits were issued on the dates detailed below. Although it does appear that two of the audits omitted the required internal controls opinion, the audits for the years ended September 30, 2012 and September 30, 2015 both included the internal controls opinion. Since it isn’t required on most audits, it appears that it was mistakenly omitted for the years ended September 30, 2013 and September 30, 2014. Hertz added a note to our files

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Current Status of Prior Review Findings and Recommendations

For the Period October 1, 2015 to September 30, 2018

CURRENT STATUS OF PRIOR REVIEW FINDINGS AND RECOMMENDATIONS

Findings and recommendations are copied over from prior review included in the report issued on June 9, 2017 for the period October 1, 2011 to April 30, 2015.

and highlighted in yellow to ensure that this non-standard internal controls opinion is included with the audit going forward. Hertz will also ensure audits are issued timely going forward.

Audit Period	Date received Per Auditor	Number of Days late per Auditor	Date Mailed	Calculated Days Late	Includes Internal Controls Opinion?
9/30/2012	2/5/2013	67	FedExed 2/5/2013	67	Yes
9/30/2013	12/6/2013	6	11/27/2013	(3)	No
9/30/2014	3/29/2016	487	11/26/2014	(4)	No
9/30/2015	3/29/2016	120	FedExed 1/28/2016*	59	Yes

* Delivered February 1, 2016 per FedEx tracking. March 29, 2016 was the date the auditor requested the 2014 and 2015 audits from us, but they had been mailed previously.

Current Status

We noted that Hertz submitted the audited Statement of Revenues/Annual Report by the November 30th deadline for all three-years currently under review.

2. Unaudited Centralized Computer System

Comment

Hertz did not have an independent Certified Public Accountant evaluate the adequacy of the internal controls over its centralized computer system used to record car rental activities. Per Article 5.07 (Reports and Payments), Part A(2) of the rental car concession and lease agreement, *“If Concessionaire maintains its accounting records through a centralized computer system, a report prepared by an independent Certified Public Accountant on the adequacy of Concessionaire’s internal controls over the operations of the system. Specifically, such report should certify that controls are adequate to ensure proper identification and recording of all transactions related to Concessionaire’s operations under*

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CURRENT STATUS OF PRIOR REVIEW FINDINGS AND RECOMMENDATIONS

Findings and recommendations are copied over from prior review included in the report issued on June 9, 2017 for the period October 1, 2011 to April 30, 2015.

this agreement.” Hertz did have internal control reports prepared by an independent Certified Public Accountant, but the reports did not give an opinion related to the adequacy of internal controls for its centralized computer system.

Recommendation

The Airport should ensure that Hertz complies with Article 5.07, Part A(2) of the rental car concession and lease agreement and have its centralized computer system evaluated by an independent Certified Public Accountant.

Management Response

See Hertz’s management response to Finding #2 located on page 1 of Attachment II at Finding #1 (*Late Submission of Statement of revenue Reports*).

Current Status

We inquired with Airports at the entrance conference to determine if Hertz is in compliance with Article 5.07, Part A(2) of the rental car concession and lease agreement. It does not appear that Airports has records of an audited review or report of Hertz’s centralized computer system being evaluated by an independent Certified Public Accountant. See Finding #1 in Attachment III, *Current Findings and Recommendations*.

County of Sacramento Department of Airports
Review of The Hertz Corporation
Rental Car Concessionaire Operations at Sacramento International Airport
Current Findings and Recommendations

For the Period October 1, 2015 to September 30, 2018

1. Unaudited Centralized Computer System

Comment

As part of our audit procedures, we followed up on a prior year finding and recommendation documented in the audit report issued on June 9, 2017. Per prior year recommendation, Airport should ensure that Hertz complies with Article 5.07 Part A (2) of the rental car concession and lease agreement and have its centralized computer system evaluated by an independent Certified Public Accountant (CPA). After inquiry with Airports staff, it does not appear that Airports has records of the reviews of internal control over Hertz's centralized computer system. As such, the reporting requirement in Article 5.07 Part A (2) under Records and Payments of the Agreement is still not met.

We noted that the reporting requirement listed in Article 5.07 Part A (2) from prior year agreement has changed. As of October 1, 2014, Article 3.09 Concessionaire's Audit and Article 3.50 Records and Reports in the Agreement defines the items required from independent CPA for the evaluation of internal controls and recording and reporting. Items required listed in this Agreement does not include a report prepared by an independent CPA evaluating the adequacy of the internal controls over the operation of the centralized computer system.

Recommendation

Hertz should provide internal control review over its centralized computer system to comply with Article 5.07 Part A (2). We recommend that Airports consider incorporating in its future Agreement with Hertz the requirement of a Service Organization Control (SOC) 2 report or a similar report. A SOC 2 report will document independent CPA's evaluation of an organization's information systems relevant to security, availability, processing integrity, confidentiality or privacy. Since concessionable revenue and concession amount due reported to Airports are calculated using the car rental activities data extracted from the Global Daily Report of Business (GDRB), it may be beneficial to have an independent CPA evaluate the adequacy of internal control over the centralized computer system. This type of a review should provide reasonable assurance that the information reported by Hertz to Airports is complete and accurate.

Management Response (Hertz)

Each of the three annual audits for the scope period of 10/1/15 – 9/30/18 included a letter from our independent CPA stating that they had considered the effectiveness of our internal controls over financial reporting when they designed their audit procedures for the purpose of expressing their opinion on the schedule. They noted that their audit did not identify any

County of Sacramento Department of Airports
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For the Period October 1, 2015 to September 30, 2018

deficiencies in internal control that would be considered a material weakness. Although it does not detail the strengths and weaknesses of our internal controls, this report format (or substantially the same content) has been provided annually with our audit opinions going back to the 90s.

Additionally, each audit included a letter from our independent CPA stating that during their audit, nothing came to their attention that caused them to believe that we had failed to comply with the terms, covenants, provisions or conditions of Articles 1 and 2 of the agreement, insofar as they relate to accounting matters.

Other than the few times in the past decade when these letters were mistakenly omitted from our annual reporting (as noted in the prior audit findings), the Airport has been satisfied with our submission. Also, while the prior findings noted these letters were not included for two of the audits, they did not indicate the content of the one provided was insufficient. This precedent led us to believe we had sufficiently fulfilled the requirements in the agreement.

As a publicly traded company each annual 10-K report filed with the Securities and Exchange Commission (SEC) addresses management's assessment of our internal controls and refers to the effectiveness of our internal control over financial reporting having been audited. The 2019 10-K will be issued in late February 2020. Requiring additional audits and reviews for a public company already obligated under SEC rules is onerous and places an undue burden on Hertz.

Additionally, as part of our annual audit procedures, our independent CPA reviews a sample of rental agreements for each month to confirm that the revenue is flowing properly from our counter system, to our back office daily report of business system, and to the Concession Agency Accounting System used to report our concessionable revenue. The revenue totals are confirmed, as well as ensuring that the revenue is reported to the proper location within our accounting systems. No findings have been noted as a part of this review.

We are not a service provider. Therefore, adding a requirement for us to provide a SOC 2 report over our accounting systems is not appropriate. This is onerous and would result in an undue financial burden on our company. We already bear the cost of the annual audit statement issuance, which is accepted as adequate support for Airports across North America.

The request to have a CPA opine on local internal controls related to cash for a business dominated by credit card customers is an undue burden. Cash and checks account for less than 6% of annual revenue, engaging a CPA to review controls over such small segment of our

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business, while you already receive audit reports on concession payments and can review the audit report on Hertz along with other public reports is excessive.

Further, your right to audit clause allows you an opportunity to review our internal controls to ensure their sufficiency as a part of your procedures. You audit us regularly and during this audit only found one immaterial component that had not been corrected via our annual audit statements (0.05% of total revenue during audit period). Surely this provides assurance that our internal controls are adequately preventing material misstatements.

Based on the above, rather than implementing further reporting requirements, we would respectfully request that future agreements remove additional reporting requirements above the standard annual audit opinion certifying that concession revenue and payments were in compliance with the agreement terms.

Management Response (Department of Airports)

Article 5.07 Part A (2) requiring Hertz's centralized computer system to be evaluated by an independent Certified Public Accountant (CPA) is no longer required in the current October 17, 2014 agreement. Hertz must adhere to the requirements of the current agreement, Article 3.09 Concessionaire's Audit and Article 3.50 Records and Reports, which do not require an independent CPA to evaluate the adequacy of the internal controls over the operation of the centralized computer system.

2. Concessionaire's Audit Requirements (Evaluation of Internal Control) Missing

Comment

Per Article 3.09 Part A, Concessionaire's Audit shall be in a format and in detail satisfactory to the County and shall include all of the requirements listed in Article 3.09 Part A (1) through (4). The independent CPA audited Statement of Revenues/Annual Report (combined reports) submitted did not adequately address Part A (3) and (4).

Per Article 3.09 A (3), audit shall include "*copies of any reports prepared by such CPA or by Concessionaire's internal audit staff for Concessionaire relating exclusively to this Agreement, and specifically describing any strengths or weaknesses of internal fiscal controls.*" To address Part A (3), it appears that the independent CPA included page 3 of 5 in their audit report, which stated that the independent CPA have audited the schedule of gross receipts and concession payments for the automobile rental operations and nothing came to their attention that caused such CPA to believe that The Hertz Corporation failed to comply with the terms, covenants, provisions or conditions of Articles 1 and 2 of the

County of Sacramento Department of Airports
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agreement...insofar as they relate to accounting matters. Statements on page 3 of 5 of the independent CPA's audit report does not adequately satisfy requirement Part A (3) as it does not specifically describe any strengths and weaknesses of internal fiscal controls.

Per Article 3.09 A (4), audit shall include *“a management letter prepared by such CPA for Concessionaire relating exclusively to the Agreement, and specifically describing Concessionaire’s internal accounting controls as they relate to cash handling, processing of receipts and security of cash at the Airport, including a control analysis of the strengths and weaknesses of such controls.”* To address Part A (4), the independent CPA included page 4 of 5 in the audit report to management [The Board of Directors of The Hertz Corporation] to disclose that the independent CPA considered Hertz’s internal control over financial reporting (internal control) as a basis for designing their audit procedures for the purpose of expressing an opinion on the schedule, but not for the purpose of expressing an opinion on the effectiveness of Hertz’s internal control. Additionally, their consideration of internal control was for the limited purpose described in the same page and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given those limitations, during their audit, the auditor did not identify any deficiencies in internal control that they consider to be material weaknesses. The letter to management included in the audit report to satisfy requirement Part A (4) is inadequate as it does not specifically describe Concessionaire’s internal accounting controls as they relate to cash handling, processing of receipts and security of cash at the Airport, including a control analysis of the strengths and weaknesses of such controls.

The requirements to include copies of any reports specifically describing strengths and weaknesses of internal fiscal control and management letters prepared by independent CPA specifically describing strengths and weaknesses of internal control is to provide Airports with relevant information to assess the concessionaire’s operation at the Sacramento International Airport and reliability of concessionable revenue reported to Airports.

Recommendation

Hertz should provide the required reports and management letters to comply with Article 3.09 Part A (3) and (4). If such reports and letters are not provided by the due date, Airports should follow-up with Hertz promptly. Additionally, Airports should consider modifying future Agreement with Hertz to include consequences for non-compliance with Article 3.09 Part A (3) and (4).

Management Response (Hertz)

See Hertz’s management response to Finding #2 located on page 1-3 of Attachment III at Finding #1 (*Unaudited Centralized Computer System*).

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Management Response (Department of Airports)

Hertz is required to adhere to Article 3.09 Part A (3) and (4) in the current October 17, 2014 agreement. The Department of Airports will set a deadline for Hertz to comply and monitor compliance. The current agreement includes procedures in place if the Concessionaire does not meet the obligations of Article 3.09 Part A. The County may employ an independent CPA to perform the required audit and recover the cost of the audit, to include a fifteen percent (15%) administrative charge.

3. Fuel Purchase Option Revenue Excluded from Airport Fees

Comment

Hertz confirmed that Fuel Purchase Option (FPO) revenue prior to January 2016 was incorrectly excluded from Airport Concession Fees Recovery (ACFR or Airport Fees) calculation for all three divisions under Hertz. Airports confirmed that ACFR collected (11.11% of concessionable revenue) should be included as part of gross revenue receipts. For the months of October 2015 through December 2015, Hertz recorded a total of \$262,607 FPO Revenue for the three divisions (Hertz, Thrifty, and Dollar). ACFR for FPO not included (also not collected) in gross revenue receipts totaled \$29,176 (11.11% of \$262,607) for the three-month period.

Recommendation

Hertz should include revenue in FPO account in the calculation of ACFR. We recommend that Airports periodically review and monitor the accounts used by Hertz to calculate gross revenue receipts reported to Airports to ensure that Hertz is including all concessionable revenue in its report to Airports.

Management Response (Hertz)

We agree that FPO revenue prior to January 2016 was incorrectly excluded from the calculation of the Airport Concession Fee Recovery (ACFR). During the annual audit process, concessionable components are reviewed for proper inclusion in the ACFR calculation. This was noted during the annual audit for the year ended 9/30/15 and corrected immediately.

Management Response (Department of Airports)

The Department of Airports bills Hertz straight 10% of the total revenue reported on a monthly basis. The past and current reports have no detail of concessionable and non-concessionable revenue, and The Department of Airports has no direct access to any of the accounting systems

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of Hertz to verify if all billable activities are being captured. We rely on Hertz's Annual Report audited by an independent CPA to reconcile their monthly revenue and payments made to the Airports.

The Department of Airports will require Hertz to modify their future monthly reports to itemize concessionable and non-concessionable revenue rather than reporting by total gross sales only. This is to ensure that Hertz will be billed according to the terms of the agreement.

4. Airport Fees Excluded from Reported Gross Revenue

Comment

Hertz record airport fees collected in one of two accounts in the system: Airport Concession Pass Thru Fees – Tour (Account #3751) and Airport Concession Pass Thru Fees – All Others (Account #3752). We noted that Airport Concession Pass Thru Fees – Tour (Account #3751) was excluded from the Final Concessionable Revenue Report (FCRR) for the months of October 2015 through February 2016. FCRR summarize monthly revenue by account and are used to make concession payments by Hertz. FCRR are also used to prepare final monthly statements of concessionable revenue. As such, airport fees collected in Account #3751 not included on the FCRR reports are consequently excluded from reported gross revenue. For the months of October 2015 through February 2016, Hertz recorded a total of \$51,711 in airport fees collected for the three divisions (Hertz, Thrifty, and Dollar). Gross revenue reported and concession payment due for those five-months were under reported.

Recommendation

Hertz should include Account #3751 on the FCRR to Airports and remit amount due to Airports for those five-months. We recommend that Airports review monthly FCRR report provided by Hertz to verify that all concessionable accounts are included on monthly FCRR.

Management Response (Hertz)

We agree that airport concession fee pass through fees – tour (3751) revenue totaling \$51,711 was mistakenly excluded from concessionable revenue from October 2015 through February 2016. This account was included in concessionable revenue from March 2016 through the present.

Management Response (Department of Airports)

The Department of Airports will require Hertz to provide a monthly Final Concessionable Revenue Report (FCRR) to support their itemized revenue report. This will allow Department of Airports' accounting staff to cross-check their concession activities to ensure accuracy.

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The Department of Airports will issue a one-time invoice of \$5,171 ($\$51,711 * 10\%$) for Airport Fees excluded from Reported Gross Revenues for the months of October 2015 through February 2016, per Current Findings and Recommendations No. 4.

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 Schedule of Fuel Purchase Option Revenue Excluded From Airport Fees

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	Fuel Purchase Option Revenue (Hertz) ⁽¹⁾	Fuel Purchase Option Revenue (Thrifty)	Fuel Purchase Option Revenue (Dollar)	Total	Airport Concession Fee Recovery @ 11.11%
	Column A	Column B	Column C	Columns A + B + C	(A + B + C) x 11.11%
October 2015	\$ 81,662	6,174	16,773	104,609	11,622
November 2015	68,261	4,864	12,211	85,337	9,481
December 2015	60,025	4,288	8,348	72,661	8,073
Total	<u>\$ 209,948</u>	<u>15,326</u>	<u>37,332</u>	<u>262,607</u>	<u>29,176</u> ⁽²⁾

⁽¹⁾ Note: Sacramento Jet Center and Cessna Citation Center did not have Fuel Purchase Option Revenue for the months of October 2015, November 2015, and December 2015.

⁽²⁾ Total Airport Concession Fee Recovery amount excluded from gross revenue receipts for Fuel Purchase Option Revenue. See Finding #3 on Attachment III, *Current Findings and Recommendations*. Excluded Airport Concession Fee Recovery amount is not included in Gross Revenue Reviewed on Attachment I, *Schedule of Gross Revenue Reviewed and Privilege Fees Due*, as the fees were not collected from customers by Hertz.

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 Schedule of Airport Concession Pass Thru Fees Collected (Account #3751) Excluded from Gross Revenue Receipts

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	Airport Fees Excluded (Hertz) ⁽¹⁾	Airport Fees Excluded (Thrifty)	Airport Fees Excluded (Dollar)	Total	Privilege Fee Rate	Privilege Fees Due
	Column A	Column B	Column C	Columns A + B + C	Column D	Column D x (A + B + C)
October 2015	\$ 13,443	23	299	13,765	10.00%	1,377
November 2015	10,770	58	235	11,063	10.00%	1,106
December 2015	10,387	52	323	10,762	10.00%	1,076
January 2016	8,223	68	201	8,492	10.00%	849
February 2016	7,316	45	268	7,629	10.00%	763
Total	<u>\$ 50,139</u>	<u>246</u>	<u>1,326</u>	<u>51,711</u> ⁽²⁾		<u>5,171</u> ⁽³⁾

(1) Sacramento Jet Center and Cessna Citation Center did not collect airport concession pass thru fees.

(2) Gross revenue receipts under reported by \$51,711 as a result of the exclusion of account #3751 from the Final Concessionable Revenue Report (FCRR) for October 2015 through February 2016. FCRR show the schedule of concessionable receipts and is used to make concession payments by Hertz.

(3) Privilege fees (also referred to as concession payments) due.